Canada House Wellness Group Inc.

Unaudited interim condensed consolidated financial statements
[Expressed in thousands of Canadian dollars]
For the three months ended July 31, 2019

Canada House Wellness Group Inc.

Unaudited interim condensed consolidated statements of financial position

[Expressed in thousands of Canadian dollars]

[See going concern uncertainty – note 1]

As at

	July 31, 2019 $	April 30, 2019 $
Assets		
Current		
Cash	**1,535**	3,427
Trade and other receivables *[note 5]*	**1,602**	1,517
Inventories *[note 6]*	**152**	42
Biological assets *[note 7]*	**—**	—
Loan receivable	**—**	10
Prepaid expenses and deposits	**230**	465
Total current assets	**3,519**	5,461
Property, plant and equipment, net *[note 8]*	**7,037**	7,170
Intangible assets, net *[note 9]*	**3,274**	3,676
Right-of-use assets, net [*note 10*]	**3,394**	—
	17,224	16,307
Liabilities and shareholders' equity		
Current		
Trade and other payables	**3,364**	3,175
Due to related parties	**88**	88
Current portion of lease liability *[note 10]*	**647**	—
Borrowings *[note 12]*	**—**	7
Contingent consideration *[note 4]*	**3,376**	3,912
Total current liabilities	**7,475**	7,182
Lease liability *[note 10]*	**2,713**	—
Borrowings *[note 12]*	**313**	329
Convertible debentures	**420**	386
Deferred tax liabilities	**12**	12
Total liabilities	**10,933**	7,909
Commitments and contingencies *[note 17]*		
Shareholders' equity		
Share capital *[note 13]*	**34,357**	34,508
Equity component of convertible debentures *[note 13]*	**265**	265
Contributed surplus *[note 13]*	**12,264**	12,196
Deficit	**(40,595)**	(38,571)
Total shareholders' equity	**6,291**	8,398
	17,224	16,307

See accompanying notes

Canada House Wellness Group Inc.

Unaudited interim condensed consolidated statements of loss and comprehensive loss

[Expressed in thousands of Canadian dollars]

Three months ended July 31

	2019	2018
	$	$
Revenue	**1,290**	1,231
Cost of sales *[note 6]*	**312**	—
Gross profit before fair value adjustments	**978**	1,231
Fair value adjustment on growth of biological assets *[note 7]*	**394**	—
Gross profit	**584**	1,231
Expenses		
General and administrative *[note 16]*	**2,322**	2,032
Sales and marketing *[note 16]*	**227**	105
Share-based compensation *[note 14]*	**228**	446
Right-of-use assets amortization *[note10]*	**86**	—
Depreciation and amortization *[notes 8 and 9]*	**438**	297
Loss from operations	**(2,717)**	(1,649)
Finance and transaction costs, net	**(989)**	307
Other expenses	**7**	—
Loss before income taxes	**(1,735)**	(1,956)
Provision for (recovery of) income tax	**(13)**	72
Net loss and comprehensive loss for the period	**(1,722)**	(2,028)
Net loss per share, basic and diluted *[note 15]*	**(0.01)**	(0.01)
Weighted average number of shares outstanding – based and diluted	**253,763,197**	166,861,614

See accompanying notes

Canada House Wellness Group Inc.

Unaudited interim condensed consolidated statements of changes in shareholders' equity

[Expressed in thousands of Canadian dollars, except share amounts]

