

## COMMONWEALTH CANNABIS CORP.

(Blue Aqua Holdings Ltd.)

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2018

January 23, 2019

This Management Discussion and Analysis ("MD&A") of Commonwealth Cannabis Corp.(formerly, Blue Aqua Holdings Ltd.) ("Commonwealth" or the "Company") has been prepared by management as of January 22, 2019 and should be read together with the annual financial statements and related notes for the period ended September 30, 2018 which are prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional information regarding the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com). All of the following amounts are expressed in Canadian dollars unless otherwise stated.

#### FORWARD LOOKING STATEMENTS

*The information set forth in this MD&A contains statements concerning future results, future performance, intentions, objectives, plans and expectations that are, or may be deemed to be, forward-looking statements. These statements concerning possible or assumed future results of operations of the Company are preceded by, followed by or include the words 'believes,' 'expects,' 'anticipates,' 'estimates,' 'intends,' 'plans,' 'forecasts,' or similar expressions. Forward-looking statements are not guarantees of future performance. These forward-looking statements are based on current expectations that involve numerous risks and uncertainties, including, but not limited to, those identified in the Risks Factors section. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate. These factors should be considered carefully, and readers should not place undue reliance on forward-looking statements. The Company may not provide updates or revise any forward-looking statements, except those otherwise required under paragraph 5.8(2) of NI 51-102, whether written or oral that may be made by or on the Company's behalf.*

## **Overall Performance**

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

Commonwealth Cannabis is actively evaluating assets involved in the cultivation of industrial hemp, as well as the extraction of Cannabidiol (“CBD”). The Company is looking to pursue opportunities surrounding the complete lifecycle of industrial hemp cultivation, including growing, harvesting, drying, curing, inspecting, and packaging. In contrast to cannabis for medical use, varieties grown for fiber and seed have less than 0.3% THC and are unsuitable for producing hashish and marijuana. Present in industrial hemp, cannabidiol is a major constituent among some 560 compounds found in hemp.

The Company’s office is located at 372-1917 West 4<sup>th</sup> Ave. Vancouver, BC V6J 1M7

On September 30, 2016, prior to incorporation of the Company, Monterey Minerals Inc. (“Monterey”) signed a letter of intent (“LOI”) with Railhead Resources Ltd. (the “Purchaser”) to form a newly incorporated wholly-owned subsidiary (Subco) to a facilitate 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 as a separate reporting issuer pursuant to a court approved plan of arrangement (the “Arrangement”).

On October 19, 2016, the Company was incorporated as 1093684 B.C. Ltd., under the laws of British Columbia, Canada, as the Subco of Monterey to conduct the Arrangement transaction.

On November 29, 2016, Monterey 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 has set the share distribution record date for the 2016 PoA as holders of record of Monterey as of close of business on April 18, 2018. The LOI has no determinable fair market value.

On March 28, 2018, the Company changed its name to Blue Aqua Holdings Ltd.

On June 12, 2018, the spin out of the Company from Monterey was completed through the authorization and issuance of 1,010,549 common shares to Monterey shareholders and the 100 incorporator shares were returned to treasury and cancelled pursuant to divesting the Company from Monterey under the Arrangement. the Company also issued 500,000 common shares to a director, in settlement of \$10,000 in management fees payable.

## **SELECT ANNUAL INFORMATION AND RESULTS OF OPERATIONS**

As at September 30, 2018, the Company had total assets of \$424,058 (2017: \$nil). As at July 31, 2018, the Company did not have any non-current liabilities (2017: \$nil).

For the year ended September 30, 2018, the Company reported a net loss of \$32,689 (2017: \$353). The losses for the year ended September 30, 2018 comprised of general and administrative fees of \$6,300 (2017, \$353), professional fees of \$7,089, management fees of \$11,650 and audit fees of \$7,650 (2017: \$nil).

### SUMMARY OF QUARTERLY RESULTS

The Company was incorporated on March 24, 2017 and, for that reason, only the previous five quarters have been presented in the table below.

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net Loss for the Period	\$ (16,940)	\$ (15,749)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (353)
Loss per Share	\$ (0.01)	\$ (0.05)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

### LIQUIDITY AND CAPITAL RESOURCES

The Company reported working capital of \$420,173 at September 30, 2018 and cash of \$423,173.

Current liabilities as at September 30, 2018 consisted of accounts payable of \$3,300.

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.

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. Each Special Warrant is exercisable by the holder to receive one common share of the Company (a "Share") for no additional consideration

The Company may continue to have capital requirements in excess of its currently available resources. In the event the Company's plans change, its assumptions change or prove inaccurate, or its capital resources in addition to projected cash flow, if any, prove to be insufficient to fund operations, the Company may be required to seek additional financing. There can be no assurance that the Company will have sufficient financing to meet its future capital requirements or that additional financing will be available on terms acceptable to the Company in the future.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company does not utilize off-balance sheet arrangements.

## 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.

## NEW ACCOUNTING POLICY ADOPTED

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.

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.

## (ii) Measurement (Continued)

### 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.

## (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.

#### (iv) Derecognition (Continued)

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.

#### **CRITICAL ACCOUNTING ESTIMATES**

Not applicable for Venture Issuers.

#### **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The carrying amounts of cash and accounts payable approximate fair value because of the short-term maturity of these items.

#### **SUBSEQUENT EVENTS**

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

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.

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.

On December 14, 2018, the Company changed its name from Blue Aqua Holdings Ltd. to Commonwealth Cannabis Corp.

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.

## **MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The information provided in this report as referenced from the Company's consolidated financial statements for the referenced reporting period is the sole responsibility of management. In the preparation of the information along with related and accompanying statements and estimates contained herein, management uses careful judgement in assessing the values (or future values) of certain assets or liabilities. It is the opinion of management that such estimates are fair and accurate as presented.

## **OTHER REQUIREMENTS**

### ***Summary of Outstanding Securities as at January 23, 2019***

Authorized: Unlimited number of common shares without par value.

Issued and outstanding: 151,054 Common Shares

Special Warrants: 2,332,000 @ No Additional Consideration