

THE YIELD GROWTH CORP.

Condensed Interim Consolidated Financial Statements
For the Three Months Ended February 28, 2019 and 2018
(Unaudited)



CSE:BOSS | OTCQB:BOSQF | Frankfurt:YG3

THE YIELD GROWTH CORP.

Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	February 28, 2019 (unaudited)	November 30, 2018
ASSETS		
Current assets		
Cash	\$ 3,707,096	\$ 36,211
Marketable securities (Note 3)	1,731,309	1,811,433
Amounts receivable (Note 9)	382,640	210,529
Inventory (Note 4)	341,849	50,783
Prepaid expenses and other assets (Note 5)	498,392	454,146
Total current assets	<u>6,661,286</u>	<u>2,563,102</u>
Non-current assets		
Equipment (Note 6)	46,773	49,243
Intangible assets (Note 7)	251,008	–
Total assets	<u>\$ 6,959,067</u>	<u>\$ 2,612,345</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 722,258	\$ 364,140
Due to related parties (Note 9)	779	59,554
Deferred revenue (Notes 8)	349,858	349,858
Total current liabilities	<u>1,072,895</u>	<u>773,552</u>
Non-current liabilities		
Deferred revenue (Note 8)	427,398	509,589
Total liabilities	<u>1,500,293</u>	<u>1,283,141</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	13,325,620	5,449,968
Special warrant reserve	–	559,721
Equity reserves	5,726,909	5,420,973
Accumulated other comprehensive income	1,134,211	836,728
Deficit	(14,727,966)	(10,938,186)
Total shareholders' equity	<u>5,458,774</u>	<u>1,329,204</u>
Total liabilities and shareholders' equity	<u>\$ 6,959,067</u>	<u>\$ 2,612,345</u>

Nature of operations and continuance of business (Note 1)

Commitments (Note 16)

Subsequent events (Note 17)

Approved and authorized for issuance on behalf of the Board of Directors on April 26, 2019:

/s/ "Penny Green"
Director

/s/ "Thomas Bond"
Director

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

THE YIELD GROWTH CORP.

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

(unaudited)

	Three months ended February 28,	
	2019	2018
REVENUE		
Consulting (Note 9)	\$ 709,239	\$ 8,813
Licensing (Note 8)	82,191	1,800,000
Product sales	9,284	–
Total revenue	800,714	1,808,813
COST OF GOODS SOLD		
	1,447	–
Gross profit	799,267	1,808,813
EXPENSES		
Advertising and promotion	1,768,042	150,196
Consulting fees (Note 9)	928,821	524,469
Depreciation (Note 6)	9,157	1,696
Distribution fees	30,000	50,000
Information systems	302,950	–
Licensing fees	–	223,753
Office and miscellaneous	130,083	21,069
Product samples	48,183	1,000
Professional fees	90,412	20,672
Rent (Note 9)	19,296	4,500
Product testing	3,035	–
Share-based compensation (Notes 9 and 12)	408,927	1,316,148
Travel	53,013	48,879
Wages (Note 9)	309,243	99,965
Total expenses	4,101,162	2,462,347
Net loss before other items	(3,301,895)	(653,534)
OTHER ITEMS		
Listing fees	(138,668)	–
(Loss) gain on sale of marketable securities (Note 3)	(238,985)	71,412
Unrealized loss on marketable securities at fair value through profit or loss (Note 3)	(45,024)	–
Loss from investment in associate	–	(56,225)
Loss on settlement of accounts payable (Note 10)	(65,208)	–
Net loss for the period	(3,789,780)	(638,347)
OTHER COMPREHENSIVE GAIN (LOSS)		
Realized gain on marketable securities (Note 3)	222,483	–
Unrealized gain (loss) on marketable securities (Note 3)	75,000	(589,030)
Comprehensive loss for the period	\$ (3,492,297)	\$ (1,227,377)
LOSS PER SHARE, BASIC AND DILUTED		
	\$ (0.04)	\$ (0.02)
Weighted average shares outstanding	79,474,000	36,060,000

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

THE YIELD GROWTH CORP.

