



# WORLD-CLASS EXTRACTIONS

---

**WORLD CLASS EXTRACTIONS INC. (formerly CBD Med Research Corp.)**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the three months Ended July 31, 2019**

(Expressed in Canadian Dollars unless otherwise indicated)  
(Unaudited – Prepared by Management)

---

INDEX	PAGE(S)
Interim Condensed Consolidated Statements of Financial Position	2
Interim Condensed Consolidated Statements of Changes in Shareholders' Equity	3
Interim Condensed Consolidated Statements of Loss and Comprehensive Loss	4
Interim Condensed Consolidated Statements of Cash Flows	5
Notes to the Interim Condensed Consolidated Financial Statements	6-39

**WORLD CLASS EXTRACTIONS INC. (formerly CBD Med Research Corp.)**

**NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the interim condensed consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor, MNP LLP, has not performed a review of these interim condensed consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim condensed consolidated financial statements by an entity's auditor.

September 27, 2019

**WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)**

(Expressed in Canadian Dollars)

AS AT	Note	July 31, 2019	April 30, 2019
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 13,901,616	\$16,002,152
Short term investments	3	275,500	275,500
Loans receivable	5	166,607	1,757,767
Convertible loan receivable	7	1,954,442	1,954,442
Accounts receivable		692,717	-
Sales tax receivable		598,620	191,689
Inventory	6	1,883,598	-
Prepaid expenses and deposits	8	1,073,464	776,129
		<b>20,546,564</b>	<b>20,957,679</b>
<b>Non-current assets</b>			
Goodwill	4	21,630,861	-
Investment	7	493,139	493,139
Series B convertible preferred stock	7	1	1
Right-to-use asset	14	97,707	100,347
Property and equipment (net)	9	630,319	332,811
Intangible assets (net)	10	9,535,317	9,824,654
<b>TOTAL ASSETS</b>		<b>\$ 52,933,908</b>	<b>\$31,708,631</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 898,403	\$ 289,765
Customer deposits		502,278	-
Due to related parties	18	66,928	29,235
Current portion of lease obligations	15	6,484	6,281
		<b>1,474,093</b>	<b>325,281</b>
<b>Non-current liabilities</b>			
Non-current portion of lease obligations	15	101,447	103,165
<b>Total liabilities</b>		<b>1,575,540</b>	<b>428,446</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	11	61,256,937	40,349,053
Reserves	12, 13	6,698,104	3,305,673
Deficit		(16,596,673)	(12,374,541)
<b>Total shareholders' equity</b>		<b>51,358,368</b>	<b>31,280,185</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 52,933,908</b>	<b>\$31,708,631</b>

Nature of operations (note 1)

Commitments (notes 21)

Subsequent events (note 22)

APPROVED BY THE BOARD:

Signed, "Donal Carroll", Director

Signed, "Chand Jagpal", Director

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

2 | Page

**WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**

(Expressed in Canadian Dollars)

	Number of Common Shares	Share Capital \$	Contributed Surplus \$	Warrants \$	Deficit \$	Shareholders' Equity \$
<b>Balance, April 30, 2018</b>	<b>23,014,575</b>	<b>13,000,000</b>	<b>-</b>	<b>-</b>	<b>(10,737)</b>	<b>12,989,263</b>
Shares issued for private placement	-	2,349,500	-	-	-	2,349,500
Share issuance costs and issuance of warrants	-	(379,139)	-	167,684	-	(211,455)
Net loss for the period	-	-	-	-	(286,880)	(286,880)
<b>Balance, July 31, 2018</b>	<b>23,014,575</b>	<b>14,970,361</b>	<b>-</b>	<b>167,684</b>	<b>(297,617)</b>	<b>14,840,428</b>
<b>Balance, April 30, 2019</b>	<b>451,180,147</b>	<b>40,349,053</b>	<b>1,864,786</b>	<b>1,440,887</b>	<b>(12,374,541)</b>	<b>31,280,185</b>
Shares issued for acquisition	148,316,425	20,764,300	-	-	-	20,764,300
Options issued for acquisition	-	-	1,097,418	-	-	1,097,418
Warrants issued for acquisition	-	-	-	1,375,462	-	1,375,462
Stock options exercised	700,000	70,000	-	-	-	70,000
Fair value of options exercised	-	73,584	(73,584)	-	-	-
Share-based compensation expense for options	-	-	993,135	-	-	993,135
Net loss for the period	-	-	-	-	(4,222,132)	(4,222,132)
<b>Balance, July 31, 2019</b>	<b>600,196,572</b>	<b>61,256,937</b>	<b>3,881,755</b>	<b>2,816,349</b>	<b>(16,596,673)</b>	<b>51,358,368</b>

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

**WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS****(UNAUDITED)**

(Expressed in Canadian Dollars)

<b>For the three months ended</b>	<b>Note</b>	<b>July 31, 2019</b>	<b>July 31, 2018</b>
<b>Sales</b>		<b>\$ 167,802</b>	<b>\$ -</b>
<b>Cost of Sales</b>		<b>(69,074)</b>	<b>-</b>
		<b>98,728</b>	<b>-</b>
<b>Expenses</b>			
Acquisition fees	4	982,675	-
Amortization	9, 10	702,611	-
Bank charges		4,251	128
Bad debt		504	-
Consulting fees	18	262,773	168,091
Development & research		254,258	8,802
Filing fees		35,732	-
Foreign exchange		17,893	-
General and administrative expenses		2,385	7,397
Professional fees	18	359,549	62,908
Investor relations		9,979	-
Lease interest	15	3,485	-
Management fees	18	54,500	-
Marketing and research		2,054	-
Remuneration and benefits	18	237,519	-
Rent		38,645	-
Share-based payments	12, 18	993,135	-
Travel		365,734	39,554
		<b>4,327,682</b>	<b>(286,880)</b>
<b>Net loss before other income</b>		<b>\$ (4,228,954)</b>	<b>\$ (286,880)</b>
<b>Other Income</b>			
Interest income		6,822	-
<b>Loss and comprehensive loss for the period</b>		<b>\$ (4,222,132)</b>	<b>\$ (286,880)</b>
<b>Weighted average number of common shares outstanding - basic and diluted</b>		<b>522,172,447</b>	<b>23,014,575</b>
<b>Basic and diluted loss per share</b>		<b>\$ (0.01)</b>	<b>\$ (0.01)</b>

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

**WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS****(UNAUDITED)**

(Expressed in Canadian Dollars)

<b>Three months ended</b>	<b>July 31, 2019</b>	<b>July 31, 2018</b>
<b>Cash flows from operating activities:</b>		
Net loss for the period	\$ (4,222,132)	\$ (286,880)
Items not involving cash:		
Bad debts	504	-
Depreciation	702,611	-
Acquisition fees	982,675	-
Lease interest	3,485	-
Share-based payments	993,135	-
Change in non-cash operating working capital:		
Accounts receivable	(82,601)	(17,063)
Accounts payable and accrued liabilities	378,581	(10,379)
Amounts payable to related parties	31,516	9,495
GST recoverable	(225,840)	(14,437)
Inventory	(352,135)	-
Prepaid expenses	(173,623)	-
Customer deposits	80,099	-
	<b>(1,883,725)</b>	<b>(319,265)</b>
<b>Cash flows from investing activities:</b>		
Expenditures on intangible assets	(371,306)	-
Purchase of equipment	(75,293)	(6,306)
	<b>(446,599)</b>	<b>(6,306)</b>
<b>Cash flows from financing activities:</b>		
Share subscription receivable	-	(89,671)
Cash acquired upon acquisition of Quadron	1,323,465	-
Loans payable	(1,163,677)	-
Proceeds from the issuance of common shares, net of share issuance costs	70,000	2,138,045
	<b>229,788</b>	<b>2,048,374</b>
Change in cash and cash equivalents for the period	<b>(2,100,536)</b>	<b>1,722,803</b>
Cash and cash equivalents, beginning of the period	<b>16,002,152</b>	<b>138,894</b>
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 13,901,616</b>	<b>\$ 1,861,697</b>

Please refer to Note 19 for supplemental cash flow information.

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

## **WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**For the three months ended July 31, 2019**

(Expressed in Canadian Dollars)

#### **1. NATURE OF OPERATIONS**

World Class Extractions Inc. (previously CBD Med Research Corp.) (the "CBD" or "Company") was incorporated under the laws of British Columbia on December 2, 1965, under the name "Luaron Metals Ltd." Subsequent to this, there were several name changes and on July 17, 2014 the Company made a final name change to World Class Extractions Inc. ("WCE"). The head and registered office of the Company is located at Suite 308 - 9080 University Crescent, Burnaby, BC, V5A 0B7.

