

NATIONAL ACCESS CANNABIS CORP.

Consolidated Financial Statements

**For the Year Ended August 31, 2018 and 2017
(Expressed in Canadian Dollars)**

Independent Auditors' Report

To the Shareholders of National Access Cannabis Corporation:

We have audited the accompanying consolidated financial statements of National Access Cannabis Corporation, which comprise the consolidated statement of financial position as at August 31, 2018 and August 31, 2017, and the consolidated statements of loss and comprehensive loss and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of National Access Cannabis Corporation as at August 31, 2018, and August 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of the consolidated financial statements which indicates that the Company has continuing losses and an accumulated deficit of \$18,428,990. The ability of the Company to continue as a going concern is dependent upon the Company's ability to raise additional financing and achieve a profitable level of operations. These conditions, along with other matters, as set forth in Note 1, indicate the existence of material uncertainties that cast significant doubt about the Company's ability to continue as a going concern.



Chartered Professional Accountants

Licensed Public Accountants

Ottawa, Ontario

December 21, 2018

NATIONAL ACCESS CANNABIS CORP.
Consolidated Statements of Financial Position
As at August 31, 2018
(Expressed in Canadian Dollars)

	Notes	August 31, 2018	August 31, 2017
Assets			
Current			
Cash and cash equivalents		23,496,232	4,871,790
Trade and other receivables	Note 6	882,461	403,003
Inventory	Note 7	51,062	24,556
Prepaid expenses		666,707	37,574
		25,096,462	5,336,923
Non-current			
Property and equipment	Note 8	1,731,456	817,652
Loan receivable	Note 9	1,750,000	-
Investment	Note 9	1,869,729	-
Intangible assets	Note 10	14,956,729	-
Goodwill	Note 4 & 10	1,413,939	1,516,271
Total Assets		46,818,315	7,670,846
Liabilities			
Current			
Trade and other payables		1,360,067	978,996
Debt financing	Note 11	25,000,000	-
Lease inducements		14,800	-
Note payable	Note 12	-	315,000
Deferred revenues		-	40,922
		26,374,867	1,334,918
Non-current			
Lease inducements		41,993	11,397
Due to shareholders		230,000	-
Contingent consideration payable	Note 17	4,080,000	-
Total liabilities		30,726,860	1,346,315
Shareholders' Equity			
Share capital	Note 14	25,794,995	15,311,030
Warrants	Note 14	2,952,235	160,937
Contributed surplus		1,245,455	416,057
Accumulated other comprehensive loss		(428,571)	-
Accumulated deficit		(18,428,990)	(9,563,493)
Equity attributable to National Access Cannabis Corp		11,135,124	6,324,531
Non-controlling interest		4,956,331	-
Total equity		16,091,455	6,324,531
Total liabilities and equity		46,818,315	7,670,846

Going concern (Note 1)

Subsequent events (Note 23)

Contingent liability (Note 17)

These financial statements were authorized for issue by the Board of Directors on December 13, 2018. They are signed on the Company's behalf by:

"Marc Lustig"

"Rocco Meliambro"

Director

Director

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

NATIONAL ACCESS CANNABIS CORP.
Consolidated Statements of Loss
For the year ended August 31
(Expressed in Canadian Dollars)

	2018	2017
Revenues		
Consultations	-	205,156
Interest revenue	32,621	-
Administrative fees	32,777	57,607
Membership fees	40,922	124,688
Commissions	1,718,628	684,572
Merchandise sales	131,566	120,950
	1,956,514	1,192,973
Cost of Goods Sold		
Merchandise	104,975	84,333
Consultation fees	503,980	386,099
	608,955	470,432
Gross Profit	1,347,559	722,541
Expenses		
Advertising and marketing	269,289	146,374
Amortization of property and equipment	362,445	318,588
Amortization of intangible assets	698,555	23,359
Share based compensation	823,148	1,899,387
General and administrative expenses (Schedule)	7,782,280	3,426,073
	9,935,717	5,813,781
Loss from operations	(8,588,158)	(5,091,240)
Other expenses		
Listing expense	-	2,427,438
Accretion expense	-	71,873
Interest on short-term debt	294,521	131,232
Loss on sale of assets	15,089	3,136
Impairment loss	320,753	-
Net loss for the year	(9,218,521)	(7,724,919)
Net loss attributable to:		
Shareholders of National Access Cannabis Corp	(8,865,497)	(7,724,919)
Non-controlling interest	(353,024)	-
	(9,218,521)	(7,724,919)
Net loss per share (Note 16)		
Basic and diluted	(0.07)	(0.13)

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

NATIONAL ACCESS CANNABIS CORP.
Consolidated Statements of Comprehensive Loss
For the year ended August 31
(Expressed in Canadian Dollars)

	2018	2017
Net loss for the period	(9,218,521)	(7,724,919)
Other comprehensive loss for the period		
Acquisition - equity adjustment	(428,571)	-
Total comprehensive loss for the period	(9,647,092)	(7,724,919)
Total comprehensive loss attributable to:		
Shareholders of National Access Cannabis Corp	(9,294,068)	(7,724,919)
Non-controlling interest	(353,024)	-
	(9,647,092)	(7,724,919)

NATIONAL ACCESS CANNABIS CORP.
Consolidated Statements of Changes in Equity
For the year ended August 31
(Expressed in Canadian Dollars)

	Share Capital		Warrants	Contributed	Accumulated		Non-	
	Number of	Amount (\$)	Amount	Surplus	Other	Deficit	Controlling	Total (\$)
	Shares				Comprehensive Loss		Interest	
Balance, September 1, 2016	41,697,010	1,534,109	1,295,526	32,374	-	(1,838,574)	-	1,023,435
Subscription receipts (Note 14)	1,794,000	680,475	475,000	-	-	-	-	1,155,475
Payment of interest on short-term debt (Note 14)	360,000	90,000	-	-	-	-	-	90,000
Broker/finder warrants (Note 14)	-	-	50,096	146,438	-	-	-	196,534
Purchase of property and equipment (Note 14)	2,000,000	200,000	-	-	-	-	-	200,000
Acquisition of companies (Note 14)	1,300,000	325,000	-	-	-	-	-	325,000
Amalgamation (Note 14)	100	100	-	-	-	-	-	100
Concurrent financing (Note 14)	24,000,000	6,000,000	93,786	-	-	-	-	6,093,786
Conversion of convertible debentures (Note 14)	5,000,000	1,041,773	17,055	-	-	-	-	1,058,828
Conversion of payable due to director (Note 14)	221,860	33,279	-	-	-	-	-	33,279
Conversion of director loans (Note 14)	8,000,000	400,000	-	-	-	-	-	400,000
Share based compensation (Note 14)	10,985,000	1,662,142	-	237,245	-	-	-	1,899,387
Conversion of options (Note 14)	500,000	5	-	-	-	-	-	5
Conversion of warrants (Note 14)	11,754,698	1,770,526	(1,770,526)	-	-	-	-	-
Share issuance costs (Note 14)	-	(350,841)	-	-	-	-	-	(350,841)
Transaction costs (Note 14)	-	(165,912)	-	-	-	-	-	(165,912)
Shares issued for reverse acquisition (Note 14)	8,361,495	2,090,374	-	-	-	-	-	2,090,374
Net loss and comprehensive loss for the year	-	-	-	-	-	(7,724,919)	-	(7,724,919)
Balance, August 31, 2017	115,974,163	15,311,030	160,937	416,057	-	(9,563,493)	-	6,324,531
Options Exercised (Note 14)	3,077,112	514,650	-	-	-	-	-	514,650
Broker Warrants Exercised (Note 14)	1,492,020	428,377	-	-	-	-	-	428,377
Private Placement (Note 14)	10,909,091	6,000,000	136,798	-	-	-	-	6,136,798
Warrants – Second Cup (Note 14)	-	-	2,654,500	-	-	-	-	2,654,500
Acquisition of the companies (Note 13 & 14)	4,297,872	4,040,000	-	-	(428,571)	-	5,309,355	8,920,784
Share based compensation (Note 14)	(50,000)	(6,250)	-	829,398	-	-	-	823,148
Share issuance costs (Note 14)	-	(161,663)	-	-	-	-	-	(161,663)
Transaction costs (Note 14)	-	(331,149)	-	-	-	-	-	(331,149)
Non-controlling interest	-	-	-	-	-	-	(353,024)	(353,024)
Net loss and comprehensive loss for the period	-	-	-	-	-	(8,865,497)	-	(8,865,497)
Balance, August 31, 2018	135,700,258	25,794,995	2,952,235	1,245,455	(428,571)	(18,428,990)	4,956,331	16,091,455

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

NATIONAL ACCESS CANNABIS CORP.
Consolidated Statements of Cash Flows
For the year ended August 31
(Expressed in Canadian Dollars)

