



# WORLD-CLASS Extractions

FRA: WCF OTCQB: WCEXF CSE: PUMP

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## WORLD CLASS EXTRACTIONS INC.

### INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**As at and for the period ended October 31, 2020 and 2019**

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

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**WORLD CLASS EXTRACTIONS INC.**

**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.

December 17, 2020

**WORLD CLASS EXTRACTIONS INC.****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Unaudited - Expressed in Canadian Dollars)

<b>AS AT</b>	<b>Note</b>	<b>October 31, 2020</b>	<b>April 30, 2020</b>
		<b>\$</b>	<b>\$</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		<b>1,356,834</b>	5,632,160
Accounts receivable	7	<b>1,596,149</b>	1,255,621
Sales tax receivable	8	<b>145,431</b>	483,274
Loans receivable	9	<b>351,219</b>	360,018
Due from related parties	29	<b>66,541</b>	-
Inventory	10	<b>574,647</b>	322,376
Prepaid expenses and deposits	11	<b>685,013</b>	450,465
<b>Total current assets</b>		<b>4,775,834</b>	8,503,914
<b>Non-current assets</b>			
Goodwill	4, 13	<b>8,767,399</b>	8,767,399
Loan to an associate	6	<b>2,522,900</b>	-
Right-of-use asset	22	<b>965,173</b>	937,867
Property and equipment (net)	12	<b>1,180,314</b>	1,150,650
Intangible assets (net)	13	<b>764,657</b>	851,225
<b>Total non-current assets</b>		<b>14,200,443</b>	11,707,141
<b>TOTAL ASSETS</b>		<b>18,976,277</b>	20,211,055

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

**WORLD CLASS EXTRACTIONS INC.****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Unaudited - Expressed in Canadian Dollars)

AS AT	Note	October 31, 2020 \$	April 30, 2020 \$
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	14	1,440,018	1,302,058
Customer deposits	15	348,412	490,412
Due to related parties	29	568,005	375,759
Current portion of lease obligations	23	177,982	174,853
Convertible debt	18	2,229,686	1,996,405
Derivative liability	18	707,062	1,021,729
Loans payable	16	125,000	125,000
Liabilities of discontinued operations	31	7,201	7,201
<b>Total current liabilities</b>		<b>5,603,366</b>	<b>5,493,417</b>
<b>Non-current liabilities</b>			
Non-current portion of lease obligations	23	884,265	840,866
Government grant	17	88,383	80,000
<b>Total non-current liabilities</b>		<b>972,648</b>	<b>920,866</b>
<b>Total liabilities</b>		<b>6,576,014</b>	<b>6,414,283</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	19	61,756,937	61,756,937
Reserves	20,21	5,247,459	7,517,342
Deficit		(60,262,192)	(60,914,506)
Equity attributable to holders of the parent		6,742,204	8,359,773
Non-controlling interest	4, 32	5,658,059	5,436,999
<b>Total shareholders' equity</b>		<b>12,400,263</b>	<b>13,796,772</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>18,976,277</b>	<b>20,211,055</b>

Nature of operations and going concern (Note 1)

Commitments (Note 33)

Subsequent events (Note 34)

APPROVED BY THE BOARD:

Signed "Chand Jagpal", DirectorSigned "Michael Galloro", Director

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

**WORLD CLASS EXTRACTIONS INC.****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Unaudited - Expressed in Canadian Dollars)

	Note	For the three months ended		For the six months ended	
		October 31, 2020 \$	October 31, 2019 \$	October 31, 2020 \$	October 31, 2019 \$
<b>Sales</b>	24	<b>2,289,799</b>	12,037	<b>4,357,139</b>	179,839
<b>Cost of Sales</b>		<b>(1,543,653)</b>	(10,519)	<b>(2,839,934)</b>	(95,783)
<b>Gross Profit</b>		<b>746,146</b>	1,518	<b>1,517,205</b>	84,056
<b>Operating expenses</b>					
Selling expenses	25	<b>10,253</b>	383,429	<b>29,513</b>	761,196
General and administrative expenses	25	<b>1,578,182</b>	2,538,625	<b>3,366,315</b>	4,781,110
Impairment loss	10	-	-	<b>15,629</b>	-
Depreciation and amortization	12, 13, 22	<b>155,583</b>	751,475	<b>307,931</b>	1,454,086
<b>Total operating expenses</b>		<b>1,744,018</b>	3,673,529	<b>3,719,388</b>	6,996,396
<b>Loss before other expenses</b>		<b>(997,872)</b>	(3,672,011)	<b>(2,202,183)</b>	(6,912,336)
<b>Other income (expenses)</b>					
Acquisition fees	4	<b>(67,500)</b>	-	<b>(67,500)</b>	(982,675)
Interest expense and bank charges	18	<b>(159,880)</b>	(2,715)	<b>(278,578)</b>	(6,966)
Gain (loss) on asset disposal		-	(2,256)	<b>200,276</b>	(2,256)
Unrealized gain on conversion feature	18	<b>113,329</b>	-	<b>232,936</b>	-
Other income	26	<b>234,734</b>	34,043	<b>215,324</b>	22,972
<b>Total other income (expenses)</b>		<b>120,683</b>	29,072	<b>302,458</b>	(968,925)
<b>Net loss and comprehensive loss for the period</b>		<b>(877,189)</b>	(3,642,939)	<b>(1,899,725)</b>	(7,881,261)
<b>Attributable to:</b>					
<b>Equity holders of the Parent</b>		<b>(867,962)</b>	(3,642,939)	<b>(2,043,389)</b>	(7,881,261)
<b>Non-controlling Interests</b>		<b>(9,227)</b>	-	<b>143,664</b>	-
<b>Net loss and comprehensive loss for the period</b>		<b>(877,189)</b>	(3,642,939)	<b>(1,899,725)</b>	(7,881,261)
<b>Weighted average number of common shares outstanding - basic and diluted</b>		<b>625,196,572</b>	600,196,572	<b>625,196,572</b>	561,184,510
<b>Loss per share for Net Loss Attributable to Equity Holders of the Parent</b>					
from Continuing Operations		<b>(0.00)</b>	(0.00)	<b>(0.00)</b>	(0.00)
from Discontinued Operations		<b>(0.00)</b>	-	<b>0.00</b>	-
<b>Basic and diluted loss per share</b>		<b>(0.00)</b>	(0.00)	<b>(0.00)</b>	(0.00)

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

**WORLD CLASS EXTRACTIONS INC.**
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Unaudited - Expressed in Canadian Dollars)

	Note	Equity attributable to holders of the Parent					Non-controlling Interest \$	Total Shareholders' Equity \$
		ISSUED CAPITAL		RESERVES				
		Number of Common Shares	Share Capital \$	Options \$	Warrants \$	Deficit \$		
<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>-</b>	<b>31,280,185</b>
Shares issued for acquisition of Quadron Cannatech Corp. ("Quadron")	4a, 19	143,300,894	20,062,125	-	-	-	-	20,062,125
Shares issued to financial advisors as success fees	4a, 19	5,015,531	702,175	-	-	-	-	702,175
Options issued for acquisition of Quadron	4a, 20	-	-	1,097,418	-	-	-	1,097,418
Warrants issued for acquisition of Quadron	4a, 21	-	-	-	1,375,462	-	-	1,375,462
Stock options exercised	19, 20	700,000	143,584	(73,584)	-	-	-	70,000
Share-based payments	20	-	-	1,489,640	-	-	-	1,489,640
Net loss for the period		-	-	-	-	(7,881,261)	-	(7,881,261)
<b>Balance, October 31, 2019</b>		<b>600,196,572</b>	<b>61,256,937</b>	<b>4,378,260</b>	<b>2,816,349</b>	<b>(20,255,802)</b>	<b>-</b>	<b>48,195,744</b>
<b>Balance, April 30, 2020</b>		<b>625,196,572</b>	<b>61,756,937</b>	<b>5,270,728</b>	<b>2,246,614</b>	<b>(60,914,506)</b>	<b>5,436,999</b>	<b>13,796,772</b>
Pineapple Express Delivery ("PED") Shares issued for settlement of debt	4b	-	-	-	-	-	9,896	9,896
PED shares issued for finders' fees	4b, 29	-	-	-	-	-	67,500	67,500
Cancellation or expiry of stock options	20	-	-	(2,370,887)	-	2,370,887	-	-
Expiry of warrants	21	-	-	-	(324,816)	324,816	-	-
Share-based payments	20	-	-	425,820	-	-	-	425,820
Net loss for the period		-	-	-	-	(2,043,389)	143,664	(1,899,725)
<b>Balance, October 31, 2020</b>		<b>625,196,572</b>	<b>61,756,937</b>	<b>3,325,661</b>	<b>1,921,798</b>	<b>(60,262,192)</b>	<b>5,658,059</b>	<b>12,400,263</b>

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

**WORLD CLASS EXTRACTIONS INC.****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited - Expressed in Canadian Dollars)

	For the period ended	
	October 31, 2020	October 31, 2019
	\$	\$
Cash flows from (used in) operating activities:		
Net loss for the period	(1,899,725)	(7,881,261)
Items not involving cash:		
Bad debts	-	504
Depreciation and amortization	307,931	1,454,086
Acquisition fees	67,500	982,676
Impairment loss	15,629	-
Foreign exchange loss (gain)	17,291	-
Lease interest	46,334	(7,744)
Share-based payments	425,820	1,489,640
Unrealized loss (gain) on derivative liability	(232,936)	-
Interest	198,206	-
Other income	(39,026)	-
Change in non-cash operating working capital:		
Short term investments	-	275,500
Accounts receivable	(340,528)	(6,418)
Accounts payable and accrued liabilities	219,856	355,624
Due to related parties	49,607	(14,642)
Sales tax receivable	337,843	(307,073)
Inventory	(267,900)	346,791
Due from related parties	(66,541)	-
Lease liability	(139,695)	-
Prepaid expenses	(234,548)	(225,042)
Customer deposits	(142,000)	100,643
	<b>(1,676,882)</b>	<b>(3,436,716)</b>
Cash flows from (used in) investing activities:		
Expenditures on intangible assets	-	(1,053,846)
Loan to an associate	(2,500,000)	-
Purchase of property and equipment	(138,444)	(1,208,902)
	<b>(2,638,444)</b>	<b>(2,262,748)</b>
Cash flows from (used in) financing activities:		
Cash acquired upon acquisition of Quadron	-	1,323,464
Government grant	40,000	-
Loans payable	-	(1,499,264)
Proceeds from the issuance of common shares	-	70,000
	<b>40,000</b>	<b>(105,800)</b>
Change in cash and cash equivalents for the period	(4,275,326)	(5,805,264)
Cash and cash equivalents, beginning of the year	5,632,160	16,002,152
<b>Cash and cash equivalents, end of the period</b>	<b>1,356,834</b>	<b>10,196,888</b>

Supplemental cash flow information (Note 30)

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

## WORLD CLASS EXTRACTIONS INC.

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

As at and for the period ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

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#### 1. NATURE OF OPERATIONS AND GOING CONCERN

World Class Extractions Inc. ("World-Class" or "WCE" or "the Company") was incorporated under the laws of British Columbia on December 2, 1965. The head office of the Company is located at Suite 308 - 9080 University Crescent, Burnaby, BC, V5A 0B7. The registered office is located at 2200 - 885 W Georgia St. Vancouver, BC, V6C 3E8.

On June 17, 2019, the Company and Quadron Cannatech Corporation ("Quadron" or "QCC") completed a plan of arrangement (the "Arrangement") (Note 4(a)) under the provisions of the British Columbia Business Corporations Act ("BCBCA"), 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 were replaced with options and warrants of the Company. The Company paid \$392,448 and issued 5,015,531 common shares of the Company to financial advisors as acquisition fees. On March 6, 2020, Quadron, World Class Extractions (Subco) Inc. and WCE amalgamated to form WCE.

On March 27, 2020, the Company signed a definitive investment agreement with Pineapple Express Delivery Inc. ("Pineapple Express Delivery" or "PED"), a privately held, Burlington-based company offering different types of legal delivery services (including same day and next day) to the cannabis sector in Canada. Under the terms of the acquisition, the Company purchased 8,333,333 units (the "Units") of PED, at a price of \$0.06 per Unit for aggregate gross proceeds of \$500,000. Each Unit consists of one common share and one half of one share purchase warrant, with each full warrant exercisable at \$0.30 for a period of two years. The 8,333,333 common shares of PED held by the Company represented approximately 21.55% of the current issued and outstanding share capital of PED. However, through the execution of voting trust agreements with significant shareholders of PED, the Company acquired a total voting interest of 80%. As part of the transaction, PED utilized a portion of the financing proceeds to purchase 25,000,000 common shares of World-Class at a price of \$0.02 per share. These shares were subject to a statutory hold period which expired on August 1, 2020 (Note 4(b)).

The Company is listed on the Canadian Securities Exchange ("CSE") under the symbol "PUMP", the Frankfurt Stock Exchange under the symbol "WCF" and "WKN:A2PF9C", and the OTCQB Venture Market, under the symbol: "WCEXF".

