JAMES E. WAGNER CULTIVATION CORPORATION

Condensed Consolidated Interim Financial Statements

For the Three-Month Period Ending December 31, 2018

James E. Wagner Cultivation Corporation

Condensed Consolidated Interim Statement of Financial Position (Unaudited)

	December 31, 2018	September 30, 2018
Assets		
Current		
Cash and cash equivalents	**$ 2,918,405**	$ 8,504,790
Short term investments	**6,048,493**	6,017,153
Funds in trust	-	140,165
Accounts Receivable	**551,777**	120,255
Government remittances recoverable	**461,311**	343,752
Other receivables (Note 16)	**412,450**	-
Inventory (Note 5)	**1,355,891**	1,532,604
Biological assets (Note 6)	**1,541,156**	1,074,829
Prepaid expenses and deposits	**936,826**	943,299
	14,226,309	18,676,847
Capital assets (Note 7)	**11,715,349**	5,331,068
Intangible assets	**136,433**	144,633
	$ 26,078,091	$ 24,152,548
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	**$ 5,112,483**	$ 1,098,212
Current portion of long-term debt	**3,335**	3,253
	5,115,818	1,101,465
Long-term debt	**4,663**	5,528
Royalty liability (Note 8)	**2,493,152**	2,489,102
Lease inducement	**1,122,355**	916,985
	3,620,170	3,411,615
Shareholders' equity		
Share capital (Note 9)	**30,448,940**	30,446,310
Contributed surplus	**4,226,083**	4,200,786
Retained earnings (deficit)	**(17,332,920)**	(15,007,628)
	17,342,103	19,639,468
	$ 26,078,091	$ 24,152,548

Approved on behalf of the Board:

Nathan Woodworth Director

Condensed Consolidated Interim Statement of Changes in Equity
(Unaudited)

	Number of Shares	Share Capital (Note 9)	Deficit	Contributed Surplus	Total
Balance, October 1, 2018	87,990,346	$30,446,310	$ (15,007,628)	$4,200,786	$19,639,468
Comprehensive loss for the period	-	-	(2,325,292)	-	(2,325,292)
Issuance of share capital (Note 9)	5,425	2,630	-	-	2,630
Warrants issued (Note 9)	-	-	-	25,297	25,297
Balance, December 31, 2018	**87,995,771**	**$ 30,448,940**	**$ (17,332,920)**	**$ 4,226,083**	**$ 17,342,103**
Balance, October 1, 2017	65,018,857	$ 7,887,117	$ (4,693,708)	$ 2,598,697	$ 5,792,106
Comprehensive loss for the period	-	-	(1,469,078)	-	(1,469,078)
Issuance of share capital (Note 9)	2,817,764	1,650,095	-	30	1,650,125
Share issue costs	-	(87,338)	-	-	(87,338)
Warrants Issued	-	-	-	490,681	490,681
Balance December 31, 2017	**67,836,621**	**$ 9,449,874**	**$ (6,162,786)**	**$ 3,089,408**	**$ 6,376,496**

Condensed Consolidated Interim Statement of Loss and Comprehensive Loss (Unaudited)

	For the three-month period ended December 31, 2018	For the three-month period ended December 31, 2017
Revenue	**549,995**	-
Cost of sales (note 5 and 6)	**1,527,363**	-
Gross profit before the undernoted	**(977,368)**	-
Changes in fair value change of biological assets	**988,244**	45,887
	10,876	45,887
Expenses		
Advertising and promotion	**185,553**	54,176
Banking and service fees (Note 15)	**139,312**	2,486
Depreciation	**70,414**	67,239
Interest expense	**7,494**	14,012
Royalty expense	**118,644**	-
Memberships and licenses	**11,110**	1,875
Office and administration	**150,876**	48,410
Professional fees	**233,462**	613,002
Rent	**700,164**	108,856
Repairs and maintenance	**24,049**	34,303
Utilities	**123,346**	15,939
Wages and benefits	**622,388**	449,617
	2,386,812	1,409,915
Loss from operations	**(2,375,936)**	(1,364,028)
Fair value change in contingently issuable shares (Note 9)	-	110,000
Interest and other revenue	**(50,644)**	(4,950)
	(50,644)	(105,050)
Loss and comprehensive loss	**$ (2,325,292)**	$ (1,469,078)
Loss per share		
Basic	**$ (0.03)**	$ (0.02)