	2018	2017
Operating Activities		
Net loss and comprehensive loss	(9,218,521)	(7,724,919)
Adjustments not effecting cash		
Accretion expense	-	71,873
Amortization of property and equipment	362,445	318,588
Amortization of intangible assets	698,555	23,539
Amortization of lease inducements	45,396	(4,528)
Interest Expenses	-	90,000
Listing expenses	-	2,126,549
Share-based compensation	823,148	1,899,387
Loss on sale of assets	15,089	3,136
Impairment loss	320,753	-
	(6,953,135)	(3,196,555)
Changes in non-cash working capital		
Trade and other receivables	(479,458)	(224,825)
Inventory	(26,506)	(14,529)
Prepaid expenses	(629,133)	(5,316)
Trade and other payables	381,071	772,437
Deferred revenues	(40,922)	(4,891)
Cash flows used in operating activities	(7,748,083)	(2,673,679)
Investing Activities		
Loan receivable	(1,750,000)	-
Investments	(1,869,729)	-
Debt financing	25,000,000	-
Reverse takeover	-	50,860
Business combination	-	(267,379)
Acquisition of property and equipment	(1,509,759)	(381,225)
Cash flows used in investing activities	19,870,512	(597,744)
Financing Activities		
Issuance of share capital	-	680,475
Issuance of share capital – private placement	6,000,000	6,000,000
Issuance of share capital – convertible debentures	-	969,900
Issuance of warrants	428,377	475,000
Issuance of options	514,650	5
Share issuance costs	(161,663)	(240,000)
Transaction costs	(194,351)	(165,912)
Shareholder loans	230,000	-
Note payable	(315,000)	315,000
Due to directors	-	50,000
Cash flows provided by financing activities	6,502,013	8,084,468
Net increase in cash	18,624,442	4,813,045
Cash, beginning of year	4,871,790	58,745
Cash, end of year	23,496,232	4,871,790

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

NATIONAL ACCESS CANNABIS CORP.
Notes to the Consolidated Financial Statements
For the year ended August 31
Expressed in Canadian Dollars

1. NATURE OF OPERATIONS AND GOING CONCERN

National Access Cannabis Corp., formerly Brassneck Capital Corp. (“NAC” or “the Company”), has one wholly-owned subsidiary, National Access Clinic Corp. (“Clinic”). Clinic has two wholly-owned subsidiaries, National Access Canada Corporation (“Canada”), and Wilson Master Apps Inc. (dba CannApply Medical Services) (“CannApply”). The Company also has a 51% controlling interest in National Access Cannabis Medical Inc. and NAC Northern Alberta Limited Partnership, and a 57.1% controlling interest in NAC Bio Inc. The Company’s common shares are listed on the TSX Venture Exchange (“TSXV”), under the trading symbol “NAC”. Effective May 17, 2018, NAC’s trading symbol on the TSX Venture Exchange has changed from “NAC” to META”. The Company and its subsidiaries are in the business of providing cannabinoid education and introducing patients to medical cannabis treatments via its national network of physicians and health professionals. The Company plans to expand to retail locations to sell and distribute cannabis and cannabis related products, effective October 2018 with the Cannabis Act coming into force.

The Company was incorporated under the name Brassneck Capital Corp. pursuant to the provisions of the Business Corporations Act (Alberta) on June 18, 2015. The Company maintains its head office and registered office at 1111 Wellington Street West, Ottawa, Ontario, K1Y 2Y6. The Company was a Capital Pool Company (“CPC”) as defined pursuant to Policy 2.4 of the TSXV.

Pursuant to the terms of an amalgamation agreement dated July 10, 2017 between Brassneck Capital Corp., National Access Cannabis Corp. (NAC) and 1119622 B.C. Ltd. (Subco), a wholly owned subsidiary of Brassneck Capital Corp., NAC and Subco amalgamated under the Business Corporations Act (British Columbia) to form a new company under the corporate name National Access Clinic Corp. (Clinic Corp). Clinic Corp. will carry on the business previously carried on by NAC as a subsidiary of the Company. On August 30, 2017, as part of the Qualifying Transaction (described in the following paragraph), Brassneck Capital Corp. amended its articles to complete a share split of all of its issued and outstanding Common Shares and all outstanding options and warrants to purchase Common Shares on the basis of 1.205 post-Share Split Common Shares for every 1 pre-Share Split Common Share. Also, on August 30, 2017, as part of the Qualifying Transaction, Brassneck Capital Corp. changed its name to National Access Cannabis Corp.

On August 30, 2017, the Company completed its Qualifying Transaction. Upon closing, National Access Cannabis Corporation shareholders held approximately 92.8% of the outstanding shares of the Company. In substance, the Transaction involves National Access Cannabis Corporation shareholders obtaining control of the Company and accordingly the Transaction is considered to be a reverse takeover transaction (“RTO”) with the Company. For accounting purposes, the acquisition is considered to be outside the scope of IFRS 3 Business Combinations (“IFRS 3”) since the Company, prior to the acquisition did not constitute a business. Upon completion of the Amalgamation, there were 115,974,163 Common Shares issued and outstanding. The transaction is accounted for in accordance with IFRS 2 Share-based Payments whereby National Access Cannabis Corporation is deemed to have issued shares and share purchase warrants in exchange for the net assets of the Company together with its listing status at the fair value of the consideration received by National Access Cannabis Corporation. The consolidated financial statements of the combined entities are issued under the legal parent, National Access Cannabis Corporation (formerly Brassneck Capital Corp.), but are considered a continuation of the financial statements of the legal subsidiary, National Access Clinic Corporation. Since National Access Clinic Corporation is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values. Additional information on the transaction is disclosed in Note 5.

The audited consolidated financial statements were approved and authorized for issue by the Board of Directors on December 13, 2018.

NATIONAL ACCESS CANNABIS CORP.
Notes to the Consolidated Financial Statements
For the year ended August 31
Expressed in Canadian Dollars

1. NATURE OF OPERATIONS AND GOING CONCERN (continued)

Going Concern Assumption

These consolidated financial statements for the year ended August 31, 2018 have been prepared on the going concern basis, which assumes that the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company is in the development stage of expanding by opening and acquiring clinics and cannabis retail locations throughout Canada. While these financial statements have been prepared on a going concern basis, the Company continues to remain dependent on its ability to obtain sufficient funding to sustain operations and continue with its current expansion projects. While the Company has been successful in raising financing in the past, there can be no assurance that it will be able to do so in the future. Several alternatives are being evaluated with the objective of funding ongoing activities and obtaining additional working capital. The continuing operations of the Company are dependent upon its ability to raise adequate financing and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due. These factors indicate a material uncertainty that may cast significant doubt about the Company being able to continue as a going concern. The Company has incurred losses since incorporation and as at August 31, 2018 has an accumulated deficit of \$18,428,990.

The consolidated financial statements for the year ended August 31, 2018 do not reflect adjustments that would be necessary if the going concern basis was not appropriate. Consequently, adjustments would then be necessary to the carrying value of assets and liabilities, the reported revenues and expenses and the balance sheet classifications used. Such adjustments, if required, could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

The Company's consolidated financial statements have been prepared in accordance with and using accounting policies in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and in effect at the closing date of August 31, 2018.

The accounting policies applied in the preparation of the consolidated financial statements for the year ended August 31, 2018 are set out below.

2.2 Basis of measurement

The consolidated financial statements, presented in Canadian Dollars, have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out in Note 2.9.

The accounting policies set out below have been applied consistently by the Company and its wholly owned subsidiaries for the periods presented.

NATIONAL ACCESS CANNABIS CORP.
Notes to the Consolidated Financial Statements
For the year ended August 31
Expressed in Canadian Dollars

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation

The consolidated financial statements include the accounts of National Access Cannabis Corporation, and the wholly-owned subsidiaries, National Access Clinic Corporation, National Access Canada Corporation Wilson Master Apps Inc, National Access Cannabis MB Retail Holdings Corp, NAC Southern Alberta Ltd, META West Coast Ltd, National Access Cannabis Management Corp, National Access Cannabis (MB FN) LP Holdings Corp, National Access Cannabis LP Holdings Corp, National Access Cannabis GP Holding Corp, and META Cannabis Supply Corp. The Company also has a 51% controlling interest in National Access Cannabis Medical Inc, NAC Northern Alberta GP Ltd and NAC Northern Alberta Limited Partnership, a 57.1% controlling interest in NAC Bio Inc, and a 49% interest in NAC OCN GP Ltd, NAC OCN Limited Partnership, NAC Thompson North GP Ltd, NAC Thompson North Limited Partnership, NAC Long Plain GP Ltd, NAC Long Plain Limited Partnership, NAC Arrowhead GP Ltd and NAC Arrowhead Limited Partnership. The subsidiaries are controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the day control ceases. Non-controlling interests in the equity of the Company's subsidiaries are shown separately in equity in the consolidated statements of financial position.

The functional currency of the parent and all subsidiaries is the Canadian dollar, which is the presentation currency of the consolidated financial statements.

2.4 Cash

Cash includes cash on deposit at banking institutions.

2.5 Inventory

Inventory is valued at the lower of cost or net realizable value. Cost is calculated based on a first-in, first-out basis. Cost includes the acquisition cost at the date of purchase and costs directly attributable to bringing the asset to the location and condition necessary for distribution to customers. Net realizable value is the estimated selling price, in the ordinary course of business, less appropriate selling and distribution expenses.

When inventory is sold, the carrying amount of the inventory is recognized as an expense in cost of goods sold in the period in which the related revenue is recognized.

2.6 Property and equipment

Property and equipment are carried at historical cost less any accumulated amortization and impairment losses. Historical cost includes the acquisition cost or production cost as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. When property and equipment include significant components with different useful lives, they are recorded and amortized separately. Amortization is computed using the straight-line and declining balance methods based on the estimated useful life of the assets. Useful life is reviewed at the end of each reporting period.