The Company, previously focused on research and development, is exploring opportunities to deploy and operate revenue-generating, purpose-built extraction and processing facilities for cannabis and hemp. World-Class deploys and manages extraction and processing centres through alliances with licensed entities in Canada. With the recent acquisition of PED, the Company also added cannabis delivery to its businesses.

The Company operates through its two wholly-owned subsidiaries: Soma Labs Scientific Inc. ("Soma Labs" or "Soma"), and Greenmantle Products Inc. ("Greenmantle"), both based in the Lower Mainland of British Columbia and its partially-owned subsidiary, PED based in Burlington, Ontario.

- Soma Labs incorporated under the *Business Corporations Act* of the Province of British Columbia on January 8, 2016, is a designer, manufacturer, and supplier of extraction and processing equipment and solutions. Soma Labs works with industry partners to design and establish extraction and processing facilities for cannabis and hemp oil production.



## WORLD CLASS EXTRACTIONS INC.

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

As at and for the period ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

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#### 1. NATURE OF OPERATIONS AND GOING CONCERN (continued)

- Greenmantle incorporated under the *Business Corporations Act* of the Province of British Columbia on January 15, 2016, specializes in cannabis product development with expertise in vape hardware design, formulation science, and packaging.
- PED incorporated under the Business Corporations Act on February 15, 2018, specializes in compliant and secure delivery of government regulated products, including legal cannabis delivery within select provinces in Canada and liquor delivery in certain jurisdictions in Saskatchewan.

On July 5, 2019, the Board of Directors (the "Board") 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 (Note 4(a)).

In March 2020, the World Health Organization declared a global pandemic known as COVID-19. This is causing significant financial market and social dislocation. The pandemic has affected Soma Labs by posing significant delays to deploy and implement its extraction and processing facilities and the ability to procure new opportunities in deploying and implementing extraction systems. This has also resulted in significant economic uncertainty and consequently, it is difficult to reliably measure the potential impact of this uncertainty on the Company's future financial results.

#### Going Concern

The Company incurred a net loss of \$1,899,725 for the period ended October 31, 2020 (October 31, 2019 - \$7,881,261). As at October 31, 2020, the Company had a history of losses and an accumulated deficit of \$60,262,192 (April 30, 2020 - \$60,914,506). Total cash used in operations for the period ended October 31, 2020 amounted to \$1,676,882 (October 31, 2019 - \$3,436,717).

The ability of the Company to continue as a going concern is dependent on achieving profitable operations, positive operating cash flows and obtaining the necessary financing to develop the current products (Note 28). The outcome of these matters cannot be predicted at this time. The Company will continue to review the prospects of raising additional debt and equity financing to support its operations until such time that its operations become self-sustaining, to fund its operating activities and to ensure the realization of its assets and discharge of its liabilities. While the Company is exerting its best efforts to achieve the above plans, there is no assurance that any such activity will generate sufficient funds for future operations. These factors indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

The Company relies on securing additional funds from either issuance of debt or equity financing for cash consideration. Management has been successful in raising capital through periodic private placements of the Company's common shares in the past, however there is no certainty that financing will be available in the future or that management's planned actions to address this situation will be successful. These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future rather than a process of forced liquidation. These interim condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Such adjustments could be material.

## **WORLD CLASS EXTRACTIONS INC.**

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

**As at and for the period ended October 31, 2020 and 2019**

(Expressed in Canadian Dollars)

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## **2. BASIS OF PRESENTATION**

### **Statement of Compliance and Presentation**

These interim condensed consolidated financial statements have been prepared by the Company's management 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 consolidated financial statements for the years ended April 30, 2020 and 2019, with exception to the newly adopted IFRS effective May 1, 2020, 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 year ended April 30, 2020 and 2019. 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 year ended April 30, 2020 and 2019.

These interim condensed consolidated financial statements are presented in Canadian dollars except where otherwise indicated.

Certain comparative figures have been reclassified to conform to the current period presentation.

These interim condensed consolidated financial statements were approved and authorized for issue by the directors of the Company on December 17, 2020.

### **Basis of Measurement**

The interim condensed consolidated financial statements have been prepared on the historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, share-based compensation, consideration and acquisitions, which are stated at their fair value.

### **Significant Estimates, Assumptions and Judgments**

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues 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.

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

**Significant Estimates, Assumptions and Judgments (continued)**

The information about significant areas of estimates considered by management in preparing the interim condensed 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 the interim condensed consolidated statement of loss and comprehensive 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.

*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 financial instruments*

Certain of the Company's assets and liabilities are measured at fair value. In estimating fair value the Company uses market-observable data to the extent it is 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.

*Convertible debt conversion option*

The identification of convertible debt components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent measurement of interest on the liability component. The determination of fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates, and the presence of any derivative financial instruments. Additionally, significant judgment is required when accounting for the redemption, conversion or modification of these instruments.

*Inventories*

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 the statement of loss and comprehensive loss in the period for any difference between book value net realizable value.

The impairment loss of inventories assessment requires a degree of estimation and judgment. The level of the provision is assessed by taking into account recent sales experience, the ageing of inventories, damaged, obsolete, slow moving inventories and other factors that affect inventory obsolescence.

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

**Significant Estimates and Judgments (continued)**

*Useful lives of property and equipment and intangible assets*

The estimated useful lives of assets are reviewed by management and adjusted if necessary. To estimate the 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.

For intangible assets, the useful lives 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 non-financial assets*

Determining the amount of impairment of non-financial 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 factors include economic and market conditions, discount rates, growth rates and the future cash flows of the cash generating units (CGU's) to which the asset belongs to. The changes may result in future impairments in the Company's long-term assets.

Goodwill and intangible assets are reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to their recoverable amount. When impairment indicators are present, the recoverable amount of the CGU or the group of CGUs, which is the higher of its estimated fair value less costs to sell and its value in use, is determined. Significant judgment is involved in estimating the model inputs used to determine the recoverable amount of the CGUs, in particular future cash flows, discount rates and terminal growth rates, due to the uncertainty in the timing and amount of cash flows and the forward-looking nature of these inputs. Future cash flows are based on financial plans agreed by management, which are estimated based on forecast results, business initiatives, planned capital investments and returns to shareholders. The use of different assumptions and estimates could influence the determination of the existence of impairment and the valuation of goodwill.

*Determination of CGUs*

CGUs are determined based on the smallest identifiable group of assets that generate cash inflows that are largely independent of cash inflows from other assets or groups of assets. Management judgment is required to identify the cash generating units ("CGU") of the Company.

*Allowance for expected credit loss (ECL)*

The Company recognizes an impairment loss allowance for ECL on 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.

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

**Significant Estimates and Judgments (continued)**

*Leases*

The application of IFRS 16 Leases, requires the Company to make judgments and estimates that affect the measurement of right-of-use assets and liabilities. In determining the lease term, all facts and circumstances that create an economic incentive to exercise renewal options (or not exercise termination options) are considered. Assessing whether a contract includes a lease also requires judgment. Estimates are required to determine the incremental borrowing rate to measure liabilities where the interest rate in the lease is not readily available.

*Business combinations*

Business combinations require management to exercise judgment in measuring the fair value of assets acquired and liabilities and contingent liabilities incurred or assumed. Judgment is also required in determining what qualifies as part of consideration paid.

*Intangible assets*

Management uses judgment in estimating the fair value of intangible assets, such as software and technology, acquired in a business combination and uses internally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates and discount rates. Management also uses judgment in estimating customer attrition rates to determine the appropriate amortization period for the software and technology.

The information about significant areas of judgment considered by management in preparing the interim condensed 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 non-controlling interest is material for purposes of IFRS 12, *Disclosure of Interest in Other Entities*;
- iv. assessing control and significant influence over an investee;
- v. the determination of functional currency;
- vi. 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
- vii. the Company's assessment of its ability to continue as a going concern requires judgments about the Company's ability to execute its strategy by funding future working capital requirements (Note 1). The Company's objectives are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

**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.

## WORLD CLASS EXTRACTIONS INC.

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

As at and for the period ended October 31, 2020 and 2019

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

##### b) 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.

##### c) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries of which it has control. 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
Soma Labs Scientific Inc.	Canada	Commercialization of the Company's extraction and processing systems utilizing various technologies to effectively produce extracts and concentrates from cannabis and hemp and isolate essential compounds found in the plant material; Development and deployment of extraction equipment, technology and services	100%
Greenmantle Products Limited	Canada	Sale of premium disposable vaporizer cartridges, pens and related materials	100%
Pineapple Express Delivery Inc.	Canada	Delivery of medical and recreational cannabis	22.79%
1230167 BC Ltd.	Canada	Inactive	100%

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. On April 9, 2020, this subsidiary was dissolved.

On January 22, 2020, Soma Labs Scientific Inc. and Cybernetic Control Systems Inc. amalgamated to form Soma Labs Scientific Inc., the amalgamated Company. On March 6, 2020, Quadron Cannatech Corporation, World Class Extractions (Subco) Inc. and World Class Extractions, Inc. amalgamated to form World Class Extractions, Inc. ("WCE"), the amalgamated Company.

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

**c) Consolidation (continued)**

Control

The Company controls an investee if and only if the Company has:

- Power over an investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support the presumption and when the Company has less than a majority of the voting rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over the investee, including:

- the contractual arrangements with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Company's voting rights and potential voting rights

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control over the subsidiary. Assets, liabilities, revenues and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of WCE and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intra-Company asset, liabilities, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

Non-controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets not held by the Company. Non-controlling interests are presented separately in the consolidated statement of loss and comprehensive loss and within equity in the consolidated statement of financial position and consolidated statement of changes in equity, separate from equity attributable to equity holders of the Company.

**d) 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 consolidated statement of loss and comprehensive loss as incurred. The excess of the consideration over the fair value of the net identifiable assets and liabilities acquired is recorded as goodwill. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. Evaluation of components of consideration requires management judgment.

## WORLD CLASS EXTRACTIONS INC.

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As at and for the period ended October 31, 2020 and 2019

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

##### e) Goodwill

Goodwill is initially measured as the excess of the aggregate of the consideration transferred over the fair value of net identifiable assets acquired and liabilities assumed. Separately recognized goodwill is tested for impairment on an annual basis or when there is an indication of impairment. Impairment losses on goodwill are not reversed.

For the purpose of impairment testing, goodwill is allocated to the CGU or CGUs which are expected to benefit from the synergies of the combination.

##### f) 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.

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. 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 and equipment are recognized in the statements of loss and 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 loss and comprehensive loss during the financial period in which they occurred. Gains and losses on disposal of an item of property 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 loss and comprehensive loss.

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

Facility equipment	20% declining balance
Computer software and equipment	30% - 55% declining balance
Leasehold improvements and office furniture	20% declining balance
Automobile	20% declining balance

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



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

**g) Revenue recognition**

The Company's revenue is comprised of the sale of disposable vaporizer pens and cartridges; and delivery of cannabis. Revenues are recognized when delivery of cannabis or vaporizer pens have occurred and are accepted by the customer. The Company recognizes revenue in an amount that reflects the consideration the Company expects to receive taking into account any variation that may result from rights of return. Areas of judgment include identifying the customer per the definition within IFRS 15 Revenue from Contracts with Customers and determining whether control has passed to the customer.

The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

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

*Sale of vaporizer pens and cartridges; and delivery of cannabis.* These revenue-generating activities of the Company have a single performance obligation and revenue is recognized at the point in time when control of the product transfers and the Company's obligations have been fulfilled. This generally occurs when the product is shipped or delivered to the customer, depending upon the method of distribution and shipping terms set forth in the contract. Revenue is measured as the amount of consideration the Company expects to receive in exchange for the sale of the Company's product or the services rendered by the Company.

**h) 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.

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 statement of loss and comprehensive 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.

**i) Investment in associates**

Associates are entities over which the Company exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but without control or joint control over those policies. The Company accounts for its in-substance equity investments in associates using the equity method of accounting. Investments in associates, such as promissory notes, that do not meet the criteria of in-substance equity instruments are accounted for in accordance with the nature of the instrument.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****i) Investment in associates (continued)**

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate since the acquisition date. To the extent that it exists, goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of income (loss) and other comprehensive loss reflects the Company's share of the results of operations of its associates. Any change in other comprehensive income of those investees is presented as part of the Company's other comprehensive income. If the Company's share of losses of an associate equals or exceeds the carrying value of its "investment in [the] associate", the Company discontinues recognizing its share of further losses. In addition, when there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate. The aggregate of the Company's share of profit or loss of an associate is shown on the face of the statement of income (loss) and other comprehensive loss and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

After application of the equity method, the Company determines whether it is necessary to recognize any impairment losses on its investments in its associates. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the impairment charge within "Impairment of equity method investees" in the statement of income (loss) and other comprehensive loss. The recoverable amount is the greater of the associate's value in use and fair value less costs of disposal ("FVLCD"). Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets, discounted to present value using a suitable discount rate.

Upon loss of significant influence over an associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment (plus proceeds from disposal, if any) is recognized in profit or loss.

**j) Leases**

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 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. (Note 22).

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

**j) Leases (continued)**

A contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and is adjusted for certain re-measurements of the lease liability.