Condensed Interim Consolidated Statements of Changes in Equity

(Expressed in Canadian Dollars)

(unaudited)

	Share capital		Special warrant reserve	Equity reserves	Shares issuable	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
	Number of shares	Amount						
BALANCE, NOVEMBER 30, 2017	65,756,640	\$ 3,207,920	\$ –	\$ 104,926	\$40,000	\$ 589,030	\$ (1,230,149)	\$ 2,711,727
Units issued for cash	3,439,494	703,299	–	–	–	–	–	703,299
Share issuance costs	–	(129,381)	–	11,902	–	–	–	(117,479)
Shares issued on exercise of stock options	4,025,000	684,698	–	(582,823)	–	–	–	101,875
Shares issued for compensation	2,000,000	300,000	–	–	–	–	–	300,000
Fair value of stock options granted	–	–	–	1,316,148	–	–	–	1,316,148
Realized gain on marketable securities	–	–	–	–	–	(589,030)	–	(589,030)
Net loss for the period	–	–	–	–	–	–	(638,347)	(638,347)
Balance, February 28, 2018	75,221,134	4,766,536	–	850,153	40,000	–	(1,868,496)	3,788,193
BALANCE, NOVEMBER 30, 2018	72,441,534	5,449,968	559,721	5,420,973	–	836,728	(10,938,186)	1,329,204
Units issued for cash	5,731,500	2,740,750	–	–	–	–	–	2,740,750
Share issuance costs	–	(384,795)	–	160,720	–	–	–	(224,075)
Shares issued on conversion of special warrants	1,212,700	559,721	(559,721)	–	–	–	–	–
Shares issued on exercise of stock options	980,000	582,129	–	(321,629)	–	–	–	260,500
Shares issued on exercise of warrants	5,455,509	3,689,937	–	(91,379)	–	–	–	3,598,558
Shares issued to settle accounts payable	48,256	14,477	–	–	–	–	–	14,477
Units issued for compensation	200,000	60,000	–	54,289	–	–	–	114,289
Units issued for intangible assets	200,000	156,000	–	95,008	–	–	–	251,008
Units issued to settle accounts payable	784,641	457,433	–	–	–	–	–	457,433
Fair value of stock options granted	–	–	–	408,927	–	–	–	408,927
Realized loss on marketable securities	–	–	–	–	–	222,483	–	222,483
Other comprehensive loss	–	–	–	–	–	75,000	–	75,000
Net loss for the period	–	–	–	–	–	–	(3,789,780)	(3,789,780)
BALANCE, FEBRUARY 28, 2019	87,054,140	\$ 13,325,620	\$ –	\$5,726,909	\$ –	\$ 1,134,211	\$(14,727,966)	\$ 5,458,774

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

THE YIELD GROWTH CORP.

Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
(unaudited)

	Three months ended February 28,	
	2019	2018
OPERATING ACTIVITIES		
Net loss	\$ (3,789,780)	\$ (638,347)
Items not involving cash:		
Depreciation	9,157	1,696
Loss (gain) on sale of marketable securities	238,985	(71,412)
Loss on marketable securities at fair value through profit or loss	45,024	–
Loss on settlement of accounts payable	65,208	–
Loss from investment in associate	–	56,225
Share-based compensation	408,927	1,316,148
Shares issued for consulting services	–	300,000
Shares and warrants received for distribution rights	–	(1,800,000)
Units issued for consulting services	114,289	–
Changes in non-cash operating working capital:		
Amounts receivable	(422,111)	26,954
Accounts payable and accrued liabilities	764,820	117,389
Deferred revenue	(82,191)	–
Due to related parties	(58,775)	(123,674)
Inventory	(291,066)	–
Prepaid expenses and other assets	(44,246)	223,753
Net cash used in operating activities	(3,041,759)	(591,268)
INVESTING ACTIVITIES		
Purchase of equipment	(6,687)	(26,853)
Proceeds from sale of marketable securities	343,598	102,932
Net cash provided by investing activities	336,911	76,079
FINANCING ACTIVITIES		
Proceeds from issuance of common shares	–	805,174
Proceeds from issuance of units	2,740,750	–
Share issuance costs	(224,075)	(117,479)
Proceeds from exercise of stock options	260,500	–
Proceeds from exercise of warrants	3,598,558	–
Net cash provided by financing activities	6,375,733	687,695
CHANGE IN CASH	3,670,885	172,506
Cash, beginning of period	36,211	1,425,380
CASH, END OF PERIOD	\$ 3,707,096	\$ 1,597,886

Supplemental disclosures (Note 14)

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

THE YIELD GROWTH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

February 28, 2019

(Expressed in Canadian Dollars)

(unaudited)

1. Nature of Operations and Continuance of Business

The Yield Growth Corp. (“Yield Growth” or the “Company”) was incorporated under the laws of the province of British Columbia, Canada, on November 28, 2014. On May 15, 2017, the Company changed its name from 1020439 B.C. Ltd. to Cannapay Financial Inc. On April 3, 2018, the Company changed its name to The Yield Growth Corp. Yield Growth is a cannabis asset growth company focused on the license, sale, and distribution of products in the cannabis industry. The Company develops products to distribute and license by territory, including cosmetic and therapeutic products made from essential oils, all of which have been designed to be infused with Cannabidiol (CBD) or Tetrahydrocannabinol (THC). Effective June 4, 2018, the Company completed a 2-for-1 forward split of its common stock. All share and per share amounts included in these condensed interim consolidated financial statements have been retroactively restated for the forward stock split.