The Company recognizes in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred. Amortization is provided at rates calculated to write off the cost of property, plant and equipment less their estimated residual value on the straight-line method, over the estimated useful lives, as follows.

NATIONAL ACCESS CANNABIS CORP.
Notes to the Consolidated Financial Statements
For the year ended August 31
Expressed in Canadian Dollars

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Furniture and equipment	5 years
Electronic equipment	3 years
Information panels	3 years
Signs	5 years
Leasehold improvements	Over the term of the lease

2.7 Intangible assets

Intangible assets are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful life. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives are comprised of acquired service contracts which are carried at cost less accumulated impairment losses.

2.8 Goodwill

Goodwill arising in a business combination is recognized as an asset at the date of control (acquisition date). Goodwill is measured as the excess of the cost of the acquisition over the Company's interests in the net fair value of the identifiable net assets, liabilities and contingent liabilities of the acquire recognized at the date of acquisition.

For the purposes of assessing impairment, goodwill is allocated to cash-generating unit or groups of cash-generating units that are expected to benefit from the synergies of the combination. Each unit to which goodwill is allocated represents, subject to an operating segment ceiling test, the lowest level within the Company that goodwill is monitored for internal reporting purposes. The impairment of non-financial assets in Note 2.10 describes how goodwill is tested for impairment.

2.9 Financial instruments

The Company recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Such financial assets or financial liabilities are initially recognized at fair value and the subsequent measurement depends on their classification.

Financial assets classified as fair value through profit and loss ("FVTPL") are measured at fair value with any resultant gain or loss recognized in profit or loss. Financial assets classified as available-for-sale are measured at fair value with any resultant gain or loss being recognized directly under other comprehensive income. When available-for-sale financial assets are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss. Financial assets classified as loans and receivables and held to maturity, are measured at amortized cost using the effective interest rate method. As at August 31, 2018, the Company has not classified any financial assets as available for sale.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. Financial liabilities are classified as other financial liabilities, and are subsequently measured at amortized cost using the effective interest rate method.

NATIONAL ACCESS CANNABIS CORP.
Notes to the Consolidated Financial Statements
For the year ended August 31
Expressed in Canadian Dollars

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company's financial assets include cash and cash equivalents, investments, trade and other receivables, and loan receivables. The Company's financial liabilities include trade and other payables, debt financing, note payable and due to shareholders. Classification of these financial instruments is as follows:

Cash and cash equivalents	FVTPL
Investments	FVTPL
Trade and other receivables	Loans and receivables
Loan receivables	Loans and receivables
Trade and other payables	Other financial liabilities
Contingent consideration payable	Other financial liabilities
Note payable	Other financial liabilities
Due to shareholders	Other financial liabilities

Financial assets are derecognized when the Company's rights to cash flows from the respective assets have expired or have been transferred and the Company has neither exposure to the risks inherent in those assets nor entitlement to rewards from them. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of other comprehensive income (loss).

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

The Company's financial instruments measured at fair value on the consolidated statement of financial position, consist of cash and cash equivalents, which is measured at level 1 of the fair value hierarchy and investments which are measured at level 3 of the fair value hierarchy. There is no impact on the effect of the fair value measurement in net loss or other comprehensive income for the period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.10 Impairment

The Company assesses at each date of the statement of financial position whether a non-financial asset is impaired.

Property and equipment, intangibles and goodwill are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying amount of the asset or related cash generating unit ("CGU") may not be recoverable. If any such indication exists, then the assets or CGU's recoverable amount is estimated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate. The discount factors are determined individually for each CGU and reflect their respective risk profiles as assessed by management. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds the estimated recoverable amount. Impairment losses are recognized in net earnings. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of assets in the CGU on a pro-rata basis.

Impairment losses may be reversed in a subsequent period where the impairment no longer exists or has decreased. The carrying amount after a reversal must not exceed the carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized. A reversal of impairment loss is recognized in the statement of comprehensive income (loss).

An impairment loss in respect of a financial asset measured at amortized cost, such as trade and other receivables, is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against the corresponding asset.

2.11 Business combinations

Business combinations are accounted for using the acquisition method under IFRS 3, Business Combinations (IFRS 3). The consideration transferred by the Company to obtain control of an entity is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Company recognizes identifiable assets acquired and liabilities assumed, including contingent liabilities, in a business combination regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at the acquisition-date fair values. Goodwill is stated after separate recognition of identifiable assets. It is calculated as the excess of the sum of (a) fair value of consideration transferred,

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) the recognized amount of any non-controlling interest in the acquiree and (c) acquisition-date fair value of any existing equity interest that the Company has in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair value of identifiable net assets exceeds the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognized in net earnings immediately.

2.12 Comprehensive income (loss)

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in net profit such as unrealized gains or losses on available for sale investments and gains or losses on certain derivative instruments.

2.13 Revenue recognition

Revenue represents the fair value of the sale of goods to customers, net of discounts and sales tax in the ordinary course of the Company's activities. Revenue from the sale of goods is recognized when significant risks and rewards of ownership of the goods are transferred to the customer, it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably, which generally arises on delivery.

Revenues from memberships, administration fees and consultations are recognized at the latter of when the service has been provided and collection is reasonably assured. Revenues received for future periods are deferred until such time as the service is provided.

2.14 Share based payments

Share based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby they render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically measured, they are measured at fair value of the share-based payment. The fair value of the share based payments is recognized together with a corresponding increase in equity over a period that services are provided or goods are received.

Equity settled transactions

The costs of equity settled transactions with employees are measured by reference to the fair value at the date on which they are granted, incorporating the Black-Scholes option pricing model.

The costs of equity settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative cost is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in contributed surplus.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

No expense is recognized for awards that do not ultimately vest.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

2.15 Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all options outstanding that may add to the total number of common shares.

2.16 Income taxes

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

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates. Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

2.17 Related party transactions

Related parties are individuals or corporations who do not deal at arms length with the Company.

2.18 Equity

Share capital

Share capital represents the amount received on the issuance of common shares. Transaction costs directly attributable to the issuance of common shares are recognized as a reduction of share capital. If shares are issued when options or warrants are exercised, the share capital account also comprises the compensation costs previously recorded as contributed surplus or warrants. In addition, if common shares are issued as consideration for the acquisition of non-monetary assets, they are measured at the fair value of the assets or services received, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the assets or services received, the common shares are measured at the fair value of the shares issued. Given that there is no quoted price for the Company's shares, the fair value is estimated by using other observable inputs at that date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Warrants

Warrants include charges related to the issuance of warrants until such equity instruments are exercised.

In the event that the Company reacquires its own warrants, they are held by the Company until the time they are transferred or cancelled.

Contributed surplus

Contributed surplus includes charges related to stock-based compensation until such equity instruments are exercised, as well as expired or forfeited warrants.

2.19 Critical accounting estimates and judgements

The Company's consolidated financial statements are prepared in accordance with IFRS recognition and measurement principles that often require Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts presented and disclosed in the consolidated financial statements. Management reviews these estimates and assumptions on an ongoing basis based on historical experience, changes in business conditions and other relevant factors as it believes to be reasonable under the circumstances. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. Revision to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Estimates

Useful lives of depreciable assets

The useful lives of depreciable assets have been determined based on management estimated utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain computer equipment.

Useful lives of intangible assets

The useful lives of intangible assets have been determined based on management estimated attrition rates related to the associated asset. Any subsequent change in these estimates would affect the amount of amortization recorded over future periods.

Fair value of investments

Investments are measured at fair value. In estimating fair value the Company uses market-observable data to the extent it is available.

Contingent consideration

Contingent consideration is recognized at fair value at the date of acquisition. In estimating the value of the contingent consideration, expected milestones are assessed probabilities by management which are then discounted to present value in order to derive a fair value of the contingent consideration. The fair value of a contingent consideration is based on management's preliminary assessment at the date of acquisition and is subject to change.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based compensation

The estimation of share-based compensation requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of share options granted and the time of exercise of those options. The model used by the Company is the Black-Scholes valuation model.

Income taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Judgements

Assessing the probability of utilizing deferred tax assets

Deferred tax assets are recognized for unused tax losses and credits to the extent that it is probable that taxable income will be available against which the losses can be utilized. These estimates are reviewed at every reporting date. Information about assumptions and estimation based upon the likely timing and the level of the reversal of existing timing differences, future taxable income and future tax planning strategies, is included in Note 20. The tax rules in the numerous jurisdictions in which the Company operates are also taken into consideration.

Goodwill impairment

The Company performs an annual test for impairment for each of the cash generating units (CGUs with goodwill allocated), and whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit. Determining whether an impairment has occurred requires valuation of the respective CGU, which is estimated using a discounted cash flow method. When available and as appropriate, we use comparative market multiples to corroborate discounted cash flow results. In applying this methodology, we rely on a number of factors, including actual operating results, future business plans, economic projections and market data.

Business combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using approximate valuation techniques, which are generally based on a forecast of the total expected future cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. When provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurements period will last for one year from the acquisition date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures, meet its liabilities for the ensuing year involves significant judgement based on historical events that are believed to be reasonable under the circumstances. See Note 1 for more information.

Valuation adjustments for inventory

The Company records a valuation adjustment for inventory by comparing inventory cost to its net realizable value. This process requires judgements related to future market demand, cost and pricing. These adjustments are reviewed on an ongoing basis and may have a significant impact on any valuation adjustment for inventories.