James E. Wagner Cultivation Corporation

Condensed Consolidated Interim Statement of Cash Flows (Unaudited)

For the three months ended December 31	**2018**	2017
Loss for the period	**$ (2,325,292)**	$ (1,469,078)
Cash from operating activities		
Items not involving cash		
Amortization and depreciation	**104,157**	67,239
Compensation options	-	490,711
Consultant options	**25,297**	-
Fair value change in biological assets	**(1,015,933)**	(45,887)
Fair value change in contingently issuable shares	-	110,000
Amortization of financing fees	**7,281**	12,852
Lease inducement	**205,370**	74,426
Changes in non-cash working capital balances		
Accounts receivable and other receivables	**(843,973)**	(1,997)
Government remittances recoverable	**(117,558)**	(214,936)
Prepaid expenses	**6,473**	(1,238,673)
Biological assets	**549,608**	-
Inventory	**176,713**	-
Accounts payable and accrued liabilities	**4,014,269**	114,704
	786,412	(2,100,639)
Cash flows from investing activities		
Purchase of capital assets	**(6,480,238)**	(679,715)
Interest on short term investments	**(31,340)**	-
	(6,511,578)	
Cash from financing activities		
Issuance of share capital	**2,630**	1,100,059
Funds held in trust	**140,165**	(438,733)
Repayment of long-term debt	**(4,014)**	(996)
Repayment of debenture/royalty	-	(50,000)
	138,781	610,330
Increase (decrease) in cash during the period	**(5,586,385)**	(2,170,024)
Cash and cash equivalents, October 1	**8,504,790**	6,858,659
Cash and cash equivalents, December 31	**$ 2,918,405**	$ 4,688,635

1. Nature of Operations

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

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

These condensed consolidated interim financial statements were approved by the Board of Directors on February 22, 2019.

2. Summary of Significant Accounting Policies

Basis of Presentation

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting. Accordingly, certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), have been omitted or condensed. These condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended September 30, 2018.

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

The same accounting policies and methods of computation were followed in the preparation of these condensed consolidated interim financial statements as were followed in the preparation of the audited consolidated financial statements for the year ended September 30, 2018 except as noted below.

New standards applicable during the reporting period

(a) IFRS 9 – Financial Instruments

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

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

2. Summary of Significant Accounting Policies (continued)

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

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

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

Financial Assets	IAS 39 Classification	IFRS 9 Classification
Cash and cash equivalents	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost
Royalty payable	Other liabilities	Amortized cost

There were no other changes on adoption aside from the above classification changes. The Company has performed an analysis on Expected Credit Loss, as required by IFRS 9, and has determined that there is currently no risk of impairment related to amounts receivable as at December 31, 2018. As such, no provision has been recorded.

(b) IFRS 15 – Revenue from Contracts with Customers

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

In accordance with IFRS 15 requirements, the Company applies the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when or as the Company satisfies a performance obligation

2. Summary of Significant Accounting Policies (continued)

Revenue from the direct sale of cannabis to medical customers for a fixed price is recognized when the Company transfers control of the goods to the customer. In conjunction to wholesale cannabis contracts, revenue is recognized once the performance obligation is met and the Company transfers control of the goods per wholesale contracts.