These condensed interim consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to realize its assets and satisfy its liabilities in the normal course of business for the foreseeable future. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that may cast significant doubt upon the Company’s ability to continue as a going concern.

The Company has incurred a net loss of \$3,789,780 during the three months ended February 28, 2019, and has incurred an accumulated deficit of \$14,727,966 as at February 28, 2019. The continued operations of the Company are dependent on future profitable operations, management’s ability to manage costs and the future availability of equity or debt financing. Whether and when the Company can generate sufficient operating cash flows to pay for its expenditures and settle its obligations as they fall due is uncertain. These condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption be inappropriate. These adjustments could be material.

2. Significant Accounting Policies

Statement of Compliance

These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards 34, *Interim Financial Reporting*, and based on the principles of International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the interpretations of the International Financial Reporting Interpretations Committee. These condensed interim consolidated financial statements should be read in conjunction with the Company’s annual financial statements for the year ended November 30, 2018, which include the Company’s significant accounting policies, and have been prepared in accordance with the same methods of application.

Basis of Presentation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Urban Juve Provisions Inc., Thrive Activations Inc., UJ Topicals Inc., UJ Beverages Inc. and Yield Botanicals Inc., which were incorporated in the province of British Columbia. All inter-company balances and transactions have been eliminated on consolidation.

THE YIELD GROWTH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

February 28, 2019

(Expressed in Canadian Dollars)

(unaudited)

2. Significant Accounting Policies (continued)

Basis of Presentation

These condensed interim consolidated financial statements have been prepared on a historical cost basis. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for the cash flow information. The presentation and functional currency of the Company is the Canadian dollar.

In the opinion of the Company's management, all adjustments considered necessary for a fair presentation have been included.

Significant Accounting Estimates and Judgments

The preparation of condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Significant areas requiring the use of estimates include the collectability of amounts receivable and loan receivable, the impairment of inventory, the useful life and carrying value of equipment, the carrying value of intangible assets, impairment of marketable securities, fair value of share-based compensation, and measurement of unrecognized deferred income tax assets.

Judgments made by management in the application of IFRS that have a significant effect on the condensed interim consolidated financial statements include the factors that are used in determining the application of the going concern assumption which requires management to consider all available information about the future, which is at least but not limited to 12 months from the year end of the reporting period.

Accounting Standards Issued but Not Yet Effective

Certain pronouncements have been issued by the IASB, or the IFRS Interpretations Committee that are mandatory for accounting years beginning on or after January 1, 2019, or later years.

New standard IFRS 16, "Leases"

The Company has not early adopted these revised standards and does not believe the adoption of these standards will have a material impact on the Company's consolidated financial statements. Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or not expected to have a significant impact on the Company's condensed interim consolidated financial statements.

3. Marketable Securities

During the year ended November 30, 2017, the Company purchased 300,000 units of Active Pay Distribution Inc. ("Active Pay"), a private company, at \$0.10 per unit for \$30,000. Each unit consisted of one common share and one share purchase warrant exercisable at \$0.40 per share for a period of one year.

THE YIELD GROWTH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

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3. Marketable Securities (continued)

On June 11, 2018, the Company received 2,500,000 units of CROP Infrastructure Corp. (“CROP”) pursuant to a License and Distribution Agreement (Note 8). Each unit consisted of one common share and one-half of one share purchase warrant. Each share purchase warrant was exercisable into one common share at an exercise price of \$0.55 per share for a period of eighteen months. The fair value of the units was allocated between the shares and warrants based on their relative fair values. On November 2, 2018, the Company exercised 1,250,000 share purchase warrants pursuant to a warrant incentive program undertaken by CROP.

In connection with the program, the Company exercised its warrants at a reduced exercise price of \$0.40 per share and received an additional 1,250,000 share purchase warrants, which are exercisable at \$0.50 per share until November 2, 2020. The fair value of common shares held has been determined by reference to public price quotations in an active market. The fair value of share purchase warrants held has been determined using the Black-Scholes valuation method.