2.20 Segmented information

Throughout the period ended August 31, 2018, the Company operated in three segments;

- i) Medical Cannabis Education Clinics - the Company owns and operates medical clinics designed to connect patients suffering from illnesses that may be helped by medical cannabis with Licensed Producers by providing such patients with the opportunity to access qualified health care practitioners and independent medical cannabis evaluations and advice.
- ii) Research - NAC Bio Inc. is a technology and research company established to advance clinical research regarding the medical benefits of cannabis for the treatment of chronic disease and illness.
- iii) Retail Cannabis Stores – The Company operates retail locations to sell and distribute and cannabis related products under its recreational cannabis brands META and NewLeaf Cannabis Corp.

As of August 31, 2018, NAC Bio Inc. was still in the early stages of planning and development. The Company's retail cannabis locations did not begin operations until subsequent to year end. Legal distribution and sale of recreational cannabis in Canada began on October 17, 2018.

3. NEW STANDARDS AND INTERPRETATIONS TO BE ADOPTED IN FUTURE

At the date of authorization of these consolidated financial statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company has not early adopted. However, the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

IFRS 9 '*Financial Instruments: Classification and Measurement*' - as issued in 2010, reflects the first phase of the IASB's work on the replacement of International Accounting Standard 39, Financial Instruments: Recognition and Measurement ("IAS 39") and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB is addressing the impairment of financial assets. In November 2013, IFRS 9 was amended to include new requirements for hedge accounting. The effective date is for annual periods beginning on or after January 1, 2018. The Company

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3. NEW STANDARDS AND INTERPRETATIONS TO BE ADOPTED IN FUTURE (continued)

intends to adopt IFRS 9 on September 1, 2018. The Company has completed its assessment of the impact from this new standard. IFRS 9 introduces new requirements to determine the measurement basis of financial assets, involving cash flow characteristics of assets and the business model under which they are managed. For all financial instruments of the Company, there are no significant changes in the classification and measurement of the Company's financial assets.

IFRS 15 '*Revenue from contracts with customers*' was issued by the IASB in May 2014. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The effective date is for annual periods beginning or after January 1, 2018. The Company intends to adopt IFRS 15 on September 1, 2018 using the modified retrospective approach where the cumulative impact of adoption will be recognized in retained earnings as of September 1, 2018 and comparatives will not be restated.

The Company has completed its assessment of the impact from this new standard. Under IFRS 15, referral revenues earned from Licensed Producers are recognized over a period of time as the referred patients remain an active purchaser with the Licensed producer. Based on the Company's assessment, the adoption of this new standard does not have a material impact on its consolidated financial statements.

Merchandise and administrative revenues are recognized at the point when the control over the goods has been transferred to the customer. The Company transfers control and satisfies its performance obligation upon delivery and acceptance by the customer, which is consistent with the Company's current revenue recognition policy under IAS 18.

IFRS 16 '*Leases*' replaces IAS 17 '*Leases*' and introduces new rules for accounting for leases which will result in substantially all lessee leases being recorded on the consolidated statement of financial position. The standard is effective for annual periods beginning on or after January 1, 2019 with retrospective application and with early adoption permitted. The Company continues to assess this new standard and the potential impact to the consolidated financial statements.

Management has discussed these new standards with the Audit Committee and are further analyzing the effects on the Company.

4. BUSINESS COMBINATION

On December 23, 2016 the Company entered into a Share Purchase Agreement with Wilson Master Apps Inc. (doing business as CannApply Medical Services) ("CanApply") an Alberta Company with an office at 201, 5401 Temple Dr. NE, Calgary, AB. CannApply is a private company engaged in the business of operating clinics offering services to medical cannabis patients. CannApply currently operates out of four locations within the city of Calgary, AB. The Company acquired 100% of the issued securities of CannApply for a total consideration of \$600,000 payable in 1,300,000 common shares of the Company with a deemed value of \$0.25 per share and \$275,000 in cash with \$100,000 paid at closing cash of which \$100,000 was paid at closing and the remaining balance of \$175,000 was paid following the Company's Qualifying Transaction (RTO) and subsequent public listing on August 30th, 2017.

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4. BUSINESS COMBINATION (continued)

The Company has accounted for this transaction as a business combination under IFRS 3 as the group of assets acquired met the definition of a business.

The following table summarizes the fair value of the net assets acquired. The valuation was performed by the Company based on the internal appraisals of the fair value of the property and equipment acquired. The assessment of the purchase price allocation is based on management's current knowledge of the business of Wilson Master Apps Inc.

Value recognized on the acquisition date	
Cash	7,621
Trade and other receivables	49,467
Goodwill	701,794
Trade and other payables	(149,467)
Deferred revenues	(9,415)
<u>Total net assets acquired</u>	<u>600,000</u>

5. REVERSE TAKEOVER

On August 30, 2017, Brassneck Capital Corp. completed its Qualifying Transaction, pursuant to the terms of an amalgamation agreement dated effective July 10, 2017 between Brassneck Capital Corp., 1119622 B.C. Ltd., and National Access Cannabis Corp. The former shareholders of National Access Cannabis Corp. received a total of 107,612,568 or 92.8% of the post consolidated common shares of Brassneck Capital Corp. for all the outstanding shares of National Access Cannabis Corp.

The transaction was a reverse takeover of Brassneck Capital Corp. and has been accounted for under IFRS 2, *Share-based payment*. The value in excess of the net identifiable assets or obligations of the Company acquired on closing is expensed in the consolidated statement of comprehensive loss as a listing fee expense for the year ended August 31, 2017.

The listing fee expense in the amount of \$2,427,438 is comprised of the net working capital, the fair value of common shares and options of the Company retained by the former shareholders of the Company as well as other direct expenses of the Transaction. The options and warrants were attributed a fair value of \$196,534 using the Black-Scholes option pricing model with the following assumptions: fair value of security of \$0.25; expected life of two years; \$Nil dividends; 71% volatility; and a risk-free interest rate of 1.04%.

The following represents management's estimate of fair value of share-based consideration and net assets acquired as a result of this Qualifying Transaction.

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5. REVERSE TAKEOVER (continued)

Fair value of Brassneck shares (8,361,495 at \$0.25 per share)	2,090,374
Fair value of Brassneck options	196,534
<hr/> Total Consideration	<hr/> 2,286,908
Net assets acquired	(274,892)
Excess attributed to cost of listing	2,012,016
Legal, professional and other fees	415,422
<hr/> RTO Listing Expense	<hr/> 2,427,438

Net assets acquired include:

Cash	50,860
Loan Receivable	222,275
Prepaid Expenses	10,000
Legal Fees Payable	(8,243)
<hr/> Total net assets acquired	<hr/> 274,892

6. TRADE AND OTHER RECEIVABLES

	<u>2018</u>	<u>2017</u>
Trade receivables	579,504	309,772
Sales taxes recoverable	302,957	93,231
	<hr/> 882,461	<hr/> 403,003

7. INVENTORY

Inventory consists of various retail items. Most items are instruments used by patients to help prepare and administer prescribed medical cannabis.

	<u>2018</u>	<u>2017</u>
Retail items	51,062	24,556

During the year ended August 31, 2018, \$104,975 of inventory was recognized as an expense (\$84,333 for the year ended August 31, 2017).

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8. PROPERTY AND EQUIPMENT

	Furniture And Equipment	Electronic Equipment	Information panels	Signs	Leasehold Improvements	Total
Cost:						
At August 31, 2016	68,535	34,779	14,233	22,627	500,464	640,638
Additions	59,740	34,018	-	41,741	445,726	581,225
Disposals	(3,690)	-	-	-	-	(3,690)
At August 31, 2017	124,585	68,797	14,233	64,368	946,190	1,218,173
Additions	48,164	178,000	-	-	1,283,595	1,509,759
Disposals	-	-	-	-	(91,026)	(91,026)
Impairment (i)	-	-	-	-	(218,421)	(218,421)
At August 31, 2018	172,749	246,797	14,233	64,368	1,920,338	2,418,485
Accumulated Amortization						
At August 31, 2016	8,311	8,545	5,709	2,210	57,712	82,487
Amortization	22,433	19,529	4,744	11,684	260,198	318,588
Disposals	(554)	-	-	-	-	(554)
At August 31, 2017	30,190	28,074	10,453	13,894	317,910	400,521
Amortization	27,765	31,376	3,780	12,874	286,651	362,445
Disposals	-	-	-	-	(75,937)	(75,937)
At August 31, 2018	57,955	59,450	14,233	26,768	528,625	687,029
Carrying amounts:						
At August 31, 2017	94,395	40,723	3,780	50,474	628,280	817,652
At August 31, 2018	114,794	187,347	-	37,600	1,391,713	1,731,456

(i) Impairment Loss

In 2018 the Company undertook a strategic shift with regards to its medical clinic operations, and pivoting operations into partnerships with existing pharmacies with the anticipation of pharmacies receiving a license to dispense cannabis medicines. NAC proactively started to develop a synergistic cannabis program to ensure that NAC could take advantage of this future channel. To further enhance this strategic shift, NAC acquired 51% of Cannabis Care Group in April 2018. Following acquisition, CCG changed its name to National Access Cannabis Medical Inc. ("NACM").