The right-of-use assets are depreciated using the straight-line method from the commencement date to the end of the lease term or the end of the useful life of the right-of-use asset. The estimated useful life of the right-of-use assets are determined on the same basis as those of property and equipment. The determination of the depreciation period is dependent on whether the Company expects that the ownership of the underlying asset will transfer to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The incremental borrowing rate reflects the rate of interest that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. The Company applies judgment to determine the lease term for some lease contracts which contain renewal options.

The Company does not recognize right-of-use assets and lease liabilities for leases of low-value assets and leases with lease terms that are less than 12 months. Lease payments associated with these arrangements are instead recognized as an expense over the term on either a straight-line basis, or another systematic basis if more representative of the pattern of benefit.

**k) Foreign currencies**

Transactions in currencies other than the Company's 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 foreign exchange gain (loss) 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.

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.

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

**l) Impairment of non-financial assets**

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 Company of assets that generate cash inflows or CGUs.

Impairment losses are recognized in impairment in the statement of loss and comprehensive loss for the period. 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. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimated recoverable

amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

**m) Related party transactions**

Parties are considered to be related if one party has control or joint control over the Company, has significant influence over the Company or is a member of key management personnel of the Company. 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.

**n) 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. When vested options are forfeited or are not exercised at the expiry date, the amount previously recognized in share-based payments is transferred to accumulated losses (deficit).

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

**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 principal and interest on the principal 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 loss 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.

Financial assets at amortized cost

Financial assets at amortized cost are initially recognized at fair value (including transaction costs) 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 and cash equivalents, short-term investments, accounts receivable and loans receivable.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities at fair value through profit or loss are immediately recognized in the consolidated statements of loss and comprehensive loss.

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

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

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

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 loss and comprehensive loss. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income.

Financial Assets	Classification	
	April 30, 2020	October 31, 2020
Cash and cash equivalents	Amortized cost	<b>Amortized cost</b>
Short-term investments	Amortized cost	<b>Amortized cost</b>
Accounts receivable	Amortized cost	<b>Amortized cost</b>
Loans receivable	Amortized cost	<b>Amortized cost</b>
Loan to an associate	-	<b>Amortized cost</b>
Convertible loan receivable	Financial assets at FVTPL	<b>Financial assets at FVTPL</b>

###### (ii) Financial liabilities and equity instruments

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A financial liability is defined as any contractual obligation to deliver cash or another financial asset to another entity. The Company classified its financial liabilities as subsequently measured at amortized cost which include accounts payable and accrued liabilities, due to related parties, loans payable and convertible debt. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or they expire.

Financial Liabilities	Classification	
	April 30, 2020	October 31, 2020
Accounts payable	Amortized cost	<b>Amortized cost</b>
Due to related parties	Amortized cost	<b>Amortized cost</b>
Loans payable	Amortized cost	<b>Amortized cost</b>
Convertible debt	Amortized cost	<b>Amortized cost</b>
Derivative liability	Fair value	<b>Fair value</b>

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs. Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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

**o) Financial instruments (continued)**

**(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.

**(iv) Compound financial instruments**

Compound financial instruments issued by the Company's subsidiary, PED, comprise convertible debentures and a convertible note that can be converted to ordinary shares at the option of the holder. The convertible debt is convertible into common shares of PED at a price equal to the lesser of (i) \$0.15 per PED common share, (ii) a 20% discount to the price or deemed price attributed to the PED common shares pursuant to a going public transaction, or (iii) the lowest value per PED common share ascribed to each PED common share in connection with an offering by PED of common shares or securities convertible or exchangeable into PED common shares that is completed prior to the maturity date, all subject to adjustment in certain events. The convertible note is convertible into common shares of PED at market price on the date of conversion.

The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognized in statement of loss and comprehensive loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

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

**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.

**q) Income tax**

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in statement of loss and comprehensive 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.

IFRIC 23, Uncertainty Over Income Taxes - In June 2017, the IASB issued a new IFRIC interpretation to specify how to reflect the effects of uncertainty in accounting for income taxes. IAS 12 Income Taxes provides requirements on the recognition and measurement of current or deferred income tax liabilities and assets. However, it does not provide a specific requirement for the accounting for income tax when the application of tax law to a particular transaction or circumstance is uncertain. As a result, the interpretation aims to reduce the diversity in how entities recognize and measure a tax liability or tax asset when there is uncertainty over income tax treatments. The new interpretation is effective for annual periods beginning on or after January 1, 2019. Management has concluded that there is no impact on the adoption of this guidance because there is no significant uncertainty in accounting for income taxes of the Company.



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

**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.

**s) Intangible assets**

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

Development costs not meeting the 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.

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 statement of loss and comprehensive loss within other income or other expenses.

Amortization is calculated using the following terms and methods:

Intellectual property	5 years straight-line
Software and technology	5 years straight-line
Patent application costs	straight-line, based on the life of the patent

**t) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The board of WCE acts as the chief operating decision maker which assesses the financial performance and position of the Company and makes strategic decisions with inputs from top management which consists of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the President.

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

**u) Discontinued Operations**

The Company classifies disposal groups as discontinued operations if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such disposal groups are measured at the lower of their carrying amount and fair value less costs to sell.

A disposal Company qualifies as discontinued operations if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations
- Is a subsidiary acquired exclusively with a view to re-sell

Loss from discontinued operations are excluded from Net loss from continuing operations and are presented as a single amount under “loss from discontinued operations” account in the consolidated statement of loss and comprehensive loss.

**Recent accounting pronouncements**

Certain pronouncements were issued by the International Accounting Standards Board (“IASB”) or the International Financial Reporting Interpretation Committee (“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 pronouncements above are not expected to have a material impact on the Company’s consolidated financial statements.

## WORLD CLASS EXTRACTIONS INC.

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

As at and for the period ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

#### 4. ACQUISITIONS

##### (a) Quadron

On June 17, 2019, the Company purchased 100% of the issued and outstanding shares of Quadron, which was incorporated under the BCBCA on November 7, 2011. Quadron, through its wholly-owned subsidiaries, provides turn-key extraction and processing solutions for the cannabis and hemp industry including proprietary industrial grade equipment, custom build processing facilities, ancillary products, and scientific services. The combined entities will leverage Quadron's technical expertise, and seasoned management team with the Company's unique patent-pending technology and strong cash position resulting from the private placements (Note 19). Quadron shares, options and warrants were exchanged at a ratio of 1 to 2.

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. 13,405,000 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 \$1,463,151 using a Black-Scholes model, whereby \$1,011,295 has been included as consideration paid as it related to pre-combination services and the residual \$451,856 fair value will be recognized as stock compensation expense over the post-combination vesting period. The fair value of the warrants was estimated to be \$805,727 using a Black-Scholes model, where this value has been included as consideration paid. In addition, the incremental fair value of \$25,641 was immediately included in the post-combination income statement. In connection to this acquisition, the Company incurred a cash payment of \$392,448 and issued 5,015,531 common shares at a price of \$0.14 to financial advisors as well as legal fees totaling \$131,983. These were expensed as acquisition fees.

Part of the consideration transferred is a loan previously extended to QCC by WCE. The loan principal amounted to \$2,750,000 and accrued interest thereon totaled \$14,073. No gain or loss was recognized on the settlement.

The fair value of the net assets acquired approximated their book values at acquisition date, except for Technology which fair value was determined using the cost approach in accordance with IFRS 13 Fair Value Measurement. The technology acquired relates to the extraction and processing of cannabis equipment. It includes all costs incurred necessary to develop the asset to achieve commercial viability. The table below summarizes the valuation techniques and significant inputs for the valuation of the identifiable assets and liabilities acquired from QCC:

Identifiable Assets and Liabilities	Valuation technique	Significant Inputs
Working Capital	Cost/carrying value	Book value at date of acquisition
Property and equipment	Cost/carrying value	Book value at date of acquisition
Technology	Fair Value using cost approach	All development costs attributable to the technology including cost of materials, cost of labor and allocated support costs for the technology

## WORLD CLASS EXTRACTIONS INC.

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

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#### 4. ACQUISITIONS (continued)

##### (a) Quadron (continued)

The following tables summarize 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 options issued	1,011,295
Fair value of warrants issued	805,727
Bridge Loans	2,757,767
<b>Total Consideration</b>	<b>\$ 24,636,914</b>

  

<b>Net identifiable assets acquired (liabilities assumed)</b>	
Cash and cash equivalents	\$ 1,603,965
Accounts receivable	165,644
Inventory	1,531,463
GST recoverable	217,718
Prepaid expenses and other	87,597
Deposits	36,115
Plant and equipment	253,737
Right-of-use asset	468,918
Accounts payable	(274,129)
Customer deposits	(422,179)
Related party	(6,177)
Lease liability	(484,187)
Technology	1,007,739
<b>Net assets acquired</b>	<b>\$ 4,186,224</b>

  

<b>Purchase price allocation</b>	
Net identifiable assets acquired	\$ 4,186,224
Goodwill	20,450,690
	<b>\$ 24,636,914</b>

Goodwill arose in the acquisition as the cost of acquisition included a control premium. The consideration paid for the acquisition reflected the benefit of expected revenue growth, existing QCC technologies, synergies with technologies in research and development, management know how and future market development. These benefits were not recognized separately from goodwill, as they do not meet the recognition criteria for identifiable intangible assets. Goodwill primarily related to the acquisition of management and engineering teams who were seasoned in research and development of extraction technologies. None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes. During the year ended April 30, 2020, as a result of a downturn in the cannabis market, declining extraction equipment sales and uncertainty of future economic benefits, management assessed uncertainty in the recoverability of goodwill pursuant to the business combination. As such, the Company fully impaired the goodwill and recorded an impairment loss amounting to \$20,450,690 (Note 13).

## WORLD CLASS EXTRACTIONS INC.

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

As at and for the period ended October 31, 2020 and 2019

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#### 4. ACQUISITIONS (continued)

##### (a) Quadron (continued)

Also, during the year ended April 30, 2020, management determined that the fair value less costs of disposal of the technology acquired with QCC amounted to \$Nil. Due to a downturn in the cannabis market and declining extraction equipment sales, there is uncertainty in the recoverability of costs related to the technology. As a result, the asset's carrying value was brought down to \$Nil and an impairment loss of \$899,687 (\$1,007,739 less accumulated amortization of \$108,052) was recognized during the year ended April 30, 2020.

In the period from June 17, 2019 to April 30, 2020, the operations of Quadron contributed revenues of \$288,361 and a net loss of \$7,107,641. If the acquisition had occurred on May 1, 2019, management estimates that the contributed revenues would have been \$329,565 and contributed net loss would have been \$8,249,952 for the year ended April 30, 2020 and loss per share would have been \$0.01.

##### (b) PED

On March 27, 2020, WCE signed a definitive investment agreement outlining the terms and conditions with respect to the acquisition of PED, an arm's length, privately held, Burlington-based company offering different types of legal delivery services (including same day and next day) to the cannabis sector in Canada. Given PED's inputs in the form of net assets, operations and favorable economic results, PED is considered to have met the definition of a business and the transaction was accounted for as a business combination.

On March 31, 2020 ("acquisition date") the Company acquired 8,333,333 units (the "Units") of PED, at a price of \$0.15 per Unit in exchange for total consideration of \$1,500,000 consisting of 25,000,000 WCE shares valued at \$0.02 per share (market value on acquisition date), cash, and debt forgiveness. Each Unit consists of one common share and one half of one share purchase warrant, with each full warrant exercisable at \$0.30 for a period of two years. The 8,333,333 common shares of PED held by World-Class represent approximately 21.55% of the current issued and outstanding share capital of PED.

Pursuant to a definitive investment agreement, \$1,000,000 of the above consideration was exchanged for secured convertible debentures ("Convertible Debentures") from PED, convertible at the option of the Company at \$0.15 per common share of PED. The Convertible Debentures have a two-year term and bear interest at 12% per annum, compounded monthly in advance.

The Company also acquired options to acquire up to additional 24,046,182 common shares (the "Option") of PED from significant shareholders, in addition to any additional common shares of PED they acquire during the term of the Option, through option agreements with existing holders of unsecured debts of PED.

The Option is exercisable during a 60-day period, starting two years from the closing of the Acquisition, based on a valuation of PED of one time its annualized revenue during the last quarter of the period. The exercise price per common share of PED is payable in common shares of World-Class, based on the 20-day Volume Weighted Average Price (VWAP) of World-Class' share price prior to the end of the two-year period. The Option was deemed to have no value. World-Class also entered into a voting trust with the significant shareholders of PED, entitling World-Class to vote such shares for a period of two years.

Assuming the conversion of the Convertible Debentures and exercise of the Option by World-Class, the Company would hold 39,046,182 common shares of PED representing approximately 86.1% of the then issued and outstanding share capital of PED.

## WORLD CLASS EXTRACTIONS INC.

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

As at and for the period ended October 31, 2020 and 2019

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#### 4. ACQUISITIONS (continued)

##### (b) PED (continued)

The Convertible Debentures will rank pari-passu with PED's existing secured debt. Subject to certain conditions, the current holder of secured debt of PED has agreed, on the maturity of such debt, to assign the debt to World-Class in exchange for common shares of World-Class based on the 20-day VWAP of World-Class' share price, calculated on the maturity date of the secured debt. The financial guarantee is not deemed to represent a liability to the Company and is considered an anti-dilution feature in the business combination, deemed to have no value.