On March 11, 2019, the Company completed its reverse takeover transaction (the "Transaction" or "RTO") (Note 4) with World Class Extraction (Ontario) Inc. (formerly World Class Extraction Inc.) ("WCE"), a private company incorporated under the laws on Ontario on January 25, 2018. Pursuant to the RTO, CBD acquired all of the issued and outstanding shares of WCE for the issuance of 1 CBD share for each WCE share. CBD did not have any significant operations at the time of the Transaction. Following the closing of the Transaction, CBD changed its name to World Class Extractions Inc.

World Class Extractions (Ontario) Inc. is a private company incorporated under the laws of Ontario.

On June 17, 2019, the Company and Quadron Cannatech Corporation ("Quadron") completed their previously announced plan of arrangement (the "Arrangement") (Note 4(b)) under the provisions of the Business Corporations Act, pursuant to which the Company acquired all of the common shares of Quadron following Quadron's amalgamation with the Company's wholly-owned subsidiary, 1212476 B.C. Ltd. to form a new wholly owned subsidiary of the Company continuing as "Quadron Cannatech Corporation" ("Amalco"). Under the terms of the Arrangement, each former Quadron shareholder received two common shares of the Company. In addition, options and warrants to purchase Quadron shares will continue to remain outstanding as options and warrants of the Company. The Company paid \$280,500 and issued 5,015,531 common shares of the Company to financial advisors as acquisition fees.

The Company is listed on the Canadian Securities Exchange ("**CSE**") under the symbol "PUMP" and on the Frankfurt Stock Exchange under the symbol "WCF" and "WKN:A2PF9C". The Company is currently seeking a listing on the OTCQB Venture Market, a US trading platform that is operated by the OTC Markets Group in New York. The Company manufactures industrial grade extraction systems for cannabis and hemp processing, focusing on extraction, compound isolation and formulation technologies and processes. The business of the Company is to commercialize its extraction and processing systems utilizing various technologies to effectively produce extracts and concentrates from cannabis and hemp and isolate essential compounds found in plant material. The Company is working to become the Canadian leader of advanced industrial-scale cannabis and hemp extraction systems, technologies and processes by providing cost-effective and at-scale production to produce high margin, high-quality extracts and premium derivative products and consumer brands.

With acquisition of Quadron, the Company, through its subsidiary, provides ancillary equipment, products and services, designed and structured to cannabis industry participants.

On July 5, 2019, the Board of directors filed a change of year end to change the Company's year end from December 31 to April 30, effective for the period ended April 30, 2019 to align its reporting periods with Quadron (see Note 4). As a result of the change in year end, comparative amounts are not directly comparable with current period's amounts.

## **WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**For the three months ended July 31, 2019**

(Expressed in Canadian Dollars)

## **2. BASIS OF PRESENTATION**

### **Statement of Compliance and presentation**

These interim condensed consolidated financial statements (“Financial Statements”) have been prepared by management of the Company in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”, following the same accounting principles and methods of computation as outlined in the Company’s financial statements for the period ended April 30, 2019 and December 31, 2018, with exception to the newly adopted International Financial Reporting Standards (“IFRS”) effective January 1, 2019, as discussed in Note 3 below. A description of accounting standards and interpretations that have been adopted by the Company can be found in the notes of the audited consolidated financial statements for the period ended April 30, 2019 and December 31, 2018. These interim condensed consolidated financial statements include all necessary disclosures required for interim financial statements but do not include all disclosures required for annual financial statements. Therefore, these interim condensed consolidated financial statements should be read in conjunction with the most recent audited annual financial statements and the notes thereto for the period ended April 30, 2019 and December 31, 2018.

These Financial Statements are presented in Canadian dollars except where otherwise indicated.

These interim condensed consolidated financial statements were approved and authorized for issue by the directors of the Company on September 27, 2019.

### **Significant Estimates and Judgments**

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses. Estimates and associated assumptions applied in determining asset or liability values are based on historical experience and various other factors including other sources that are believed to be reasonable under the circumstances but are not necessarily readily apparent or recognizable at the time such estimates or assumptions are made. Actual results may differ from these estimates.

The information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is as follows:

#### *Income taxes*

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 2. BASIS OF PRESENTATION (continued)

##### Significant Estimates and Judgments (continued)

###### *Stock options and warrants*

Determining the fair value of warrants and stock options requires estimates related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could have a significant impact on the Company's future operating results or on other components of shareholders' equity.

###### *Fair value of investment in warrants*

Management uses Black-Scholes option pricing model in measuring the fair value of investment in warrants, where active market quotes are not available. In applying the valuation technique, management is required to determine and make assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield and forfeiture rate. Such assumptions are inherently uncertain and changes in these assumptions affect the fair value estimates.

###### *Inventories*

Inventories are valued at the lower of cost and net realizable value. Cost of inventory includes cost of purchase (purchase price, import duties, transport, handling, and other costs directly attributable to the acquisition of inventories), and other costs incurred in bringing the inventories to their present location and condition. Net realizable value for inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Provisions are made in profit or loss in the period for any difference between book value and net realizable value.

###### *Property and Equipment*

The estimated useful lives of assets are reviewed by management and adjusted if necessary. To estimate equipment's useful life, management must use its past experience with the same or similar assets and may review engineering estimates and industry practices for similar pieces of equipment and apply statistical methods to assist in its determination of useful life.

###### *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.

###### *Impairment of long-lived assets*

Determining the amount of impairment of long-lived assets requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Many of factors used in assessing recoverable amounts are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period. These changes may result in future impairments in the Company's long term assets such as development assets.

## **WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**For the three months ended July 31, 2019**

(Expressed in Canadian Dollars)

#### **2. BASIS OF PRESENTATION (continued)**

##### **Significant Estimates and Judgments (continued)**

###### *Allowance for doubtful accounts*

The Company recognizes an impairment loss allowance for expected credit losses on trade accounts receivable, using a probability-weighted estimate of credit losses. In its assessment, management estimates the expected credit losses based on actual credit loss experience and informed credit assessment, taking into consideration forward-looking information. If actual credit losses differ from estimates, future earnings would be affected.

The information about significant areas of judgment considered by management in preparing the consolidated financial statements is as follows:

- i. the determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management;
- ii. the determination if an acquisition meets the definition of business or whether assets are acquired;
- iii. the determination of whether it is likely that future taxable profits will be available to utilize against any deferred tax assets;
- iv. the assessment of whether a contract is or contains a lease, whether the Company obtains substantially all the economic benefits from the use of that asset and whether the Company has the right to direct the use of the asset; and
- v. the determination of the Company's ability to continue as a going concern.

#### **3. SIGNIFICANT ACCOUNTING POLICIES**

##### **a) Cash and cash equivalents**

Cash and cash equivalents include cash on deposit and highly liquid short-term interest-bearing variable rate investments which are readily convertible into a known amount of cash. Cash and cash equivalents are held with Canadian financial institutions.

##### **b) Short term investments**

As at July 31, 2019, the Company had a guaranteed investment certificate ("GIC") held at the Bank of Montreal, valued at \$275,500 (April 30, 2019 - \$275,000) with an interest rate of prime less 2.7%, and matures on February 5, 2020.

##### **c) Convertible loan receivable**

The convertible loan receivable consists of a convertible loan receivable component and a separate equity conversion feature component. The convertible loan receivable is measured at fair value on initial recognition by discounting the stream of future interest and principal payments at the rate of interest prevailing at the date of issue for instruments of similar term and risk. Subsequent measurements are recognized at fair value through profit and loss.

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### d) Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. The consolidated financial statements are presented in Canadian dollars, which is the Company and its subsidiaries' functional currency. All significant intercompany balances, transactions and any unrealized gains and losses arising from intercompany transactions, have been eliminated. The Company's subsidiaries are as follows:

Entity	Country of Incorporation	Operations	Effective Interest
World Class Extraction (Ontario) Inc.	Canada	Acquisition and extraction of oils and extracts from the cannabis flower to be used for vaporizers, edibles, topicals and beverages	100%
Quadron Cannatech Corporation ("Quadron")	Canada	Corporate entity overseeing the operations of its subsidiaries	100%
Soma Labs Scientific Inc. ("Soma") (Subsidiary of Quadron)	Canada	Sale and rental of extraction and processing equipment, and provision of research and laboratory services	100%
Greenmantle Products Limited ("Greenmantle") (Subsidiary of Quadron)	Canada	Sale of premium disposable vaporizer cartridges, pens and related materials	100%
Cybernetic Control Systems Inc. ("Cybernetic") (Subsidiary of Quadron)	Canada	Sale of automation control solution equipment	100%
1141588 BC Ltd. (Subsidiary of Quadron)	Canada	Inactive	80%

On November 16, 2017, 1141588 BC Ltd. was incorporated to facilitate the development of new extraction systems: Alcohol Extraction System, Pressure Assisted Filtration System, Distillation System, and Hydrocarbon Extraction System. As of July 31, 2019, the subsidiary has been inactive.