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

Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards, amendments, and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

(a) IFRS 16 – Leases

IFRS 16, issued in January 2016, replaces IAS 17, Leases. IFRS 16 results in most leases being reported on the balance sheet for lessees, eliminating the distinction between a finance lease and an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for companies that also adopt IFRS 15. While the Company is currently evaluating the impact IFRS 16 will have on its consolidated financial statements, the recognition of certain leases is expected to increase the assets and liabilities on the consolidated statement of financial position.

3. Critical Accounting Estimates and Judgments

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

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

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

Income taxes

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

3. Critical Accounting Estimates and Judgments (continued)

Share-based payments

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

Biological assets

The Company's biological assets consist of cannabis plants. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related grow costs, plant consumables, materials, utilities, facility costs, quality and testing costs and production related depreciation. The Company then measures the biological assets at fair value less costs to sell up to the point of harvest. Costs to sell include post-harvest production, shipping and fulfillment costs. The net unrealized gains or losses arising from the changes in fair value less cost to sell during the period are included in the results of operations of the related period.

Inventory

Inventories of harvested cannabis are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell up to the point of harvest which becomes the initial cost. The initial cost is then evaluated for the lower of cost and net realizable value with cost determined using the weighted average method. All subsequent direct and indirect costs are capitalized to inventory as incurred including labour related costs, packaging, materials, utilities, facilities costs, quality and testing costs and production related depreciation.

Classification of financial instruments

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

Fair value of financial instruments

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

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

3. Critical Accounting Estimates and Judgments (continued)

Liability warrants and Contingently Issuable Shares

The Company measures liability warrants and contingently issuable shares by reference to the fair value at the date at which they are granted or issued and at the subsequent reporting date where they are classified as liabilities at fair value through profit or loss ("FVTPL"). Estimating fair value for warrants and contingently issuable shares classified as FVTPL requires determining the most appropriate valuation method, which is dependent on the terms and conditions of the agreement. This estimate also requires determining the most appropriate inputs to the valuation model, including the fair value of the Company's shares, expected life of the instrument, volatility and dividend yield as applicable and making assumptions about them.

4. Financial Instrument Classification

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

	Amortized Cost	Fair value through profit and loss	Other financial liabilities	Total
December 31, 2018				
Cash	$ -	$ 2,918,405	$ -	$ 2,918,405
Short term investments	-	6,048,493	-	6,048,493
Government remittances recoverable	461,311	-	-	461,311
Accounts receivable	964,227	-	-	964,227
Total financial assets	$ 1,425,538	$ 8,966,898	$ -	$10,392,436
Accounts payable and accrued liabilities	-	-	(5,112,483)	(5,112,483)
Long-term debt	-	-	(7,998)	(7,998)
Royalty	-	-	(2,493,152)	(2,493,152)
Total financial liabilities	-	-	(7,613,633)	(7,613,633)
Net financial assets (liabilities)	**$ 1,425,537**	**$ 8,966,898**	**$ (7,613,633)**	**$ 2,778,803**

	Amortized Cost	Fair value through profit and loss	Other financial liabilities	Total
December 31, 2017				
Cash	$ -	$ 4,688,635	$ -	$ 4,688,635
Accounts receivable	1,994	-	-	1,994
Funds in trust	-	438,733	-	438,733
Government remittances recoverable	493,212	-	-	493,212
Total financial assets	495,206	5,127,368	-	5,622,574
Accounts payable and accrued liabilities	-	-	(299,656)	(299,656)
Contingently issuable shares	-	(385,000)	-	(385,000)
Long-term debt	-	-	(10,729)	(10,729)
Debenture	-	-	(2,262,852)	(2,262,852)
Total financial liabilities	-	(385,000)	(2,573,237)	(2,958,237)
Net financial assets (liabilities)	$ 495,206	$ 4,742,368	$ (2,573,237)	$ 2,664,337

5. Inventory

Inventory is comprised primarily of harvested cannabis. The Company holds 172,820 grams of harvested cannabis at December 31, 2018 (September 30, 2018 – 190,235 grams) valued at $1,240,459 (September 30, 2018 - $1,487,236). The Company holds 13,900mL of cannabis oil at December 31, 2018 valued at $35,133 (September 30, 2018 – nil).