In addition to the Option agreements, the significant shareholders of PED also signed voting trust agreements with an effective date of March 31, 2020 with WCE giving them at least 80.43% control on PED's operations. The voting interest effectively gives WCE the right to control business decisions of PED that can directly affect the return of its investment. Given this evidence of control over PED and that PED is deemed to have met the definition of a business, the acquisition is to be accounted for as business combination in accordance with IFRS 3 Business Combinations and PED's financials will be consolidated to WCE in accordance with IFRS 10 Consolidated Financial Statements.

The consideration paid amounted to \$1,500,000 for the 21.55% economic interest.

The fair value of the consideration paid for the net assets at 21.55% was grossed up to yield the deemed value of the whole Company on acquisition date. The value at 100% then less the amount paid by WCE for the 21.55% is thereby assigned as the fair value of non-controlling interest. As at March 31, 2020, the fair value of non-controlling Interest was determined as \$5,460,557.

During the period ended October 31, 2020, PED issued 450,000 shares valued at \$67,500 as finders' fees in accordance with the Agreement.

The Company sought assistance to value PED's net assets as at March 31, 2020. PED's working capital were all valued based on their carrying values as carrying value was deemed to approximate fair value as at March 31, 2020. PED's identifiable intangible asset (software and technology) was valued based on a discounted cash flow model using the forecasted future cash flows from these assets and the applicable discount rate. The convertible debt was valued based on present value of all cash outflows discounted at the applicable market rate for similar instruments which was determined to be 20% and the derivative liability component was valued using a Black-Scholes model. The valuations yielded a total net liabilities acquired of \$1,806,842 as at March 31, 2020.

## WORLD CLASS EXTRACTIONS INC.

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

As at and for the period ended October 31, 2020 and 2019

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#### 4. ACQUISITIONS (continued)

##### (b) PED (continued)

The table below summarizes the valuation techniques and significant inputs for the valuation of the identifiable assets and liabilities acquired from PED:

Identifiable Assets and Liabilities	Valuation technique	Significant Inputs
Working Capital and Property and Equipment	Cost/carrying value	Book value at date of acquisition
Software	Discounted cash flows	The value of the software and technology was determined based on the following key assumptions: 1) Compounded annual growth rate – 10.4% 2) Percentage of revenue from technology – 20-100% 3) Pre-tax royalty savings – 5% 4) Tax amortization benefit percentage – 26.5% 5) Capital cost allowance rate on intangibles – 5% 6) Accelerated investment incentive factor – 1.1
Loans and convertible debts	Discounted cash flows	The present value of the interest and principal payments were determined using an applicable market interest rate of 20% for similar instruments issued on the respective agreement dates then adjusted to the carrying value as at acquisition date. Convertible debts were deemed to have a derivative liability component and were valued using a Black-Scholes model (Note 18).

Goodwill amounting to \$8,767,399 was recorded from the excess of the fair value of the consideration over the net liabilities acquired. Goodwill represents the value of the assembled workforce that came along with PED. It also reflects the value of expected growth and profitability of the acquired business.

In the period from March 31, 2020 to April 30, 2020, the operations of PED contributed revenues of \$819,931 and a net loss of \$30,038. If the acquisition had occurred on May 1, 2019, management estimates that the consolidated revenue would have been \$1,937,670 and contributed net loss would have been \$2,325,606 for the year ended April 30, 2020 and loss per share would still be \$0.08.

## WORLD CLASS EXTRACTIONS INC.

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

As at and for the period ended October 31, 2020 and 2019

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#### 4. ACQUISITIONS (continued)

(b) PED (continued)

The following table summarizes the fair value of the consideration transferred and the fair values assigned to each major class of assets acquired and liabilities assumed on March 31, 2020 acquisition date:

<b>Total Consideration</b>		
WCE common shares	\$	500,000
Convertible Debt		1,000,000
Fair value of non-controlling interest		5,460,557
<b>Total consideration</b>	<b>\$</b>	<b>6,960,557</b>
<b>Net identifiable assets acquired (liabilities assumed)</b>		
Cash and cash equivalent	\$	291,528
Accounts receivable		592,201
Prepaid expenses		27,884
Property and equipment		498,101
Right-of-use asset		552,463
Accounts payable		(670,395)
Convertible debt		(1,995,547)
Derivative liability		(1,056,744)
Loans payable		(125,000)
Due to related parties		(205,752)
Sales taxes payable		(2,395)
Lease liability		(578,839)
Software and technology		865,653
<b>Net assets acquired</b>	<b>\$</b>	<b>(1,806,842)</b>
<b>Purchase price allocation</b>		
Net identifiable assets acquired	\$	(1,806,842)
Goodwill		8,767,399
	<b>\$</b>	<b>6,960,557</b>

#### 5. INVESTMENTS IN ASSOCIATES

The Company assesses each instrument underlying its investments in associates for appropriate accounting treatment. Details of the Company's associate at the end of the reporting period are as follows:

Entity	Nature of Investment	Place of Principal Business	Method of Accounting	Note	Ownership Interest
Cobra Ventures Inc. ("Cobra")	Common Shares Promissory Note	Canada	Equity method Amortized cost		50%



## WORLD CLASS EXTRACTIONS INC.

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

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#### 5. INVESTMENTS IN ASSOCIATES (continued)

The following tables outline changes in the Company's equity method investees for the period ending October 31, 2020:

Entity	Balance, May 1, 2020	Additions	Share of income (loss)	Dividend / interest income	Impairment expense	Balance, October 31, 2020
Cobra	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

During the period ended October 31, 2020, Cobra incurred a net loss of \$203,252 of which the Company's share amounted to \$101,626. The Company did not recognize its share in the net loss of Cobra since it exceeds the Company's investment carrying balance.

Following is the summarized statement of financial position of the associate as at October 31, 2020:

Entity	Current Assets	Non-current Assets	Current Liability	Non current Liability
Cobra	\$ 5,796,754	\$ -	\$ -	\$ 6,000,000

#### 6. INVESTMENTS

During the year ended April 30, 2020, Cobra Ventures Inc. was incorporated. As at October 31, 2020 World-Class and an arm's length party each owned a 50% equity investment in Cobra (collectively, "the Parties").

During the period ended October 31, 2020, the Parties and Cobra entered a Pari Passu Agreement whereby, the Parties covenant and agree that their respective security interests in the assets of Cobra shall rank equally and they shall be entitled to share, on a pro rata basis, in the assets of Cobra.

As at October 31, 2020, Cobra borrowed \$5,000,000 in the form of demand promissory notes which, the Company advanced \$2,500,000 to Cobra. Interest is payable on the promissory note issued to World-Class at a rate of 10% per annum, compounded monthly. Proceeds from the promissory notes were used to purchase the senior secured convertible debenture of HydrX Farms Ltd. operating as Scientus Pharma ("HydRx"). The Company recorded accrued interest of \$45,799 (\$Nil – October 2019) for the period ending October 31, 2020, of which \$22,900 has been recorded in loan to an associate representing its 50% equity investment in Cobra.

During the period ending October 31, 2020, Cobra acquired a senior secured convertible debenture of HydrX in the principal amount of \$11,500,000, plus accrued and unpaid 12% interest and charges from a leading Canadian Licensed Producer for \$5,000,000. The Debenture is secured against the assets of HydrX. HydrX is currently in default of its obligations under the Debenture.

Separately, during the period ended October 31, 2020, an arm's length party loaned \$1,000,000 to Cobra. Pursuant to the loan agreement, Cobra provided unlimited joint and several corporate guarantee of the shareholders of Cobra; general security agreement; an assignment of the HydrX debentures and all collateral security held therefore, and an assignment and postponement of all loans made by the shareholders of Cobra.

## WORLD CLASS EXTRACTIONS INC.

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

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#### 7. ACCOUNTS RECEIVABLE – NET OF ALLOWANCE FOR ECL

	October 31, 2020	April 30, 2020
	\$	\$
Trade receivables	1,596,149	1,243,535
Others	-	12,086
	1,596,149	1,255,621
Less: Allowance for expected credit loss	-	-
<b>Accounts receivable - net of allowance</b>	<b>1,596,149</b>	<b>1,255,621</b>

Trade receivables arise from sales in the normal course of business and usually has a 30-day credit term. These are non-interest bearing and are carried at amortized cost. Subsequent to October 31, 2020, \$1,375,648 was subsequently collected. As at October 31, 2020 \$Nil (April 30, 2020 - \$Nil) was recognized for allowance for allowance for expected credit loss (“ECL”).

#### 8. SALES TAX RECEIVABLE

This account consists of the refunds claimed for goods and services tax from the government. The balance as at October 31, 2020 includes claims from March 2020.

#### 9. LOANS RECEIVABLE

- (a) On July 30, 2019, a supplier issued a promissory note to the Company for the principal sum up to US\$500,000 or lesser with interest at 5% per annum. This secured loan was due and payable on July 31, 2020. As at October 31, 2020, the Company loaned US\$250,000 (US\$250,000 – April 30, 2020) and recorded accrued interest of US\$15,719 (US\$9,315 – April 30, 2020) for a total of US\$265,719 (US\$259,315 – April 30, 2020) due. The balance of the promissory note amounted to CA\$351,219 (CA\$360,018 – April 30, 2020). During the period ended October 31, 2020, the Company recorded accrued interest of CA\$8,492 (\$4,087 – October 31, 2019) and unrealized foreign exchange loss of CA\$17,291 (CA\$Nil – October 31, 2019). Subsequent to October 31, 2020, the Company is in negotiations with the supplier to update the terms of the loan.
- (b) During the year ended April 30, 2019, 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 in Alkaline Spring Inc. (“Alkaline Spring”). The Company recorded a fair value of \$493,139 for the Alkaline Warrants.

On April 8, 2020, the Company entered into an agreement to modify the terms of the Alkaline Debentures. The conversion feature was removed and thus, the loan was reverted into a simple loan with accrued interest. Prior to removal of the conversion feature, the fair value of the conversion feature was \$nil (April 30, 2019 - \$493,139) resulting in an unrealized loss on fair value of warrants of \$493,139.

As at April 30, 2020, Alkaline has been unable to pay the loan, and has been unable to come to any settlement with the Company. There is significant uncertainty on the collectability of the loan, and as such, the total value of the loan amounting to \$2,404,346 was charged to impairment loss for the year ended April 30, 2020.

## WORLD CLASS EXTRACTIONS INC.

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

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#### 10. INVENTORY

	October 31, 2020	April 30, 2020
	\$	\$
Raw materials and parts	2,941	-
Work in progress - Pre-processing	328,748	322,376
Finished goods	242,958	-
Total inventory	574,647	322,376

During the year ended April 30, 2020, the Company, wrote-off its WIP and Finished Goods to their net realizable values. WIP of \$328,748 refers to the net realizable value of a pre-processing equipment which is currently held for sale (April 30, 2020 - \$322,376).

During the period ended October 31, 2020 and year ended April 30, 2020, the Company, wrote-off its WIP and Finished Goods to their net realizable values. Total impairment loss relating to inventory recognized in the statement of loss and comprehensive loss for the period ended October 31, 2020 amounted to \$15,629 (October 31, 2019 - \$Nil).

The Company has no inventories pledged as security for liabilities as at October 31, 2020.

For the period ended October 31, 2020, inventory charged to cost of sales amounted to \$Nil (October 31, 2019 - \$54,563).

#### 11. PREPAID EXPENSES AND DEPOSITS

	October 31, 2020	April 30, 2020
	\$	\$
Rent security deposit	89,899	73,381
Equipment deposits	134,934	172,733
Deposit for hemp supply	166,667	166,667
Leasehold improvements	202,757	-
Other prepayments to vendors	90,756	37,684
	685,013	450,465

##### *Rent security deposits*

Rent security deposits pertain to prepaid amounts for damages that might be claimed against a leased property. These can be claimed in full or in part at the end of the lease subject to actual charges.

##### *Equipment deposits*

Equipment deposits refer to payments made for the extraction equipment ordered but were not yet delivered and for equipment not yet ordered.

##### *Deposit for hemp supply*

On February 25, 2019, the Company and two other entities, one party being a medical standard processing entity and the other being a research and development license holder (collectively, the "Purchasers"), entered supply agreements with a supplier. Pursuant to the agreements, the Purchasers agreed to purchase up to 1,000 kilograms of the supplier's 2018 hemp crop, and the entire 2019 hemp crop and beyond up to a maximum of \$5,000,000 in product. The Purchasers guarantee to purchase at least \$1,000,000 in product from the supplier and agreed to make a deposit in the amount of up to \$500,000 towards the guarantee. The \$500,000 deposit will be used to purchase equipment and to fund expenses approved by the Purchasers. Pursuant to the agreement, the Company advanced \$166,667 to the supplier on May 7, 2019.

**WORLD CLASS EXTRACTIONS INC.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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**11. PREPAID EXPENSES AND DEPOSITS (continued)***Deposit for hemp supply (continued)*

The deposit will be applied to the 2019 crop based on an agreed formula. The Purchasers will not be required to pay for any 2019 product until the deposit is applied in full. The supplier shall repay the deposit on or before December 31, 2020 in the event there is insufficient 2019 product based on the agreed formula. The Purchasers, at their sole option, may accept a portion of the 2020 crop as payment of the deposit. As of October 31, 2020, the full amount of the deposit is still outstanding, and no interest accrual was made.