##### e) Property and Equipment

On initial recognition, property and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property and equipment are subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### e) Property and Equipment (continued)

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the statements of comprehensive loss as incurred.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statements of comprehensive loss during the financial period in which they occurred.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognized net within other income in the statements of comprehensive loss.

Depreciation is recognized in the statements of comprehensive loss and is based on the estimated useful lives of the assets is provided as follows:

Computer equipment	30% - 55% declining balance
Furniture, fixtures and equipment	20% declining balance
Leasehold improvement	20% declining balance
Production equipment	30% declining balance.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if appropriate.

##### f) Revenue recognition

The Company's revenue is comprised of sales of its automation control systems and solutions, extraction and procession solutions, provision of research and laboratory services and the sale of vaporizer pens and cartridges. Revenues are recognized when persuasive evidence of a sale arrangement exists, delivery has occurred, the price is fixed or determinable, and collectability is reasonably assured. For its services related to automation control systems, extraction and procession solutions and research and laboratory services, revenue is recognized when the service has been rendered.

##### g) Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## **WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**For the three months ended July 31, 2019**

(Expressed in Canadian Dollars)

#### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **g) Inventory (continued)**

All inventories are periodically reviewed for impairment due to slow-moving and obsolete inventory. The provisions for obsolete, slow-moving or defective inventories are recognized in profit or loss. Previous write-downs to net realizable value are reversed to the extent there is a subsequent increase in the net realizable value of the inventories.

##### **h) Business combination**

Business combinations are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values at the date of acquisition, of assets transferred, liabilities incurred or assumed, and equity instruments issued by the Company. The acquiree's identifiable assets and liabilities assumed are recognized at their fair value at the acquisition date. Acquisition related costs are recognized in profit or loss as incurred. The excess of the consideration over the fair value of the net identifiable assets and liabilities acquired is recorded as goodwill. Any gain on a bargain purchase is recorded in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. Any goodwill that arises is tested annually for impairment.

##### **i) Right-to-use Asset**

Lessees are required to initially recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. The right-to-use asset is initially measured at cost, which comprises the initial amount of the lease liability, adjusted for lease prepayments, lease incentives received, the lessee's initial direct cost (e.g., commissions) and an estimate of restoration, removal and dismantling costs. Subsequently, lessees accrete the lease liability to reflect interest and reduce the liability to reflect lease payments made, and the related right-of-use asset is depreciated in accordance with the depreciation requirements of IAS 16 Property, Plant and Equipment. Right-of-use assets are subject to impairment testing under IAS 36 Impairment of Assets. Other leases are operating leases and are recognized on a straight-line basis in the Company's consolidated statements of loss and comprehensive loss. Please also see Note 14.

##### **j) Foreign Currencies**

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the date of the relevant transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Translation gains and losses are included in income or expense of the period in which they occur. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

## **WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**For the three months ended July 31, 2019**

(Expressed in Canadian Dollars)

#### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **k) Impairment of non-financial assets**

The carrying amounts of the Company's long-lived assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be individually tested are grouped together into the smallest group of assets that generate cash inflows or CGUs.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

##### **l) Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

##### **m) Share-based payments**

The stock option plan allows Company directors, officers, employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in shareholders' equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from share-based payment reserve to share capital.

In situations where equity instruments are issued to non-employees and some or all of the services received by the entity as consideration cannot be specifically identified, they are all measured at the fair value of the share-based payment, otherwise, share-based payments are measured at the fair value of the services received.

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

## **WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**For the three months ended July 31, 2019**

(Expressed in Canadian Dollars)

#### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **n) Financial instrument measurement and valuation**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the assets or liability either directly or indirectly
- Level 3 - Inputs that are not based on observable market data.

The measurement of the Company's financial instruments is disclosed in Note 15 to these consolidated financial statements. Any financial instrument that is valued using level 2 or 3 inputs will involve estimation uncertainty.

##### **o) Financial instruments**

###### **(i) Financial assets**

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") and at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition. A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets and collect contractual cash flows, its contractual terms give rise on specified dates that are solely payments of principle and interest on the principle amount outstanding, and it is not designated as FVTPL.

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, the Company can make an irrevocable election (on an instrument by-instrument basis) on the day of acquisition to designate them as at FVTOCI.

###### **Financial assets at FVTPL**

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the income statement. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the statement of operations and comprehensive loss in the period in which they arise. The Company's convertible loan receivable and investments are classified as FVTPL.

###### **Financial assets at FVTOCI**

Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. None of the Company's financial assets are classified as FVTOCI.

## **WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**For the three months ended July 31, 2019**

(Expressed in Canadian Dollars)

#### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **o) Financial instruments (continued)**

###### **(i) Financial assets (continued)**

Financial assets at amortized cost

Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date. The Company's financial assets at amortized cost comprise cash, restricted cash, short-term investments and loans receivable.

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in the statement of operations and comprehensive loss. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income.

###### **(ii) Financial liabilities**

The Company classified its financial liabilities as subsequently measured at amortized cost which include trade and other payables. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or they expire.

###### **(iii) Impairment of financial assets**

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For interest receivables and loans receivable the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decreases can be objectively related to an event occurring after the impairment was recognized.

##### **p) Loss per share**

Basic loss per share represents the loss for the period, divided by the weighted average number of common shares issued and outstanding during the period. Diluted earnings represents the profit or loss for the period, divided by the weighted average number of common shares issued and outstanding during the period plus the weighted average number of dilutive shares that could result from the exercise of stock options, warrants and other similar instruments where the inclusion of these items would not be anti-dilutive. When a loss per share calculation based on the fully diluted number of shares would be less than the loss per share calculated on the basic number of shares, diluted loss per share is anti-dilutive and accordingly, the diluted loss per share would be the same as basic loss per share.

## **WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**For the three months ended July 31, 2019**

(Expressed in Canadian Dollars)

#### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **q) Income tax**

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in shareholders' equity, in which case it is recognized in shareholders' equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company does not provide for temporary differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date applicable to the period in which realization or settlement can reasonably be expected.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

##### **r) Share capital**

Common shares are classified as shareholders' equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from share capital.

The proceeds from the issuance of units are allocated between common shares and common share purchase warrants based on the residual value method. Under this method, the proceeds are allocated to common shares based on the fair value of a common share at the issuance date of the unit offering and any residual remaining is allocated to common share purchase warrants. Subsequent to the initial recognition of warrants, any modification to the original terms of the warrants attached to units that were initially recognized in accordance with the residual value approach does not result in a re-measurement adjustment.

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### s) Intangible assets

Expenditures on the research phase of projects are recognized as an expense as incurred.

Cost that are directly attributable to a project's development phase are recognized as intangible assets, provided they meet the following recognition requirements:

- the development costs can be measured reliably
- the project is technically and commercially feasible
- the Company intends to and has sufficient resources to complete the project
- the Company has the ability to use or sell the internally developed equipment and machines
- the equipment and machines will generate probable future economic benefits

Development costs not meeting these criteria for capitalization are expensed as incurred.

Directly attributable costs include employee costs incurred on equipment and machine development along with an appropriate portion of relevant overheads and borrowing costs.

All finite-lived intangible assets, including capitalized internally developed assets, are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing. Any capitalized internally developed asset that is not yet complete is not amortized but is subject to impairment testing.

Amortization has been included within depreciation, amortization and impairment of non-financial assets. Subsequent expenditures on the maintenance of developed assets are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognized in profit or loss within other income or other expenses.

Amortization is calculated using the following terms and methods:

Intellectual property	5 years straight-line
Patent costs	5 years straight-line
Development	5 years straight-line

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Newly adopted accounting standards

The following amendment was adopted by the Company for the four months ended April 30, 2019 and the three months ended July 31, 2019, others are not applicable:

##### *IFRS 16 Leases*

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, Leases, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company adopted IFRS 16 by applying a modified retrospective approach, under which the transition impact is recognized as an adjustment to the opening balance of retained earnings on the adoption date with no restatement of comparative information.

In order to implement the IFRS 16 standard, the Company developed new processes and controls to track and account for leases, including the lease identification, initially and subsequently measuring lease-related assets and liabilities, lease and non-lease components identification, and collecting the disclosure information.

The Company reviewed all its agreements, to determine if they met the “lease” criteria (according to the IFRS 16) at the inception of the contract. A lease is a contract or part of a contract, that conveys the right to control the use of an identified asset (the underlying asset) for a certain period (term) in exchange for consideration. IFRS 16 applies a control model for the identification of leases, distinguishing between leases and service contracts based on whether there is an identified asset controlled by the customer.