	Common shares		Contributed surplus	Equity component of convertible debentures	Deficit	Total
	#	$	$	$	$	$
Balance, April 30, 2019	**253,157,570**	**34,508**	**12,196**	**265**	**(38,571)**	**8,398**
Share-based compensation *[note 14]*	**—**	**—**	**228**	**—**	**—**	**228**
Common shares issuable in exchange for professional services *[note 13[b][2]]*	**1,000,000**	**160**	**(160)**	**—**	**—**	**—**
Settlement of contingent consideration	**(3,955,595)**	**(311)**	**—**	**—**	**(302)**	**(613)**
Net loss for the period	**—**	**—**	**—**	**—**	**(1,722)**	**(1,722)**
Balance, July 31, 2019	**250,201,975**	**34,357**	**12,264**	**265**	**(40,595)**	**6,291**
Balance, April 30, 2018	164,662,939	23,473	8,249	1,498	(27,156)	6,064
Common shares issued pursuant to conversion of convertible debentures *[note 13[b]]*	4,397,350	399	—	(169)	—	230
Share-based compensation *[note 14]*	—	—	446	—	—	446
Net loss for the period	—	—	—	—	(2,028)	(2,028)
Balance, July 31, 2018	169,060,289	23,872	8,695	1,329	(29,184)	4,712

See accompanying notes

Canada House Wellness Group Inc.

Unaudited interim condensed consolidated statements of cash flows

[Expressed in thousands of Canadian dollars]

Three months ended July 31

	2019	2018
	$	$
Operating activities		
Net loss and comprehensive loss for the period	**(1,722)**	(2,028)
Add (deduct) items not affecting cash		
Depreciation and amortization *[notes 8, 9 and 10]*	**934**	297
Share-based compensation	**228**	446
Finance and transaction costs	**(1,066)**	214
Other non-cash expenses	**(2)**	17
Net changes in non-cash working capital balances related to operations		
Trade and other receivables	**(85)**	(298)
Prepaid expenses and deposits	**176**	(8)
Inventories	**(110)**	—
Lease liability	**(157)**	
Trade and other payables	**191**	(614)
Cash used in operating activivties	**(1,613)**	(1,974)
Investing activities		
Purchase of property, plant and equipment, including deposists	**(266)**	(1,004)
Proceeds from repayment of loan receivable	**10**	10
Cash used in investing activities	**(256)**	(994)
Financing activities		
Due to related parties	**—**	(139)
Proceeds from borrowings, net	**(23)**	(2)
Cash used in financing activities	**(23)**	(141)
Net decrease in cash during the period	**(1,892)**	(3,109)
Cash, beginning of period	**3,427**	8,953
Cash, end of period	**1,535**	5,844

See accompanying notes **—**

1. Nature of business and going concern uncertainty

Canada House Wellness Group Inc. [the "Company"], formerly Abba Medix Group Inc., was incorporated on September 29, 1982 under the *Company Act* of the Province of British Columbia and is listed on the Canadian Securities Exchange under the symbol CHV [formerly "ABA"].

These unaudited interim condensed consolidated financial statements of the Company for the three months ended July 31, 2019, comprise the results of the Company and its wholly owned subsidiaries Abba Medix Corp. ["Abba"], 672800 NB Inc. doing business as Marijuana for Trauma ["MFT"], The Longevity Project Corp, ["TLP"], 690050 NB Inc. doing business as Knalysis Technologies ["Knalysis"] and 2104071 Alberta Inc., which holds the dispensary license in Edmonton, Alberta. In September 2018, 672800 NB Inc. began operating as Canada House Clinics ["CHC"]. MFT and CHC may be used interchangeably throughout these unaudited interim condensed consolidated financial statements.

Using its own proprietary patient management software developed by Knalysis, MFT provides education services concerning appropriate cannabinoid therapies to patients and in the future, through Abba, intends to offer its own strains of medical cannabis. Abba has received its license to produce medical marijuana under the Access to Cannabis for Medical Purposes Regulations, as well as its license to produce cannabis oil. Abba has received an amendment to its Producer's Licence from Health Canada to include the sale and provision of marijuana seeds. In December 2018, the Company received a sales license to sell products from others, but not its own production. Subsequent to July 31, 2019, the Company was granted an amended license to sell its own production consisting of dried cannabis products to provincially and territorially authorized provincial retailers and to holders of a license for medical purposes. The Company expects a pre-sales inspection in the coming months, at which time it will be able to sell its own production. The registered office is located at 1773 Bayly Street, Pickering, Ontario.

