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**Condensed Interim Financial Statements**

# **Cannabis Growth Opportunity Corporation**

**For the Six Months Ended April 30, 2019  
(Stated in Canadian Dollars)**

**Unaudited**

## **NOTICE TO READER**

The accompanying unaudited condensed interim financial statements have been prepared by the Corporation's management and the Corporation's independent auditors have not performed a review of these condensed interim financial statements.

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# Cannabis Growth Opportunity Corporation

Condensed Interim Statements of Financial Position

Unaudited - See Notice to Reader

Stated in Canadian dollars

	April 30, 2019	October 31, 2018 (Audited)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,343,213	\$ 111,762
Interest receivable	83,269	63,629
Investments (note 3)	55,663,614	41,354,307
Investment receivable (note 4)	-	500,000
Other assets	168,322	169,257
Prepaid expenses	113,720	24,400
<b>Total assets</b>	<b>\$ 57,372,138</b>	<b>\$ 42,223,355</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness	\$ -	\$ 353,560
Accounts payable and accrued liabilities (notes 10 (a), (d), (h))	359,957	397,989
Income tax payable	258,112	3,286
Deferred income taxes	1,291,000	-
<b>Total liabilities</b>	<b>1,909,069</b>	<b>754,835</b>
<b>Shareholders' equity</b>		
Share capital (note 5)	26,937,697	27,519,093
Warrants (note 6)	7,892,531	7,892,531
Contributed surplus (note 7)	2,575,976	2,575,976
Retained earnings	18,056,865	3,480,920
<b>Total shareholders' equity</b>	<b>55,463,069</b>	<b>41,468,520</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 57,372,138</b>	<b>\$ 42,223,355</b>

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

Approved on behalf of the Board

\_\_\_\_\_"Jamie Blundell"\_\_\_\_\_, Director      \_\_\_\_\_"Paul Andersen"\_\_\_\_\_, Director

# Cannabis Growth Opportunity Corporation

Condensed Interim Statements of Income (Loss) and Comprehensive Income (Loss)

Unaudited - See Notice to Reader

Stated in Canadian dollars

	Three months ended		Six months ended	
	April 30, 2019	April 30, 2018	April 30, 2019	April 30, 2018
<b>Income</b>				
Interest income	\$ 59,632	\$ 87,586	\$ 145,629	\$ 87,586
Net realized gain (loss) on disposal of investments	4,426,640	(8,501)	4,413,466	(8,501)
Net change in unrealized appreciation (depreciation) on investments	5,125,284	(2,057,609)	11,154,874	(2,148,715)
Net change in unrealized foreign exchange gain (loss) on investments	(62,440)	(41,375)	885,415	(41,375)
Gain on conversion of convertible debentures	588,536	-	670,176	-
Loss on warrants exercised	(281,818)	-	(281,818)	-
<b>Total income (loss)</b>	<b>9,855,834</b>	<b>(2,019,899)</b>	<b>16,987,742</b>	<b>(2,111,005)</b>
<b>Expenses</b>				
Operating, general, and administrative (notes 9, 10)	406,259	289,985	983,616	314,782
Stock-based compensation (note 7 (a))	-	-	-	1,792,100
<b>Total expenses</b>	<b>406,259</b>	<b>\$ 289,985</b>	<b>983,616</b>	<b>2,106,882</b>
<b>Net Income (Loss) before tax</b>	<b>9,449,575</b>	<b>\$ (2,309,884)</b>	<b>\$ 16,004,126</b>	<b>\$ (4,217,887)</b>
Income tax expense - current	312,560	-	312,560	-
Income tax expense - deferred	1,291,000	-	1,291,000	-
<b>Net Income (Loss) and Comprehensive Income (Loss)</b>	<b>\$ 7,846,015</b>	<b>\$ (2,309,884)</b>	<b>\$ 14,400,566</b>	<b>\$ (4,217,887)</b>
<b>Net income (Loss) per common share - Basic and diluted</b> (note 8)	<b>0.51</b>	<b>(0.15)</b>	<b>0.93</b>	<b>(0.52)</b>
<b>Weighted average number of common shares outstanding - basic and diluted</b> (note 8)	<b>15,354,188</b>	<b>15,519,493</b>	<b>15,543,680</b>	<b>8,059,675</b>