*Leasehold improvements*

These are prepaid expenditures for leasehold improvements of PED which are not yet completed as at October 31, 2020.

*Other prepayments*

Other prepayments include various advance payments to suppliers for purchases and services which were delivered or rendered after the end of the reporting period.

**12. PROPERTY AND EQUIPMENT**

	Facility Equipment \$	Computer Software and Equipment \$	Leasehold Improvements and Office Furniture \$	Automobile \$	Total \$
<b>Costs:</b>					
Balance, April 30, 2019	284,393	21,936	53,355	-	359,684
Additions	76,343	16,738	325,118	-	418,199
Additions from Business Combination	127,916	63,624	430,908	129,390	751,838
Impairment	(218,350)	-	-	-	(218,350)
Disposals	(9,800)	(2,611)	-	-	(12,411)
Balance, April 30, 2020	260,502	99,687	809,381	129,390	1,298,960
Additions	-	-	138,444	-	138,444
Disposals	-	-	-	-	-
<b>Balance, October 31, 2020</b>	<b>260,502</b>	<b>99,687</b>	<b>947,825</b>	<b>129,390</b>	<b>1,437,404</b>
<b>Accumulated Depreciation:</b>					
Balance, April 30, 2019	15,790	10,360	723	-	26,873
Amortization	83,574	22,561	63,133	2,845	172,113
Impairment	(41,970)	-	-	-	(41,970)
Disposals	(7,374)	(1,332)	-	-	(8,706)
Balance, Apr 30, 2020	50,020	31,589	63,856	2,845	148,310
Amortization	14,176	10,450	68,842	15,315	108,780
Disposals	-	-	-	-	-
<b>Balance, October 31, 2020</b>	<b>64,196</b>	<b>42,039</b>	<b>132,698</b>	<b>18,157</b>	<b>257,090</b>
<b>Net Book Value:</b>					
April 30, 2020	210,482	68,098	745,525	126,545	1,150,650
<b>October 31, 2020</b>	<b>196,306</b>	<b>57,648</b>	<b>815,127</b>	<b>111,233</b>	<b>1,180,314</b>

## WORLD CLASS EXTRACTIONS INC.

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

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#### 12. PROPERTY AND EQUIPMENT (continued)

##### Additions

Additions for the period pertain to leasehold improvements on PED's facilities in Ontario.

##### Impairment

During the year ended April 30, 2020, the Company determined that the recoverable amount of a demo equipment was less than their carrying values as at April 30, 2020. The fair value of the equipment was determined as \$Nil due to the absence of a viable market for the assets. Hence, an impairment loss of \$176,380 equal to the carrying value was recorded during the year ended April 30, 2020.

#### 13. GOODWILL AND INTANGIBLE ASSETS

	Intellectual Property \$	Patent Application Cost \$	Goodwill \$	Software and Technology \$	Total \$
<b>Costs:</b>					
Balance, April 30, 2019	13,000,000	101,367	-	-	13,101,367
Additions from business combination	-	-	29,218,089	1,873,392	31,091,481
Impairment	(13,000,000)	(101,367)	(20,450,690)	(1,007,739)	(34,559,796)
Disposals	-	-	-	-	-
<b>Balance, April 30, 2020 and October 31, 2020</b>	<b>-</b>	<b>-</b>	<b>8,767,399</b>	<b>865,653</b>	<b>9,633,052</b>
<b>Accumulated Depreciation:</b>					
Balance, April 30, 2019	3,276,713	-	-	-	3,276,713
Amortization	1,950,000	-	-	122,480	2,072,480
Impairment	(5,226,713)	-	-	(108,052)	(5,334,765)
Disposals	-	-	-	-	-
Balance, April 30, 2020	-	-	-	14,428	14,428
Amortization	-	-	-	86,568	86,568
<b>Balance, October 31, 2020</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>100,996</b>	<b>100,996</b>
<b>Net Book Value:</b>					
April 30, 2020	-	-	8,767,399	851,225	9,618,624
<b>October 31 2020</b>	<b>-</b>	<b>-</b>	<b>8,767,399</b>	<b>764,657</b>	<b>9,532,056</b>

##### Intellectual Property

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 (Note 19) 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.

## WORLD CLASS EXTRACTIONS INC.

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#### 13. GOODWILL AND INTANGIBLE ASSETS (continued)

During the year ended April 30, 2020, due to downturn in the cannabis market and management's decision to deprioritize the development of the technology, there is uncertainty in the realization of future economic benefits from the intellectual property as well as the local and global market conditions in general and the cannabis sector, the Company assessed and recognized \$7,773,287 in impairment loss for this asset which is equivalent to 100% of its carrying amount.

##### *Patent*

During the year ended April 30, 2019, the Company incurred costs of \$101,367 regarding patent application. For the year ended April 30, 2020, due to uncertainty on the realization of future economic benefits from the ultrasonic technology to which the patent relates, the Company recognized an impairment loss of \$101,367 relating to this patent during the year ended April 30, 2020.

##### *Goodwill*

During the year ended April 30, 2020, the Company recognized goodwill resulting from acquisition of QCC and PED amounting to \$20,450,690 and \$8,767,399, respectively. As at April 30, 2020, impairment assessments were done on both CGUs by determining the fair value less costs of disposal using a discounted cash flow approach. It was determined that the value of the goodwill associated with the QCC acquisition amounted to \$Nil and hence, an impairment loss equal to \$20,450,690 was recognized during the year ended April 30, 2020. Impairment is attributed to a downturn in the cannabis market, declining extraction equipment sales and uncertainty of future economic benefits. Remaining goodwill relates to goodwill assumed upon acquisition of PED.

##### *Software and Technology*

Upon acquisition of QCC, the Company recognized the value of the extraction technology. The fair value of this asset was determined to be \$1,007,739 as at June 17, 2019 (Note 4(a)). During the year ended April 30, 2020, this asset was assessed for impairment. Due to a downturn in the cannabis market and declining extraction equipment sales, there is uncertainty in the realization of future economic benefits from the extraction technology. As a result, management assessed the fair value less cost to sell of this asset as \$Nil as at April 30, 2020. As such, the Company fully impaired the technology and recorded an impairment amounting to \$1,007,739.

Upon acquisition of PED, the Company also gained access to PED's software and technology. The fair values of these assets were determined to be \$865,653 as at March 31, 2020 (Note 4(b)). These assets are amortized using the straight-line method for five years and are assessed for impairment annually, or more frequently whenever there is an indication that they may be impaired. An assessment of impairment as at October 31, 2020 was completed and no impairment loss was recognized relating to this asset.

#### 14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	October 31, 2020	April 30, 2020
	\$	\$
Accounts payable	777,179	877,615
Accrued liabilities	662,839	424,443
<b>Accounts payable and accrued liabilities</b>	<b>1,440,018</b>	<b>1,302,058</b>

Accounts payables are generally trade payables, non-interest bearing and are settled on 30 to 60-day payment terms.

## WORLD CLASS EXTRACTIONS INC.

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#### 14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (continued)

Accruals include liabilities for remuneration and benefits, interest, and other expenses billed after the reporting period. It also includes a \$220,000 accrual for an outstanding employee claim with potential liability of \$250,000. Accrued liabilities are generally settled within 12 months from end of reporting period.

#### 15. CUSTOMER DEPOSITS

Customer deposits refer to amounts paid by customers in advance for goods they have ordered. As at October 31, 2020, this account includes outstanding deposits totaling \$348,412 for delayed sale of equipment (April 30, 2020, - \$490,412). These are expected to be paid back within the following fiscal year.

#### 16. LOANS PAYABLE

Loans payable pertain to two promissory notes entered into by the Company's subsidiary, PED. The details of the loans are as follows.

	Principal \$	Interest	Commencement	Maturity	Fair Value \$
Promissory Note 1	62,500	12%	October 31, 2019	March 31, 2021	62,500
Promissory Note 2	62,500	12%	October 31, 2019	March 31, 2021	62,500
<b>Loans Payable</b>	<b>125,000</b>				<b>125,000</b>

The promissory notes 1 and 2 are unsecured loans were initially due on January 31, 2020 and subsequently amended to extend the maturity date to March 31, 2021. During the period ended October 31, 2020, interest accrued for these loans amounted to \$7,500 (2019 - \$Nil).

#### 17. GOVERNMENT GRANT

	October 31, 2020 \$	Adjusted initial value \$	April 30, 2020 \$
CEBA Loan – WCE	29,388	26,879	40,000
CEBA Loan – Soma Labs	29,431	26,879	40,000
CEBA Loan – PED	29,564	27,215	-
<b>Government Grant</b>	<b>88,383</b>	<b>80,973</b>	<b>80,000</b>

Due the global outbreak of Novel Coronavirus ("COVID-19"), the federal government of Canada introduced the Canada Emergency Business Account ("CEBA"). CEBA provides an interest-free loan ("CEBA Loan") of \$40,000 to eligible businesses. The CEBA Loan has an initial term that expires on December 31, 2022, throughout which, the CEBA Loan remains interest free. Repayment of \$30,000 by December 31, 2022, results in a \$10,000 loan forgiveness. If the balance is not paid prior to December 31, 2022, the remaining balance will be converted to a 3-year term loan at 5% annual interest, paid monthly effective January 1, 2023. The full balance must be repaid by no later than December 31, 2025. WCE, Soma and PED each received \$40,000 loans from the Government as part of the CEBA.

Pursuant to IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, the benefit of a government loan at below - market rate is treated as a government grant and measured in accordance with IFRS 9, Financial Instruments.

## WORLD CLASS EXTRACTIONS INC.

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

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#### 17. GOVERNMENT GRANT (continued)

The benefit of below market rate shall be measured as the difference between the initial carrying value of the loan (being the present value of a similar loan at market rates) and the proceeds received. The Company has estimated the initial carrying value of the CEBA loans total \$80,973, using a discount rate of 15%, which was the estimated rate for a similar loan without the interest - free component:

The difference of \$39,027 will be accreted to CEBA Loan liability over the term of the CEBA Loan and offset to other income on the statements of loss and comprehensive loss. During the period ended October 31, 2020, total interest expense recognized for the CEBA loans amounted to \$7,410 (October 31, 2019 – \$Nil).

#### 18. CONVERTIBLE DEBT AND DERIVATIVE LIABILITY

##### A) Convertible debt

	Convertible debt	Convertible note	Total
	\$	\$	\$
Balance, April 30, 2019	-	-	-
Additions	477,365	1,518,181	1,995,546
Transaction costs	(32,400)	-	(32,400)
Interest accretion	1,506	15,409	16,915
Accretion	6,450	9,894	16,344
Balance, April 30, 2020	452,921	1,543,484	1,996,405
Reclass to related parties	(92,701)	-	(92,701)
Adjustment	-	103,794	103,794
Interest accretion	9,239	110,184	119,423
Accretion	39,293	63,472	102,765
<b>Balance, October 31, 2020</b>	<b>408,752</b>	<b>1,820,934</b>	<b>2,229,686</b>

Upon acquisition of PED, included in the liabilities assumed are convertible debentures to arm's length investors. The conversion feature allows the lenders to convert all or any portion of the outstanding principal amount and any accrued but unpaid interest into common shares of PED at a price equal to the lesser of (i) \$0.15 per PED common share, (ii) a 20% discount to the price or deemed price attributed to the PED common shares pursuant to a going public transaction, or (iii) the lowest value per PED common share ascribed to each PED common share in connection with an offering by PED of common shares or securities convertible or exchangeable into PED common shares that is completed prior to the maturity date, all subject to adjustment in certain events. The conversion of the loans to shares in PED is subject to WCE's pre-emptive rights.

For accounting purposes, the convertible debentures are hybrid financial instruments and were allocated into corresponding debt and derivative liability (conversion feature) components at the date of issue. The Company used the fair value method, which allocated the values based on their fair market value at date of issue. The debt component is subsequently accreted to the face value of the debt portions of the convertible debentures at the effective interest rate of 20%. Upon issuance of the unsecured debentures, the fair value of the debt component was \$477,365. Transaction costs of \$32,400 were incurred on the unsecured convertible debentures, all allocated to the debt component. As at October 31, 2020, since one of the holders of the instrument is a Company controlled by a Director, \$92,701 (net of transaction costs) was reclassified to due to related parties (Note 29).



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

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#### 18. CONVERTIBLE DEBT AND DERIVATIVE LIABILITY (continued)

##### A) Convertible debt (continued)

Also upon acquisition of PED, included in the liabilities assumed is a promissory note to an investor with a conversion feature. The loan bears a 12% interest and is convertible to PED shares subject to the Company's pre-emptive rights. The secured loan carries with it a pledge to the lender of PED's assets as collateral.

For accounting purposes, the promissory note with a conversion feature is a hybrid financial instrument and was bifurcated into corresponding debt and derivative liability (conversion feature) components at the date of issue. The Company used the fair value method, which allocated the values based on their fair market value at date of issue. The debt component is subsequently accreted to the face value of the debt portions of the convertible debentures at the effective interest rate of 20%. Upon issuance of the secured note, the fair value of the debt component was \$1,518,183. No transaction cost was incurred on issuance of this loan.