##### Initial recognition and measurement

Lessees are required to initially recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, adjusted for lease prepayments, lease incentives received, the lessee’s initial direct costs (e.g., commissions) and an estimate of restoration, removal and dismantling costs. The Company is not obligated to incur any initial direct costs, restoration, removal and dismantling costs at the end of lease terms.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company’s estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

Lessees increase the carrying amount of lease liability to reflect interest and reduce carrying amount of the lease liability to reflect lease payments made.

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Newly adopted accounting standards (continued)

###### *IFRS 16 Leases (continued)*

###### Presentation

The Company presented the Right-of-use assets separately from other assets on the consolidated statements of financial position, and Depreciation expenses are presented separately in the consolidated statements of operations and comprehensive loss.

Lease liabilities are presented separately from other liabilities on the statement of financial position. Interest expense is presented separately in the statement of operation and comprehensive income (loss). In the statement of cash flows, principal payments are presented within financial activities and interest payments are presented in the operating activities.

###### Elections

- The Company, as a practical expedient, elected, by class of underlying asset, not to separate non-lease from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.
- The Company has also elected to expense the lease payments and not recognize lease assets and lease liabilities for leases with a lease term of 12 months or less.

###### *IFRIC 23, Uncertainty over Income Tax Treatments*

New standard to clarify the accounting for uncertainties over income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on January 1, 2019. The application of the new standard had no impact on the consolidated financial statements as at April 30, 2019.

###### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued with the intent of significantly enhancing consistency and comparability of revenue recognition practices across entities and industries. IFRS 15 replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretation. The new standard establishes a single, principles-based five-step model to be applied to all contracts with customers and introduces new and enhanced disclosure requirements.

Changes in accounting policies resulting from the adoption of IFRS 15 do not have a material impact on the Company's consolidated financial statements.

## **WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**For the three months ended July 31, 2019**

(Expressed in Canadian Dollars)

#### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Recent accounting pronouncement**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2020. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted. The Company is currently evaluating the potential impact of these amendments on the Company’s consolidated financial statements.

IFRS 3 - In October 2018, the IASB issued “Definition of a Business (Amendments to IFRS 3)”. The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrated activities is not a business. The amendments are effective for business combinations occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Company is currently evaluating the potential impact of these amendments on the Company’s consolidated financial statements.

#### **4. ACQUISITIONS**

##### **(a) Reverse takeover**

On March 11, 2019, the Company completed its RTO (Note 1). The RTO was completed by way of a “three-cornered amalgamation” under the provisions of the Business Corporations Act whereby CBD Acquisition Corp., a wholly-owned subsidiary of CBD incorporated on January 30, 2019, amalgamated with WCE and continue as one amalgamated corporation (“Amalco”) as a wholly-owned subsidiary of CBD. Prior to the closing the Transaction, CBD split its common shares on the basis of 1 old share for 3 new shares (“CBD Shares”), and WCE split its common shares on the basis of 1 old share for 1.5 new share (“WCE Shares”). Under the terms of the arrangement, CBD acquired all of the issued and outstanding shares of WCE on a 1 to 1 basis, for a total of 230,242,500 CBD Shares.

In accordance with IFRS 3 “Business Combinations”, the substance of the transaction was a reverse takeover of a non-operating company. The transaction does not constitute a business combination since CBD does not meet the definition of a business under IFRS 3. Thus, the transaction was accounted for using the reverse takeover method of acquisition accounting under IFRS 2 “Share-based payments”. Under this basis of accounting, the consolidated financial statements are presented as a continuation of the legal acquiree, WCE, except for the capital structure which is that of CBD. In addition, the net identifiable assets of CBD are deemed to be acquired by WCE.

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 4. ACQUISITIONS (continued)

For the Company's consolidated financial statements as at December 31, 2018, the Company had disclosed the ending number of shares to be 325,969,320, which was the number of shares of WCE prior to the transaction, which includes 172,474,320 share subscriptions. The number of shares has been revised to 29,014,575 to reflect the number of shares of the legal acquirer in the RTO, CBD.

The consideration paid by WCE to acquire CBD was measured on the basis of the fair value of the notional equity instruments deemed to have been issued considering the price per share of the subscription receipt offering closing concurrently with the Transaction. In accordance with IFRS 2, any excess of the fair value of the shares issued by the Company over the value of the net monetary assets of CBD is recognized in the consolidated statements of comprehensive loss, as a listing fee. The fair value of the consideration of \$3,771,895 has been allocated as follows:

<b>Purchase Price</b>	
29,014,575 shares issued at \$0.13	\$ 3,771,895
<b>Total Purchase Price</b>	<b>\$ 3,771,895</b>
<b>Allocation of Purchase Price</b>	
Cash	\$ 445,495
Short term investments	275,000
Prepaid expenses and deposits	6,250
Sales tax receivable	2,940
Convertible notes receivable	1
Series B convertible preferred stock	1
Equipment (net)	2,153
Accounts payable	(102,416)
Non-cash loss on completion of RTO	3,142,471
	<b>\$ 3,771,895</b>

In addition, finders' fees of 15,000,000 common shares, valued at \$1,950,000, was issued and has been recorded in share capital and non-cash loss on completion of the RTO.

#### (b) Quadron Cannatech Corporation

On June 17, 2019, the Company purchased 100% of the issued and outstanding shares of Quadron Cannatech Corporation, which was incorporated under the British Columbia Business Corporations Act on November 7, 2011. Quadron, through its wholly owned subsidiaries, provides turn-key extraction and processing solutions for the cannabis industry including proprietary industrial grade equipment, custom build processing facilities, ancillary products, and scientific services. The combined entities will leverage Quadron's technical expertise established customer base and seasoned management team with the Company's unique patent-pending technology and strong cash position resulting from the private placements (Note 11). Quadron shares, options and warrants were exchanged at a ratio of 1 to 2.

**WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

**4. ACQUISITIONS (continued)**

## (b) Quadron Cannatech Corporation (continued)

On closing, 143,300,894 common shares were issued to former shareholders of Quadron at a price of \$0.14 for consideration of \$20,062,125. 13,205,000 replacement options and 21,438,716 replacement warrants were granted to former Quadron options and warrants holders. The fair value of the common shares issued as consideration for the transaction was based on June 17, 2019 closing price of the Company on the CSE of \$0.14 per share. The fair value of the options was estimated to be \$1,308,130 using a Black-Scholes model, whereby \$1,097,418 has been included as consideration paid as it related to pre-combination services and the residual \$210,712 fair value will be recognized as stock compensation expense rateably over the post-combination vesting period. The fair value of the warrants was estimated to be \$1,375,462 using a Black-Scholes model, where this value has been included as consideration paid. In connection to this acquisition, the Company incurred a cash payment of \$280,500 and issued 5,015,531 common shares at a price of \$0.14 to financial advisors. These were expensed as acquisition fees.

The following table summarizes the fair value of the consideration transferred and the estimated fair values assigned to each major class of assets acquired and liabilities assumed at June 17, 2019 acquisition date:

<b>Total Consideration</b>	
Common shares to Quadron shareholders	\$ 20,062,125
Fair value of replacement of options issued	1,097,418
Fair value of replacement of warrants issued	1,375,462
<b>Total Consideration</b>	<b>\$ 22,535,006</b>
<b>Net identifiable assets acquired (liabilities assumed)</b>	
Cash and cash equivalents	\$ 1,603,965
Accounts receivable	610,620
Inventory	1,531,463
GST recoverable	181,091
Prepaid expenses and other	87,597
Deposits	36,115
Plant and equipment	260,186
Intangible assets	1,357
Accounts payable	(225,056)
Customer deposits	(422,179)
Related party	(6,177)
Intercompany loan	(2,754,837)
<b>Net assets acquired</b>	<b>\$ 904,145</b>
<b>Purchase price allocation</b>	
Net identifiable assets acquired	\$ 904,145
Goodwill	21,630,861
	<b>\$ 22,535,006</b>

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 4. ACQUISITIONS (continued)

##### (b) Quadron Cannatech Corporation (continued)

Goodwill arose in the acquisition as the cost of acquisition included a control premium. In addition, the consideration paid for the acquisition reflected the benefit of expected revenue growth and future market development. These benefits were not recognized separately from goodwill, as they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

In the period from June 17, 2019 to July 31, 2019, the operations of Quadron contributed revenues of \$106,314 and a net loss of \$542,963. If the acquisition had occurred on May 1, 2019, management estimates that the unaudited consolidated revenue would have been 274,116 and an unaudited consolidated net loss would have been 4,765,094 for the three months ended July 31, 2019.