Going concern uncertainty

The unaudited interim condensed consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. These interim condensed consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

For the three-months ended July 31, 2019, the Company incurred a net loss of $1,722, and as at July 31, 2019, had an accumulated deficit of $40,595 and a working capital deficit of $3,956. Cash flow used in operations for the three-months ended July 31, 2019 was $1,613. Whether, and when, the Company can attain profitability and positive cash flows from operations is subject to material uncertainty. There is a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company will need to raise additional capital in order to fund its planned operations and meet its obligations. While the Company has been successful in obtaining financing to date and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, there can be no assurance that the Company will achieve profitability and be able to do so in the future on terms favourable for the Company. Subsequent to July 31, 2019, the Company completed a financing transaction of $2,588. *[see note 21 [ii]]*

2. Basis of preparation

Statement of compliance

These unaudited interim condensed consolidated financial statements ["financial statements"] have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ["IAS34"], as issued by the International Accounting Standards Board ["IASB"].

These financial statements were approved and authorized for issuance in accordance with a resolution of the Board of Directors of the Company on September 30, 2019.

The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended April 30, 2019.

3. Significant accounting policies

The accounting policies adopted in the preparation of the unaudited interim condensed financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended April 30, 2019, except for adoption of new standards effective May 1, 2019. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

New accounting standards

[i] IFRS 16, *Leases* ["IFRS 16"]

During the three months ending July 31, 2019, the Company applied, for the first time, IFRS 16, which requires assessment and potential restatement of previous financial statements, where transition adjustments exist. As required by IAS 34, the nature and effect of these changes are disclosed below.

Impact of application of FRS 16

In January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter recognizes, measures, presents and discloses leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17, *Leases* ["IAS 17"]. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and a lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information, but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. For the Company, IFRS 16 is effective for the annual reporting period beginning May 1, 2019.

IFRS 16 provides a number of transition relief and practical expedients to allow an entity to minimize the costs incurred on transition to IFRS 16 without significantly compromising the quality of the financial information reported. The Company will apply the new standard using the cumulative catch-up approach, recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application and for the definition of a lease. The Company has elected to apply the practical expedient for leases previously classified as operating leases and ending within 12 months of the date of initial application and elected not to make any adjustments for low-value leases previously classified as operating leases. The Company has elected to exclude initial direct costs from the measurement of the right-of-use asset and to measure the right-of-use asset at an amount equal to the lease liability with any respective adjustments required for prepaid or accrued lease payments.

[Expressed in thousands of Canadian Dollars, except for share amounts]

For leases that were classified as operating leases under IAS 17, lease liabilities at transition have been measured at the present value of remaining lease payments, discounted at a weighted average incremental borrowing rate of 6% as at May 1, 2019. Right-of-use assets at transition have been measured at an amount equal to the corresponding lease liabilities, adjusted for any prepaid or accrued rent relating to that lease, with no net impact on retained earnings.

The Company has made use of the following practical expedients available on transition to IFRS 16:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Applied the recognition exemptions for low leases and leases that end within 12 months of the date of initial application, and account for them as low-value and short-term leases, respectively;
- Relied upon the Company's assessment of whether leases are onerous under the requirements of IAS 37, *Provisions*, contingent liabilities and contingent assets as at December 31, 2018 as an alternative to reviewing the Company's right-of-use assets for impairment, concluding that there were no onerous leases; and
- Accounted for non-lease components and lease components as a single lease component.