##### B) Derivative liability

	Convertible debentures		Convertible note	
	April 30, 2020	October 31, 2020	April 30, 2020	October, 2020
Number of options	4,284,510	<b>4,284,510</b>	12,341,711	<b>12,341,711</b>
Stock price	\$ 0.1525	<b>\$ 0.1525</b>	\$ 0.1525	<b>\$ 0.1525</b>
Exercise price	\$ 0.15	<b>\$ 0.15</b>	\$ 0.15	<b>\$ 0.15</b>
Term (year)	1.65	<b>1.17</b>	0.92	<b>0.41</b>
Volatility	100%	<b>100%</b>	100%	<b>100%</b>
Annual rate of quarterly dividends	0%	<b>0%</b>	0%	<b>0%</b>
Risk-free rate	0.42%	<b>0.24%</b>	0.42%	<b>0.24%</b>
<b>Fair Value</b>	<b>\$317,068</b>	<b>\$270,130</b>	<b>\$704,661</b>	<b>\$486,869</b>

The derivative component of the convertible debentures is classified as a liability since the instruments has multiple conversion features and will not be settled with a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments. The derivative component was determined using the Black-Scholes option pricing model and debt component was calculated at the present value of cash flows, which consist of the interest and principal payments. The fair value of the derivative liability as at acquisition date was determined using the key assumptions as listed above and is re-measured at fair value at each reporting period. Upon acquisition, the fair value of the derivative component of the convertible debentures was \$323,812. As at October 31, 2020, the fair value of the derivative component of the convertible debenture was \$270,130 (\$317,068 – April 30, 2020). Therefore, an unrealized gain on the derivative liability of \$46,938 (\$Nil – October 31, 2019) was recognized. Furthermore, since one of the holders of the instrument is a Company controlled by a Director, \$49,937 was reclassified to due to related parties (Note 29).

The derivative component of the convertible note was determined using the Black-Scholes option pricing model and debt component was calculated at the present value of cash flows, which consist of the interest and principal payments. The fair value of the derivative liability as at acquisition date was determined using the key assumptions as listed above and is re-measured at fair value at each reporting period. Upon acquisition, the fair value of the derivative component of the convertible note amounted to \$732,932. As at October 31, 2020, the fair value of the derivative component of the convertible debenture was \$486,869 (\$704,661 – April 30, 2020). Therefore, an unrealized gain on the derivative liability of \$217,792 (\$Nil – October 31, 2019) was recognized.

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#### 19. 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 WCE Inc. (formerly CBD Med Research Corp.)

During the year ended April 30, 2020:

- (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(a)).
- (b) The Company issued a total of 5,015,531 common shares at a price of \$0.14 for consideration of \$702,175 to financial advisors as acquisition fees for the acquisition of Quadron (Note 4(a)).
- (c) The Company issued 700,000 common shares for gross proceeds of \$70,000 for options exercised.
- (d) The Company issued 25,000,000 shares at a price of \$0.02 for the acquisition of PED (Note 4(b)) amounting to \$500,000.

No capital activity was initiated during the period ended October 31, 2020.

#### Shares held in escrow

Pursuant to an escrow agreement dated March 11, 2019, a total of 10,500,000 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
10,500,000	1.70%	10% released on March 13, 2019; 15% released 6 months from Listing (listing to the CSE); 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.

As at October 31, 2020, a total of 5,775,000 escrowed shares have been released to the escrowed shareholders (April 30, 2020 – 4,200,000).

#### 20. 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 October 31, 2020, there are a total of 16,884,657 (April 30, 2020 – 23,359,657) stock options available for granting under the Plan.

## WORLD CLASS EXTRACTIONS INC.

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

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

##### Stock Option Plan (continued)

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

During the year ended April 30, 2020:

- i) 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 options vest on the date on which the acquisition of Quadron completed (June 17, 2019) and the balance of stock options vests in increments of 1,250,000 options every 6 months. These options have an expiry date of April 30, 2022.
- ii) 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 vested on December 10, 2019. These options have an expiry date of June 10, 2022.
- iii) On June 17, 2019, the Company granted 13,205,000 replacement options to the former Quadron option holders.
- iv) On April 23, 2020, the Company granted 20,160,000 stock options to directors, officers and consultants. Each option is exercisable to acquire one common share at a price of \$0.0505. A total of 10,080,000 options vested on the grant date and the remaining will vest on October 23, 2020. These options have an expiry date of April 23, 2024.
- v) During the year ended April 30, 2020, 29,655,000 stock options were cancelled/expired, and 700,000 stock options were exercised at a price of \$0.10.
- vi) The Company recognized share-based payments of \$2,468,231 in statement of loss and comprehensive loss for the year ended April 30, 2020.

During the period ended October 31, 2020:

- i) On May 27, 2020, the Company granted a total of 9,010,000 incentive stock options to certain directors, officers, consultants and employees of the Company. The options have an exercise price of \$0.05 per share and expire on May 26, 2024. The options will vest at a rate of 50% upon the date of the grant and the remaining 50% six months thereafter.
- ii) The Company recognized share-based payments of \$425,820 in statement of loss and comprehensive loss for the period ended October 31, 2020.
- iii) During the period ended October 31, 2020, 2,535,000 stock options were cancelled/forfeited.

**WORLD CLASS EXTRACTIONS INC.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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

The following summarizes the stock options activity during the period ended October 31, 2020 and the year ended April 30, 2020:

	October 31, 2020		April 30, 2020	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	39,160,000	0.07	26,150,000	0.11
Grant and issuance	9,010,000	0.05	43,365,000	0.11
Exercised	-	-	(700,000)	0.10
Cancelled/Forfeited	(2,535,000)	0.10	(29,655,000)	0.18
Total Outstanding	45,635,000	0.07	39,160,000	0.07
Total Outstanding and Exercisable	41,606,250	0.07	28,400,000	0.11

During the period ended October 31, 2020, the Company transferred \$2,370,887 from reserves to deficit for stock options forfeited and options that expired unexercised.

The following summarizes the stock options outstanding at October 31, 2020:

Expiry Date	Exercise Price	Weighted Average Contractual Life (Years)	Number of Options Issued and Outstanding	Number of Options Exercisable
July 7, 2021	\$ 0.07	0.68	13,200,000	13,200,000
March 19, 2022	\$ 0.17	1.38	3,100,000	3,100,000
March 9, 2023	\$ 0.20	2.35	570,000	570,000
October 15, 2023	\$ 0.13	3.96	280,000	280,000
February 12, 2024	\$ 0.10	3.28	190,000	166,250
April 23, 2024	\$ 0.05	3.48	19,785,000	19,785,000
May 26, 2024	\$ 0.05	3.57	8,510,000	4,505,000
	\$ 0.07	2.53	45,635,000	41,606,250

The following summarizes the stock options outstanding at April 30, 2020:

Expiry Date	Exercise Price	Weighted Average Contractual Life (Years)	Number of Options Issued and Outstanding	Number of Options Exercisable
July 7, 2021	\$ 0.07	1.19	13,200,000	13,200,000
March 19, 2022	\$ 0.17	1.88	3,100,000	3,100,000
March 9, 2023	\$ 0.20	2.86	700,000	700,000
October 15, 2023	\$ 0.13	3.46	280,000	245,000
February 12, 2024	\$ 0.10	3.79	1,720,000	1,075,000
April 23, 2024	\$ 0.05	3.98	20,160,000	10,080,000
	\$ 0.07	2.84	39,160,000	28,400,000

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

##### Stock Options (continued)

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:

	October 31, 2020	April 30, 2020
Volatility Rate	157%	95% - 154%
Risk-free rate	0.35%	1.34% - 1.56%
Forfeiture rate	0%	0%
Exercise price	0.05	0.05-0.20
Share price	0.025	0.035-0.19
Dividend yield rate	0%	0%
Weighted average life	0.93-3.82 years	1.19 - 3.98 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.

#### 21. WARRANTS

During the year ended April 30, 2020:

- On June 17, 2019, the Company granted 21,438,716 replacement warrants to the former Quadron warrant holders.
- During the year ended April 30, 2020, 14,285,716 warrants expired unexercised.

During the period ended October 31, 2020, 10,324,825 warrants expired unexercised. The following is a summary of warrant transactions for the period ended October 31, 2020 and for the year ended April 30, 2020:

	October 31, 2020		April 30, 2020	
	Number of Warrants	Weighted Average Exercise Price \$	Number of Warrants	Weighted Average Exercise Price \$
Balance, beginning of period	34,835,400	0.14	27,682,400	0.13
Granted	-	-	21,438,716	0.33
Expired	(10,324,825)	0.07	(14,285,716)	0.42
Balance, end of period	24,510,575	0.14	34,835,400	0.14

During the period ended October 31, 2020, the Company transferred \$2,370,887 from reserves to deficit for warrants that expired unexercised.

The following warrants were outstanding and exercisable as at October 31, 2020:

Expiry Date	Exercise Price	Weighted Average Contractual Life (Years)	Number of Warrants
March 21, 2020	\$ 0.13	0.39	2,000,000
March 21, 2020	\$ 0.15	0.39	1,600,000
March 21, 2020	\$ 0.17	0.39	2,000,000
April 18, 2020	\$ 0.18	1.46	3,000,000
September 22, 2020	\$ 0.13	1.89	15,910,575
		1.50	24,510,575

## WORLD CLASS EXTRACTIONS INC.

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#### 21. WARRANTS (continued)

The following warrants were outstanding and exercisable at April 30, 2020

Expiry Date	Exercise Price	Weighted Average Contractual Life (Years)	Number of Warrants
June 6, 2020	\$ 0.067	0.10	2,466,975
June 14, 2020	\$ 0.067	0.12	704,850
October 31, 2020	\$ 0.15	0.50	7,153,000
March 21, 2020	\$ 0.13	0.89	2,000,000
March 21, 2020	\$ 0.15	0.89	1,600,000
March 21, 2020	\$ 0.17	0.89	2,000,000
April 18, 2020	\$ 0.18	1.97	3,000,000
September 22, 2020	\$ 0.13	2.40	15,910,575
		1.77	34,835,400

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:

	October 31, 2020	April 30, 2020
Volatility Rate	-	275% - 176%
Risk-free rate	-	0.0144
Forfeiture rate	-	0%
Exercise price	-	0.067-0.18
Share price	-	0.035-0.19
Dividend yield rate	-	0.00%
Weighted average life	-	0.10-2.40ears

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.

#### 22. RIGHT-OF-USE ASSET

##### Cobourg Facility

On November 23, 2018 (subsequently amended on September 23, 2019), the Company entered a letter of intent with FV Pharma Inc. ("FV Pharma"). Under the direction of FV Pharma, the Company planned to setup and manage the operations of 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 FV Pharma would then each have a 50% revenue sharing interest in the venture. Included as part of the agreement was the lease of the FV Pharma Facility.

The Company and FV Pharma would then each have a 50% revenue sharing interest in the venture. Included as part of the agreement was the lease of the FV Pharma Facility. The Company then recognized a right-of-use asset ("ROU") amounting to \$106,509 as at April 30, 2019 equivalent to the present value of all cash flows discounted at an incremental borrowing rate of 14%.

During the latter part of 2019, FSD Pharma Inc., the parent company of FV Pharma was pursuing a listing on NASDAQ and as a result, the Company experienced unanticipated delays with the deployment of this extraction and processing facility. In 2020, the Company announced that it will not be proceeding with the deal. As a result, at April 30, 2020, the Company reversed all previously recognized right-of-use asset and related amortization pertaining to the said facility.

**22. RIGHT-OF-USE ASSET (continued)****Langley Facility**

On March 6, 2018, the Company through its subsidiary, Soma Labs Scientific, Inc., 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. In accordance with IFRS 16, the Company recognized right-of-use asset of \$468,918 as at May 1, 2019 equal to the present value of all remaining lease payments discounted at an incremental borrowing rate of 14%. The Company depreciates the right-of-use assets on a straight-line basis, over the remaining lease term.

**Equipment Lease**

On November 25, 2019, the Company leased equipment for a monthly fee of \$1,874, with first month payment of \$4,464. The term is for 24 months starting on December 1, 2019 and the Company will have the option to buy the equipment at the end of the lease term for a price of \$4,933. The Company recognized right-of-use asset of \$47,221 as at December 1, 2019 equal to the present value of all remaining lease payments discounted at an incremental borrowing rate of 14%.

**Ontario Facility**

Upon acquisition of PED, the Company acquired the right to use the leased premises in Burlington, Ontario. The lease is for 10 years and commenced on October 1, 2019. The minimum base rent per month for years 1 to 10 of the 10-year lease are respectively \$7,520 for year 1, \$7,725 for year 2, \$7,929 for year 3, \$8,133 for year 4, \$8,338 for year 5, \$8,542 for year 6, \$8,746 for year 7, \$8,951 for year 8, \$9,155 for year 9, and \$9,359 for year 10. The fair value on March 31, 2020 recognized upon business combination amounted to \$523,861, equal to the present value of all remaining lease payments discounted at PED's incremental borrowing rate of 12%. The Company depreciates the right-of-use assets on a straight-line basis, over the remaining lease term.