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

# Cannabis Growth Opportunity Corporation

Condensed Interim Statements of Changes in Shareholders' Equity

Unaudited - See Notice to Reader

Stated in Canadian dollars

	Share capital					Total shareholders' equity
	Number of shares	Amount	Warrants	Contributed surplus	Deficit	
<b>Balance - November 1, 2017</b>	1	\$ 2.50	\$ -	\$ -	\$ -	\$ 2.50
Net comprehensive loss	-	-	-	-	(4,217,887)	(4,217,887)
Shares and warrants issued from initial public offering	15,513,250	30,084,504	8,698,621	-	-	38,783,125
Shares issued to acquire investments	138,889	250,000	-	-	-	250,000
Share and warrant issuance costs	-	(2,815,414)	(806,090)	783,876	-	(2,837,628)
Stock-based compensation (note 7 (a))	-	-	-	1,792,100	-	1,792,100
<b>Balance - April 30, 2018</b>	<b>15,652,140</b>	<b>\$ 27,519,093</b>	<b>\$ 7,892,531</b>	<b>\$ 2,575,976</b>	<b>\$ (4,217,887)</b>	<b>\$ 33,769,713</b>
	Share capital					Total shareholders' equity
	Number of shares	Amount	Warrants	Contributed surplus	Retained earnings	
<b>Balance - November 1, 2018</b>	15,652,140	\$ 27,519,093	\$ 7,892,531	\$ 2,575,976	\$ 3,480,920	\$ 41,468,520
Net comprehensive income	-	-	-	-	14,400,566	14,400,566
Shares purchased and cancelled (note 5)	(299,800)	(581,396)	-	-	175,379	(406,017)
<b>Balance - April 30, 2019</b>	<b>15,352,340</b>	<b>\$ 26,937,697</b>	<b>\$ 7,892,531</b>	<b>\$ 2,575,976</b>	<b>\$ 18,056,865</b>	<b>\$ 55,463,069</b>

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

# Cannabis Growth Opportunity Corporation

Condensed Interim Statements of Cash Flows

Unaudited - See Notice to Reader

Stated in Canadian dollars

	Six months ended April 30, 2019	Six months ended April 30, 2018
<b>Cash flows from operating activities</b>		
Net income (loss) and comprehensive income (loss)	\$ 14,400,566	\$ (4,217,887)
Items not involving cash:		
Net change in unrealized depreciation (appreciation) on investments	(11,154,874)	2,148,715
Net realized (gain) loss on disposal of investments	(4,413,466)	8,501
Stock-based compensation		1,792,100
Gain on conversion of convertible debenture	(670,176)	-
Loss on warrants exercised	281,818	-
Net change in unrealized foreign exchange gain on investments	(885,415)	41,375
Income tax expense - deferred	1,291,000	-
	(1,150,547)	(227,196)
Adjustments for:		
Investment receivable	-	(2,000,000)
Interest receivable	(19,640)	(64,083)
Purchase of investments	(21,517,028)	(31,513,533)
Proceeds from disposal of investments	24,549,834	866,302
Prepaid expenses	(89,320)	(66,309)
Other assets	935	(2,351)
Income tax payable	254,826	-
Accounts payable and accrued liabilities	(38,032)	550,277
Net cash used in operating activities	1,991,028	(32,456,893)
<b>Cash flows from financing activities</b>		
Bank indebtedness	(353,560)	-
Proceeds from issuance of shares	-	30,084,504
Share issuance costs	-	(2,207,353)
Proceeds from issuance of warrants	-	8,698,621
Warrant issuance costs	-	(630,275)
Shares purchased and cancelled (note 5)	(406,017)	-
Net cash provided by financing activities	(759,577)	35,945,497
<b>Net increase in cash and cash equivalents</b>	1,231,451	3,488,604
Cash and cash equivalents - beginning of period	111,762	2.50
<b>Cash and cash equivalents - end of period</b>	\$ 1,343,213	\$ 3,488,607
<b>Significant non-cash transactions</b>		
Shares issued to acquire investments (note 5)	\$ -	\$ 250,000
Share and warrant issuance costs - agent compensation options (note 7 (b))	\$ -	\$ (783,876)

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

# Cannabis Growth Opportunity Corporation

Notes to the Condensed Interim Financial Statements

For the Six Months Ended April 30, 2019

Unaudited - See Notice to Reader

Stated in Canadian Dollars

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## 1. Nature of operations and formation of the Corporation

Cannabis Growth Opportunity Corporation (the "Corporation") is an investment corporation incorporated under the laws of Canada on October 29, 2017. On January 26, 2018, the Corporation completed its initial public offering (the "Offering"). Pursuant to the Offering, the Corporation issued 15,513,250 Units at a price of \$2.50 per Unit for gross proceeds of \$38,783,125. Each Unit consisted of one common share and one warrant in the capital of the Corporation. The common shares and warrants are listed on the Canadian Securities Exchange under the symbols "CGOC" and "CGOC.WT" respectively.