The cost of inventories recognized as an expense was $1,171,423 for the three months ended December 31, 2018 (September 30, 2018 - $28,873).

	December 31, 2018	September 30, 2018
Agricultural produce	$ 1,240,459	$ 1,487,236
Cannabis oil	35,133	-
Packaging and shipping material	80,299	45,368
	$ 1,355,891	$1,532,604

6. Biological Assets

The Company's biological assets consist of cannabis plants. The continuity of biological assets for the period ending December 31, 2018 is as follows:

Balance, October 1, 2017	$ 223,970
Increase due to plant creation	1,533,266
Effect of unrealized changed in fair value of biological assets	831,760
Transferred to inventory upon harvest	(1,514,167)
Balance, September 30, 2018	**1,074,829**
Increase due to plant creation	755,368
Effect of unrealized changed in fair value of biological assets	988,244
Transferred to inventory upon harvest	(1,277,285)
Balance, December 31, 2018	**1,541,156**

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

As at December 31, 2018, the Company's biological assets were on average, 40% complete (September 30, 2018 – 39%), and it was expected that the biological assets would yield approximately 456 kilograms of cannabis (September 30, 2018 – 240 kilograms). As at December 31, 2018, the Company had 2,608 plants that were biological assets (September 30, 2018 – 1,429 plants).

6. Biological Assets (continued)

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

- Expected average harvest yield of dried cannabis is 175 grams per plant
- Expected average selling price of dried cannabis is $8.56 per gram
- Expected average total costs up to the point of harvest is approximately $5.15 per gram
- Expected costs of disposal is approximately 10% of expected sales.

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

Key Assumption	Change in Fair Value Less Costs to Sell ("FVLCS")
Growing Cycle	An increase in the growing cycle by 2 weeks results in a decrease in the FVLCS of $70,138 A decrease of the growing cycle by 2 weeks results in an increase in the FVLCS of $84,202
Average Yield of Dried Cannabis at 175 gram per Plant	An increase in the yield of dried cannabis per plant by 10% would result in an increase in the FVLCS of $154,116 (vice versa)
Average selling price of dried cannabis of $8.56 per gram	An increase in the average selling price of dried cannabis by 10% would result in an increase in the FVLCS of $284,566 (vice versa)
Average costs to complete up to the point of harvest of $5.15 per gram	An increase in the average cost to complete up to the point of harvest by 10% would result in a decrease in the FVLCS of $130,450 (vice versa)
Expected cost of disposal of 10% of expected revenue	An increase in the cost of disposal by 5% would result in a decrease in the FVLCS of $158,092 (vice versa)

7. Capital Assets

	Furniture and Fixtures	Computer Equipment	Leasehold Improvements	Growth System	Total
Cost					
Balance at October 1, 2018	$ 918,398	$ 64,792	$ 4,775,623	$ 94,974	$ 5,853,787
Additions	550,963	18,692	5,753,086	157,497	6,480,238
Balance at December 31, 2018	1,469,361	83,484	10,528,709	252,471	12,334,025
Accumulated depreciation					
Balance at October 1, 2018	$ 160,999	$ 23,758	$ 284,697	$ 53,265	$ 522,719
Depreciation in period	34,590	7,028	46,977	7,362	95,957
Balance at December 31, 2018	195,589	30,786	331,674	60,627	618,676
Net book value					
October 1, 2018	$ 757,399	$ 41,034	$ 4,490,926	$ 41,709	$ 5,331,068
December 31, 2018	**$ 1,273,772**	**$ 52,698**	**$ 10,197,035**	**$ 191,844**	**$ 11,715,349**

As at December 31, 2018, the Company holds assets for which no depreciation has been taken. These assets are not yet available for use and include leasehold improvements under construction with costs of $7,805,797 (September 31, 2018 – $3,508,061), furniture and fixture costs of $503,650 (September 30, 2018 - $76,244) and growth system costs of $130,464 (September 30, 2018 - $110).