The accounting for the acquisition has been provisionally determined at July 31, 2019. The fair value of net assets acquired and total consideration have been determined provisionally and subject to adjustment within one year from the acquisition date. Upon completion of a comprehensive valuation and finalization of the purchase price allocation, goodwill may be adjusted retrospectively to the acquisition date in future reporting periods.

#### 5. LOANS RECEIVABLE

On February 25, 2019, the Company and two other entities (“Purchasers”) entered into a supply and loan agreement with a supplier. Pursuant to this agreement, Purchasers agreed to purchase up to 1,000 kilograms of the supplier’s 2018 hemp crop. In addition, the Purchasers agreed to make a loan to the supplier in the principal amount of up to \$500,000 for the supplier to purchase equipment and to fund expenses approved by the Purchasers. The Purchasers guarantee to purchase at least \$1,000,000 in product from the supplier where \$500,000 will be paid by this loan. On May 7, 2019, the Company loaned \$166,607 to the supplier pursuant to the agreement.

The loan balance at April 30, 2019 was loans provided between the Company and Quadron. Upon the acquisition, this balance is eliminated with the consolidation.

#### 6. INVENTORY

	July 31, 2019	April 30, 2019
Raw materials and parts	\$ 103,361	\$ -
Work in progress	1,214,355	-
Finished goods <sup>(1)</sup>	565,882	-
Total inventory	\$ 1,883,598	\$ -

(1) Finished goods include 3 units of BOSS CO2 Extraction System.

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 7. CONVERTIBLE LOAN RECEIVABLE

- (a) During the year ended December 31, 2016, the CBD entered into a definitive agreement (the "Agreement") with Medipacs Inc., based in San Diego, California. Medipacs has developed technology configured into a small (hand-size) infusion pump that can be easily attached to animals and humans to deliver precise pain medication of both standard and large molecule liquids.

CBD formally terminated the agreements with Medipacs on January 7, 2017 and wrote down the convertible notes receivable and convertible preferred stock to a nominal value of \$1, respectively, in 2016. The Company reserves its right to seek the remedies available to it pursuant to the law of fundamental breach and rescission of contract including damages and recovery of expenses.

- (b) On April 8, 2019, the Company announced it had entered into an agreement to invest up to \$3 million (the "Alkaline Financing") by way of a private placement in Alkaline Spring Inc. ("Alkaline Spring"), a privately-held, Alberta-based natural alkaline water company. In connection with the closing of the first tranche of the Alkaline Financing, the Company invested \$2 million in consideration for 2,000 senior secured convertible debentures ("Alkaline Debentures"), 11,111,111 common share purchase warrants ("Alkaline Warrants"), and certain investor rights. The Alkaline Debentures mature in two years, are priced at \$1,000 per debenture, bear interest at 9% per annum, and are convertible into common shares of Alkaline Spring at an initial price of \$0.18 per share, subject to downward adjustment in certain circumstances ("Liquidity Event"). The Alkaline Warrants are each exercisable into one further share at a price of \$0.25 for a period of three years.

Given that the Liquidity Event is not expected to occur by August 31, 2019, the Alkaline Debentures are assumed to have automatically accelerated to maturity such that the fair value at reporting date of April 30, 2019 approximated the face value. The Alkaline Warrants have been fair valued using Black Scholes Model with stock price of \$0.12, volatility of 85.0%, risk free rate of 1.6% dividend yield of 0.00% and weighted average like of 2.91 years. The fair value of the Alkaline Warrant is \$493,139 as of April 30, 2019. The convertible loan receivable and the warrants have been classified as a Level 3 in the fair value hierarchy (Note 16). As of July 31, 2019, the fair value of the Alkaline Debentures has not been significantly changed. Therefore, a gain or loss on the valuation of Alkaline Debentures is not recorded for the three months ended July 31, 2019.

#### 8. PREPAID EXPENSES AND DEPOSITS

	July 31, 2019	April 30, 2019
Equipment deposits <sup>(1)</sup>	\$857,213	\$770,875
Rent security deposit	37,265	5,254
Other prepayments to vendors <sup>(2)</sup>	178,985	-
	<b>\$1,073,463</b>	<b>\$728,247</b>

(1) Extraction equipment ordered but not delivered. Title is retained by the supplier until delivery.

(2) Other prepayment to vendors includes \$50,000 advanced to a supplier to grow a crop of Hemp and provide extraction services to extract oil and other by products. The supplier and the Company will share proceeds from the extracted products with 1/3 share to the Company and 2/3 share to the supplier.

**WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

**9. PROPERTY AND EQUIPMENT**

	Computer software and Equipment	Demo equipment	Leasehold Improvements and Office Furniture	Automobile	Total
<b>Costs:</b>					
Balance, December 31, 2018	\$ 14,538	\$ 66,043	\$ 3,007	\$ -	\$ 83,588
Additions	7,398	218,350	50,348	-	276,096
Balance, April 30, 2019	21,936	284,393	53,355	-	359,684
Additions	187,807	-	122,379	4,275	314,461
<b>Balance, July 31, 2019</b>	<b>\$ 209,743</b>	<b>\$ 284,393</b>	<b>\$ 175,734</b>	<b>\$ 4,275</b>	<b>\$ 674,145</b>
<b>Accumulated Depreciation:</b>					
Balance, December 31, 2018	\$ 2,181	\$ 9,906	\$ 301	\$ -	\$ 12,388
Amortization	8,179	5,884	422	-	14,485
Balance, April 30, 2019	10,360	15,790	723	-	26,873
Amortization	868	13,430	2,655	-	16,953
<b>Balance, July 31, 2019</b>	<b>\$ 11,228</b>	<b>\$ 29,220</b>	<b>\$ 3,378</b>	<b>\$ -</b>	<b>\$ 43,826</b>
<b>Net Book Value:</b>					
April 30, 2019	\$ 11,576	\$ 268,603	\$ 52,632	\$ -	\$ 332,811
<b>July 31, 2019</b>	<b>\$ 198,515</b>	<b>\$ 255,173</b>	<b>\$ 172,356</b>	<b>\$ 4,275</b>	<b>\$ 630,319</b>

During the period ended April 30, 2019, the Company incurred costs of \$50,348 for leasehold improvement of the lease facility and \$218,350 for parts built for the facility equipment. Both the lease facility and the equipment were not ready for use as at April 30, 2019. As such, there were no amortization expense recorded for the leasehold improvement and equipment additions.

During the three months ended July 31, 2019, the Company acquired \$260,186 property and equipment through the acquisition of Quadron.

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 10. INTANGIBLE ASSETS

The right to the intellectual property was acquired on inception date January 25, 2018 through issuance 130,000,000 of common shares to the founders of the Company (see Note 10 – Share Capital) and are classified as definite life intangible asset. The intellectual property acquired is a unique ultrasonic extraction process from the cannabis flower to be used for vaporizers, edibles, topicals and beverages.

A continuity of the intangible assets for the period ended July 31, 2019 and April 31, 2019 is as follows:

	Intellectual Property	Patent Application Cost	Development	Total
<b>Costs:</b>				
Balance, December 31, 2018	\$ 13,000,000	\$ 101,367	\$ -	\$ 13,101,367
Additions	-	-	-	-
Balance, April 30, 2019	13,000,000	101,367	-	13,101,367
Additions	-	-	510,775	510,775
<b>Balance, July 31, 2019</b>	<b>\$ 13,000,000</b>	<b>\$ 101,367</b>	<b>\$ 510,775</b>	<b>\$ 13,612,142</b>
<b>Accumulated Depreciation:</b>				
Balance, December 31, 2018	\$ 2,421,918	\$ -	\$ -	\$ 2,421,918
Amortization	854,795	-	-	854,795
Balance, April 30, 2019	3,276,713	-	-	3,276,713
Amortization	650,000	-	12,673	662,673
<b>Balance, July 31 2019</b>	<b>\$ 3,926,713</b>	<b>\$ -</b>	<b>\$ 12,673</b>	<b>\$ 3,939,386</b>
<b>Net Book Value:</b>				
April 30, 2019	\$ 9,723,287	\$ 101,367	\$ -	\$ 9,824,654
<b>July 31, 2019</b>	<b>\$ 9,073,287</b>	<b>\$ 101,367</b>	<b>\$ 498,102</b>	<b>\$ 9,672,756</b>

During the four months ended April 30, 2019, the Company incurred costs of \$nil (2018 - \$101,367) regarding patent application. To date the patent is still pending, and once approved, it will be amortized on a straight-line basis over 5 years. If unsuccessful, the patent costs will be expensed in the fiscal period that it occurs.

Development assets additions of \$510,775 relate to the development of extraction and machine systems being developed by the Company. The useful life on these is estimated at 5 years and amortized accordingly.