On October 30, 2018, the Company entered into a Termination and Release Agreement with Loop Insights Inc. (“Loop”), whereby its investment was reduced from 11,900,000 common shares to 1,500,000 common shares of Loop. As a result of the reduced share ownership, the investment in Loop was no longer considered an associate and was reclassified to marketable securities. Pursuant to IAS 39, “*Financial Instruments: Recognition and Measurement*”, the remaining 1,500,000 common shares were recognized at their fair value of \$65,789 on the date that joint control was lost. At February 28, 2019, and November 30, 2018, the shares of Loop had an unrealized gain of \$1,059,211 based on their fair value.

During the three months ended February 28, 2019, the Company acquired 1,000,000 units of HeyBryan Media Inc. (“HeyBryan”), a private company, at \$0.25 per unit, in consideration for the settlement of accounts receivable from HeyBryan of \$250,000. Each unit consisted of one common share and one share purchase warrant exercisable at \$0.90 per share for a period of two years.

	November 30, 2018 fair value	Additions	Proceeds from sale	Realized loss on sale	Unrealized gain (loss)	February 28, 2019 fair value
Active Pay	\$ 30,000	\$ –	\$ –	\$ –	\$ 75,000	\$ 105,000
CROP–Shares	360,100	–	(343,598)	(238,985)	222,483	–
CROP–Warrants	296,333	–	–	–	(45,024)	251,309
Loop	1,125,000	–	–	–	–	1,125,000
HeyBryan	–	250,000	–	–	–	250,000
	<u>\$ 1,811,433</u>	<u>\$250,000</u>	<u>\$(343,598)</u>	<u>\$(238,985)</u>	<u>\$ 252,459</u>	<u>\$ 1,731,309</u>

4. Inventory

	February 28, 2019	November 30, 2018
Finished goods	\$ 118,768	\$ 12,749
Packaging	206,756	38,034
Product samples	16,325	–
	<u>\$ 341,849</u>	<u>\$ 50,783</u>

Included in cost of revenues are inventory costs of \$1,447 (2017-nil). During the three months ended February 28, 2019, no inventory was written down (2017-nil)

THE YIELD GROWTH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

February 28, 2019

(Expressed in Canadian Dollars)

(unaudited)

5. Prepaid Expenses and Deposits

	February 28, 2019	November 30, 2018
Prepaid services	\$ 217,103	\$ 64,312
Deposits	281,289	389,834
	<u>\$ 498,392</u>	<u>\$ 454,146</u>

6. Equipment

	Computer equipment	Furniture	Telephone equipment	Total
Cost:				
Balance, November 30, 2018	\$ 65,497	\$ 2,592	\$ 2,378	\$ 70,467
Additions	6,687	–	–	6,687
Balance, February 28, 2019	<u>72,184</u>	<u>2,592</u>	<u>2,378</u>	<u>77,154</u>
Accumulated depreciation:				
Balance, November 30, 2018	20,297	648	279	21,224
Additions	8,824	216	117	9,157
Balance, February 28, 2019	<u>29,121</u>	<u>864</u>	<u>396</u>	<u>30,381</u>
Carrying amounts:				
As at November 30, 2018	\$ 45,200	\$ 1,944	\$ 2,099	\$ 49,243
As at February 28, 2019	<u>\$ 43,063</u>	<u>\$ 1,728</u>	<u>\$ 1,982</u>	<u>\$ 46,773</u>

7. Intangible Assets

On January 17, 2019, the Company entered into a Definitive Agreement to acquire 8 wellness beverage formulas designed to be infused with CBD and THC, in addition to a capsule product intended to treat hangovers. Pursuant to the agreement, the Company issued 200,000 common shares with a fair value of \$156,000 and issued 200,000 warrants with a fair value of \$95,008. The warrants are exercisable at \$0.60 per share for a period of 1 year. Additional compensation will be paid for filing of a provisional patent and passing stability and preservative testing and commercial launch of the products. In addition, the vendors are entitled to a 1% royalty of net revenues.