**Manitoba Facility**

Along with the acquisition of PED came the lease of an office space in Winnipeg, Manitoba. The lease is for three years and commenced on November 1, 2018. The monthly rent per month for years 1 to 3 for the 3-year lease are respectively \$1,600 for year 1, \$1,700 for year 2, and \$1,800 for year 3. As at March 31, 2020, the ROU asset recognized amounted to \$28,602, equal to the present value of all remaining lease payments discounted at PED's incremental borrowing rate of 12%. The Company depreciates the right-of-use assets on a straight-line basis, over the remaining lease term.

**Ottawa Facility**

On April 30, 2020, PED entered into a five-year lease agreement for a 1,803 sq. ft facility in Ottawa, Ontario, renewable for another ten years commencing on May 1, 2020 and ending on April 30, 2025. The annual lease payment is \$21,636 with an escalation rate of \$0.25 per sq. ft. per year. On May 1, 2020, the ROU asset recognized amounted to \$139,887, equal to the present value of all remaining lease payments discounted at PED's incremental borrowing rate of 12%. The Company depreciates the right-of-use assets on a straight-line basis, over the remaining lease term, including the renewal term.

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**22. RIGHT-OF-USE ASSET (continued)**

<b>Cost</b>	<b>Cobourg Facility \$</b>	<b>Langley Facility \$</b>	<b>Equipment Lease \$</b>	<b>Ontario Facility \$</b>	<b>Manitoba Facility \$</b>	<b>Ottawa Facility \$</b>	<b>Total \$</b>
Balance, April 30, 2019	106,509	-	-	-	-	-	106,509
Additions	-	468,918	47,221	523,861	28,602	-	1,068,602
Reversal	(106,509)	-	-	-	-	-	(106,509)
Balance, April 30, 2020	-	468,918	47,221	523,861	28,602	-	1,068,602
Additions	-	-	-	-	-	139,887	139,887
Reversal	-	-	-	-	-	-	-
<b>Balance, October 31, 2020</b>	<b>-</b>	<b>468,918</b>	<b>47,221</b>	<b>523,861</b>	<b>28,602</b>	<b>139,887</b>	<b>1,208,489</b>
<b>Accumulated depreciation</b>							
Balance, April 30, 2019	(6,162)	-	-	-	-	-	(6,162)
Additions	-	(114,837)	(9,838)	(4,555)	(1,505)	-	(130,735)
Reversal	6,162	-	-	-	-	-	6,162
Balance, April 30, 2020	-	(114,837)	(9,838)	(4,555)	(1,505)	-	(130,735)
Additions	-	(57,419)	(11,805)	(27,331)	(9,032)	(6,994)	(112,581)
Reversal	-	-	-	-	-	-	-
<b>Balance, October 31, 2020</b>	<b>-</b>	<b>(172,256)</b>	<b>(21,643)</b>	<b>(31,886)</b>	<b>(10,537)</b>	<b>(6,994)</b>	<b>(243,316)</b>
<b>Carrying value</b>							
Balance, April 30, 2020	-	354,081	37,383	519,306	27,097	-	937,867
<b>Balance, October 31, 2020</b>	<b>-</b>	<b>296,662</b>	<b>25,578</b>	<b>491,975</b>	<b>18,065</b>	<b>132,893</b>	<b>965,173</b>

**23. 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 discount rates of 12-14% to calculate the present value of its lease payments. Total interest expense on lease liabilities for the period ended October 31, 2020 was \$46,334 (October 31, 2019 - \$6,960). The following table represents lease obligation for the Company:

	<b>October 31, 2020 \$</b>	<b>April 30, 2020 \$</b>
Current	<b>177,982</b>	174,853
Non-current	<b>884,265</b>	840,866
<b>Total lease obligation</b>	<b>1,062,247</b>	1,015,719



## WORLD CLASS EXTRACTIONS INC.

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

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#### 23. LEASE OBLIGATION (continued)

The following table shows the rollforward of lease obligations for the period ended October 31, 2020 and April 30, 2020:

	October 31, 2020	April 30, 2020
	\$	\$
Beginning balance	1,015,719	109,446
Additions	131,989	1,153,203
Interest expense	72,740	71,807
Reversals	-	(94,759)
Lease payments	(158,201)	(223,978)
<b>Ending balance</b>	<b>1,062,247</b>	<b>1,015,719</b>

The following table presents the contractual undiscounted cashflows for lease obligation as at October 31, 2020 and April 30, 2020:

	October 31, 2020	April 30, 2020
	\$	\$
Less than one year	318,835	295,952
One to five years	847,735	1,202,645
More than 5 years	442,041	-
<b>Total undiscounted lease obligation</b>	<b>1,608,611</b>	<b>1,498,597</b>

The Company expensed \$164,140 (2019 - \$100,720) in payments during the period for leases which met the low value and short-term exemption criteria.

#### 24. REVENUES

The following table presents the breakdown of the Company's revenues for the period ended October 31, 2020 and for the period ended October 31, 2019:

Revenue Source	October 31, 2020	October 31, 2019
	\$	\$
Delivery	4,357,139	-
Sale of disposable vaporizer pens	-	151,188
Sale of automation on control equipment	-	27,400
Sale and rental of extraction and processing equipment	-	1,1251
<b>Total revenues</b>	<b>4,357,139</b>	<b>179,839</b>

**WORLD CLASS EXTRACTIONS INC.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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**25. OPERATING EXPENSES****Selling expenses**

	Six months ended		Three months ended	
	October 31,	October 31,	October 31,	October 31,
	2020	2019	2020	2019
	\$	\$	\$	\$
Investor relations	5,770	99,979	-	90,000
Marketing and research	6,006	176,097	141	174,043
Travel and marketing	17,737	485,120	10,112	119,386
	<b>29,513</b>	<b>761,196</b>	<b>10,253</b>	<b>383,429</b>

**General and administrative expenses**

	Note	Six months ended		Three months ended	
		October 31,	October 31,	October 31,	October 31,
		2020	2019	2020	2019
		\$	\$	\$	\$
Bad debt		-	504	-	-
Consulting fees	29	136,218	561,371	47,087	298,598
Filing fees		50,179	57,193	36,947	21,461
Lease interest	23	46,334	6,960	9,244	3,475
Management fees		114,000	92,825	53,000	38,325
Office expenses		405,771	126,928	235,882	124,543
Professional fees	29	362,347	576,191	248,844	216,642
Remuneration and benefits		1,317,867	799,439	685,552	561,920
Rent		164,140	100,720	83,257	62,075
Research and development		341,780	818,437	8,781	564,179
Share-based payments	20, 29	425,820	1,489,640	168,761	496,505
Shop expenses		1,860	150,902	827	150,902
		<b>3,366,315</b>	<b>4,781,110</b>	<b>1,578,182</b>	<b>2,538,625</b>

**26. OTHER INCOME (EXPENSES)**

	Note	Six months ended		Three months ended	
		October 31,	October	October 31,	October 31,
		2020	31, 2019	2020	2019
		\$	\$	\$	\$
Acquisition fees	4	(67,500)	(982,675)	(67,500)	-
Interest expense and bank charges	17,18	(278,578)	(6,966)	(159,880)	(2,715)
Gain on asset disposal		200,276	(2,256)	-	(2,256)
Unrealized gain on conversion feature	18	232,936	-	113,329	-
Interest income	9	35,227	39,440	30,729	32,618
Government grant	17	39,026	-	39,026	-
Customer deposit write-down	15	135,238	-	135,238	-
Foreign exchange gain (loss)		(38,737)	(16,468)	(14,743)	1,425
Others		44,570	-	44,484	-
<b>Total other income (expenses)</b>		<b>302,458</b>	<b>(968,925)</b>	<b>120,683</b>	<b>29,072</b>

## WORLD CLASS EXTRACTIONS INC.

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

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#### 27. FINANCIAL INSTRUMENTS

As at October 31, 2020 and April 30, 2020, the carrying value of all financial instruments carried at amortized cost are equivalent to fair value. 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 risk for cash and cash equivalents cash is mitigated by holding these instruments with highly rated Canadian financial institutions. Accounts receivable primarily consist of trade accounts receivable and other receivables.

The Company provides credit to certain customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. The Company's credit risk exposure lies on its ability to collect from its business partners for advances made for new business deals. The Company's ECL on its trade receivables as at October 31, 2020 is nominal (April 30, 2020 – nominal).

##### *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 October 31, 2020, the Company had a cash balance of \$1,356,834 (April 30, 2020 - \$5,632,160) to settle current liabilities of \$5,603,366 (April 30, 2020 - \$5,493,417). The Company's future financial success will be dependent upon the ability to monetize its technologies or obtain necessary financing to meet its contractual obligations. All of the Company's financial liabilities have contractual maturities of less than a year and are subject to normal trade terms. Working capital deficiency poses a liquidity risk unless the company can monetize on its technologies or acquire further equity or debt funding. The Company is exploring all opportunities for monetization of its assets technology and in acquiring further funding.

		October 31, 2020	April 30, 2020
Current liabilities	Note	\$	\$
Accounts payable and accrued liabilities	14	1,440,018	1,302,058
Customer deposits	15	348,412	490,412
Due to related parties	29	568,005	375,759
Current portion of lease obligations	23	177,982	174,853
Convertible debt	18	2,229,686	1,996,405
Derivative liability	18	707,062	1,021,729
Loans payable	16	125,000	125,000
Liabilities of discontinued operations	31	7,201	7,201
<b>Total current liabilities</b>		<b>5,603,366</b>	<b>5,493,417</b>

## WORLD CLASS EXTRACTIONS INC.

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

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#### 27. FINANCIAL INSTRUMENTS (continued)

The tables summarize the maturity profile of the Company's financial liabilities used for liquidity management and liabilities as at October 31, 2020 and April 30, 2020 based on contractual undiscounted receipts and payments.

October 31, 2020	<1 year	1-5 years	>5years
<b>Financial liabilities at amortized cost</b>			
Accounts payable and accrued liabilities	\$ 1,440,018	\$ -	\$ -
Due to related parties	568,005	-	-
Loans payable - current	125,000	-	-
Loans payable - noncurrent	-	88,383	-
Convertible debt	2,229,686	-	-
Total financial liabilities at amortized cost	\$ 4,362,709	\$ 88,383	\$ -
<b>Financial liabilities at fair value</b>			
Derivative liability	\$ 707,062	\$ -	\$ -
<b>April 30, 2020</b>			
<b>Financial liabilities at amortized cost</b>			
Accounts payable and accrued liabilities	\$ 1,302,058	\$ -	\$ -
Due to related parties	375,759	-	-
Loans payable - current	125,000	-	-
Loans payable - noncurrent	-	80,000	-
Convertible debt	1,996,405	-	-
Total financial liabilities at amortized cost	\$ 3,799,222	\$ 80,000	\$ -
<b>Financial liabilities at fair value</b>			
Derivative liability	\$ 1,021,729	\$ -	\$ -

#### 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.

## WORLD CLASS EXTRACTIONS INC.

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

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#### 27. FINANCIAL INSTRUMENTS (continued)

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.

During the period ended October 31, 2020 and year ended April 30, 2020, there were no transfers into or out of Level 3 fair value measurements. The fair values of the convertible debts, convertible loan receivable and investment are all affected by market rates which are applicable to them on the dates of issuance. A change in those discount rates may result in significantly higher or lower fair value measurements.

October 31, 2020	Level 1	Level 2	Level 3
<b>Financial liabilities at fair value</b>			
Derivative liability	\$ -	\$ -	\$ 707,062

  

April 30, 2020	Level 1	Level 2	Level 3
<b>Financial liabilities at fair value</b>			
Derivative liability	\$ -	\$ -	\$ 1,021,729

#### 28. 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 and delivery 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 period ended October 31, 2020, cash inflows from financing activities amounted to \$40,000 from the CEBA loan of PED (2019: inflows from financing activities amounted to \$1,323,465 from the acquisition of QCC and \$70,000 as proceeds from the issuance of shares net of share issuance costs partly offset by the payment of loans payable amounting to \$1,163,677).

The Company does not currently have adequate sources of capital to complete its current obligations and ultimately the development of its business and will need to raise capital by obtaining equity financing, selling assets and/or incurring debt. The Company may raise additional debt or equity financing in the near term to meet its current obligations. 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. The Company's total managed capital cash of \$1,356,834 (April 30, 2020 - \$5,632,160) and equity attributable to holders of the parent of \$6,787,802 (April 30, 2020 - \$8,359,773).

## WORLD CLASS EXTRACTIONS INC.

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

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#### 29. RELATED PARTY TRANSACTIONS

All transactions were in the normal course of operations and were recorded at fair values established, which the consideration is agreed upon by the related parties. As at October 31, 2020, amounts due from related parties (a Company controlled by the CIO of WCE) totaled \$66,541 (April 30, 2020 - \$Nil) are unsecured, payable on demand, and without interest.

As at October 31, 2020, amounts due to related parties totaled \$568,005 (April 30, 2020 - \$375,759) are unsecured, payable on demand, and without interest.