The cumulative effect of the changes made to the April 30, 2019 unaudited interim condensed consolidated statement of financial position for the adoption of IFRS 16 is as follows:

	Balance as at April 30, 2019 $	**IFRS 16 adjustments** $	**Balance as at May 1, 2019** $
Assets			
Right-of-use assets, net	—	3,374	**3,374**
Prepayments	465	(57)	**408**
Liabilities			
Current portion of lease liability	—	612	**612**
Lease liability	—	2,705	**2,705**

[Expressed in thousands of Canadian Dollars, except for share amounts]

The operating lease obligations as at April 30, 2019 are reconciled as follows to the recognized lease liabilities as at May 1, 2019:

	$
Aggregate lease commitments as disclosed at April 30, 2019	3,743
Newly found leases	433
	4,176
Less commitments related to short-term and low-value leases	108
Adjusted lease commitments	4,068
Less impact of present value	751
Opening IFRS 16 lease liability as at May 1, 2019	3,317

New accounting policy for leases under IFRS 16

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognizes a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, at the commencement of the lease. The right of use asset for such leases are recognized in the unaudited interim condensed consolidated statements of financial position on a straight-line basis over the lease term. The Company has elected not to recognize right-of-use assets and liabilities for leases where the total lease term is less than or equal to 12 months, or for leases of low value.

The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date and subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use asset is depreciated over the shorter of the lease term or the useful life of the underlying asset. The right-of-use asset is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease, if available, or if this rate cannot be readily determined, the Company uses its incremental borrowing rate. Lease payments include fixed payments less any lease incentives, and any variable lease payments where variability depends on an index or rate. When the lease contains an extension or purchase option that the Company considers reasonably certain to be exercised, the cost of the option is included in the lease payments. Variable lease payments that do not depend on an index or rate are not included in the measurement of the right-of-use asset and lease liability. The related payments are recognized as an expense in the period in which the triggering event occurs and are included in the unaudited interim condensed consolidated statements of loss and comprehensive loss.

[Expressed in thousands of Canadian Dollars, except for share amounts]

[ii] IFRIC 23, *Uncertainty over Income Tax Treatment*, ["IFRIC 23"]

In June 2017, the IASB issued IFRIC 23, which clarifies the accounting for uncertainties in income taxes. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019 and was adopted by the Company effective May 1, 2019. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which the Company first applies them, without adjusting comparative information. Full retrospective application is permitted, if the Company can do so without using hindsight. The adoption of IFRIC 23 did not have a material impact on the financial statements of the Company.

4. Business acquisition and reverse takeover

Change to earn-out payments and contingent consideration

In May 2019, a settlement agreement was reached with the former shareholders of TLP to forgive the earn-out payment of 22.73% of $2,000, or $455. In addition, the shareholders of MFT agreed to defer payment of the remaining $1,545 until November 2019. The net present value of these changes, using a discount rate of 18% of the earn-out payment, is a $536 reduction in the contingent consideration as at July 31, 2019. The remainder of the earn-out payment, totalling $2,000 remains due in November 2019.

In May 2019, an agreement was reached with the former shareholders of TLP to forgive 3,955,595 of their escrowed shares, leaving 7,000,000 escrowed shares available for release by November 7, 2019. The fair value of escrowed shares was estimated at $613 of which $311 was accounted for as a reduction to share capital and the balance of $302 to deficit. The gain of $613 is included within finance and transaction costs, net, in the unaudited interim condensed consolidated statement of loss and comprehensive loss for the three-month period ended July 31, 2019.

5. Trade and other receivables

The Company's trade and other receivables include the following:

	July 31, 2019 $	**April 30, 2019** $
Trade receivables	**884**	776
Input taxes receivable	**718**	741
	1,602	1,517

No allowance for doubtful accounts has been provided, as all amounts as at July 31, 2019 have been collected.

[Expressed in thousands of Canadian Dollars, except for share amounts]

6. Inventories

	Capitalized cost	Biological assets fair value adjustment	Carrying value
	$	$	$
Cannabis Balance at April 30, 2019	48	(6)	42
Purchased cannabis, net of sales	92	—	92
	140	(6)	134
Supplies and consumables	18	—	18
Balance as at July 31, 2019	158	(6)	152

As at July 31, 2019, the Company has not received a license to sell cannabis produced by the Company. Therefore, cannabis produced and harvested by the Company has been recognized at a fair value of nil upon harvest resulting in cost of nil being transferred from biological assets to inventory at the point of harvest. Products purchased from other producers are carried at the lower of their carrying amount and net realizable value. Carrying amount approximates the price paid to acquire the products.