8. License and Distribution Agreement

On June 11, 2018, the Company entered into a license and distribution agreement with CROP Infrastructure Corp. ("CROP"), whereby the Company granted an exclusive right to sell certain proprietary wellness products in Italy, and a license to use certain related trademarks and other intellectual property owned by the Company, for a term of 3 years. In consideration for the license and distribution rights, CROP paid an initial fee of \$1,000,000 through the issuance of 2,500,000 units, with each unit consisting of one common share of CROP and one-half of one share purchase warrant. Each share purchase warrant is exercisable into one common share of CROP at an exercise price of \$0.55 per share for a period of eighteen months. The agreement may be renewed for additional 1-year periods for a renewal fee of \$50,000 per year, which fee shall be waived if certain distribution targets are met. The initial fee of \$1,000,000 will be recognized as revenue over the 3-year term of the agreement, and as of February 28, 2019, \$760,731 (November 30, 2018 – \$842,922) of the initial fee was included in deferred revenue which includes \$427,398 (November 30, 2018 – \$509,589) recorded as non-current deferred revenues.

THE YIELD GROWTH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

February 28, 2019

(Expressed in Canadian Dollars)

(unaudited)

9. Related Party Transactions

During the three months ended February 28, 2019, and 2018, compensation of key management personnel and related parties were as follows:

	February 28, 2019	February 28, 2018
Consulting fees	\$ 111,500	\$ 434,600
Wages	106,120	24,000
Rent expense	–	4,500
Share-based compensation	201,043	1,014,822
	<u>\$ 418,663</u>	<u>\$ 1,477,922</u>

As at February 28, 2019, the Company was owed \$209 (November 30, 2018 – owed \$5,424) by the President and CEO of the Company as the remaining balance of an advance for business expenses, which is unsecured, non-interest bearing, and due on demand. The outstanding amount was fully paid subsequent to the quarter ended February 28, 2019.

As at February 28, 2019, the Company owed \$nil (November 30, 2018 - \$22,925) to a company controlled by the Chief Financial Officer of the Company, which is unsecured, non-interest bearing, and due on demand.

As at February 28, 2019, the Company owed \$988 (November 30, 2018 - \$580) to a company controlled by a director of the Company, which is unsecured, non-interest bearing, and due on demand.

During the three months ended February 28, 2019, the Company recognized revenue of \$709,239 (2018 - \$nil) from a company with common directors and officers and which the President and CEO of the Company is a significant shareholder. As at February 28, 2019, the Company was owed \$134,766 (November 30, 2018 - \$61,739) from the related company, which is included in accounts receivable, and the Company held a deposit of \$10,000 (November 30, 2018 - \$10,000) from the related company, which is included in deferred revenue.

As at February 28, 2019, the Company was owed \$16,125 (November 30, 2018 - \$nil) from a company whose CEO is the spouse of the President and CEO of the Company, and which the President and CEO of the Company is a significant shareholder, which is included in accounts receivable, and held a retainer of \$6,525 (November 30, 2018 - \$6,525) from the related company, which is included in deferred revenue. The outstanding amount was fully paid subsequent to the quarter ended February 28, 2019.

10. Share Capital

Authorized: unlimited number of common shares without par value

Effective December 14, 2018, the Company completed its initial public offering of 4,481,500 units at \$0.50 per unit for gross proceeds of \$2,240,750. Each unit consisted of one common share and one warrant exercisable at \$1.10 per unit until December 14, 2020. Each exercised warrant will consist of one common share and an additional warrant. Each additional warrant is exercisable at \$2.00 per share and expires on December 14, 2020. In connection with the IPO, the Company incurred share issuance costs of \$224,075 and issued 448,150 agents' warrants with a fair value of \$160,720, which are exercisable at \$0.50 per share until December 13, 2020.

THE YIELD GROWTH CORP.

Notes to the Condensed Interim Consolidated Financial Statements

February 28, 2019

(Expressed in Canadian Dollars)

(unaudited)

10. Share Capital (continued)

On December 14, 2018, the Company issued 1,212,700 common shares pursuant to the conversion of 1,212,700 special warrants.

On January 3, 2019, the Company issued 200,000 units with a fair value of \$114,289 pursuant to a consulting agreement with Incanco Cannabis Consultants Co. Ltd. (Note 16(h)). Each unit consisted of one common share and one warrant to purchase one common share at \$0.34 per share for a period of 5 years.

On January 3, 2019, the Company issued 48,256 shares with a fair value of \$14,477 to settle a debt in the amount of \$16,407, resulting in a gain on settlement of debt of \$1,930.

On January 11, 2019, the Company issued 310,293 units with a fair value of \$148,940 to settle debts in an aggregated amount of \$105,500, resulting in a loss on settlement of debt of \$43,440. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable to purchase one common share of the Company at \$0.40 per share for a period of 6 months from the date of issuance.