#### 11. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without par value. The holders of the common shares are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

The shares issued by the Company prior to the reverse takeover are not reflected in the statements of changes in equity as the number of shares have been revised to reflect the number of shares of CBD (Note 4).

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 11. SHARE CAPITAL (continued)

During the period ended December 31, 2018, the Company issued:

- (a) After accounting for the 1 for 3 share split, CBD issued 6,000,000 common shares for warrants exercised and had 29,014,575 common shares issued and outstanding.
- (b) 195,000,000 common shares (prior to a 1:1.5 share split 130,000,000 shares) issued to the Company's founders at a fair value of \$0.067 per common share (prior to a 1:1.5 share split \$0.10 per common share) for a total of \$13,000,000 for intangible assets (Note 10); and
- (c) Financing for 35,242,500 common shares (prior to a 1:1.5 share split 23,495,000) at the price of \$0.067 per common share (prior to a 1:1.5 share split \$0.10 per common share) for gross proceeds of \$2,349,500. As a result of this private placement, the Company paid cash commissions of \$211,455 and issued 3,171,825 compensation warrants. The value of the compensation warrants was estimated to be \$167,684 using the Black-Scholes pricing option model and was disclosed as a separate component of shareholders' equity (Note 13); and
- (d) 172,474,320 common shares were subscribed for at \$0.13 per common share for gross proceeds of \$22,421,662. Total proceeds received and held in trust were \$22,435,740 as at December 31, 2018, due to over payment by the subscribers. As a result, an amount of \$14,078 has been recorded as share subscriptions payable to be refunded back to the subscribers.

During the four-month ended April 30, 2019:

- (a) the Company completed a non-brokered private placement at a price of \$0.13 per share. The Company issued a total of 176,923,072 common shares for gross proceeds of \$23,000,000. The Company agreed to pay compensation to certain agents. As a result, commissions totaling \$2,070,000 were paid in cash and a total of 15,923,077 broker warrants were issued in connection with the WCE Financing. **See Note 13 – Warrants.** These costs are recorded on the consolidated statement of financial position as share issue costs.
- (b) the Company issued a total of 15,000,000 common shares as finders' fees related to certain persons assisting with the Transaction; the cost assigned to these shares was \$0.13 per share and was recorded as non-cash loss on completion of RTO on the consolidated statements of loss and comprehensive loss pursuant to IFRS 2;

During the three months ended July 31, 2019:

- (a) the Company issued 143,300,894 common shares at a price of \$0.14 for consideration of \$20,062,125 for the acquisition of Quadron (Note 4).
- (b) The Company issued a total of 5,015,531 common shares at a price of \$0.14 for consideration of \$702,174 to financial advisors as acquisition fees for the acquisition of Quadron (Note 4).
- (c) The Company issued 700,000 common shares for gross proceeds of \$70,000 for options exercised.

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 11. SHARE CAPITAL (continued)

##### Shares held in escrow

Pursuant to an escrow agreement dated March 11, 2019, (the “**Escrow Agreement**”), a total of 9,450,000 common shares, held by principals of the Company, are held in escrow and shall be released from escrow on the following dates:

Number of Common Shares	% of Outstanding Common Shares	Release Schedule
9,450,000	2.10%	10% released on March 13, 2019; 15% released 6 months from Listing; 15% released 12 months from Listing; 15% released 18 months from Listing; 15% released 24 months from Listing; 15% released 30 months from Listing; 15% released 36 months from Listing.

In addition to the securities subject to escrow, the Company has entered into lock-up agreements with five major shareholders of the Company. The locked-up securities shall be released as follows: 25% were released on March 21, 2019 (“**Date of Listing**”) on the CSE, and a further 25% shall be released on the 90, 180 and 270-day anniversaries of the Date of Listing. At July 31, 2019 and April 30, 2019, a total of 945,000 escrowed shares have been released to the escrowed shareholders.

#### 12. SHARE-BASED COMPENSATION

##### Stock Option Plan (“SOP”)

The Company maintains a stock option plan under which directors, officers, employees and consultants of the Company (the “**Grantees**”) and its affiliates are eligible to receive stock options.

Pursuant to the SOP, the Board may in its discretion grant to eligible Grantees, the option to purchase common shares at the fixed price over a defined future period. Generally, the options vest over six months from the date of grant. The SOP is a rolling plan under which the maximum number of common shares reserved for issuance is 10% of the issued shares of the Company at the time of granting the options. At July 31, 2019, there is a total of 10,886,039 (April 30, 2019 – 18,968,015) stock options available for granting under the Plan.

The SOP is intended to enhance the Company’s ability to attract and retain highly qualified officers, directors, key employees and consultants, and to motivate such persons to serve the Company and to expend maximum effort to improve the business results and earnings of the Company, by providing to such persons an opportunity to acquire or increase a direct proprietary interest in the operations and future success of the Company.

##### Stock Options

- i) On July 6, 2018, World Class granted 13,500,000 (9,000,000 pre 1:1.5 split) stock options to directors and officers. Each option is exercisable to acquire one common share at a price of \$0.067 (\$0.10 pre 1:1.5 split). These options expire on July 7, 2021.

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 12. SHARE-BASED COMPENSATION (continued)

##### Stock Options (continued)

- ii) On March 18, 2019, the Company granted 10,600,000 stock options to directors, officers and consultants. A total of 5,300,000 (50%) of the stock options vested on the grant date and the remaining 50% will vest on September 18, 2019. Each option is exercisable to acquire one common share at a price of \$0.17. These options expire on March 19, 2022.
- iii) On April 8, 2019, the Company granted 350,000 stock options to consultants. Each option is exercisable to acquire one common share at a price of \$0.17. A total of 175,000 (50%) of the stock options vested on the grant date and the remaining 50% will vest on July 8, 2019. The options expire on April 8, 2024.
- iv) On April 8, 2019, the Company granted 300,000 stock options to consultants. Each option is exercisable to acquire one common share at a price of \$0.17. These options vested on the grant date and have an expiry date of April 8, 2021.
- v) On April 8, 2019, the Company granted 1,400,000 stock options to consultants. Each option is exercisable to acquire one common share at a price of \$0.13. A total of 500,000 of the stock options vested on the grant date and the remaining will vest in increments of 100,000 on the eight date of each month. These options have an expiry date of April 8, 2024.
- vi) On June 17, 2019, the Company granted 13,205,000 replacement options to the former Quadron option holders. The fair value of the options were estimated to be \$1,308,130 using a Black-Scholes model, whereby \$1,097,418 has been included as consideration paid as it related to pre-combination services and the residual \$210,712 fair value will be recognized as stock compensation expense rateably over the post-combination vesting period (Note 4).
- vii) On May 1, 2019, the Company granted 10,000,000 stock options, exercisable at a price of \$0.21 per option, to Quadron's officers. 2,500,000 option vests on the date on which the acquisition of Quadron completed (June 17, 2019) and the balance of stock options vest in increments of 1,250,000 options every 6 months. These options have an expiry date of April 30, 2022
- viii) On June 10, 2019, the Company granted 300,000 stock options to a consultant. Each option is exercisable to acquire one common share at a price of \$0.17. A total of 150,000 options vested on the grant date and the remaining will vest 6 months after. These options have an expiry date of June 10, 2022.
- ix) During the three months ended July 31, 2019, 300,000 stock options expired unexercised, and 700,000 stock options were exercised at a price of \$0.10.

**WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

**12. SHARE-BASED COMPENSATION (continued)****Stock Options (continued)**

The following summarizes the stock options activity during the three months ended July 31, 2019 and the four months ended April 30, 2019:

	July 31, 2019		April 30, 2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	26,150,000	\$ 0.05	13,500,000	\$ 0.10
Grant and issuance	23,505,000	\$ 0.17	12,650,000	\$ 0.17
Exercised	(700,000)	\$ 0.10	-	\$ -
Cancelled	(300,000)	\$ 0.17	-	\$ -
<b>Total Outstanding</b>	<b>48,655,000</b>	<b>\$ 0.17</b>	<b>26,150,000</b>	<b>\$ 0.05</b>
<b>Total Outstanding and Exercisable</b>	<b>30,886,875</b>	<b>\$ 0.14</b>	<b>19,775,000</b>	<b>\$ 0.10</b>

The following summarizes the stock options outstanding at July 31, 2019:

Expiry Date	Exercise Price	Contractual Life (Years)	Number of Options
February 21, 2022	\$ 0.100	2.57	3,000,000
March 9, 2023	\$ 0.200	3.61	4,665,000
March 9, 2023	\$ 0.200	3.61	200,000
October 15, 2023	\$ 0.125	4.21	1,712,500
February 12, 2024	\$ 0.100	4.54	2,927,500
July 7, 2021	\$ 0.067	1.94	13,500,000
March 19, 2022	\$ 0.170	2.64	10,300,000
April 8, 2024	\$ 0.170	4.69	350,000
April 8, 2021	\$ 0.170	1.69	300,000
April 8, 2024	\$ 0.130	4.69	1,400,000
April 30, 2022	\$ 0.210	2.75	10,000,000
June 10, 2022	\$ 0.170	2.86	300,000
	\$ 0.141	2.80	48,655,000

For valuation purposes, the fair values of compensation options granted were estimated on their dates of issue using the Black-Scholes option pricing model and the following assumptions:

	July 31, 2019	April 30, 2019
Volatility Rate	95% - 127%	90%
Risk-free rate	1.34% - 1.56%	1.60% - 1.63%
Dividend yield rate	0%	0%
Weighted average life	2.63 - 4.66 years	2-5 years

The expected price volatilities were based on the average historic volatility of three similar companies adjusted for any expected changes to future volatility, since there is no historical price data for the Company.

**WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

**13. WARRANTS**

- i) On June 7, 2018, World Class issued 3,171,825 (2,114,550 pre 1:1.5 split) compensation warrants in connection with certain 2018 private placements. The warrants have an exercise price of \$0.067 and expire on June 9, 2020.
- ii) On March 11, 2019, the Company issued 15,923,077 warrants to in connection with the WCE Financing. The warrants have an exercise price of \$0.13 and expire on September 22, 2022.
- iii) On March 18, 2019, the Company issued an aggregate of 5,600,000 warrants to certain consultants, for services rendered. The two-year warrants have exercise prices of \$0.13 - \$0.17 per common share and expire on March 21, 2021.
- iv) On April 18, 2019, the Company issued 3,000,000 warrants to financial advisor to the Company. The warrants have an exercise price of \$0.18 and expire on April 18, 2022.
- x) On June 17, 2019, the Company granted 21,438,716 replacement warrants to the former Quadron warrant holders. The fair value of the warrants was estimated to be \$1,375,462 using a Black-Scholes model, where the value has been included as consideration paid (Note 4).

The following is a summary of warrant transactions for the three months ended July 31, 2019 and the four months ended April 30, 2019:

	July 31, 2019		April 30, 2019	
	Number on Warrants	Weighted Average Exercise Price	Number on Warrants	Weighted Average Exercise Price
Balance, beginning of period	27,694,902	\$ 0.13	3,171,825	\$ 0.07
Granted	21,438,716	\$ 0.33	24,523,077	\$ 0.14
Balance, end of period	49,133,618	\$ 0.22	27,694,902	\$ 0.13

The following warrants were outstanding and exercisable as at July 31, 2019:

Expiry Date	Exercise Price	Weighted Average Remaining Contractual Life (years)	Number of options
October 31, 2020	\$ 0.150	1.25	7,153,000
January 18, 2020	\$ 0.420	0.47	14,285,716
June 6, 2020	\$ 0.067	0.85	2,466,975
June 14, 2020	\$ 0.067	0.87	704,850
September 22, 2022	\$ 0.130	3.15	15,923,077
March 21, 2021	\$ 0.170	1.64	2,000,000
March 21, 2021	\$ 0.130	1.64	2,000,000
March 21, 2021	\$ 0.150	1.64	1,600,000
April 18, 2022	\$ 0.180	2.72	3,000,000
	\$ 0.218	1.75	49,133,618

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 13. WARRANTS (continued)

For valuation purposes, the fair values of compensation warrants granted were estimated on their dates of issue using the Black-Scholes option pricing model and the following assumptions:

	July 31, 2019	April 30, 2019
Volatility Rate	275% - 176%	90%
Risk-free rate	0.0144	1.63%-1.79%
Dividend yield rate	0.00%	0.00%
Weighted average life	0.59 - 1.38 years	2-3 years

The expected price volatilities were based on the average historic volatility of three similar companies adjusted for any expected changes to future volatility, since there is no historical price data for the Company.

#### 14. RIGHT-OF-USE ASSET

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, adjusted for lease prepayments, lease incentives received, the lessee's initial direct costs, and an estimate of restoration, removal and dismantling costs. As a result of IFRS 16 adoption, \$106,509 of right-of-use asset was recognized as at January 1, 2019. There was no impact to opening retained earnings.

The right-of-use asset is depreciated in accordance with the depreciation requirements of IAS 16 Property, Plant and Equipment. The Company depreciates the right-of-use assets on a straight-line basis, over the lease term. The follow table provides a reconciliation of the carrying amount of right-of-use assets on initial adoption of the lease standard on January 1, 2019 pertaining to the Company's facility lease:

Cost	Facility
Balance – January 1, 2019	\$ 106,509
Additions	-
<b>Balance, July 31 and April 30, 2019</b>	<b>\$ 106,509</b>

  

Accumulated depreciation	Facility
Balance – January 1, 2019	\$ -
Additions	(6,162)
<b>Balance, April 30, 2019</b>	<b>\$ (6,162)</b>
Additions	(2,640)
<b>Balance, July 30, 2019</b>	<b>\$ (8,802)</b>

  

Carrying value	Facility
<b>Balance, April 30, 2019</b>	<b>\$ 100,347</b>
<b>Balance, July 31, 2019</b>	<b>\$ 97,707</b>

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 15. LEASE OBLIGATION

The lease liability is initially measured at the present value of the lease payments to be made over the lease term, using the effective interest method for the present value determination.

As the rate implicit in the lease cannot be readily determined, the Company applied an average incremental borrowing rate. The Company used an 14% discount rate to calculate the present value of its lease payments.

The Company's lease is for a period of 10 years, the leases contain no renewal option. The following table represents lease obligation for the Company:

	As at July 31, 2019	As at April 30, 2019
Current	\$(6,484)	\$(6,281)
Non-current	\$(101,447)	\$(103,165)
<b>Total lease obligation</b>	<b>\$(107,931)</b>	<b>\$(109,446)</b>

The following table presents the contractual undiscounted cashflows for lease obligation as at April 30, 2019:

	As at July 31, 2019	As at April 30, 2019
Less than one year	\$(15,000)	\$(20,000)
One to five years	(80,000)	(80,000)
More than 5 years	(90,000)	(90,000)
<b>Total undiscounted lease obligation</b>	<b>\$(185,000)</b>	<b>\$(190,000)</b>

Total interest expense on lease liabilities for the period ended July 31, 2019 was \$3,485 (July 31, 2018 - \$Nil).

#### 16. FINANCIAL INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and market risk.

##### *Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk.

##### *Liquidity risk*

Liquidity risk is the risk that the Company may not be able to meet its contractual obligations and financial liabilities as they become due.

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at July 31, 2019, the Company had a cash balance of \$13,901,616 (July 31, 2019 - \$16,002,152) to settle current liabilities of \$1,474,093 (April 30, 2018 - \$325,281). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 16. FINANCIAL INSTRUMENTS (continued)

##### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

##### (a) Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The interest rate risk on bank deposits is insignificant as the deposits are short term. The Company is not exposed to interest rate risk in respect of any loans payable and receivable which are subject to a fixed rate of interest.

##### (b) Foreign currency risk

The functional currency of the Company is Canadian dollar. The Company does not hedge its exposure to currency fluctuations. However, Management believes that the Company is subject to minimal foreign exchange risk as most transactions incurred are in CAD.

##### *Fair value hierarchy*

The Company applied the following fair value hierarchy which prioritizes the inputs used in the valuation methodologies in measuring fair value into three levels:

The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table reconciles level 3 fair value measurements from January 25, 2018 to April 30, 2019 and July 31, 2019:

<b>Balance, December 31, 2018</b>	<b>\$</b>	<b>-</b>
Convertible loan receivable (Note 5)		2,000,000
Unrealized loss on convertible loan receivable		(45,559)
Unrealized gain on investment (Note 5)		493,139
<b>Balance, July 31, 2019 and April 30, 2019</b>	<b>\$</b>	<b>2,447,580</b>

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 17. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its extraction technology operations and to maintain flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity as well as cash.

The Company manages the capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. During the four months ended April 30, 2019, the completion of the Subscription Receipts Financing added \$20,930,000 to unrestricted cash (period from January 25, 2018 to December 31, 2018 - \$2,138,045) was raised through the issuance of common shares.

The Company is primarily dependent on the capital markets as its source of operating capital and the Company's capital resources are largely determined by the strength of the cannabis company markets and by the status of the Company's technology progress in relation to these markets, and its ability to compete for investor support of its technical capability.

#### 18. RELATED PARTY TRANSACTION

All transactions were in the normal course of operations and were recorded at exchange values established, which the consideration is agreed upon by the related parties.

As at July 31, 2019, the amounts due to related parties was \$58,928 (April 30, 2019 - \$29,235) are unsecured, payable on demand, and without interest.