Cost of sales primarily relate to production-related expenditures not capitalized due to start-up costs and underutilization charges.

Included in production-related expenditures for inventory and biological assets was $96 of depreciation and amortization from property, plant and equipment and $12 from amortization of right-of-use asset.

7. Biological assets

Biological assets consist of cannabis on plants. The changes in the carrying value of biological assets are as follows:

Balance as at April 30, 2019	—
Production costs capitalized	394
Changes in fair value due to biological transformation	(394)
Transferred to inventory upon harvest	—
Balance as at July 31, 2019	—

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model that estimates the expected harvest yield in grams for plants currently being cultivated, and then multiplies that amount by the expected wholesale selling price.

The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique used. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

[Expressed in thousands of Canadian Dollars, except for share amounts]

As at July 31, 2019, the Company has not yet obtained a cannabis sales license to sell its own production. As a result, the fair value of the cannabis and biological assets produced by the Company is determined to be nil as at July 31, 2019.

As at July 31, 2019, it is expected that the Company's cannabis plants biological assets will yield approximately 215,000 grams of dry cannabis and approximately 80,000 grams of dry trim.

8. Property, plant and equipment

Cost	Leasehold improvements	Equipment	Furniture and fixtures	Building	Land	Total
	$	$	$	$	$	$
As at April 30, 2019	6,494	1,350	313	261	555	8,973
Additions	146	133	6	—	—	285
Disposals	(8)	(47)	(5)	—	—	(60)
As at July 31, 2019	6,632	1,436	314	261	555	9,198

Accumulated depreciation	Leasehold improvements	Equipment	Furniture and fixtures	Building	Land	Total
	$	$	$	$	$	$
As at April 30, 2019	1,147	501	125	30	—	1,803
Depreciation	331	55	9	3	—	398
Disposals	(2)	(37)	(1)	—	—	(40)
As at July 31, 2019	**1,476**	**519**	**133**	**33**	**—**	**2,161**

Net book value	Leasehold improvements	Equipment	Furniture and fixtures	Building	Land	Total
	$	$	$	$	$	$
As at April 30,2019	5,347	849	188	231	555	7,170
As at July 31, 2019	**5,156**	**917**	**181**	**228**	**555**	**7,037**

On December 14, 2018, the Company entered into an agreement with an officer of the Company to acquire land in Vegreville, Alberta for total purchase price of $625. Pursuant to the terms of the agreement, the Company paid $160 in cash on date of closing and additional $200 is payable in cash as at July 31, 2019. The Company is also obligated to issue $265 in common shares of the Company, which has been recognized in contributed surplus.

Of total depreciation for the three months ended July 31, 2019 totalling $398, $266 has been expensed to cost of sales, $96 to biological assets and $36 to depreciation.

Notes to the interim condensed consolidated financial statements

[Expressed in thousands of Canadian Dollars, except for share amounts]

For the three months ended July 31, 2019 and 2018

9. Intangible assets

Cost

	Computer software $	Intellectual property $	Total $
As at April 30 and July 31, 2019	398	4,672	5,070

Accumulated amortization

	Computer software $	Intellectual property $	Total $
As at April 30, 2019	221	1,173	1,394
Amortization	13	389	402
As at July 31, 2019	234	1,562	1,796

Net book value

	Computer software $	Intellectual property $	Total $
As at April 30, 2019	177	3,499	3,676
As at July 31, 2019	164	3,110	3,274

During the year ended April 30, 2019, the Company acquired intellectual property for total consideration of $4,665 of which $1,165 was paid in cash and $3,500 was settled by issuing 17,650,540 common shares of the Company.