The Corporation's investment objectives are to provide shareholders long-term total return through capital appreciation by investing in an actively managed portfolio of securities of public and private companies operating in or that derive a significant portion of their revenue or earnings from products or services related to the cannabis industry.

CGOC Management Corp. (the "Manager") will act as the manager and promoter of the Corporation and will provide specific management services to the Corporation pursuant to a management agreement. The Corporation will make investment decisions with respect to the private portfolio. The Corporation and the Manager have engaged StoneCastle Investment Management Inc. (the "Investment Manager") to act as the Corporation's investment manager with respect to the public portfolio.

The Corporation's head office is located at 240 Richmond St. W, Suite 4164, Toronto, Ontario, M5V 1V6.

## 2. Basis of presentation and summary of significant accounting policies

### a) Statement of compliance

The Corporation's unaudited condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). These condensed interim financial statements should be read in conjunction with the annual financial statements of the Corporation for the year ended October 31, 2018, which have been prepared in accordance with IFRS. Accordingly, these condensed interim financial statements do not include all of the information and disclosures required under IFRS for the annual financial statements.

These condensed interim financial statements were approved by the Board of Directors on June 26, 2019.

### b) Basis of measurement

The Corporation's financial statements have been prepared on the historical cost convention except for certain financial instruments, which have been measured at fair value.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Corporation 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.

# Cannabis Growth Opportunity Corporation

Notes to the Condensed Interim Financial Statements

For the Six Months Ended April 30, 2019

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## 2. Basis of presentation and summary of significant accounting policies (continued)

### c) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from estimates calculated. Significant judgments made when applying accounting policies are as follows:

#### i) Fair value of investments not quoted in an active market or investments in private companies

Where the fair values of investments cannot be derived from active markets, the Corporation uses valuation models to determine fair value. Where possible, the Corporation uses inputs derived from observable market data for the models. Where observable market data is not available, the Corporation uses judgment to establish fair value.

#### ii) Fair value of financial derivatives

Investments in options and warrants, which are not traded on a recognized securities exchange, do not have readily available market value. When observable and reliable market inputs exist, the Corporation uses valuation techniques to determine fair value. If such market inputs do not exist, the Corporation values the warrants and options using the Black-Scholes Model.

### d) Reclassification

Certain amounts in the prior period have been reclassified to conform with the presentation of the current period financial statements. These reclassifications had no effect on the reported results of operations.

### e) Application of new accounting standards and amendments issued

#### Amendments to IFRS 2 Share-Based Payment ("IFRS 2")

In June 2016, the IASB published final amendments to IFRS 2 that clarify the classification and measurement of share-based payments transactions. The amendments pronounce requirements related to accounting for:

- i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share based payments;
- ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and
- iii) the effect of a modification of the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

# Cannabis Growth Opportunity Corporation

Notes to the Condensed Interim Financial Statements

For the Six Months Ended April 30, 2019

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## 2. Basis of presentation and summary of significant accounting policies (continued)

- e) Application of new accounting standards and amendments issued (continued)

The adoption of the amendments to IFRS 2 as of November 1, 2018 did not have an impact on the Corporation's financial statements.

- f) Accounting standards and amendments issued but not yet applied

IFRS 16 Leases ("IFRS 16")

This standard specifies the recognition, measurement, presentation and disclosure of leases. This standard is effective for annual periods beginning on or after January 1, 2019. The Corporation is currently assessing any effect on its financial statements from the adoption of this standard.

## 3. Fair value measurement

Fair value measurements are based on a three-level fair value hierarchy based on inputs used in determining the fair value of financial assets and liabilities. The hierarchy of inputs is summarized as follows:

- Level 1 - inputs used to value financial assets and liabilities are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 - inputs used to value financial assets and liabilities are other than quoted prices included in Level 1 that are observable either directly or indirectly for the asset or liability.
- Level 3 - inputs used to value financial assets and liabilities are not based on observable market data.

Transaction costs are expensed as incurred for financial instruments classified as fair value through profit and loss. For other financial instruments, transaction costs are capitalized on initial recognition.

