

Commonwealth Cannabis Corp.
(formerly Blue Aqua Holdings Ltd.)

FINANCIAL STATEMENTS

September 30, 2018

(Expressed in Canadian dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Commonwealth Cannabis Corp. (formerly Blue Aqua Holdings Ltd.):

We have audited the accompanying financial statements of Commonwealth Cannabis Corp. which comprise the statements of financial position as at September 30, 2018, and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Commonwealth Cannabis Corp. as at September 30, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Commonwealth Cannabis Corp.'s ability to continue as a going concern.

Other Matter

The financial statements for the year ended September 30, 2017, were audited by another auditor whose report dated April 6, 2018 expressed an unqualified opinion.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
January 23, 2019

An independent firm associated with
Moore Stephens International Limited

MOORE STEPHENS

Commonwealth Cannabis Corp.*(Blue Aqua Holdings Ltd.)*

Statement of Financial Position

As at September 30, 2018 and 2017

	2018	2017
	\$	\$
Assets		
Current assets:		
Cash	423,173	—
Sales Tax Receivables	885	—
Total Assets	424,058	—
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities (Note 9)	3,300	352
Total Current and Total Liabilities	3,300	352
Shareholders' Equity		
Share Capital (Note 4)	11,000	1
Special Warrants (Note 4)	442,800	—
Deficit	(33,042)	(353)
Total Shareholders' Equity	420,758	(352)
Total Liabilities and Shareholders' Equity	424,058	—

*Nature and Continuance of Operations (Note 1)**Subsequent Events (Note 10)*

Approved on behalf of the Board on January 23, 2019:

"Carl Chow"

Carl Chow, CEO and Director

"Lucas Birdsall"

Lucas Birdsall, CFO and Director

The accompanying notes are integral to these financial statements.

Commonwealth Cannabis Corp.*(Blue Aqua Holdings Ltd.)*

Statement of Comprehensive Loss

For the year ended September 30

	2018	2017
	\$	\$
Expenses		
Administration	6,300	353
Audit	7,650	—
Management fees (Note 9)	11,650	—
Professional fees	7,089	—
Net loss and comprehensive loss for the period	(32,689)	(353)
Basic and diluted loss per common share (Notes 4 and 10)	\$ (0.72)	\$ (35.3)
Weighted average number of common shares outstanding (Notes 4 and 10)	45,530	10

The accompanying notes are integral to these financial statements.

Commonwealth Cannabis Corp.*(formerly Blue Aqua Holdings Ltd.)*

Statements of Changes in Shareholders' Equity

	Share Capital		Special	Deficit	Total
	Number	Amount	Warrants		
		\$	\$	\$	\$
(Date of Incorporation) – Issuance to Incorporator (Note 4)	100	1		-	1
Net loss for the period	-	-		(353)	(353)
Balance, September 30, 2017	100	1		(353)	(352)
Shares issued pursuant to plan of arrangement (Notes 4 and 6)	1,010,549	1,000	-	-	1,000
Shares issued for services (Notes 4 and 9)	500,000	10,000	-	-	10,000
Incorporator shares cancelled	(100)	(1)	-	-	(1)
Warrants Issued for private placement (Note 4)	-	-	442,800	-	442,800
Net loss for the year	-	-	-	(32,689)	(32,689)
Balance, September 30, 2018	1,510,549	11,000	442,800	(33,042)	420,758

The accompanying notes are integral to these financial statements.

Commonwealth Cannabis Corp.*(formerly Blue Aqua Holdings Ltd.)*

Statements of Cash Flows

	2018	2017
	\$	\$
Net loss and comprehensive loss for the period	(32,689)	(353)
Operating Activities:		
Changes in non-cash working capital items:		
Sales tax receivables	(885)	-
Increase in accounts payable and accrued liabilities	13,947	352
Cash flows used in operating activities	(19,627)	(1)
Financing Activities:		
Proceeds from incorporator shares	-	1
Proceeds from private placement	442,800	-
Cash flows provided by financing activities	442,800	1
Increase in cash	423,173	-
Cash, beginning	-	-
Cash, ending	423,173	-

The accompanying notes are integral to these financial statements.