10. Right-of-use assets and lease liability

The change in carrying value of the Company’s right-of-use assets and lease liability was as follows:

	Right-of-use assets $	Lease liability $
As at April 30, 2019	3,374	3,317
Additions	154	152
Amortization expense	(134)	—
Interest expense	—	48
Payments	—	(157)
As at July 31, 2019	3,394	3,360

[Expressed in thousands of Canadian Dollars, except for share amounts]

Of total amortization for the three months ended July 31, 2019 totalling $134, $36 has been expensed to cost of sales, $12 to biological assets and $86 to amortization.

11. Related party transactions

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the Company, directly or indirectly including the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Technology Officer and equivalent and Directors.

Compensation expense for the Company's key management personnel for the three months ended July 31, 2019 and 2018 is as follows:

	July 31, 2019 $	**July 31, 2018** $
Salaries and wages	**409**	329
Share-based compensation	**228**	446
	637	775

12. Borrowings

Borrowings consists of the following:

	July 31, 2019 $	**April 30, 2019** $
Loan from Bank	**—**	23
Loan from Vendor	**313**	313
Total debt	**313**	336
Less: current portion	**—**	(7)
	313	329

The loan from vendor is a three-year loan at 2% interest per annum. The interest is payable annually. The loan is unsecured and matures on October 31, 2021.

[Expressed in thousands of Canadian Dollars, except for share amounts]

13. Share capital

[a] Authorized

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

[b] Issued and outstanding

	Common shares		Warrants	Contributed surplus
	#	$	#	$
Balance as at April 30 2019	253,157,570	34,508	85,868,964	12,196
Share-based compensation	—	—	—	228
Common shares issuable in exchange for professional services [1]	1,000,000	160	—	(160)
Settlement of contingent consideration *[note 4]*	(3,955,595)	(311)	—	
Balance as at July 31, 2019	250,201,975	34,357	85,868,964	12,264

	Common shares		Warrants	Contributed surplus
	#	$	#	$
Balance as at April 30 2018	164,662,939	23,473	67,824,118	8,249
Common shares issued pursuant to conversion of convertible debentures	4,397,350	399	—	—
Share-based compensation	—	—	—	446
Balance as at July 31, 2018	169,060,289	23,872	67,824,118	8,695

During the three months ending July 31, 2019:

[1] A consultant provided professional services to the Company from February 15, 2019 to April 15, 2019 in exchange for 1,000,000 common shares of the Company. The shares were not issued as April 30, 2019, resulting in recognition of contributed surplus of $160 during the year ending April 30, 2019. The shares were issued during the quarter, resulting in reclassification of $160 from contributed surplus to shareholders equity.

14. Share-based compensation

The Company has established a stock option plan [the "Option Plan"] for directors, officers, employees and consultants of the Company. The Company's Board of Directors determines, among other things, the eligibility of individuals to participate in the Option Plan and the term, vesting periods, and the exercise price of options granted to individuals under the Option Plan.

Each share option converts into one common share of the Company on exercise. No amounts are paid or payable by the individual on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The Company's Option Plan provides that the number of common shares reserved for issuance may not exceed 10% of the common shares that are outstanding unless the Board of Directors shall have increased such limit by a Board of Directors resolution. In addition, the aggregate number of shares so reserved for issuance to one person may not exceed 5% of the issued and outstanding shares. If any options terminate, expire, or are cancelled as contemplated by the Option Plan, the number of options so terminated, expired or cancelled shall again be available under the Option Plan.

The Company recognized $228 of share-based compensation expense during the three months ended July 31, 2019 [three months ended July 31, 2018 – $446], with a corresponding amount recognized as a contributed surplus. During the three months ended July 31, 2019, the Company did not issue any stock options and no options expired or were forfeited.

15. Loss per share

Net loss per common share represents net loss attributable to common shareholders divided by the weighted average number of common shares outstanding during the period.

Diluted loss per common share is calculated by dividing the applicable net loss by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period.