Investments consisted of the following as at April 30, 2019:

<b>Financial assets measured at fair value</b>	<b>Cost</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
Equities	\$ 30,833,551	\$ 23,131,585	\$ -	\$ 21,370,230	\$ 44,501,815
Warrants	4,736,951	638,819	2,935,048	2,078,213	5,652,080
Convertible debentures	4,922,860	659,750	2,200,000	2,649,969	5,509,719
	<u>\$ 40,493,362</u>	<u>\$ 24,430,154</u>	<u>\$ 5,135,048</u>	<u>\$ 26,098,412</u>	<u>\$ 55,663,614</u>



# Cannabis Growth Opportunity Corporation

Notes to the Condensed Interim Financial Statements

For the Six Months Ended April 30, 2019

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### 3. Fair value measurement (continued)

Investments consisted of the following as at October 31, 2018:

<b>Financial assets measured at fair value</b>	<b>Cost</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
Equities	\$ 29,997,306	\$ 14,012,993	\$ -	\$ 18,984,109	\$ 32,997,102
Warrants	4,412,144	713,369	1,377,912	1,963,008	4,054,289
Convertible debentures	3,334,378	2,495,312	1,400,000	-	3,895,312
Subscription receipts	385,434	-	-	407,604	407,604
	<u>\$ 38,129,262</u>	<u>\$ 17,221,674</u>	<u>\$ 2,777,912</u>	<u>\$ 21,354,721</u>	<u>\$ 41,354,307</u>

#### *Subscription receipts*

Subscription receipts represent investments in private companies that are in the process of completing a public transaction. Once the public transaction is complete, each subscription receipts entitles the Corporation to receive, without payment of additional consideration, one unit of the newly formed entity. If the public transaction does not complete, the subscription receipts become void, and the total subscription price is returned to the Corporation. Due to the short-term nature of the holding period of subscription receipts, the carrying value is approximated to be the fair market value. As at April 30, 2019, the Corporation holds \$Nil (October 31, 2018 - \$407,604) in subscription receipts.

#### *Changes in Level 3 investments*

During the six months ended April 30, 2019, \$3,475,574 of net change in unrealized appreciation on investments and net change in unrealized foreign exchange gain on investments includes Level 3 investments held as at April 30, 2019.

Transfers out of Level 3 investments are due to changes in the observability of market data, such as a recent new transaction, conversion of subscription receipts into underlying securities or due to a company going public.

The following table presents the changes in assets classified in Level 3 of the fair value hierarchy for the six months ended April 30, 2019.

	<b>Private equities</b>	<b>Convertible debentures</b>	<b>Warrants</b>	<b>Subscription receipts</b>	<b>Total fair value</b>
<b>Balance - November 1, 2018</b>	\$18,984,109	\$ -	\$1,963,008	\$ 407,604	\$21,354,721
Purchases	5,045,910	2,637,413	250,000	2,322,164	10,255,487
Realized gains (losses)	(36,369)	-	-	-	(36,369)
Unrealized gains (losses)	3,549,731	12,556	(86,713)	-	3,475,574
Transfers out of Level 3	(6,173,151)	-	(48,082)	(2,729,768)	(8,951,001)
<b>Balance - April 30, 2019</b>	<u>\$21,370,230</u>	<u>\$2,649,969</u>	<u>\$2,078,213</u>	<u>\$ -</u>	<u>\$26,098,412</u>

# Cannabis Growth Opportunity Corporation

Notes to the Condensed Interim Financial Statements

For the Six Months Ended April 30, 2019

Unaudited - See Notice to Reader

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### 3. Fair value measurement (continued)

The following table presents the changes in assets classified in Level 3 of the fair value hierarchy for the year ended October 31, 2018.

	Private equities	Convertible debentures	Warrants	Subscription receipts	Total fair value
<b>Balance - November 1, 2017</b>	\$ -	\$ -	\$ -	\$ -	\$ -
Purchases	16,428,023	348,740	1,206,278	3,087,927	21,070,968
Unrealized gains (losses)	3,686,086	-	877,990	22,169	4,586,245
Transfers out of Level 3	(1,130,000)	(348,740)	(121,260)	(2,702,492)	(4,302,492)
<b>Balance - October 31, 2018</b>	<b>\$18,984,109</b>	<b>\$ -</b>	<b>\$1,963,008</b>	<b>\$ 407,604</b>	<b>\$21,354,721</b>

#### *Significant unobservable inputs*

The key assumptions the Corporation used in the valuation of level 3 investments include and are not limited to the value of recently completed financings by the investee, entity-specific information, and publicly available information of comparable entities.

The following table summarizes valuation techniques and significant unobservable inputs used for the Corporation's investments classified in Level 3 of the fair value hierarchy as at April 30, 2019.