As a result of the strategic shift, an impairment test was performed on the CGU's related to the existing seven medical clinics the Company operates (Victoria, Calgary, Saskatoon, Winnipeg, Toronto, Ottawa and Halifax). In assessing if an impairment loss was required, the recoverable amount of each CGU was determined to be equal to its value in use. In estimating the value in use for each CGU, cash flow projections were prepared for a period of five years and discounted using a rate of 15%. Key assumptions that were used in the cash flow projections include using a growth rate of 2%; capitalization factor of 7.69 and applying a tax rate of 26.5%.

The results of the cash flow projections indicated that the Victoria, Calgary, Saskatoon and Halifax clinic locations were impaired as their respective recoverable value exceeded the carrying value of the corresponding CGU. The resulting impairment that was recorded for each clinic was as follows: 1) Victoria – an impairment loss of \$125,000 was applied to leasehold improvements as no goodwill or other intangible

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8. PROPERTY AND EQUIPMENT (continued)

assets with indefinite lives have been allocated to the CGU; 2) Calgary – an impairment loss of \$102,332 was applied to the carrying value of goodwill; 3) Saskatoon – an impairment loss of \$13,366 was applied to leasehold improvements as no goodwill or other intangible assets with indefinite lives have been allocated to the CGU; and 4) Halifax - an impairment loss of \$80,055 was applied to leasehold improvements as no goodwill or other intangible assets with indefinite lives have been allocated to the CGU.

The total impairment loss for leasehold improvements and goodwill of \$320,753 has been recorded under Impairment loss on the Consolidated Statements of Loss.

9. INVESTMENT

On May 25, 2018, the Company subscribed for a \$1,850,000 secured convertible debenture of The Green Company Ltd. (“NewLeaf”). The loan has been extended to NewLeaf for the capital expenditure required to build out recreational cannabis retail stores in the province of Alberta. The loan bears interest at 5.45% per annum and is due on or before May 25, 2020. On August 22, 2018, the Company elected to convert the Convertible Debenture into common shares of NewLeaf. As a result of the transaction, the Company held a 9.9% equity interest of NewLeaf’s outstanding common shares as at August 31, 2018.

On May 25, 2018 the Company advanced a loan in the maximum aggregate principal amount of \$7,000,000 to NewLeaf. Subject to the terms of the agreement, NewLeaf may make drawdowns under the Loan for up to \$250,000 for each Cannabis Retail Location. The loan bears interest at prime rate plus 3% per annum and is due on or before May 25, 2020. As at August 31, 2018, the Company has advanced a total of \$1,750,000 to NewLeaf in accordance with the loan agreement. Subsequent to year-end, the Company acquired 100% of the remaining issued and outstanding common shares of NewLeaf.

10. INTANGIBLE ASSETS AND GOODWILL

	Total Goodwill	Service Contracts	Strategic Alliance	Software Licenses	Total Intangible Assets
Cost:					
At August 31, 2016	814,477	-	-	100,000	100,000
Additions (Note 4)	701,794	-	-	-	-
At August 31, 2017	1,516,271	-	-	100,000	100,000
Additions (i), (Note 13)	-	13,000,784	2,654,500	-	15,655,284
Disposals	-	-	-	(100,000)	(100,000)
Impairment (Note 8)	(102,332)	-	-	-	-
At August 31, 2018	1,413,939	13,000,784	2,654,500	-	15,655,284
Accumulated Amortization					
At August 31, 2016	-	-	-	76,641	76,641
Amortization	-	-	-	23,359	23,359
At August 31, 2017	-	-	-	100,000	100,000
Amortization	-	-	698,555	-	698,555
Disposals	-	-	-	(100,000)	(100,000)
At August 31, 2018	-	-	698,555	-	698,555
Carrying amounts:					
At August 31, 2017	1,516,271	-	-	-	-
At August 31, 2018	1,413,939	13,000,784	1,955,945	-	14,956,729

10. INTANGIBLE ASSETS AND GOODWILL (continued)

(i) Second Cup Strategic Alliance

On April 11, 2018, the Company entered into a strategic alliance with The Second Cup Ltd. ("Second Cup") to develop and operate a network of NAC branded recreational cannabis dispensaries initially across Western Canada, expanding to include additional provinces where legally permissible.

In consideration of Second Cup agreeing to enter into this strategic alliance, the Company issued warrants to purchase an aggregate of 5,000,000 common shares of the Company. The warrants have an exercise price of \$0.91 per common share and expire on April 11, 2023. The warrants were attributed a fair value of \$2,654,500 using the Black-Scholes option pricing model with the following assumptions: fair value of security of \$0.91; expected life of five years; \$Nil dividends; 70% volatility; and a risk-free interest rate of 1.60%.

The strategic alliance has been recognized as an Intangible Asset and is amortized over 19 months, the useful life in accordance with the terms of the agreement.

11. DEBT FINANCING

On July 20, 2018, the Company entered into a loan agreement with Opaskwayak Cree Nation ("OCN"), pursuant to which OCN will lend up to \$35,000,000 to the Company. The loan has a six-month term and carries an interest rate of 10% per annum. Additionally, OCN will receive a commitment fee of \$1,600,000 to \$3,000,000 depending on repayment circumstances. As at August 31, 2018, the Company has received a total of \$25,000,000 in accordance with the loan agreement and had paid \$294,521 in interest.

Subsequent to year end, the Company fully repaid the outstanding OCN loan. The sum of the payout was \$26,716,197 which included principal repayment of \$25,000,000 and \$1,642,857 in commitment fees. The balance of the payout included payments for interest and other payment obligations including legal fees, and other expenses.

12. NOTE PAYABLE AND DUE TO SHAREHOLDERS

On November 29, 2016 the Company borrowed \$300,000 from an unsecured lender at an interest rate on the principal at 5% per month from December 2016 through April 2017, and 2.5% per month on the principal from May 2017 forward. The loan and the interest amount are to be repaid in cash or in the equivalent amount of National Access Cannabis Corporation common shares. The common share price will be based on market price. The option of converting all or part of the principal and interest amount into common shares is at the lender's sole discretion. At June 29, 2017, \$90,000 of interest was paid to the lender in common shares of the Corporation. The common share price of \$0.25 per share was based on market price. As at August 31, 2017 the remaining principal of \$300,000 and balance of interest of \$15,000 owing to the lender was elected to be paid out in cash, and was subsequently paid on September 5, 2017.

During the twelve months ended August 31, 2018, 2627639 Ontario Inc., a company controlled by a Director of the Company, and 2627786 Ontario Inc., a shareholder of the Company, each advanced a proportional share of \$115,000 in shareholder loans into NACM for a total of \$230,000. The shareholder loans are non-interest bearing and have no terms of repayment.

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13. ACQUISITIONS

(i) National Access Cannabis Medical Inc. (“NACM”)

On April 9, 2018, the Company acquired 51% of the net assets in National Access Cannabis Medical Inc. (“NACM”), an entity with service agreements with 40 pharmacies in Canada providing solutions for medical cannabis patients.

The Company acquired 51% of the common shares of NACM for a total consideration of \$5,080,000 consisting of:

Consideration		
4,297,872 common shares		4,040,000
Contingent consideration		1,040,000
		<u>5,080,000</u>

The share purchase agreement provides that for a period of up to five years, the Vendors shall be entitled to receive up to \$6,080,000 of additional shares of the Company upon meeting certain milestones. The contingent consideration was recognized as a liability based on the estimated probability of occurrence over five years. To derive the value of the contingent consideration, the expected milestones were assessed probabilities by management.

The allocation of the consideration of the fair value of the net assets acquired at the date of acquisition is as follows:

Intangible Assets	9,960,784
Non-controlling interest	<u>(4,880,784)</u>
	<u>5,080,000</u>

The fair value of the contingent consideration is based on management’s preliminary assessment at the date of acquisition and is subject to change. Refer to Note 17 for more detail.

(ii) NAC Bio Inc. (“NAC Bio”)

On May 23, 2018, the Company invested \$1,000,000 into NAC Bio, a separate legal entity established to advance clinical research in the medical benefits of cannabis in the treatment of chronic disease and illness.

In connection with the closing, the Company invested an initial amount of \$400,000 and will increase its investment by \$100,000 over the next six months. Upon closing, NAC held a 57.1% stake in NAC Bio. Accumulated Other Comprehensive Loss attributable to NAC’s non-controlling equity interest in NAC Bio was \$428,571 as of August 31, 2018.

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14. EQUITY INSTRUMENTS

(a) **Share Capital**

Authorized:

The authorized capital stock of the Company consists of an unlimited number of common shares.