On January 29, 2019, the Company issued 157,500 units with a fair value of \$74,025 to settle debts in an aggregated amount of \$63,000, resulting in a loss on settlement of debt of \$11,025. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable to purchase one common share of the Company at \$0.50 per share for a period of 6 months from the date of issuance.

On January 25, 2019, and January 31, 2019, the Company closed a non-brokered private placement of 1,250,000 units in 2 tranches at \$0.40 per unit for proceeds of \$500,000. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable to purchase one common share of the Company at \$0.50 per share for a period of 6 months from the date of the issuance.

On February 5, 2019, the Company issued 200,000 units with a fair value of \$251,008 for the acquisition of wellness beverage formulas as described in Note 7. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable to purchase one common share of the Company at \$0.60 per share for a period of 1 year from the date of issuance.

On February 20, 2019, the Company issued 191,134 units with a fair value of \$141,439 to settle debts in an aggregated amount of \$133,794, resulting in a loss on settlement of debt of \$7,645. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable to purchase one common share of the Company at \$0.80 per share for a period of 6 months from the date of issuance.

On February 28, 2019, the Company issued 125,714 units with a fair value of \$93,028 settle debts in an aggregated of \$88,000, resulting in a loss on settlement of debt of \$5,028. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable to purchase one common share of the Company at \$0.80 per share for a period of 6 months from the date of issuance.

During the three months ended February 28, 2019, the Company issued 980,000 common shares pursuant to the exercise of stock options for total proceeds of \$260,500. The fair value of the stock options of \$321,629 was transferred from equity reserves to share capital upon exercise.

During the three months ended February 28, 2019, the Company issued 5,200,709 common shares pursuant to the exercise of warrants for total proceeds of \$3,471,158.

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Notes to the Condensed Interim Consolidated Financial Statements

February 28, 2019

(Expressed in Canadian Dollars)

(unaudited)

10. Share Capital (continued)

During the three months ended February 28, 2019, the Company issued 254,800 common shares pursuant to the exercise of agents' warrants for total proceeds of \$127,400. The fair value of the agents' warrants of \$91,379 was transferred from equity reserves to share capital upon exercise.

11. Share Purchase Warrants

The following table summarizes the continuity of the Company's share purchase warrants:

	Number of warrants	Weighted average exercise price
Balance, November 30, 2018	28,494,194	\$ 0.53
Issued	7,364,291	0.87
Exercised	(5,455,509)	0.65
Balance, February 28, 2019	30,402,976	\$ 0.99

As at February 28, 2019, the following share purchase warrants were outstanding:

Number of warrants outstanding	Exercise price	Expiry date
26,250	\$ 0.50	July 29, 2019
1,000,000	\$ 0.50	August 6, 2019
191,134	\$ 0.80	August 20, 2019
125,714	\$ 0.80	August 28, 2019
280,000	\$ 0.75	October 20, 2019
16,000,828	\$ 1.20*	December 14, 2019*
437,200	\$ 0.80	December 14, 2019
16,000	\$ 0.50	July 9, 2020
316,700	\$ 1.00	July 9, 2020
17,500	\$ 0.50	July 18, 2020
175,000	\$ 1.00	July 18, 2020
400	\$ 0.50	July 20, 2020
212,000	\$ 1.00	July 20, 2020
400	\$ 0.50	July 26, 2020
259,000	\$ 1.00	July 26, 2020
20,000	\$ 0.50	August 3, 2020
250,000	\$ 1.00	August 3, 2020
200,000	\$ 0.60	February 5, 2020
193,350	\$ 0.50	December 14, 2020
4,481,500	\$ 1.10	December 14, 2020
6,000,000	\$ 0.50	October 30, 2023
200,000	\$ 0.34	January 3, 2024
30,402,976		

* On October 9, 2018, the Company's Board of Directors approved to extend certain warrants that were expected to expire prior to the IPO date to 12 months after the date of IPO. The Company completed its IPO on December 14, 2018. As a result, the term was extended to 1 year from the closing date of the IPO and the exercise price was amended, as follows: If exercised after the original expiry date and within seven days after the IPO, the exercise price is adjusted to \$0.50 per share; If exercised later than 7 days following the IPO Date and within two months after the IPO Date, the price is adjusted to \$0.70 per share; If exercised beyond two months and within four months after the IPO Date, the price is adjusted to \$1.20 per share; and If exercised beyond four months and within twelve months of the IPO Date, the price is adjusted to \$3.00 per share.

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12. Stock Options

On May 15, 2017, the Company adopted an incentive stock option plan. Pursuant to the Company's stock option plan, directors may, from time to time, authorize the issuance of options to directors, officers, employees, and consultants of the Company. The terms of the granted stock options as well as the vesting conditions are at the sole discretion of the directors.