8. Debenture and Royalty Liability Agreement

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

i) Share subscription agreement whereby the Company issued 5,391,304 common shares at $0.46 per share, for cash proceeds of $2,500,000;

ii) Share acquisition agreement whereby Canopy acquired 3,504,347 common shares from existing shareholders of the Company at $0.28 per share, facilitated by the Company acquiring these shares from existing shareholders and re-issuing them in the name of Canopy. The discounted acquisition price of the shares of $650,000 has been included in contributed surplus;

iii) 1,347,826 common share purchase warrants were issued, exercisable at $0.46 per share with a life of two years;

iv) Debenture Agreement whereby the Company borrowed $2,500,000 from Canopy in the form of a debenture payable, due the earlier of February 10, 2019 and the date the Company receives its sales license from Health Canada. The balance owing by the Company will be offset against the balance owing from Canopy, as described in vi) below. The discounted cash flows of the future royalty stream, discounted at an effective interest rate of 17.8%, resulted in a fair value of $2,300,000, net of transaction costs, and has been disclosed as a debenture. Until the debenture is converted to the future royalty stream, interest on the debenture of 8% is payable quarterly in arrears on the final day of each consecutive three month period, commencing on September 30, 2017 and the Company is restricted from declaring or paying any dividend on its issued and outstanding common shares. As at September 30, 2017, the debenture was determined to be current due to a lack of conformity with non-financial covenants. The Company achieved its sales license on March 29, 2018 and the debenture was considered paid in full, as consideration for the Royalty agreement effective as of this date, resulting in a liability for future royalty stream as noted in vi) below.

v) Fixed Price Minimum Supply Commitment whereby the Company is required to supply Canopy with minimum quantities of product at a 50% discount from the retail price of the product. The agreement is an executory contract with fair value terms.

vi) Royalty Agreement whereby Canopy agreed to pay the Company $2,500,000 for a $0.375 per gram royalty for product produced by the Company. The agreement provides for a minimum annual royalty of $487,500 for a term of 20 years, commencing upon the Company's receipt of their sales license. The fair value of the discounted future cash flow of the royalty stream, net of transaction costs, was determined to be $2,300,000, net of transaction costs, as noted in iv) above.

8. Debenture and Royalty Agreement (continued)

vii) Royalty cancellation whereby, upon entering into the royalty agreement described in vi) above, Canopy agreed to cancel the previous royalty agreement for no additional consideration. The fair value of the cancelled royalty agreement of $300,000 has been expensed in the fiscal year September 30, 2018.

viii) License agreement whereby Canopy will provide the Company with a non-exclusive, non-transferable license to use certain Provided Genetics seeds. The fair value of the license agreement was determined to be $150,000 and has been included in intangibles assets, with $37,500 of amortization (September 30, 2018 - $30,000) recognized as at December 31, 2018.

Royalty as at October 1, 2018	$	**2,651,840**
Interest costs		**118,644**
Payments		**(121,875)**
Balance before issuance costs		**2,648,609**
Issuance costs		**(155,457)**
Royalty as at December 31, 2018	$	**2,493,152**

9. Share Capital

Authorized

Unlimited Common shares, voting, non-preferential dividends

Issued

	December 31, 2018	September 30, 2018
87,995,771 Common Shares (September 30, 2018 – 87,990,346)	**$ 30,448,940**	$ 30,446,310

As at December 31, 2018, 24,174,863 shares of the Company were held in escrow (September 30, 2018 – 33,316,292 shares).