	July 31, 2019	April 30, 2019
Chief Operating Officer	\$ -	\$ 12,000
Director	18,490	13,560
CEO of CBD	-	3,675
President	24,420	-
CFO	13,000	-
Former Corporate Secretary	11,018	-
	<b>\$ 66,928</b>	<b>\$ 29,235</b>

During the three months ended July 31, 2019 and 2018, the Company entered into the following transactions with related parties:

For the three months ended	July 31, 2019	July 31, 2018
Management fees	\$ 52,500	\$ -
Consulting fees	53,000	32,000
Accounting fees	8,000	-
Legal fees	148,201	-
Remuneration and benefits	75,000	-
Share-based payments	375,859	-
	<b>\$ 712,560</b>	<b>\$ 32,000</b>

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 18. RELATED PARTY TRANSACTION (continued)

- Management fees consist of \$36,000 to director and \$16,500 to CFO.
- Consulting fees consist of \$53,000 to the president of the Company (2018: \$12,000 to Chief Operating Officer and \$20,000 to former CEO of CBD).
- Accounting fees consist of \$8,000 to CFO.
- Legal fees consist of \$900 to CEO, \$5,568 to director and \$141,733 to former corporate secretary.
- Remuneration and benefits consist of \$27,500 to CEO and \$47,500 to president of Soma.
- Share-based payments consist of \$87,949 to directors, \$40,884 to former directors, \$25,553 to former corporate secretary, \$217,495 to president, \$2,940 to CFO and \$1,038 to president of Soma.

For the acquisition of Quadron (Note 4), the Company incurred \$240,000 cash payment and issued 3,915,531 common shares as acquisition fees to a company with a director in common.

All related party balances are non-interest bearing, unsecured and have no fixed terms of repayment and have been classified as current.

#### 19. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental Information	July 31, 2019	July 31, 2018
	\$	\$
Shares issued for acquisition	20,764,300	-
Share issued to finders	-	167,684
Options issued for acquisition	1,097,418	-
Warrants issued for acquisition	1,375,462	-
Fair value of options exercised	73,584	-
Share-based compensation expenses for options	993,135	-

#### 20. SEGMENTED INFORMATION

The Company's operations comprise a single reporting operating segment engaged in the acquisition and extraction of oils and extracts from the cannabis flower to be used for vaporizers, edibles, topicals and beverages at the period ended April 30, 2019.

With the acquisition of Quadron, the Company has four principal reporting segments: corporate and development; sale of disposable vaporizer pens and related materials; sale and rental of extraction and processing equipment and provision of research laboratory services; sale of automation solution equipment. The reportable segments were determined based on the nature of the services provided and goods sold.

Reportable segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

**WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

**20. SEGMENTED INFORMATION (continued)**

	Corporate and development	Sale and rental of extraction and processing equipment	Sale of Disposable Vaporizer pens	Sale of automation on control solution equipment	Total
Revenue	-	402	140,000	27,400	167,802
Gross margin	-	(16,447)	49,410	65,765	98,728
					-
Research and development expenses net of credits and grants	(254,258)	-	-	-	(254,258)
Selling, general and administrative expenses	-	(219,500)	(1,758)	40,646	(180,612)
Segment income (loss) from operating activities before corporate expenses	(254,258)	(235,947)	47,652	106,411	(336,142)
					-
Unallocated costs:					-
Corporate general and administrative expenses	(1,210,906)	-	-	-	(1,210,906)
Acquisition fees	(982,675)	-	-	-	(982,675)
Interest income	6,822	-	-	-	6,822
Interest expense	(3,485)	-	-	-	(3,485)
Net income	(2,444,502)	(235,947)	47,652	106,411	(2,526,386)
					-
Depreciation and amortization	(680,278)	(13,833)	-	(8,500)	(702,611)
Stock-based compensation	(993,135)	-	-	-	(993,135)
Reportable segment assets	49,571,327	2,160,726	186,348	1,015,506	52,933,907
Reportable segmented liabilities	858,593	707,622	(8,169)	17,494	1,575,540

**21. COMMITMENTS****(a) Supply, License and Lease Agreements****Hemp Supply Agreement**

On February 25, 2019, the Company signed a supply agreement with certain suppliers to purchase approximately 1,000 kg of hemp crop at an agreed price of \$100 per kg per each 1% CBD of Product purchased by the Company. See Note 5 – Loan Receivable.

**Continuing Agreements with FV Pharma**

License agreement – The Company has agreed to build a commercial scale pilot extractions plant within FV Pharma’s production facility; this will allow the Company to be able to provide extraction services directly to FV Pharma. This agreement also includes provisions for the distribution of the Company’s products through FV Pharma’s distribution channels.

Lease agreement – This agreement allows the Company to occupy a space in FV Pharma’s facility for the purpose of creating extracting manufacturing capabilities. The lease payments are not expected to start until December 2019 and a definitive agreement is still pending. – See Note 22 – Subsequent Events.

## WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended July 31, 2019

(Expressed in Canadian Dollars)

#### 21. COMMITMENTS (continued)

##### Office Lease Agreement

On October 31, 2018, the Company entered a 2-year agreement to lease office space in Etobicoke, Ontario at a monthly cost of \$2,300. The lease expires on October 31, 2020.

On December 4, 2018, the Company entered into 1-year-1-month lease agreement for leased premises in Etobicoke, Ontario, commencing December 1, 2018 and ending on December 31, 2020. The minimum base rent is \$700 per month for the period from December 1, 2018 to November 30, 2019 and \$800 per month from December 1, 2019 to October 31, 2020.

On March 6, 2018, the Company entered into a 5-year lease agreement for leased premises in Langley, British Columbia, commencing June 1, 2018 and ending on May 31, 2023. The minimum base rent is \$13,350 per month.

##### (b) Revenue Collaboration Agreement

On March 21, 2019, the Company and Parity Partners PBC ("Parity") entered into a definitive agreement which provides that Parity shall, in exchange for financing and certain compensation, from the Company, provide the following services (the "Services"):

- i) Source appropriate locations in the United States to locate the Company's proprietary extractions machines;
- ii) Obtain all licenses and approvals necessary for the Company to extract oils containing THC, CBD and other cannabinoids from hemp and cannabis plants (the "**US Extraction Services**");
- iii) Supply the raw materials necessary for the Company to perform US Extraction Services; and

##### (c) Revenue Collaboration Agreement (continued)

- iv) Develop a market for the US Extraction Services and the products produced out of the US Extraction Services, including by employing salespeople and developing relationships with distributors.

Compensation for the Services shall be payable by cash and the issuance of warrants, contingent upon Parity achieving agreed upon revenue and net profit milestones.

##### (d) Market Awareness Contracts

On April 8, 2019, the Company engaged Hybrid Financial Ltd. ("Hybrid") and Ascension Millionaires Club Inc. ("Ascension") to the Company to enhance its market awareness:

Hybrid's engagement is for an initial term of six (6) months. In consideration for its services, common share purchase options (the "Hybrid Options") to purchase 350,000 common shares of the Company at a price equal to \$0.17, at any time on or before April 8, 2024. The Hybrid Options are subject to a vesting schedule; 175,000 Hybrid Options vested immediately and the remaining 175,000 options shall vest on July 8, 2019.

## **WORLD CLASS EXTRACTIONS INC. (FORMERLY CBD MED RESEARCH CORP.)**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**For the three months ended July 31, 2019**

(Expressed in Canadian Dollars)

#### **21. COMMITMENTS (continued)**

##### **(d) Market Awareness Contracts (continued)**

Ascension's engagement is for a term of twelve (12) months, during which Ascension will provide investor relations and communication services to the Company. In consideration for its services, the Company will pay to Ascension a monthly fee of \$10,000, and grant to Ascension WCE Share purchase options (the "Ascension Options") to purchase 300,000 WCE Shares at a price of \$0.17, at any time on or before April 8, 2021. Issuance of Securities to Consultant. The Company also issued 1,400,000 WCE Share purchase options (the "Consultant Options") to an arm's length consultant. The Consultant Options are exercisable at a price of \$0.13 during a period of five (5) years from the date of issuance, and are subject to a vesting schedule, with 500,000 Consultant Options vesting immediately and the balance to vest in 100,000 increments each month during the term of the consultant's engagement.

#### **22. SUBSEQUENT EVENTS**

The Company has entered into a joint venture partnership with FV Pharma Inc. Under the direction of FV Pharma, the Company will setup and manage the operations of "Cobra", a large capacity extraction and processing facility in Cobourg, Ontario, owned by FV Pharma to extract various cannabinoids and other valuable elements from cannabis and hemp plants. The Company and FSD each have a 50% interest in the Joint Venture.