The following table summarizes the continuity of the Company's stock options:

	Number of options	Weighted average exercise price
Outstanding, November 30, 2018	8,361,000	\$ 0.36
Granted	4,875,000	0.51
Exercised	(980,000)	0.27
Expired	(1,212,500)	0.55
Outstanding, February 28, 2019	11,043,500	0.41
Exercisable, February 28, 2019	5,838,500	\$ 0.34

Additional information regarding stock options outstanding as at February 28, 2019, is as follows:

Range of exercise prices	Stock options outstanding	Stock options exercisable	Weighted average remaining contracted life (years)
\$ 0.05	100,000	–	3.26
\$ 0.08	400,000	400,000	3.63
\$ 0.10	170,000	170,000	3.73
\$ 0.15	1,000,000	1,000,000	3.86
\$ 0.23	1,890,000	–	4.80
\$ 0.25	18,500	18,500	4.46
\$ 0.40	3,790,000	3,655,000	4.00
\$ 0.50	690,000	595,000	4.19
\$ 0.51	290,000	–	4.86
\$ 0.62	1,185,000	–	4.93
\$ 0.78	1,510,000	–	4.98
	11,043,500	5,838,500	4.37

Share-based compensation expense is determined using the Black-Scholes option pricing model. During the three months ended February 28, 2019, the Company recognized share-based compensation expense of \$408,927 (2018 - \$1,316,148) in equity reserves, of which \$201,401 (2018 - \$1,014,822) pertains to directors and officers of the Company. The weighted average fair value of each option granted during the three months ended February 28, 2019, was \$0.50 (2018 - \$0.35) per share. The weighted average share price for stock options exercised was \$0.27 (2018 - \$0.30). Weighted average assumptions used in calculating the fair value of share-based compensation expense are as follows:

	2019	2018
Risk-free interest rate	1.87%	1.82%
Dividend yield	0%	0%
Expected Volatility	150%	150%
Expected life (years)	4.88	4.90

As at February 28, 2019, there was \$2,080,634 (November 30, 2018 - \$170,810) of unrecognized share-based compensation related to unvested stock options.

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13. Capital Management

The Company manages its capital structure and makes adjustments, based on the funds available to the Company, in order to support the general operations of the Company and facilitate the liquidity needs of its operations. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its working capital position, share capital, special warrant reserve, equity reserves, and shares issuable.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the three months ended February 28, 2019. The Company is not subject to externally imposed capital requirements.

14. Supplemental Disclosures

	February 28, 2019	February 28, 2018
Non-cash investing and financing activities:		
Fair value of broker's warrants issued as finder's fees	\$ 160,720	\$ 11,902
Shares issued for settlement of accounts payable	\$ 14,477	\$ –
Units issued for settlement of accounts payable	\$ 457,433	\$ –
Shares received as payment for licensing fees	\$ –	\$2,000,000
Units issued for intangible assets	\$ 251,008	\$ –

15. Financial Instruments and Risks

Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as at February 28, 2019, as follows:

	Fair Value Measurements Using			Balance February 28, 2019
	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Cash	\$ 3,707,096	\$ –	\$ –	\$ 3,707,096
Marketable securities	1,480,000	251,309	–	1,731,309
Total assets	\$ 5,187,096	\$ 251,309	\$ –	\$ 5,438,405

The fair values of other financial instruments, including amounts receivables, accounts payable and accrued liabilities, and amounts due from and to related parties, approximate their carrying values due to the relatively short-term maturity of these instruments.

Credit Risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counter-party default on its obligation. The Company minimizes its credit risk associated with its cash balance by dealing with major financial institutions in Canada. Amounts receivable is primarily comprised of GST receivable due from the Government of Canada. The carrying amount of financial assets represents the maximum credit exposure.

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15. Financial Instruments and Risks (continued)

Foreign Exchange Rate and Interest Rate Risk

The Company is not exposed to any significant foreign exchange rate or interest rate risk.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Company manages liquidity risk by maintaining sufficient cash balances and adjusting its operating budget and expenditure. Liquidity requirements are managed based on expected cash flows to ensure that there are sufficient funds to meet short-term and specific obligations.

Price Risk

The Company is exposed to price risk with respect to its marketable securities, which consists of common shares and warrants held in publicly-traded and privately held companies and profitability depend upon the market price or the fair value of the common shares for those companies. The market price or the fair value of the common shares of those companies can fluctuate significantly, and there is no assurance that the future market price or the fair value of those companies will not decrease significantly.