9. Share Capital (continued)

Equity Raises

On April 7, 2017, the Company completed a private placement financing of 5,933,130 common shares at $0.35 per share for aggregate gross proceeds of $2,090,950. The Company paid cash fees of $167,276 and issued 593,313 compensation warrants valued at $154,470 for broker fees. Each compensation warrant entitles the holder to acquire one common share at $0.35 for a period of thirty-six months from the date of closing. The financing agreement entitles the shareholder to acquire common shares equal to 10% and 5% of the number of common shares held without further payment if the Company has not completed a public listing by January 31, 2018 and July 31, 2018, respectively. These contingently issuable shares are accounted for as a derivative liability at fair value as their settlement is not wholly within the control of the Company. The fair value was determined by applying a probability weighing to the public listing event based on management's best estimate of the timing of its occurrence. During Q1 2018, $110,000 was recognized through profit and loss related to the fair value of these contingently issuable shares.

On August 9, 2017 and September 7, 2017, the Company completed a private placement financing of 5,419,339 and 1,078,260 common shares at $0.46 per share for aggregate gross proceeds of $2,013,000 and $500,000, respectively. The Company paid fees of $161,040 and issued 864,765 compensation warrants for broker fees valued at $296,241. Each compensation warrant entitles the holder to acquire one common share at $0.46 for a period of thirty-six months from the date of closing.

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

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

On December 28, 2017, the Company completed a private placement financing of 1,540,565 common shares at $0.65 per share for aggregate gross proceeds of $1,000,125, of which $462,700 was owning by subscribers at December 31, 2107. Transaction costs were $87,338. On April 27, 2018, the Company closed a brokered private placement financing of 16,078,447 subscription receipts at a price of $1.15 per Subscription Receipt for gross proceeds of $18,490,214. Each subscription receipt entitles the bearer to one common share of the resulting issuer and one-half of one warrant to purchase an additional share at a cost of $1.50 per share for a period of 24 months. In connection with the financing, the Company has agreed to pay the agents a cash fee equal to six percent of the gross proceeds financing and to issue compensation options to the Agents equal to six percent (three percent for the president's list subscriptions) of the number of Subscription Receipts sold in connection with the financing. Each compensation option shall be exercisable for one common share of the resulting issuer at an exercise price of $1.15 per share for a period of two years from the closing of the financing.

The gross proceeds of the financing less the expenses of the Agents incurred in connection with the financing will be held in escrow pending satisfaction of certain conditions, including, among others, the completion or waiver of all condition's precedent to the completion of the

9. Share Capital (continued)

Transaction and the receipt of all shareholder and regulatory approvals required for the completion of the transaction. All conditions were satisfied, and the Transaction was closed on June 7, 2018 resulting in the issuance of 16,078,447 common shares to the holders of the subscription receipts.

As a part of the Reverse Takeover Transaction (as described in the September 30, 2018 audited financial statements), previously granted AIM1 warrants were acquired by the Company. On October 16, 2018, 2,846 warrants were exercised for proceeds of $1,380. On November 16, 2018, an additional 2,579 warrants were exercised for proceeds of $1,250.

9. Share Capital (continued)

Warrants and Options Issued

The following is a summary of the warrants and options outstanding:

	Issued	Vested	Exercised	Outstanding	Exercise Price
October 1, 2017 Balance	**9,545,034**	**9,545,034**	**(395,452)**	**9,149,582**	**$0.46**
December 1, 2017 Consultant options	2,156,520	2,156,520	-	2,156,520	0.65
December 31, 2017 Balance	**11,701,554**	**11,701,554**	**(395,452)**	**11,306,102**	**$0.55**
April 27, 2018 offering warrants	8,039,223	8,039,223	-	8,039,223	1.50
April 27, 2018 Broker warrants	762,150	762,150	-	762,150	1.15
June 7, 2018 AIM1 warrants	88,220	88,220	(8,972)	79,248	0.48
June 7, 2018 AIM1 options	195,305	195,305	-	195,305	0.48
July 19, 2018 Consultant options	300,000	150,000	-	150,000	1.15
August 28, 2018, Director Options	300,000	300,000	-	300,000	0.78
December 31, 2018 Balance	**21,386,452**	**21,236,452**	**(404,424)**	**20,832,028**	**$ 1.15**

During the three months ended December 31, 2018, an additional 5,425 warrants were exercised in relation to the June 7, 2018 AIM1 warrants, noted in the table above, for proceeds of $2,630.