For the three-months ended July 31, 2019, diluted loss per share equals basic loss per share due to the anti-dilutive effect of convertible debentures, warrants and share options. The outstanding number and type of securities that could potentially dilute basic net loss per share in the future, but would have decreased the loss per share [anti-dilutive] for the years presented, are as follows:

[Expressed in thousands of Canadian Dollars, except for share amounts]

	July 31, 2019 #	April 30, 2019 #
Convertible debentures	**2,925,000**	2,925,000
Warrants	**85,868,964**	85,868,964
Share options	**17,950,000**	17,950,000
	106,743,964	106,743,964

16. Nature of expenses

General and administrative expenses for the three months ended July 31, 2019 and 2018 are composed of:

	July 31, 2019 $	July 31, 2019 $
Salaries, wages and consulting fees	**1,271**	1,476
General operating	**451**	305
Occupancy costs	**130**	201
Professional fees	**470**	50
	2,322	2,032

Sales and marketing expenses for the years ended July 31, 2019 and 2018 are comprised of:

	July 31, 2019 $	July 31, 2019 $
Advertising and promotion	**139**	11
Travel	**88**	94
	227	105

17. Commitments and contingencies

Contingencies

[a] A Statement of Claim was filed by a terminated employee claiming compensation for general, aggravated and punitive damages related to his dismissal. At the time of his dismissal, the Company provided the Plaintiff with pay in lieu of notice. The Plaintiff has claimed under the principles of breach of contract and good faith for general, aggravated, and punitive damages. The Plaintiff's claim does not specify an amount. On June 15, 2017 the Company filed a Notice of Intent to Defend and on June 25, 2017 it filed its Statement of Defence. This matter is now in the document discovery phase and the parties are engaged in settlement discussions. The Company believes the claim to be without merit.

[Expressed in thousands of Canadian Dollars, except for share amounts]

[b] The Company and its subsidiary, Abba, were served with a Statement of Claim for damages for the alleged failure to pay invoices in the amount of $200 plus pre- and post-judgment interest. Pleadings have now closed, and the parties are in the process of scheduling examinations for discovery. Given that examinations for discovery have not yet occurred it is too early in the process to have a reasonable expectation or evaluation of the Plaintiff's claim, but the Company believes the claim to be without merit.

[c] A Statement of Claim was filed by a former landlord of a CHC clinic claiming compensation for costs of leasehold improvements in the amount of $107, breach of a commercial lease in an amount to be established at trial, and punitive damages, plus interest on all unpaid amounts. The Company is in the process of engaging external counsel to file a Statement of Defence to the Claim and engage in settlement discussions.

[d] The Company has claimed lost profits against a licensed medical cannabis producer and related medical cannabis clinic and their principals for breach of confidence, conversion, breach of contract, conspiracy and breach of trust, breach of fiduciary duty, and negligent misrepresentation in relation to Trauma Healing Centers Inc. The Defendants have counterclaimed, pleadings have now closed, and the parties are in the process of scheduling examinations for discovery. The Company believes that the counterclaim has no basis and it is not probable that it will result in an outflow for Company.

Commitments

As at July 31, 2019, the Company is committed under leases for equipment and office space for the following minimum annual rentals:

	$
2020	775
2021	692
2022	575
2023	493
Thereafter	1,854
	4,389

[Expressed in thousands of Canadian Dollars, except for share amounts]

18. Capital management

The Company is an early-stage company and is dependent on raising further capital, primarily equity, to fund its capital expenditures and its operating expenses in excess of revenue until such time as it reaches cash break-even. As at July 31, 2019 and April 30, 2019, the Company had raised, net of issuance costs, approximately $27,000 by the issuance of common shares, warrants, convertible debentures and long-term debt. The Company may raise additional equity in the future, although there can be no assurance that the Company will be successful in doing so.