	October 31, 2020	April 30, 2020
	\$	\$
CEO of WCE	15,341	-
President	87,102	14,771
CFO of WCE	17,128	16,825
CFO of PED	25,225	-
Corporate Secretary	-	123,682
CEO of PED	238,579	209,181
CIO of WCE	14,961	-
President of Soma Labs	15,731	-
Director*	153,938	11,300
<b>Total</b>	<b>568,005</b>	<b>375,759</b>

\*Amounts due to a company controlled by a Director include \$142,638 of convertible debt (Note 18).

During the periods ended October 31, 2020 and 2019, the Company entered into the following transactions with related parties:

	October 31, 2020	October 31, 2019
	\$	\$
Management fees	114,000	79,000
Consulting fees	5,000	112,500
Accounting fees	18,628	23,707
Finders' fees	67,500	-
Legal fees	-	139,290
Remuneration and benefits	234,727	125,000
Other income	64,076	-
Share-based payments	220,214	677,731
<b>Total</b>	<b>724,145</b>	<b>1,157,228</b>

- Management fees reported as part of consulting fees (Note 25) consist of \$75,000 paid to a company of which the President of the Company has significant interest and \$39,000 were paid to a company controlled by the CFO (2019: \$48,000 paid to the former CFO and director, \$31,000 paid to a company controlled by the current CFO).
- Consulting fees included as part of general and administrative expenses (Note 25) consist of \$5,000 to a company of which the President of the Company has significant interest (2019: \$82,500 to a company of which the President of the Company has significant interest, \$12,000 to a Director, \$6,000 to the COO and \$12,000 to the former CEO).
- Accounting fees presented as part of professional fees (Note 25) consist of \$18,628 to a company controlled by the CFO (2019: \$23,707).
- Legal fees paid to related parties mounted to \$Nil this year (2019: \$138,390 to a firm at which the Corporate Secretary is a Partner and \$900 to the CEO and Director).

## WORLD CLASS EXTRACTIONS INC.

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

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#### 29. RELATED PARTY TRANSACTIONS (continued)

- Remuneration and benefits reported as part of general and administrative expenses (Note 25) consist of \$75,000 to CEO (2019: \$53,750), \$63,077 to the CIO (2019: \$Nil), \$96,650 to the President of Soma (2019: \$71,250).
- Share-based payments reported as part of general and administrative expenses (Note 25) consist of \$55,543 to directors, 6,597 to a former director, \$71,747 to the President, \$5,608 to the CFO, \$70,824 to the CEO, \$6,597 to the CIO and \$3,298 to the President of Soma Labs (2019: \$56,991 to directors, \$149,870 to former directors, \$38,951 to corporate secretary, \$412,347 to the President, \$12,624 to CFO, \$2,403 to the CEO and \$4,455 to the President of Soma Labs).

For the acquisition of Quadron (Note 4(a)), the Company incurred \$279,437 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.

During the period ended October 31, 2020, PED owes \$462,789 to the Company for advances and interest in accordance with the credit facility agreement between the Company and the subsidiary. This is subject to an annual interest rate of 12%, compounded monthly.

#### 30. SUPPLEMENTAL CASH FLOW INFORMATION

The Company incurred the following non-cash financing transactions during the periods ended October 31, 2020 and 2019:

Supplemental Information	October 31, 2020 \$	October 31, 2019 \$
Shares issued for acquisition	-	20,764,300
Options issued for acquisition of Quadron	-	1,097,418
Warrants issued for acquisition of Quadron	-	1,375,462
Fair value of options exercised	-	73,584
Shares issued for settlement of debt of PED	9,896	-
Shares issued to finders for acquisition of PED	67,500	-
Share-based compensation expenses for options	425,820	1,489,640

## WORLD CLASS EXTRACTIONS INC.

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

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#### 30. SUPPLEMENTAL CASH FLOW INFORMATION (continued)

Cash interest payments for the period ended October 31, 2020 amounted to \$158,201 (April 30, 2020: \$223,976). Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Convertible debentures \$	Convertible note \$	Lease obligations \$	Government Grant \$	Total \$
April 30, 2019	-	-	109,446	-	109,446
<b>Cash items:</b>					
Proceeds	477,365	1,518,181	-	-	1,995,546
Payments	-	-	(223,976)	-	(223,976)
Transaction costs	(32,400)	-	-	-	(32,400)
<b>Non-cash items:</b>					
Additions	-	-	1,153,203	80,000	1,233,203
Interest expense	1,506	15,409	71,807	-	88,722
Accretion	6,450	9,894	-	-	16,344
Reversals	-	-	(94,761)	-	(94,761)
April 30, 2020	452,921	1,543,484	1,015,719	80,000	3,092,124
<b>Cash items:</b>					
Payments	-	-	(158,201)	-	(158,201)
<b>Non-cash items:</b>					
Reclass	-	103,794	-	(26,242)	77,552
Additions	-	-	131,989	27,215	159,204
Interest expense	9,239	110,184	72,740	7,410	199,573
Accretion	39,293	63,472	-	-	102,765
Reclass	(92,701)	-	-	-	(92,701)
<b>October 31, 2020</b>	<b>408,752</b>	<b>1,820,934</b>	<b>1,062,247</b>	<b>88,383</b>	<b>3,380,316</b>

#### 31. SEGMENTED INFORMATION

The Company's operations until its acquisition of Quadron on June 17, 2019 was in a single reporting operating segment. The PED acquisition on March 31, 2020 saw an additional reporting operating segment added to the Company. All of the Company's assets are situated in Canada.

The Company has five principal reporting segments: corporate and development; sale of disposable vaporizer pens and cartridges; development and deployment of extraction technology and services; sale of automation solution equipment (now discontinued – see Discontinued Operations) and delivery. 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 discrete financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

#### Discontinued Operations

During the year ended April 30, 2020, the Company considered that the sales of automation on control solution equipment (formerly operated via Cybernetics Control Systems Inc.) to have met the definition of discontinued operations and as such, assets, liabilities and results of operations that can be clearly distinguished operationally and for financial reporting purposes from the rest of the Company have been terminated. As at October 31, 2020 and April 30, 2020, the liabilities of discontinued operations recognized in the consolidated statements of financial position relate to the customer deposits amounting to \$7,201.



**WORLD CLASS EXTRACTIONS INC.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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**31. SEGMENTED INFORMATION (continued)**

<b>For the period ended October 31, 2019</b>	<b>Corporate and development \$</b>	<b>Development and deployment of extraction equipment, technology and services \$</b>	<b>Sale of Disposable Vaporizer pens \$</b>	<b>Sale on automation of control solution equipment \$</b>	<b>Total \$</b>
Revenue	-	1,251	151,188	27,400	179,839
Gross margin	-	309	80,681	3,066	84,056
Research and development expenses net of credits and grants	(349,356)	(288,598)	-	(180,386)	(818,340)
Selling, general and administrative expenses	-	(928,427)	(13,908)	(79,643)	(1,021,978)
Segment income (loss) from operating activities before corporate expenses	(349,356)	(1,216,716)	66,773	(256,963)	(1,756,262)
Unallocated costs:					
Corporate general and administrative expenses	(2,226,921)	-	-	-	(2,226,921)
Acquisition fees	(982,675)	-	-	-	(982,675)
Interest income	38,212	-	-	-	38,212
Interest expense	(9,889)	-	-	-	(9,889)
Net income	(3,530,629)	(1,216,716)	66,773	(256,963)	(4,937,535)
Depreciation and amortization	(1,365,970)	(69,280)	-	(18,836)	(1,454,086)
Stock-based compensation	(1,489,640)	-	-	-	(1,489,640)
Reportable segment assets	23,507,389	3,650,490	203,799	756,181	28,117,859
Reportable segmented liabilities	490,278	963,738	31,011	28,457	1,513,484

**WORLD CLASS EXTRACTIONS INC.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

As at and for the period ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

**31. SEGMENTED INFORMATION (continued)**

<b>For the period ended October 31, 2020</b>	<b>Corporate and development \$</b>	<b>Development and deployment of extraction equipment, technology and services \$</b>	<b>Sale of Disposable Vaporizer pens \$</b>	<b>Delivery \$</b>	<b>Sale of automation on control solution equipment \$</b>	<b>Total \$</b>
Revenue	-	-	-	4,357,139	-	4,357,139
Gross margin	-	-	-	1,517,205	-	1,517,205
Research and development expenses net of credits and grants	(331,576)	(10,204)	-	-	-	(341,780)
Selling, general and administrative expenses	-	(307,308)	1,051	(1,378,363)	-	(1,684,620)
Segment income (loss) from operating activities before corporate expenses	(331,576)	(317,512)	1,051	(138,842)	-	(509,195)
Unallocated costs:						
Corporate general and administrative expenses	(795,479)	-	-	-	-	(795,479)
Impairment of inventory	-	(15,629)	-	-	-	(15,629)
Interest income	35,227	-	-	-	-	35,227
Unrealized gain on conversion feature	-	-	-	232,936	-	232,936
Lease interest	(2,242)	-	-	(44,092)	-	(46,334)
Net loss from continuing operations	(1,161,570)	(331,141)	1,051	327,686	-	(1,165,974)
Depreciation and amortization	(27,314)	(104,544)	-	(176,073)	-	(307,931)
Stock-based compensation	(425,820)	-	-	-	-	(425,820)
Reportable segment assets	4,650,805	1,204,126	17,546	4,336,401	-	10,208,878
Reportable segmented liabilities	858,513	906,560	1,677	4,802,063	7,201	6,576,014

## WORLD CLASS EXTRACTIONS INC.

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

As at and for the period ended October 31, 2020 and 2019

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#### 32. SUBSIDIARY WITH SIGNIFICANT NON-CONTROLLING INTEREST

The financial information of PED, WCE's only subsidiary that has a material non-controlling interest is provided below. As at October 31, 2020, WCE has 22.79% (April 30, 2020 - 21.55%) economic interest in PED and non-controlling stockholders have 77.21% in PED (April 30, 2020 – 78.45%). Voting interest of WCE in PED remains at 80%.

Summary of PED's financial information	October 31, 2020 \$	April 30, 2020 \$
Current assets	2,341,656	1,317,348
Noncurrent assets	1,893,088	1,893,641
Current liabilities	3,995,171	4,118,096
Noncurrent liabilities	651,217	535,768
Revenue	4,357,139	819,931
Net income (loss)	183,468	(30,036)

The table below summarizes the movements in NCI for the period ended October 31, 2020 and the year ended April 30, 2020:

	October 31, 2020 \$	April 30, 2020 \$
Beginning balance	5,436,999	-
Addition	77,396	5,460,557
Net income (loss)	143,664	(23,558)
Dividends	-	-
Ending balance	5,658,059	5,436,999

#### 33. COMMITMENTS AND CONTINGENCIES

##### (a) Supply Agreements

###### Supply and Loan Agreement with Canntab Therapeutics Limited

On October 8, 2019, the Company entered into a supply and loan agreement with the Canntab Therapeutics Limited ("Canntab") to set-up, manage and operate a cannabis and hemp extraction and processing facility at Canntab's manufacturing center in Markham, Ontario. On March 3, 2020, Canntab received its Cannabis Standard Processing and Sales for Medical Purposes License. As of October 31, 2020, the Company is evaluating its commitment to this venture.

##### (b) Occupancy Lease Agreements

PED, the newly acquired subsidiary, has the following existing lease agreements as at October 31, 2020:

- Facility rental in East Cory Industrial Park for \$950 per month from April 15, 2019 to April 15, 2021. A security deposit of \$1,900 plus GST was paid at the start of the lease (Note 11).
- Facility rental in Manitoba for \$1,600 to \$1,800 per month plus GST from November 1, 2018 to October 31, 2021. A damage deposit of \$2,000 was paid on commencement date (Note 11).
- Facilities rental in Ottawa for \$1,803 to \$2,156 per month plus GST from May 1, 2020 to April 30, 2030. A damage deposit of \$6,095 was paid on commencement date (Note 11).

## **WORLD CLASS EXTRACTIONS INC.**

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

**As at and for the period ended October 31, 2020 and 2019**

(Expressed in Canadian Dollars)

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#### **33. COMMITMENTS AND CONTINGENCIES (continued)**

##### **(c) Contingent Liability**

The Company's subsidiary, Soma Labs, also had an outstanding employment claim. At this time the outcome is unknown, and no amount has been accrued with respect to this claim.

#### **34. SUBSEQUENT EVENTS**

Subsequent to October 31, 2020:

In March 2020, the World Health Organization declared a global pandemic known as COVID-2019. This is causing significant financial market and social dislocation. This has also resulted in significant economic uncertainty and consequently, it is difficult to reliably measure the potential impact of this uncertainty on the Company's future financial results.

As a result of COVID-2019, some governments made available wage-subsidy programs for eligible entities who meet certain criteria. The Company, through its subsidiary, Soma Labs, applied for the Canada Emergency Wage Subsidy and received \$69,094.

482,500 stock options were forfeited and cancelled.

On November 20, 2020, the Company's subsidiary, PED, entered into a licensing agreement to provide software and support services to an arms' length party. PED shall provide set-up, implementation and development of the software and shall provide support to all locations catered to by the other party.