Commonwealth Cannabis Corp.

(formerly Blue Aqua Holdings Ltd.)

Notes to the Financial Statements

September 30, 2018

1. Nature and Continuance of Operations:

Commonwealth Cannabis Corp. was incorporated as 1093684 B.C. Ltd. (the "Company" or "Blue Aqua" or "Commonwealth") on October 19, 2016 under the laws of British Columbia, Canada. On March 28, 2018, the Company changed its name to Blue Aqua Holdings Ltd and to Commonwealth Cannabis Corp on December 14, 2018. The Company's head office and registered office is located at 372-1917 West 4th Ave. Vancouver, BC V6J 1M7..

The Company is a publicly reporting issuer in the Provinces of British Columbia and Alberta. On June 12, 2018, the Company was spun out (divested) via a plan of arrangement from its former parent, Monterey Minerals Inc. (Note 6).

Commonwealth operates in the mining and exploration sector during the year and subsequent to the year end, changed its business to the cannabis sector.

The financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company's continuing operations, as intended, and its financial success may be dependent upon the extent to which it can successfully develop its business.

The development of its business may take many years to be successful and the amount of resulting income, if any, is difficult to determine with any certainty. For the year ended September 30, 2018 and prior period, the Company had not commenced any operations, had no profits, and had a deficit of \$33,042 (2017: deficit of \$353) and expects to incur losses in the development of its business, all of which casts material uncertainty about the Company's ability to continue as a going concern.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events and conditions that may cast a significant doubt upon the Company's ability to continue as a going concern as described above, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These financial statements do not include any adjustments relating to the realization of assets and liquidation of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

Commonwealth Cannabis Corp.

(formerly Blue Aqua Holdings Ltd.)

Notes to the Financial Statements

September 30, 2018

2. Basis of Presentation:

Statement of Compliance -

The financial statements for the year ended September 30, 2018 with comparative figures for the prior period ended September 30, 2017 were prepared in accordance with the International Financial Reporting Standards ("IFRS") and any interpretations of IFRS as issued by the International Accounting Standards Board (IASB). The accounting policies set out below are in effect in the financial statements and have been applied consistently to all periods presented unless otherwise indicated.

3. Significant Accounting Policies:

a) Basis of Measurement -

These financial statements have been prepared on a historical cost basis, except for financial instruments classified in accordance with measurement standards under IFRS. These financial statements have been prepared using IFRS principles applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due.

b) Significant Accounting Judgments and Estimates -

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year. Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates. The most significant accounts that require estimates as the basis for determining the stated amounts include valuation of share-based payments and recognition of deferred income tax amounts.

c) Financial Instruments -

The following is the Company's new accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics.

Commonwealth Cannabis Corp.

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Notes to the Financial Statements

September 30, 2018

3. Significant Accounting Policies (continued):

c) Financial Instruments (continued)

(i) Classification (continued)

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

(ii) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of net (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of net (loss) income in the period in which they arise.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Commonwealth Cannabis Corp.

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Notes to the Financial Statements

September 30, 2018

3. Significant accounting policies (continued)

c) Financial Instruments (continued)

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset 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 Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are recognized in profit or loss.

d) Loss Per Share -

Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity.

In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive. Basic and diluted loss per share are the same for the periods presented.

Commonwealth Cannabis Corp.

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Notes to the Financial Statements

September 30, 2018

3. Significant Accounting Policies (Continued):

e) Income taxes -

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded 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. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries 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 end of the reporting period. 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.

f) New standards and interpretations not yet applied –

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are included below. The Company will adopt IFRS 15 that becomes effective for annual periods beginning on or after January 1, 2018. This new standard is not expected to have a significant impact on the Company's financial statements.