9. Share Capital (continued)

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

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

Stock options issued

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

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

The following table summarizes Options vested and outstanding.

	Issued	Weighted Average Exercise Price
Balance outstanding at October 1, 2016	-	-
September 1, 2017 Employee Stock Options	6,739,130	$0.46
Balance outstanding at September 30, 2017	6,739,130	0.46
June 7, 2018 AIM1 options	195,305	0.48
August 27, 2018 Directors Stock Options	300,000	0.78
Outstanding and vested at September 30 and December 31, 2018	7,234,435	$0.48

10. Compensation of Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel are comprised of the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Compliance Officer (CCO), Chief Operating Officer (COO), Chief Administrative Officer (CAO) and Chief Information Officer (CIO). Compensation paid in the form of salaries, benefits and bonuses was $211,166 for the three months ended December 31, 2018 (for the three months ended December 31, 2017 - $170,710).

11. Commitments

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

During the year ended September 30, 2018, the Company entered into an agreement to rent a second premises. The rental agreement is for the period from February 1, 2018 to January 31, 2033 at a monthly rate of $98,008 increasing to $201,477 per month over the term of the lease.
During the year ended September 30, 2018, the Company also entered into an agreement to lease additional office space. The Company has signed a two-year lease for this space at a rate of $6,500 per month from June 2018 to May 2020.

During the year ended September 30, 2017, the Company entered in to an agreement to receive software support for the period May 1, 2017 to April 30, 2019 at a monthly rate of $2,825 over the term of the contract.

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

2019	$	1,184,055
2020		1,723,867
2021		1,715,402
2022		1,900,544
2023		2,141,122
Thereafter		21,253,435
	$	**29,918,425**

Lease and common area maintenance payments made during the three months ended December 31, 2018 and included in the statement of loss and comprehensive loss total $187,133 (December 31, 2017 - $33,371).

12. Contingencies

A civil claim has been instigated by a former employee and former director of James E. Wagner Cultivation Ltd., which is a wholly owned subsidiary of James E. Wagner Cultivation Corp and its directors. The claim is for monetary damages and certain declaratory relief arising out of the termination of his employment, an alleged right to participate in an employee stock option plan and bonus pool, and his alleged oppression as a shareholder.

The corporation has retained outside counsel to defend all defendants. On an initial assessment, the corporation believes that it has strong defense to the claim and that material outflow of resources from a past event is not probable. The corporation intends to vigorously defend the claims asserted against all defendants.

13. Financial Instruments

General Objectives, Policies and Processes

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

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

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company’s financial instruments that are exposed to concentrations of credit risk relate primarily to cash, accounts receivable and government remittances recoverable. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand. In accordance with IFRS 9, management has performed an assessment over the 12-month expected credit loss and has determined all receivables as collectible. Accordingly, no expected credit loss provision has been included in this reporting period.

	December 31, 2018	September 30, 2018
0-30 days	**$ 951,138**	$ 14,584
31-60 days	**-**	104,692
61-90 days	**-**	-
Over 90 days	**13,089**	979
Total	**$ 964,227**	$ 120,255

13. Financial Instruments (continued)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is exposed to this risk through its accounts payable and accrued liabilities, royalty, long-term debt and commitments. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company has no material commitments for capital expenditures.