	Number of shares	Amounts
Balance, September 1, 2016	41,697,010	1,534,109
Subscription receipts net of issuance costs (i)	1,794,000	680,475
Payment of interest on short-term debt (ii)	360,000	90,000
Purchase of property and equipment (iii)	2,000,000	200,000
Acquisition of companies (iv)	1,300,000	325,000
Amalgamation (v)	100	100
Concurrent financing (vi)	24,000,000	6,000,000
Conversion of convertible debentures (vii)	5,000,000	1,041,773
Conversion of payable due to Director (viii)	221,860	33,279
Conversion of director loans (ix)	8,000,000	400,000
Share based compensation (x)	10,985,000	1,662,142
Conversion of options (xi)	500,000	5
Conversion of warrants (xii)	11,754,698	1,770,526
Share issuance costs	-	(350,841)
Transaction costs	-	(165,912)
Shares issued for reverse acquisition (xiii)	8,361,495	2,090,374
Balance, August 31, 2017	115,974,163	15,311,030
Balance, September 1, 2017	115,974,163	15,311,030
Conversion of options (xi)	3,077,112	514,650
Conversion of warrants (xii)	1,492,020	428,377
Private Placement (xiv)	10,909,091	6,000,000
Acquisition of companies (xv)	4,297,872	4,040,000
Share based compensation (x)	(50,000)	(6,250)
Share issuance costs	-	(161,663)
Transaction costs	-	(331,149)
Balance, August 31, 2018	135,700,258	25,794,995

(i) During the 2017 year-end, a total of 1,794,000 shares were issued for a total of \$448,500. An additional \$231,975 was received from various shareholders who had previously purchased common shares at prices below \$0.05 per share. Payments were made to top up share purchase price to \$0.05 thereby avoiding TSX Venture Exchange escrow restrictions.

(ii) On November 29, 2016 the Company borrowed \$300,000 from an unsecured lender at an interest rate on the principal at 5% per month from December 2016 through April 2017, and 2.5% per month on the principal from May 2017 forward. The option of converting all or part of the principal and interest amount into National Access Cannabis Corporation common shares was at the lender's sole discretion. At June 29, 2017, \$90,000 of interest was paid to the lender in common shares of the Corporation.

(iii) On November 17, 2016 the Company entered into an Asset Purchase Agreement with a major shareholder of the Company, to repurchase the leaseholds and substantially all of the assets, real and personal, tangible and intangible at the seller's facility located at 2571 A Quadra Street, Victoria, British Columbia. Total consideration for the assets purchased is \$250,000 consisting of paying the seller \$50,000 and issue of 2,000,000 common shares at \$0.10 per share in capital of the Company. As a further consideration, the Buyer paid the Seller an additional amount of \$50,000 upon the Company achieving its public listing status.

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14. EQUITY INSTRUMENTS (continued)

(iv) On December 21, 2016 the Company entered into a Share Purchase Agreement with Wilson Master Apps Inc. (doing business as CannApply Medical Services) an Alberta Company with an office at 201, 5401 Temple Dr. NE, Calgary, AB. CannApply is a private company engaged in the business of operating clinics offering services to medical cannabis patients. CannApply currently operates out of four locations within the city of Calgary, AB. The Company acquired 100% of the issued securities of CannApply for a total consideration of \$600,000 payable in 1,300,000 common shares of the Company with a value of \$0.25 per share and \$275,000 in cash with \$100,000 paid at closing and the remaining balance of \$175,000 was paid following the Company's Qualifying Transaction (RTO) and subsequent public listing on August 30th, 2017.

(v) Pursuant to the terms of an amalgamation agreement dated effective July 10, 2017 between the Company, National Access Cannabis Corp. and 1119622 B.C. Ltd., a wholly owned subsidiary of The Company, National Access Cannabis Corporation and 1119622 B.C. Ltd. amalgamated to form a new company under the corporate name National Access Clinic Corp. which will carry on the business previously carried on by National Access Cannabis Corp. as a subsidiary of the Company. As such the shares of 1119622 B.C. Ltd. have been incorporated into the share capital of the Company.

(vi) On July 10, 2017, the Company completed a concurrent private placement pursuant to which it issued 24,000,000 subscription receipts for aggregate gross proceeds of \$6,000,000. Immediately prior to the closing of the Acquisition, each subscription receipt was deemed to be exercised into one share of the Company at a price of \$0.25 per share. In connection with the closing of the concurrent private placement, the Company paid the Agents a cash commission of \$240,000, equal to 6% of the gross proceeds from the concurrent private placement, subject to a reduced commission of 2% for certain subscribers on a President's List of the Company. The Company also issued Agent warrants exercisable to acquire 960,000 shares, being the number of shares as was equal to 6% of the gross proceeds from the concurrent private placement, subject to a reduced commission of 2% for certain subscribers on a President's List of the Company, at an exercise price of \$0.25 per share exercisable until July 10, 2019. The warrants were valued at \$93,786 using the Black-Scholes option pricing model and the following variables: stock price of \$0.25; expected life of two years; \$Nil dividends; 71% volatility; and risk-free interest rate of 1.04%.

(vii) As described in Note 11, the Company issued unsecured debentures that automatically converted to 5,000,000 common shares at a conversion price of \$0.20 per share immediately prior to the closing of the Acquisition. On August 30, 2017, the conversion of the debentures and the corresponding conversion liability results in an increase to share capital of \$1,041,773 for the 5,000,000 common shares issued.

(viii) On November 22, 2016 \$33,279 payable to a director was settled with shares of the Company at a price of \$0.15 per share, for a total of 221,860 shares issued.

(ix) On October 24, 2016 \$400,000 of amounts due to directors was settled with shares of the Company at a price of \$0.05 per share, for a total of 8,000,000 shares issued.

(x) Members of the Board of Directors, the executive management team, employees and consultants of the Company received share-based compensation for consulting services and salary. At August 31, 2017, the Company's expenses included \$1,662,142 for consulting fees and salary. On February 8, 2018 50,000 performance shares were cancelled.

(xi) On March 25, 2017, pursuant to an executive employment agreement with the incoming CEO, the Company granted 500,000 options with an exercise price of \$0.00001. 250,000 of the options vested

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14. EQUITY INSTRUMENTS (continued)

immediately and 250,000 options vested on May 25, 2017. These options were exercised on March 29 and May 29, 2017 respectively. During the twelve months ended December 31, 2018 3,077,112 options were exercised at a weighted average exercise price of \$0.17.

(xii) On May 12, 2017, 11,754,698 Special Warrants were exercised for common shares. Per the Special Warrant subscription agreement, each warrant entitled the holder to acquire, without payment of any consideration in addition to that paid for the Special Warrant, one (1) common share in the capital of the Company. During the twelve months ended December 31, 2018 1,492,020 warrants were exercised at a weighted average exercise price of \$0.29.

(xiii) Former shareholders of Brassneck Capital Corp. held a total of 8,361,495 common shares following the Qualifying Transaction. On August 30, 2017 the Corporation amended its articles to complete a share split of all of its issued and outstanding common shares on the basis of 1.205 post-share split common shares for every 1 pre-share split common share. The fair market value of each common share at the time of the Transaction was \$0.25 per share.

(xiv) On January 19, 2018, the Company completed a non-brokered private placement pursuant to which it issued 10,909,091 units of the Company for aggregate gross proceeds of \$6,000,000. Each unit is comprised of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole warrant shall entitle the holder to purchase one common share at a price of \$0.90 per warrants share, subject to adjustment in certain events, for a period of 24 months following the closing date. In connection with the closing of the private placement, the Company paid the Agents a cash commission of \$194,346 and issued Agent warrants exercisable to acquire 353,356 shares at an exercise price of \$0.90 per share exercisable until January 30, 2020. The warrants were valued at \$136,798 using the Black-Scholes option pricing model and the following variables: stock price of \$0.95; expected life of two years; \$Nil dividends; 71% volatility; and risk-free interest rate of 1.04%.

(xv) On April 9, 2018, the Company acquired a 51% ownership interest in National Access Cannabis Medical Inc. ("NACM"), an entity that has established service agreements with over 40 pharmacies in Canada that provide turnkey cannabis program solutions for medical cannabis patients. The acquisition was completed pursuant to a share purchase agreement entered into between NAC, 2627639 Ontario Inc. and 2627786 Ontario Inc, pursuant to which the Company acquired 51% of NACM for an aggregate purchase price of \$4,040,000 payable to the vendors through the issuance of 4,297,872 common shares in the capital of the Company at a price of \$0.94 per share.

(b) **Warrants**

	August 31, 2018		August 31, 2017	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of the period	1,440,050	\$ 0.17	8,788,032	\$ 0.15
Expired during the period	-	-	-	-
Issued during the period	10,807,907	0.90	4,406,716	0.17
Exercised during the period	(1,492,020)	0.29	(11,754,698)	0.15
Outstanding, end of the period	10,755,937	0.90	1,440,050	0.17

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14. EQUITY INSTRUMENTS (continued)

The following table summarizes the warrants that remain outstanding as at August 31, 2018:

Exercise Price	Warrants	Expiry Date
\$	#	
0.25	133,687	July 10, 2019
0.90	5,622,250	January 30, 2020
0.91	5,000,000	April 11, 2023
	10,755,937	

15. STOCK OPTION PLAN

The stock option plan is applicable to directors, officers, employees and consultants of the Company. The options are granted at the Company's current fair market value of the common shares under terms and conditions determined by the Board of Directors. Under the terms of the plan, the options generally vest immediately and expire at various dates from the date of the grant. The Board of Directors has the right to modify vesting periods at the time of option grant. There were 3,360,000 issued in 2018 (2017 - 5,419,004). The employee compensation expense related to options vested for the year ended August 31, 2018 is \$823,148 (2017- \$237,245). The Company may issue up to 10% of the issued and outstanding common shares under its stock option plan. For the year ended August 31, 2018, 8,151,892 common shares (8,269,004 as at August 31, 2017) are reserved for addition options under this plan.