4. Share Capital:

Common Shares

Authorized:

- Unlimited common shares without par value; and

Issued:

During the period from inception on October 19, 2016 to September 30, 2017, the Company issued 100 common shares for proceeds of \$1 to the incorporator that were transferred to Monterey Minerals Inc. On June 12, 2018, in accordance with the plan of arrangement, the Company issued 1,010,549 common shares with a fair value of \$1,000 to shareholders of Monterey Minerals Inc. (Note 6).

Commonwealth Cannabis Corp.*(formerly Blue Aqua Holdings Ltd.)*

Notes to the Financial Statements

September 30, 2018

4. Share Capital (continued):**Common Shares (continued)**

On June 12, 2018, the Company issued 500,000 common shares at \$0.02 per share to a director, in settlement of \$10,000 in management fees payable (Note 9).

Special Warrants

During the year ended September 30, 2018, the Company issued 22,140,000 special warrants at \$0.02 for a total proceeds of \$442,800 as part of the private placement completed on October 1, 2018 (Note 10). Each Special Warrant is exercisable by the holder to receive one common share of the Company (a "Share") for no additional consideration, and all unexercised Special Warrants will be deemed to be exercised without any further action on the earlier of: (a) February 2, 2019, and (b) the third business day after a receipt is issued for a (final) prospectus by the securities regulatory authorities in each province where the Special Warrants were sold qualifying the Shares to be issued upon the exercise of the Special Warrants.

Subsequent to year end, effective December 14, 2018, the Company consolidated its shares on the basis of one new, post-consolidated share for every 10 old, pre-consolidated shares (Note 10). The weighted average number of common shares outstanding and loss per share figures have been adjusted to reflect this share consolidation. All other share and per share amounts in these financial statements are presented on a pre-consolidation basis.

5. Income Taxes:

A reconciliation of current income taxes at statutory rates with the reported taxes is as follows:

	September 30, 2018 \$	September 30, 2017 \$
Loss before income taxes	(32,689)	(353)
Statutory rates	27.00%	26.00%
Expected income tax recovery at statutory rates	8,826	92
Effect of an increase in tax rates	3	—
Increase in unrecognized deferred taxes	(8,829)	(92)
Deferred income tax recovery	—	—
Details of deferred income tax assets are as follows:		
	September 30, 2018 \$	September 30, 2017 \$
Deferred income tax assets:		
Non-capital losses carried forward	8,921	92
Total deferred income tax assets	8,921	92
Less: unrecognized deferred tax assets	(8,921)	(92)
Deferred income tax assets	—	—

Commonwealth Cannabis Corp.

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Notes to the Financial Statements

September 30, 2018

5. Income Taxes (continued):

Deferred tax assets have not been recognized because it is not probable that future taxable income will be available against which the Company can utilize the benefits from the deductible temporary differences and unused tax losses.

Non-Capital Losses –

As at September 30, 2018, the Company has non-capital losses of \$33,042, which may be carried forward to apply against future years income tax for Canadian income tax purposes. Of the \$33,042, \$353 expires in 2037 and \$32,689 expires in 2038.

6. Plan of Arrangement

On September 30, 2016, prior to incorporation of the Company, Monterey Minerals Inc. signed a letter of intent (“LOI”) with Railhead Resources Ltd. (the “Purchaser”) to form a newly incorporated wholly-owned subsidiary (Subco) to facilitate a transaction in which Subco would purchase all of the issued and outstanding capital stock from the Purchaser’s shareholders and be spun-out from Monterey Minerals Inc. as a separate reporting issuer pursuant to a court approved plan of arrangement. Blue Aqua was incorporated as a Subco of Monterey Minerals Inc. to conduct this transaction.

On November 29, 2016, Monterey Minerals Inc. received court approval for its 2016 Plan of Arrangement (“2016 PoA”) pursuant to which the LOI and \$1,000 cash (the “Assets”) are to be transferred to Blue Aqua and subsequently divested (spun out) pursuant to the 2016 PoA. The Company set the share distribution record date of the 2016 PoA at close of business on April 18, 2018. The LOI has no determinable fair market value.