	Within 1 Yr	Due 1-2 Yr	Due 3-4 Yr	Over 5 yr	Total
Accounts payable and accrued liabilities	**$5,112,483**	-	-	-	$5,112,483
Long term debt	**3,335**	4,663	-	-	7,998
Royalty liability	**487,500**	975,000	975,000	6,944,204	9,381,704
Commitments	**1,184,055**	3,439,269	4,096,666	21,253,435	29,973,425
Total	**$6,787,373**	$4,418,932	$5,071,666	$28,197,639	$44,475,610

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not have any assets or liabilities exposed to interest rate fluctuations.

14. Capital Management

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

15. Canopy Offtake Agreement

Due to an accident during the extraction process, the decision was made by the three companies involved to sell the product to MediPharm instead of Canopy Growth, which resulted in JWC not meeting the requirements of the Offtake Agreement for 2018. The shortfall results in a penalty of $135,122, currently recorded in accrued liabilities and banking and service fees, which the Company expects to cover with additional product during the 2019 calendar year.

16. Other Receivables

As at December 31, 2018, the Company was awaiting a reimbursement from its insurance provider in the amount of $412,450. This amount was received and deposit into the bank subsequent to quarter end.

17. Subsequent Events

Trichome Loan Agreement

On February 19, 2019, the Company entered into a CDN$3.5 million loan agreement (the "Loan") with Trichome Financial Corp. JWC intends to use the proceeds of the Loan to purchase certain equipment and fund improvements for Phase 1 and Phase 2 of the construction of its second facility. The Loan will be due two years from the closing date and will bear interest at 9.25% per annum.

In respect of the Loan, JWC will grant Trichome a security interest in all current and after acquired property of the Corporation and its subsidiaries, subject to certain permitted liens. The Corporation's subsidiaries: James E. Wagner Cultivation Ltd., JWC 1 Ltd., JWC 2 Ltd., JWC Supply Ltd. And GrowthStorm Inc., will act as guarantors to the obligations of the Corporation pursuant to the Loan Agreement.

As consideration for providing the loan and pursuant to TSX Venture Exchange Policy 5.1 – *Loans, Loan Bonuses, Finder's Fees and Commissions*, upon closing of the loan agreement Trichome Financial Corp. will receive 291,667 bonus warrants. Each bonus warrant will be exercisable into one common share at an exercise price of CDN$0.80 per bonus warrant. The bonus warrants will be exercisable for a period of two years and the issuance of the bonus warrants is subject to TSXV approval.

Ball Construction

On February 20, 2019, the Company entered into a CDN$5 million loan agreement (the "Loan") with Ball Construction Ltd. JWC will use the loan to pay construction invoices issued by the lender in respect to services and materials provided for the rapid development efforts at JWC's second facility. The loan does not provide for any cash draws by the Corporation.

The loan shall be for a term of eighteen (18) months and the outstanding principal amount and accrued interest thereon shall be paid in full on or before August 31, 2020. The loan will bear interest at the prime commercial rate charged by HSBC Canada plus 0.5% per annum, with monthly interest-only payments commencing after July 1, 2019. Any outstanding principal amount of the loan may be paid in whole or in part at any time by JWC without prior notice or payment of and bonus to the lender. Pursuant to the Loan Agreement, after July 1, 2019 and prior to expiry of the Term, the lender may demand repayment of the Loan in full upon delivering notice to the Corporation.

Advances under the loan will be used to set off invoices issued by the Lender to the Corporation for construction work conducted at JWC 2. Each advance made to JWC under the Loan Agreement may be represented by promissory notes issued by the Company in favour of the Lender. The Loan is otherwise unsecured.

As consideration for providing the loan and pursuant to TSX Venture Exchange Policy 5.1 – *Loans, Loan Bonuses, Finder's Fees and Commissions*, upon closing of the loan agreement Ball Construction Ltd. will receive 300,000 bonus warrants. Each bonus warrant will be exercisable into one common share at an exercise price of CDN$0.80 per bonus warrant. The bonus warrants will be exercisable for a period of two years and the issuance of the bonus warrants is subject to TSXV approval.