A summary of the status of the Company's issued and outstanding stock options as of August 31, 2018 and August 31, 2017, and changes during the years ended on those dates, is presented below:

	August 31, 2018		August 31, 2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	8,269,004	0.15	3,350,000	0.15
Net granted	3,360,000	0.71	5,419,004	0.18
Exercised (i)	(3,077,112)	0.17	(500,000)	-
Forfeited	-	-	-	-
Cancelled	(400,000)	0.25	-	-
Outstanding, end of year	8,151,892	0.39	8,269,004	0.17

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15. STOCK OPTION PLAN (continued)

(i) Options were exercised by a key member of management at a nominal amount.

The following table summarizes information about stock options as at August 31, 2018:

Exercise price	Number outstanding at August 31, 2018	Weighted average remaining contractual life (years)	Number exercisable at August 31, 2018	Weighted average remaining contractual life (years)
	\$ #		#	
0.083	66,892	7.5	66,892	7.5
0.15	4,225,000	1.1	4,225,000	1.1
0.25	1,090,000	4.3	1,090,000	4.3
0.51	250,000	4.3	200,000	4.3
0.55	160,000	4.4	120,000	4.4
0.67	75,000	4.8	15,000	4.8
0.85	1,435,000	4.5	707,748	4.5
0.86	600,000	4.7	150,000	4.7
0.99	150,000	4.6	62,495	4.6
1.04	100,000	4.6	100,000	4.6
0.39	8,151,892	3.2	6,737,135	2.3

The weighted average exercise price was \$0.39 as at August 31, 2018 (August 31, 2017 - \$0.17) for exercisable options.

For the twelve months ended August 31, 2018, the Company recorded \$823,148 (2017 - \$237,245) in stock-based compensation expense related to employee options, which are measured at fair value at the date of grant and are expensed over the vesting period. In determining the amount of stock-based compensation, the Company used the Black-Scholes option pricing method to establish the fair value of options granted by applying the following assumptions:

	August 31, 2018	August 31, 2017
Risk-free interest rate	0.87%-1.60%	0.94% - 1.38%
Expected life of options (years)	3-5	3-5
Expected annualized volatility	70.00%-71.00%	70.00%
Expected dividend yield	Nil	Nil

The underlying expected volatility was determined using volatility rates for companies in similar industries with similar useful lives of the options.

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16. LOSS PER SHARE

The calculation of basic and diluted loss per share for the relevant periods is based on the following information:

	August 31 2018	August 31 2017
Basic earnings (loss) per share		
Total comprehensive income (loss)	(8,865,497)	(7,724,919)
Weighted average number of common shares outstanding	126,376,896	58,510,132
Total comprehensive income (loss) per common share, basic	<u>(0.07)</u>	<u>(0.13)</u>
Diluted earnings (loss) per share		
Total comprehensive income (loss)	(8,865,497)	(7,724,919)
Weighted average number of common shares outstanding	126,376,896	58,510,132
Effect of dilutive stock	-	-
Weighted average number of common shares outstanding assuming dilution	126,376,896	58,510,132
Total comprehensive income (loss) per common share, diluted	<u>(0.07)</u>	<u>(0.13)</u>

The treasury stock method is used to calculate loss per share and under this method stock options and warrants that are anti-dilutive are excluded from the calculation of diluted loss per share. For the period ended August 31, 2018 and August 31, 2017, all outstanding options and warrants were considered anti-dilutive because the Company recorded a loss over those periods.

The outstanding stock options and warrants that could dilute basic net loss per share in future periods but were not included in determining diluted net loss per share for the period ending August 31, 2018 and August 31, 2017 because they are antidilutive are as follows:

	2018	2017
Stock options	8,151,892	8,269,004
Warrants	10,755,937	1,440,050
	<u>18,907,829</u>	<u>9,709,054</u>

17. COMMITMENTS AND CONTINGENCIES

The Company has entered into various lease agreements having terms of 27 to 60 months. These lease agreements expire between March 31, 2019 and June 15, 2028.

As at August 31, 2018, the minimum annual lease payments are expected to be as follows:

2019	874,468
2020	542,064
2021	415,851
2022	323,259
2023 and there after	799,936
	<u>2,945,578</u>

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17. COMMITMENTS AND CONTINGENCIES (continued)

In connection with the purchase of National Access Cannabis Medical Inc, the Company has agreed to issue up to \$6,080,000 of additional shares to the Vendors, which are contingent upon meeting certain milestones. The contingent consideration was recognized as a liability based on the estimated probability of occurrence over five years. To derive the value of the contingent consideration, the expected milestones were assessed probabilities by management. A provision of \$4,080,000 has been recorded as management considers the first three milestones to be probable.

In the normal course of business, the Company is party to litigation, the results of these matters is not known at this time. Management's opinion is that the likelihood of any cash outflow as a result of these matters is remote.

18. KEY MANAGEMENT PERSONNEL COMPENSATION

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

	<u>August 31, 2018</u>	<u>August 31, 2017</u>
Salaries	896,218	371,897
Directors' fees	50,000	-
Share-based compensation	628,985	890,429
Total Key Management Compensation	<u>1,575,203</u>	<u>1,262,326</u>

Salaries include cash payments for base salaries and bonuses. Directors' fees include meeting fees, special committee fees, and retainers. Share-based compensation includes the compensation expense recognized during the year for key management personnel. There was \$628,985 of share-based compensation granted to key management personnel in 2018 (2017 - \$890,429).

19. RELATED PARTY TRANSACTIONS

Related parties include the Company's key management personnel, independent directors and shareholders. Transactions with related parties were conducted in the normal course of operations and are measured at fair value, which is the amount of consideration established and approved by the related parties.

Obsidian Consulting and Investigations Inc., a company controlled by the President of the Company, has been contracted to provide consulting services to the Company. During the twelve months ended August 31, 2018, the Company's expenses included \$150,500 (2017 - \$150,500) related to these services.

AJKNJ Corp., a company controlled by Marc Lustig, a director of the Company, has been contracted to provide consulting services related to certain transactions contemplated by the Company. During the twelve months ended August 31, 2018, the Company's expenses included \$75,000 (2017 - Nil) related to these services.

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19. RELATED PARTY TRANSACTIONS (continued)

Rocco Meliambro, a director of the Company has been engaged to provide consulting services to the Company. During the twelve months ended August 31, 2018, the Company's expenses included \$80,000 (2017 - \$67,500) related to these services.

2627639 Ontario Inc., a company controlled by a Director of the Company, owns 24.5% of the issued and outstanding shares of National Access Medical Inc. ("NACM"). During the twelve months ended August 31, 2018, 2627639 Ontario Inc., advanced a proportional share of \$115,000 in shareholder loans into NACM.

A Director of the Company, Christian Sinclair, is Chief of the Opaskwayak Cree Nation ("OCN"). On July 20, 2018, the Company entered into a loan agreement with OCN pursuant to which OCN will lend up to \$35,000,000 to the Company. The loan had a six-month term and carried an interest rate of 10% per annum.

As at August 31, 2018, the Company has received a total of \$25,000,000 in accordance with the loan agreement. Subsequent to year end, the Company fully repaid the outstanding OCN loan. The sum of the payout was \$26,716,197 which included principal repayment of \$25,000,000 and \$1,642,857 in commitment fees. The balance of the payout included payments for interest and other payment obligations including legal fees, and other expenses.

Three of the Company's independent directors, Marc Lustig, Christian Sinclair and Felipe Campusano were appointed to a Special Committee for the purpose of reviewing and recommending action on a proposed transaction. The directors were compensated \$50,000 in aggregate for their participation on the Special Committee.

20. INCOME TAXES

i) Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate to the effective tax rate is as follows:

	2018	2017
Net loss before recovery of income taxes	(9,218,521)	(7,743,551)
Statutory tax rate	27%	27%
Expected income tax recovery	(2,489,001)	(2,090,760)
Tax rate changes and other adjustments	(99,041)	27,330
Share based compensation and non-deductible differences	388,955	841,130
Minority interest	58,995	-
Change in tax benefits not recognized	2,140,092	1,222,300
Income tax (recovery) expense	-	-

ii) Unrecognized Deferred Tax Assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2018	2017
Property, plant and equipment and Intangible assets	597,859	299,780
Share issuance costs – 20(1)(e)	1,074,447	343,330
Non-capital losses carried forward	13,602,036	7,068,500

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20. INCOME TAXES (continued)

The Canadian non-capital loss carry forwards expire as noted in the table below. Share issue and financing costs will be fully amortized in 2022. The remaining deductible temporary differences may be carried forward indefinitely. 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 group can utilize the benefits therefrom.

The Company's Canadian non-capital income tax losses expire as follows:

2033	4,492
2034	201,751
2035	1,267,778
2036	1,411,790
2037	3,450,769
2038	7,265,456
	<u>13,602,036</u>

21. FINANCIAL INSTRUMENTS

The table below summarizes the carrying values of the Company's financial assets and financial liabilities:

		<u>As at August 31, 2018</u>	<u>As at August 31, 2017</u>
Financial assets:			
FVTPL			
	Cash	23,496,232	4,871,790
	Investments	1,869,729	-
Loans and receivables			
	Trade and other receivables	882,461	403,003
	Loan receivables	1,750,000	-
Total financial assets		<u>27,998,422</u>	<u>5,274,793</u>
Financial liabilities:			
Financial liabilities at amortized cost			
	Trade and other payables	1,360,067	978,996
	Note payable	-	315,000
Total financial liabilities		<u>1,360,067</u>	<u>1,293,996</u>

Financial Risk Management Objectives and Policies

The Company manages its exposure to a number of different financial risks arising from its operations as well as its use of financial instruments including market risk, credit risk and liquidity risk through its risk management strategy. The objective of the strategy is to support the delivery of the Company's financial targets while protecting its future financial security and flexibility.