On June 12, 2018, the spin out of the Company from Monterey Minerals Inc. was completed through the issuance of 1,010,549 common shares to Monterey Minerals Inc. shareholders and the 100 incorporator shares were returned to treasury and cancelled pursuant to divesting the Company from Monterey Minerals Inc. under the Arrangement.

Commonwealth Cannabis Corp.

(formerly Blue Aqua Holdings Ltd.)

Notes to the Financial Statements

September 30, 2018

7. Capital Disclosures

The Company defines its working capital as capital. The Company manages its capital structure and makes adjustments to it based on the funds available to the Company. 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. In addition, the Company is dependent upon external financings to fund activities. In order to carry out planned business and pay for administrative costs, the Company will need to raise additional funds. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

8. Financial and Capital Risk Management

The three levels of the fair value hierarchy are:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – inputs that are not based on observable market data.

The Company enters into financial instruments to finance its operations in the normal course of business. The fair values of accounts payable approximate their carrying values due to the short-term maturity of these instruments.

The fair value of the Company's financial instruments has been classified within the fair value hierarchy as at September 30, 2018 as follows:

	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash	\$423,173	-	-	\$423,173

Commonwealth Cannabis Corp.

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Notes to the Financial Statements

September 30, 2018

8. Financial and Capital Risk Management (continued):

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company's functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its cash. The Company's cash is largely held in large Canadian financial institutions. The Company maintains cash deposits with Schedule A financial institution, which from time to time may exceed federally insured limits. The Company has not experienced any significant credit losses and believes it is not exposed to any significant credit risk.

Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not hold any financial liabilities with variable interest rates. The Company does maintain bank accounts which earn interest at variable rates, but it does not believe it is currently subject to any significant interest rate risk.

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 manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

9. Related Party Transactions

During the year ended September 30, 2018, the Company:

- a. incurred management fee expense \$10,650 to a director and settled account payable of \$10,000 through the issuance of 500,000 common shares of the Company on June 12, 2018 (Note 4); and
- b. incurred management fee expense of \$1,000 to a former CEO and director. Account payable at September 30, 2018 includes \$1,000 payable to the former CEO and director.

Commonwealth Cannabis Corp.

(formerly Blue Aqua Holdings Ltd.)

Notes to the Financial Statements

September 30, 2018

10. Subsequent Events

- a) On October 1, 2018, the Company issued 1,180,000 Special Warrants at \$0.02 per Special Warrant for total proceeds of \$23,600 and completed a non-brokered private placement of 23,320,000 special warrants in the capital stock of the Company at a price of \$0.02 per Special Warrant for total proceeds of \$466,400. 22,140,000 Special Warrants were issued prior to September 30, 2018 (note 4).
- b) On October 31, 2018, the Company entered into an agreement with The Orley Group Pty Ltd. ("Orley"), an Australian company, and the shareholders of Orley, for the acquisition of a 51% interest in Orley, for a total purchase price of AUS\$996,600, paid with the issuance of a promissory note to Orley. In connection with the acquisition. The Company also entered into loan assignment agreement with an existing creditor of Orley, pursuant to which it took the assignment of a loan agreement between Orley and the creditor in the amount of AUS\$100,000, together with all related security interests and agreements. The consideration for the assignment of the loan agreement and underlying debt was CDN\$95,000 which has been paid by the Company to the creditor. Orley is in the business to grow produce and manage hemp seeds and stems for the Australian market as well as other Pacific Rim and Asian countries.
- c) On November 15, 2018, the Company loaned Orley AUS\$50,000. The loan is unsecured and bears an interest of 8% per annum. The loan is due six months after November 15, 2018. The Company has the option to convert all or any portion of the principal amount of the loan, accrued interest and fees outstanding into common shares at any time before the maturity date.
- d) On December 14, 2018, the Company changed its name from Blue Aqua Holdings Ltd. to Commonwealth Cannabis Corp.
- e) On December 14, 2018, the Company completed a consolidation of its issued and outstanding common shares on the basis of one post-consolidation common share for every 10 pre-consolidation common shares.