16. Commitments

On June 1, 2017, the Company entered into a consulting agreement with the President and CEO of the Company, whereby the Company agreed to pay a monthly salary of \$5,000 per month. On February 21, 2019, the Company replaced the consulting agreement with an Executive Employment Agreement with the President and CEO of the Company, whereby the Company agreed to pay a base salary of \$240,000 per year.

On September 2, 2017, the Company's wholly-owned subsidiary, Urban Juve, entered into an Asset Purchase and Distribution Agreement whereby Urban Juve was granted exclusive and international distribution rights to various plant and root-based products developed by a supplier. The term of the agreement is for twenty years and will be automatically renewed for twenty additional years unless terminated by the parties. As consideration for the distribution rights, the Company issued 3,600,000 common shares at \$0.05 per share for fair value of \$180,000, paid an initial payment of \$6,000 on the effective date of the agreement, and paid a second payment of \$30,000 upon completion of the initial public offering by the Company. Urban Juve will also pay a royalty fee of 10% of the net revenues from the sale of any products under the agreement.

On September 2, 2017, in conjunction with the Asset Purchase and Distribution Agreement, Urban Juve entered into a consulting agreement with the same supplier whereby the supplier would create new products specifically for Urban Juve and provide consulting services on an ongoing basis. The term of the agreement is two years and will be automatically renewed for one additional year unless terminated by the parties. In consideration for the consulting services, Urban Juve will pay consulting fees of \$5,000 per month, which will increase to \$10,000 per month upon Urban Juve achieving \$40,000 in monthly net revenues on the sale of the products.

On October 10, 2017, Urban Juve entered into an agreement whereby Urban Juve would acquire certain ayurvedic and plant-based ingredients recipes along with any formulas, technology or intellectual property related to the recipes. As consideration for the assets, the Company issued 400,000 units with a fair value of \$20,000. Also, in conjunction with the agreement, the vendor will provide employment services to Urban Juve as an employee of the Company. The vendor is set to receive cash bonuses of \$20,000 and \$100,000 upon the products generating \$100,000 and \$1,000,000 in net revenues, respectively.

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16. Commitments (continued)

On December 30, 2017, the Company's wholly-owned subsidiary, Urban Juve, entered into an Asset Purchase and Distribution Agreement whereby Urban Juve would be granted exclusive Canadian distribution rights to various plant and root-based products developed by a supplier. The term of the agreement is for twenty years and will be automatically renewed for twenty additional years unless terminated by the parties. As consideration for the distribution rights, the Company paid \$50,000 on the effective date of the agreement. Urban Juve will also pay a royalty fee of 10% of the net revenues (as defined in the agreement) from the sale of any products under the agreement.

On December 19, 2018, the Company, through its subsidiary UJ Topicals Inc., entered into a Product Distribution Agreement and Master Services Agreement with Nova Paths LLC ("Nova Paths") to manufacture and distribute its THC and CBD infused line of topical products through the state of Oregon. Pursuant to the agreements, the Company granted Nova Paths a non-exclusive license to its brand and proprietary product formulations for pain balm, analgesic pain gel, a pain patch, massage oil, capsules, and other products ("UJ Topicals Line"). In addition, the Company appointed Nova Paths as its exclusive distributor for the UJ Topicals Line in Oregon. Under the terms of the agreements, Nova Paths will retain a fee of 25% of the wholesale revenues from sales of UJ Topicals Inc. and pay the balance of wholesale revenue, less certain expenses, to UJ Topicals Inc.

On January 3, 2019, the Company entered into a consulting agreement with Incanco Cannabis Consultants Co. Ltd. for a term of 2 years. In consideration for its services, the Company agreed to pay a signing bonus of 200,000 units, consisting of one common share and one warrant to purchase one common share at \$0.34 per share for a period of 5 years. In addition, the Company agreed to pay milestone bonuses in the amount of \$10,000 payable by 40,000 common shares of the Company every 3 months after the date of the agreement for a period of 12 months.

17. Subsequent Events

Subsequent to the three months ended February 28, 2019, the Company issued 425,000 common shares pursuant to the exercise of stock options for total proceeds of \$117,500.

Subsequent to the three months ended February 28, 2019, the Company issued 400,000 common shares pursuant to the exercise of warrants for total proceeds of \$200,000.

On March 19, 2019, the Company incorporated a wholly-owned subsidiary, Mad Wallaby Distribution Inc., in the State of California.