	Fair value at April 30, 2019	Valuation technique	Unobservable inputs	Range of inputs
Private equities	\$ 21,370,230	Recent financing and trends in comparable companies	Transaction price	N/A
Convertible debentures	2,649,969	Higher of face value or conversion value	Transaction price	N/A
Warrants	2,078,213	Black-Scholes model	Volatility	78% to 81%
	<b>\$ 26,098,412</b>			

# Cannabis Growth Opportunity Corporation

Notes to the Condensed Interim Financial Statements

For the Six Months Ended April 30, 2019

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Stated in Canadian Dollars

## 3. Fair value measurement (continued)

The following table summarizes valuation techniques and significant unobservable inputs used for the Corporation's investments classified in Level 3 of the fair value hierarchy as at October 31, 2018:

	Fair value at October 31, 2018	Valuation technique	Unobservable inputs	Range of inputs
Private equities	\$ 18,984,109	Recent financing and trends in comparable companies	Transaction price	N/A
Warrants	1,963,008	Black-Scholes model	Volatility	74% to 81%
Subscription receipts	407,604	Recent financing	Transaction price	N/A
	\$ 21,354,721			

For these Level 3 investments, the inputs used can be highly judgemental. As at April 30, 2019, 25% increase or decrease in the assumptions will result in a corresponding \$6,524,603 (October 31, 2018 - \$5,338,680) change to the total fair value of Level 3 investments.

The sensitivity analysis is intended to reflect the uncertainty inherent in the valuation of these investments under current market conditions. The overall effect of changing the values of the unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions may differ significantly between investments, given their different terms and circumstances. The results cannot be extrapolated due to non-linear effects that changes in valuation assumptions may have on the fair value of these investments. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the Corporation's view of expected future changes in the fair value of these investments.

## 4. Investment receivable

Investment receivable represents funds advanced by the Corporation pursuant to a subscription agreement, which had not settled at the end of the period. Due to the short-term nature of the holding period of the investment receivable, the carrying value is approximated to be the fair market value.

As at April 30, 2019, the Corporation had \$Nil (October 31, 2018 - \$500,000) in investment receivable.

# Cannabis Growth Opportunity Corporation

Notes to the Condensed Interim Financial Statements

For the Six Months Ended April 30, 2019

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Stated in Canadian Dollars

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## 5. Share capital

a) Authorized:

Unlimited common shares

b) Common shares issued and outstanding are as follows:

	<b>Number</b>	<b>Amount</b>
<b>Issued and outstanding - November 1, 2017</b>	1	\$ 2.50
Initial public offering	15,513,250	30,084,504
Shares issued to acquire investments	138,889	250,000
Issuance costs	-	(2,815,414)
	<hr/>	<hr/>
<b>Issued and outstanding - October 31, 2018</b>	15,652,140	27,519,093
	<hr/>	<hr/>
Shares purchased and cancelled	(299,800)	\$ (581,396)
	<hr/>	<hr/>
<b>Issued and outstanding - April 30, 2019</b>	15,352,340	\$ 26,937,697
	<hr/>	<hr/>

### *Initial public offering*

On January 26, 2018, the Corporation completed its initial public offering and issued 15,513,250 units at a price of \$2.50 per unit for gross proceeds of \$38,783,125. Each Unit consisted of one common share and one warrant in the capital of the Corporation. Each warrant which entitles the holder thereof to purchase one common share at a price of \$2.50 until January 26, 2020. The Corporation allocated \$30,084,504 of the gross proceeds to common shares and \$8,698,621 of the proceeds to warrants.

### *Shares issued to acquire investments*

On April 26, 2018, the Corporation acquired 400,000 shares of a private entity investment at a purchase price of \$1,000,000 or \$2.50 per share. Consideration for the acquisition consisted of \$750,000 paid in cash and issuance of 138,889 common shares of the Corporation issued at \$1.80 per share.

### *Normal Course Issuer Bid ("NCIB")*

On November 15, 2018, the Corporation announced its intention to commence a NCIB, to purchase up to an aggregate of 782,607 common shares, representing 5% of the issued and outstanding common shares. During the six months ended April 30, 2019, the Company purchased 299,800 common shares at an average cost of \$1.35 per share for total cash consideration of \$406,017.

# Cannabis Growth Opportunity Corporation

Notes to the Condensed Interim Financial Statements

For the Six Months Ended April 30, 2019

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## 5. Share capital (continued)

Activities under the Corporation's NCIB during the six months ended April 30, 2019 is as follows:

	<b>April 30, 2019</b>
<b>Number of shares purchased and cancelled under NCIB</b>	299,800
Cash consideration Paid	\$ 406,017
Discount on acquisition	175,379
Reduction in share capital	<u>\$ 581,396</u>

## 6. Warrants

A summary of the status of the Corporation's warrants as at April 30, 2019 and changes during the period ending is as follows:

	<b>Number</b>	<b>Amount</b>	<b>Weighted average exercise price</b>
<b>Balance - November 1, 2017</b>	-	\$ -	\$ -
Initial public offering	15,513,250	8,698,621	2.50
Issuance costs	-	(806,090)	-
<b>Balance - October 31, 2018 and April 30, 2019</b>	<u>15,513,250</u>	<u>\$ 7,892,531</u>	<u>\$ 2.50</u>