Financial risks are primarily managed and monitored through operating and financing activities and, if required, through the use of derivative financial instruments. The Company does not use derivative financial

21. FINANCIAL INSTRUMENTS (continued)

instruments for purposes other than risk management. The financial risks are evaluated regularly with due consideration to changes in the key economic indicators and up-to-date market information.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

Market risk

a) Currency risk

The Company does not operate outside of Canada and therefore there is no inherent Currency risk.

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's financial debt have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

c) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company does not hold any marketable securities or investments and therefore is exposed to a limited price fair value risk.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by continuously monitoring forecasts and actual cash flows and taking the necessary actions to maintain enough liquidity for operations and for growth objectives.

Credit Risk

Credit risk arises from cash held with banks and trade and other receivables. The Company does not have a significant concentration of risk with any customer and its maximum risk exposure is equal to the carrying value of the financial assets. The objective of managing credit risk is to prevent loss on financial assets. The Company minimizes credit risk as cash is held by reputable financial institutions. The Company is not aware of any material collection issues.

22. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to:

- Maintain a capital structure that allows it to finance its growth strategy with cash flows from its operations, the cash exercise of existing warrants and its debt capacity;
- Preserve its ability to meet its financial obligations by funding the capital needs via various private and institutional sources; and
- Optimize the use of its capital to provide an appropriate return on investment to its shareholders.

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22. CAPITAL MANAGEMENT (continued)

The Company defines its capital as shareholders' deficiency and amounts due to shareholders. The Company is not subject to externally imposed capital requirements and there has been no change with respect to the capital management strategy during the period ended August 31, 2018.

23. SUBSEQUENT EVENTS

Subsequent to year-end, shareholders of the Company exercised 1,775 warrants and 125,000 options through a number of individual transactions. The Company received \$20,347 in cash.

On September 11, 2018, the Company executed an option amending agreement pursuant to which the Company acquired all of the remaining issued and outstanding shares of NewLeaf not already owned by NAC, for total consideration of 23,582,000 Common Shares and \$5,895,500 cash (the "NewLeaf Consideration"), all of which were issued into escrow pending NewLeaf achieving certain post-closing milestones. The NewLeaf Consideration will be released from escrow as NewLeaf opens cannabis retail locations in Alberta. If certain milestones are not met within a defined timeline, proportionate amounts of the NewLeaf Consideration will be returned to NAC.

On October 22, 2018, the Company announced the signing of pharmacy cannabis program agreements with 70 pharmacies in Canada that will be participating in the NACM Medical Cannabis Management System, bringing the total number of pharmacies to 115.

On October 26, 2018, the Company closed the first tranche of a private placement of 21,978,022 Common Shares at a price of 0.91 per Common Share for total proceeds of \$20.0 million. The closing was the first of three tranches pursuant to the terms and conditions of applicable subscription agreements and master investment agreements (the "Subscription Documents") whereby four Licensed Producers, Aphria Inc., CannTrust Inc., VIVO Cannabis Inc. and Zenabis Ltd. (the "LPs") subscribed, in aggregate, for up to \$55 million in Common Shares in three tranches, subject to the terms and conditions of the Subscription Documents, including the achievement of future retail expansion milestones (the "LP Financing"). In order to participate in the LP Financing, NAC and each of the LPs entered into the Subscription Documents committing to, among other things, subscribe for an aggregate amount of either \$10,000,000 or \$15,000,000 of Common Shares in two or three tranches.

The second tranche will occur if NAC is granted approval for an aggregate of 50 cannabis retail locations from the applicable regulatory authorities in the provinces of Canada before October 26, 2019. NAC may deliver a written notice to each of the LPs (the "First Milestone Notice") requiring each LP to purchase and subscribe for \$5,000,000 of additional Common Shares at a price per Common Share equal to the 15 day volume weighted average trading price of the Common Shares on the TSXV for the last 15 trading days of the calendar month immediately preceding the date of the First Milestone Notice, or if such trading price is lower than the maximum permitted discount for the second tranche of the LP Financing, the maximum permitted discount for the issuance of the Common Shares under TSXV policies.

The third tranche will occur if NAC is granted approval for an aggregate of 100 cannabis retail locations from the applicable regulatory authorities in the provinces of Canada before October 26, 2020. NAC may deliver a written notice to three of the four LPs (excepting VIVO Cannabis Inc.) (the "Second Milestone Notice") requiring such LPs to purchase and subscribe for \$5,000,000 of additional Common Shares at a price per Common Share equal to the 15 day volume weighted average trading price of the Common Shares on the TSXV for the last 15 trading days of the calendar month immediately preceding the date of the Second Milestone Notice, or if such trading price is lower than the maximum permitted discount for the third tranche of the LP Financing, the maximum permitted discount for the issuance of the Common Shares under TSXV policies.

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23. SUBSEQUENT EVENTS (continued)

On November 23, 2018 the Company completed the brokered private placement offering of special warrants of NAC (“Special Warrants”). Each Special Warrant entitles the holders thereof to receive 8.00% senior secured convertible debentures of the Company (“Convertible Debentures”) upon exercise or deemed exercise of the Special Warrants. 21,150 Special Warrants were issued at a price of \$1,000 per Special Warrant for aggregate gross proceeds to the Company of \$21,150,000. The net proceeds from the Offering were used by the Company to repay existing debt. In consideration of the services provided by the agents under the offering, the Company paid the agents a cash fee equal to 6% of the gross proceeds of the offering.

Each Special Warrant entitles the holder thereof to receive, subject to adjustment in certain instances and without payment of any further consideration, one Convertible Debenture, each with a deemed issue price of \$1,000 per Convertible Debenture. The Convertible Debentures will be senior, secured obligations of NAC and will bear interest at a rate of 8.00% per annum, payable semi-annually in arrears on May 31 and November 30 of each year, commencing May 31, 2019. The Convertible Debentures will be convertible at any time at the option of the holders thereof into Common Shares at a conversion price of \$1.08 per Common Share, subject to customary adjustment. The Convertible Debentures will mature on November 30, 2021.

The Company has the right at any time beginning March 24, 2019 to force the conversion of the principal amount of the then outstanding Convertible Debentures at the Conversion Price on not less than 30 days’ notice should the daily volume weighted average trading price of the Common Shares on the TSXV be greater than \$1.57 for any 10 consecutive trading days. Holders converting their Convertible Debentures under a mandatory conversion will receive unpaid interest thereon for the period from the date of the latest interest payment date to, and including, the Maturity Date.

On November 23, 2018, the Company fully repaid the OCN Loan. The sum of the payout was \$26,716,197, which included principal repayment of \$25,000,000 and \$1,642,857 in commitment fees. The balance of the payout included payments for interest and other payment obligations including legal fees, and other expenses.

On November 30, 2018, the Company issued 75,000 incentive stock options to an officer of the Company at an exercise price of \$0.61 expiring on November 30, 2023. One-fifth of the options issued will vest immediately, with the remaining vesting over the course of four installments, each installment vesting every three months following the date of issue.

On November 30, 2018, the Company acquired all of NAC Alberta Inc.’s minority interest in NAC Northern Alberta GP and NAC Northern Alberta Limited Partnership for the forgiveness of \$192,702 of debt and the issuance of 2,173,913 Common Shares at a price of \$0.69 per Common Share (the “Acquisition”). The Acquisition gives NAC 100% ownership in NAC Northern Alberta GP and NAC Northern Alberta Limited Partnership. The assets acquired include various leaseholds, rights to operate retail locations in Northern Alberta, and other fixed assets and equipment. The Company is in the process of assessing the fair value of the net assets acquired.

On December 14, 2018, the Company entered into a loan agreement with OCN pursuant to which OCN will lend \$9,000,000 to the Company. The loan has a six-month term and carries an interest rate of 8% per annum payable monthly in arrears. In connection with the advance of the loan, the Company issued 900,000 warrants to OCN. Each warrant is redeemable for one Common Share in the capital of the Company at a price of \$1.08 per Common Share for a period of three years from the date of the loan agreement.

NATIONAL ACCESS CANNABIS CORP.
Notes to the Consolidated Financial Statements
For the year ended August 31
Expressed in Canadian Dollars

24. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the methods of presentation adopted in the current year.

NATIONAL ACCESS CANNABIS CORP.**Schedule****For the year ended August 31****Expressed in Canadian Dollars**

	2018	2017
General and administrative expenses		
Bad debt expense	28,897	-
Business taxes and licenses	131,911	263
Computer expenses	54,642	21,876
Insurance	55,278	6,131
Interest and bank charges	17,903	20,637
Office supplies	171,727	190,394
Professional fees	1,892,296	507,103
Consulting fees	1,382,351	722,071
Rental	791,565	391,506
Salaries and benefits	2,846,542	1,329,533
Telecommunications	20,373	11,515
Training and development	57,354	544
Travel and entertainment	302,178	196,530
Utilities	29,263	27,970
	7,782,280	3,426,073