19. Financial instruments and risk management

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from deposits with banks and outstanding receivables. The Company trades only with recognized, creditworthy third parties. The Company performs credit checks for all customers who wish to trade on credit terms. As at July 31, 2019 and April 30, 2019, two customers represented 71% and 74% of the outstanding trade and other receivable balance, respectively.

The Company does not hold any collateral as security, but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

The aging of trade and other receivables is as follows:

	July 31, 2019 #	**April 30, 2019** #
Note past due	**476**	571
1 to 30 days past due	**16**	166
31 to 60 days past due	**191**	—
Over 61 days past due	**177**	39
	860	776

There was no impairment for credit loss recognized as at July 31, 2019 and April 30, 2019.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's exposure to liquidity risk is dependent on the Company's ability to raise additional financing to meet its commitments and sustain operations. The Company mitigates liquidity risk by management of working capital, cash flows and the issuance of share capital.

[Expressed in thousands of Canadian Dollars, except for share amounts]

The Company is obligated to the following contractual maturities of undiscounted cash flows:

			Contractual cash flows			
	Carrying amount	**Total contractual cash flows**	**Year 1**	**Year 2**	**Year 3**	**Year 4 and beyond**
	$	$	$	$	$	$
Lease liability	3,360	4,088	668	654	542	2,224
Contingent consideration	3,376	3,545	3,545	—	—	—
Trade and other payables	3,364	3,364	3,364	—	—	—
Convertible debentures	420	1,461	99	99	1,262	—
Borrowings	313	313	—	313	—	—
Due to related parties	88	88	88	—	—	—
	10,291	12,859	7,764	1,066	1,804	2,224

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates. The Company is not exposed to foreign currency exchange risk as it has minimal financial instruments denominated in a foreign currency and substantially all of the Company's transactions are in Canadian dollars, which is also the Company's functional currency.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk as at July 31, 2019 as the Company does not have any variable interest rate assets or liabilities.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices [other than those arising from interest rate risk or currency risk], whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to other price risk as at July 31, 2019.

Fair values

The carrying values of cash, trade and other receivables, loan receivable, trade and other payables, borrowings and convertible debentures approximate the fair values due to the short-term nature of these items or the interest rates and discount rates being at market. The risk of material change in fair value is not considered to be significant due to a relatively short-term nature. The Company does not use derivative financial instruments to manage this risk.

Financial instruments recorded at fair value on the unaudited interim condensed consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest-level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

- Level 1 – Unadjusted quoted prices as at the measurement date for identical assets or liabilities in active markets.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that are supported by little or no market activity. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

During the year, there were no transfers of amounts between levels.

20. Segmented information

The Company reports segment information based on internal reports used by the Chief Operating Decision maker ["CODM"] to make operating and resource decisions and to assess performance. The CODM is the Chief Executive Officer. The CODM makes decisions and assesses performance of the Company on a consolidated basis such that the Company is a single reportable operating segment.

The Company primarily operates in one principal geographical area, Canada.

21. Subsequent events

[i] In September 2019, the Company was granted an amended license to sell its own production consisting of dried cannabis products to provincially and territorially authorized provincial retailers and to holders of a license for medical purposes.

[ii] In September 2019, the Company closed a convertible security ["security"] financing for gross proceeds of $2,588, excluding transaction costs of $30. The $3,105 face value of the security includes prepaid interest of $518, has a term of 24 months and is repayable in 18 equal monthly payments commencing the seventh month after closing, unless reduced by any amount converted by the investor into the Company's common shares. The security is convertible at a price per common share of $0.08. The investor also received 16,171,875 warrants, expiring in 36 months, to purchase common shares at a price of $0.15. The Company has the right to buyback the security and the prepaid interest at any time with no penalty at which time the investor will have the right to convert 25% of the outstanding principal amount and 100% of the prepaid interest into the Company's common shares. The security is secured by a general security agreement. Under the Funding Agreement, the investor has the option to advance up to an additional $12,000,000 in gross proceeds to the Company on similar terms.