The fair value of the Warrants was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	1.43%
Expected life	2 years
Expected volatility	66%*
Share price	\$1.94

\*Based on volatility of comparable companies

# Cannabis Growth Opportunity Corporation

Notes to the Condensed Interim Financial Statements

For the Six Months Ended April 30, 2019

Unaudited - See Notice to Reader

Stated in Canadian Dollars

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## 7. Stock based compensation and agent compensation options

### a) Stock-based compensation

The Board of Directors has adopted a stock-based compensation plan for the Corporation (the "Plan"). Pursuant to the Plan, the Board of Directors may, from time to time at its discretion, allocate non-transferable options to purchase common shares to directors, officers, and consultants of the Corporation.

Under the Plan, the aggregate number of common shares to be issued upon the exercise of options granted thereunder may not exceed 10% of the number of issued and outstanding common shares at the time of granting the options. Options shall expire no later than five years after the date of grant.

The exercise price of options granted pursuant to the Plan shall be established based on the average closing price of the common shares for the five days prior to the date of grant or such other method of pricing as may be acceptable to the stock exchange on which the common shares are listed. The options shall vest and may be exercised as determined by a resolution of the board of directors.

A summary of changes to stock options is as follows:

	<b>Number</b>	<b>Amount</b>	<b>Weighted Average Exercise Price</b>
<b>Balance - November 1, 2017</b>	-	\$ -	\$ -
Granted and outstanding	1,500,000	1,792,100	2.35
<b>Balance - October 31, 2018 and April 30, 2019</b>	1,500,000	\$ 1,792,100	\$ 2.35

All outstanding options have fully vested and are exercisable.

The fair value of the options was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	1.64%
Expected life	5 years
Expected volatility	66%*
Share price	\$2.20

\*Based on volatility of comparable companies

# Cannabis Growth Opportunity Corporation

Notes to the Condensed Interim Financial Statements

For the Six Months Ended April 30, 2019

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## 7. Stock based compensation and agent compensation options (continued)

### b) Agent compensation options

Pursuant to the Agency Agreement, on January 26, 2018, the Corporation granted Agent compensation options (the "Agent's Options") equal to 5.5% of the number of units sold under the initial public offering.

Each Agent's Option will entitle the Agent to purchase one Unit, at an exercise price equal to \$2.50 per Unit for a period of 24 months from the closing date. In the event that the Agent's Option is not exercised prior to the expiry time, the Agent will only be entitled to receive the Common Shares underlying the Units upon any subsequent exercise of the Agent's Option. The Warrants underlying the Units issuable upon exercise of the Agent's Option will be void and of no value at the Expiry Time.

A summary of changes to agent options is as follows:

	<b>Number</b>	<b>Amount</b>	<b>Weighted average exercise price</b>
<b>Balance - November 1, 2017</b>	-	\$ -	\$ -
Granted and outstanding	851,025	783,876	2.50
<b>Balance - October 31, 2018 and April 30, 2019</b>	851,025	\$ 783,876	\$ 2.50

All outstanding agent options have fully vested and are exercisable. The total cost of agent options granted is allocated as share and warrant issuance costs of \$783,876, which comprises \$608,061 of share issuance costs and \$175,815 of warrant issuance costs.

The fair value of the agent options was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	1.43%
Expected life	2 years
Expected volatility	66%*
Unit price	\$2.50

\*Based on volatility of comparable companies

## 8. Net income per share

Basic and diluted net income per share has been calculated using the weighted average number of shares outstanding of 15,453,680. There were no dilutive items outstanding for the year as the Corporation's average common share stock price during the year was below the exercise price of the outstanding warrants (note 6), stock options (note 7 (a)) and agent compensation options (note 7 (b)).

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## 8. Net income per share (continued)

Net income (loss) per share is presented as follows:

	<b>Six months ended April 30, 2019</b>	<b>Six months ended April 30, 2018</b>
<b>Basic and diluted net income (loss) per share</b>		
Net income (loss)	\$ 14,400,566	\$ (4,217,887)
Weighted average basic and diluted number of common shares outstanding	15,453,680	8,059,675
<b>Basic and diluted net income (loss) per share</b>	<b>\$ 0.93</b>	<b>\$ (0.52)</b>

## 9. Expenses by nature

Operating, general and administrative expenses includes the following:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>April 30, 2019</b>	<b>April 30, 2018</b>	<b>April 30, 2019</b>	<b>April 30, 2018</b>
Directors' fees (note 10 (h))	\$ 25,000	\$ 25,000	\$ 50,000	\$ 25,000
Foreign exchange loss	17,402	-	25,823	-
Investment transaction costs	57,254	31,021	81,954	31,021
Listing and filing fees	5,358	3,461	77,332	3,461
Management fees (note 10 (a))	85,382	80,374	145,008	85,137
Marketing	62,071	78,687	210,253	78,687
Office and general	24,274	25,942	54,127	35,806
Payroll expenses	2,333	-	2,333	-
Professional fees (note 10 (d), (i))	127,185	45,500	336,786	55,670
	<b>\$ 406,259</b>	<b>\$ 289,985</b>	<b>\$ 983,616</b>	<b>\$ 314,782</b>

## 10. Related party transactions and balances

During the three and six months ended April 30, 2019, the Corporation reported the following related party transactions:

### a) Management fees

The Corporation is required to pay the Manager an annual management fee (the "Management Fee") fee of 1.0% of the market capitalization of the Corporation based on the daily volume-weighted average price of the common shares calculated. The Management Fee is accrued daily and paid by the Corporation to the Manager monthly in arrears. The Manager will pay the Investment Manager and the officers and directors of the Corporation provided by the Manager (other than the independent directors) out of the Management Fee.

During the three and six months ended April 30, 2019, the Corporation incurred management fees of \$85,382 (2018 - \$80,374) and \$145,008 (2018 - \$85,136). As at April 30, 2019, accounts payable and accrued liabilities included \$30,452 (October 31, 2018 - \$26,096) of management fees payable to the Manager.



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## 10. Related party transactions and balances (continued)

### b) Performance fee

As soon as practicable following the final Business Day of each calendar quarter (each such date, a "Performance Fee Payment Date" and each such period, a "Performance Fee Period"), the Corporation is required to pay the Manager a quarterly performance fee (the "Performance Fee") in respect of the outstanding Common Shares equal to 20% of the amount by which the sum of (i) the "weighted average market price" of the Common Shares on the Canadian Securities Exchange (the "CSE) (or such other principal market on which the Common Shares are quoted for trading) during the 15 trading days preceding the end of the Performance Fee Period, plus (ii) distributions on such Common Shares during such period, exceeds 101.25% of the Threshold Amount (the "Hurdle Rate"). The Threshold Amount will be the greater of (i) \$2.60; and (ii) the weighted average market price of the Common Shares on the Performance Fee Payment Date in the last quarter for which a Performance Fee was paid.

For the period from the Closing Date to the end of the quarter, which includes the Closing Date, the Hurdle Rate will be reduced proportionately to reflect the number of days remaining in the quarter from the Closing Date to the end of that quarter. In the event that new Common Shares are issued, the Hurdle Rate application to the Performance Fee payable with respect to those Common Shares will be reduced proportionately to reflect the number of days remaining in that quarter and the Threshold Amount in respect of such Common Shares for that quarter will be the greater of (i) the issue price of the Common Shares; and (ii) the then current Threshold Amount.

During the three and six months ended April 30, 2019 and 2018, the Hurdle rate was not reached; therefore, the Corporation did not incur performance fees.

### c) Operating expenses

The Corporation will reimburse the Manager for all reasonable and necessary actual out-of-pocket costs and expenses paid by the Manager in connection with the performance of the services described in the Management Agreement, as well as certain specified expenses ancillary to the operations of the Manager, including travel on behalf of the Corporation and office space and services. During the three and six months ended April 30, 2019, the Corporation reimbursed the Manager operating expenses of \$Nil (2018 - \$Nil).

d) During the three and six months ended April 30, 2019, the Corporation incurred accounting and regulatory compliance fees of \$62,602 (2018 - \$30,150) and \$151,655 (2018 - \$30,150) from Forbes Andersen LLP, the accounting firm in which the Corporation's CFO is a Partner. As at April 30, 2019, accounts payable and accrued liabilities included \$24,408 (October 31, 2018 - \$35,934) of fees payable to the accounting firm.

e) On behalf of the Corporation, during the three and six months ended April 30, 2019, the President and COO paid \$1,923 (2018 - \$Nil) and \$3,114 (2018 - \$28,285) of reimbursable operating expenses for the three and six months ended April 30, 2019. As at April 30, 2019, accounts payable and accrued liabilities included \$Nil (October 31, 2018 - \$Nil) of reimbursable expenses payable to the President and COO.

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## 10. Related party transactions and balances (continued)

- f) The stock-based compensation expense for the three and six months ended April 30, 2019 related to stock options issued and immediately vested to directors and management was \$Nil (2018 - \$1,792,100).
- g) Other than the stock-based compensation, compensation of key management and personnel was \$Nil during the three and six months ended April 30, 2019 (2018 - \$Nil).
- h) During the three and six months ended April 30, 2019, the Corporation incurred directors' fees of \$25,000 (2018 - \$25,000) and \$50,000 (2018 - \$25,000). As at April 30, 2019, accounts payable and accrued liabilities included \$50,000 (October 31, 2018 - \$75,000) of directors' fees.
- i) During the three and six months ended April 30, 2019, the Corporation incurred consulting fees of \$Nil and \$63,563 (2018 - \$Nil) for management services from a company controlled by one of its directors. As at April 30, 2019, accounts payable and accrued liabilities included \$Nil (October 31, 2018 - \$Nil) of professional fees payable to the director's company.

During the three and six months ended April 30, 2019 and 2018, all related party transactions were in the normal course of operations and all services provided by related parties were made on terms equivalent to those which prevail with arm's length transactions.

## 11. Financial risk management

The primary business activities of the Corporation result in financial statements that are primarily comprised by financial instruments. As such, the Corporation is exposed to certain risks related to financial instruments:

### a) Credit Risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Corporation is exposed to credit risk from its investments in convertible debentures of various entities and the related interest receivable. The carrying value of interest receivable affected by changes in credit risk is minimal.

### b) Liquidity risk

Liquidity risk refers to the risk that the Corporation will have insufficient cash resources to meet its financial obligations when they become due. The Corporation manages liquidity risk by reviewing resources to ensure that it will have sufficient liquidity to meet liabilities as they become due and to support business strategies.

The Corporation generates cash flow from the disposal of investments, financing activities, and dividend and interest income. The Corporation primarily invests in equity and debt instruments of publicly traded cannabis companies. The Corporation is also permitted to invest up to 40% of capital in the private portfolio. Disposal of investments in non-publicly traded companies could differ from the carrying value since an active-market does not exist.

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## 11. Financial risk management (continued)

### b) Liquidity risk (continued)

As at April 30, 2019, the Corporation's contractual cash flows, which were payable under financial liabilities in these financial statements consisted of bank indebtedness and accounts payable and accrued liabilities with payments due in less than one year. All of the Corporation's financial assets reported on the April 30, 2019 statement of financial position are considered liquid and convertible into cash in less than one year.

### c) Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign currency exchange rates and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. The market risks to which the Corporation is exposed are equity price risk and interest rate risk.

#### i) Equity price risk

The Corporation is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Corporation's earnings due to movements in individual equity prices or general movements in the level of the stock market or the cannabis sub-market. The Corporation's investments are subject to fluctuations in fair value arising from changes in the equity market. As at April 30, 2019, should the equity prices of the Company's holdings increase or decrease by 5%, the impact on net income or loss would be approximately \$1,156,579 (October 31, 2018 - \$779,600).

#### ii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate due to changes in market interest rates. The Corporation's exposure to interest rate risk relates to its ability to earn interest income on cash and cash equivalents and fixed income securities held. The fair value of the Corporation's cash and cash equivalents and investments affected by changes of interest rates is minimal.

### d) Currency risk

Currency risk is the risk that the fair value of future cash flows from the Company's operations will fluctuate due to changes in foreign exchange rates. The Corporation holds investments denominated in United States dollars, ("U.S. dollar"). A change in the U.S. dollar foreign exchange rate versus the Corporation's functional and presentation currency may have an adverse effect on the Corporation's investments. As at April 30, 2019, should the U.S. dollar foreign exchange rate increase or decrease by 1%, the impact on net income or loss would be approximately \$172,356 (October 31, 2018 - \$98,469).

	<u>April 30, 2019</u>	<u>October 31, 2018</u>
Investments denominated in U.S dollars	\$ 17,235,578	\$ 9,846,939

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## 11. Financial risk management (continued)

### e) Concentration risk

Concentration risk is the risk that any single investment or group of investments will have the potential to materially affect the Corporation's operating results. As at April 30, 2019 and October 31, 2018, the Corporation invested entirely in equities, fixed income securities, and warrants. The allocation of investments between public and private portfolio is as follows:

	<b>Cost</b>	<b>Fair value</b>	<b>Percentage</b>
Public portfolio	\$ 24,370,250	\$ 31,648,896	57 %
Private portfolio	16,123,112	24,014,718	43 %
<b>April 30, 2019</b>	<b>\$ 40,493,362</b>	<b>\$ 55,663,614</b>	<b>100 %</b>

  

	<b>Cost</b>	<b>Fair value</b>	<b>Percentage</b>
Public portfolio	\$ 24,220,158	\$ 22,758,472	55 %
Private portfolio	13,909,104	18,595,835	45 %
<b>October 31, 2018</b>	<b>\$ 38,129,262</b>	<b>\$ 41,354,307</b>	<b>100 %</b>