

Commonwealth Cannabis Corp.

FINANCIAL STATEMENTS

September 30, 2019

(Expressed in Canadian dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Commonwealth Cannabis Corp.

Opinion

We have audited the financial statements of Commonwealth Cannabis Corp. (the "Company"), which comprise the statements of financial position as at September 30, 2019 and 2018, and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Barry Hartley.



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

January 24, 2020



An independent firm
associated with Moore
Global Network Limited

Commonwealth Cannabis Corp.

Statement of Financial Position

	September 30 2019 \$	September 30 2018 \$
Assets		
Current Assets		
Cash	743,813	423,173
Sales tax receivable	5,105	885
Investment (Note 6)	125,000	-
Total Current and Total Assets	873,918	424,058
Liabilities		
Current liabilities		
Accounts payable (Note 10)	5,298	3,300
Accrued liabilities	3,780	-
Total Current and Total Liabilities	9,078	3,300
Shareholders' equity		
Share capital (Note 4)	1,332,600	11,000
Special warrants (Note 4)	-	442,800
Deficit	(467,760)	(33,042)
Total Shareholders' Equity	864,840	420,758
Total liabilities and shareholders' equity	873,918	424,058

Nature and Continuation of Operations (Note 1)

Approved on behalf of the Board on January 24, 2020:

"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.

Statement of Comprehensive Loss

	Year ended September 30, 2019	Year ended September 30, 2018
	\$	\$
Expenses		
Administration	28,391	6,300
Consulting (Note 10)	119,395	11,650
Professional fees	68,546	14,739
Interest expense	2,370	-
	(218,702)	(32,689)
Other items		
Gain on investment (Note 6)	25,000	-
Interest income (Note 5)	13,122	-
Impairment of loans receivable (Note 5)	(236,647)	-
Loss on foreign currency	(17,491)	-
Net and comprehensive loss	(434,718)	(32,689)
Basic and diluted loss per common share	\$ (0.06)	\$ (7.18)
Weighted average number of common shares outstanding (Note 4)	7,154,298	4,553

The accompanying notes are integral to these financial statements.

Commonwealth Cannabis Corp.

Statements of Changes in Shareholders' Equity

	Share Capital			Deficit \$	Total \$
	Number	Amount \$	Special Warrants \$		
Balance, September 30, 2017	10	1		(353)	(352)
Shares issued pursuant to plan of arrangement (Note 4)	101,054	1,000	-	-	1,000
Shares issued for services (Note 4)	50,000	10,000	-	-	10,000
Incorporator shares cancelled	(10)	(1)	-	-	(1)
Special Warrants Issued (Note 4)	-	-	442,800	-	442,800
Net and comprehensive loss	-	-	-	(32,689)	(32,689)
Balance, September 30, 2018	151,054	11,000	442,800	(33,042)	420,758
Shares issued for private placement (Note 4)	8,552,000	855,200	-	-	855,200
Special Warrants Issued (Note 4)	-	-	23,600	-	23,600
Special warrants exercised (Note 4)	2,332,000	466,400	(466,400)	-	-
Net and comprehensive loss	-	-	-	(434,718)	(434,718)
Balance, September 30, 2019	11,035,054	1,332,600	-	(467,760)	864,840

The accompanying notes are integral to these financial statements.

Commonwealth Cannabis Corp.

Statements of Cash Flows

	Year ended September 30, 2019	Year ended September 30, 2018
	\$	\$
Net and comprehensive loss	(434,718)	(32,689)
Operating Activities:		
Adjustment for non-cash working capital item:		
Gain on investment	(25,000)	-
Accrued interest	(13,122)	-
Impairment of loans receivable	236,647	-
Unrealized loss on foreign currency	17,015	-
Changes in non-cash working capital items:		
Sales tax receivable	(4,220)	(885)
Accounts payable and accrued liabilities	5,778	13,947
Cash flows used in operating activities	(217,620)	(19,627)
Investing Activities:		
Purchase of investment	(100,000)	-
Loan receivable	(240,540)	-
Cash flows used in investing activities	(340,540)	-
Financing Activities:		-
Proceeds from private placements	878,800	442,800
Cash flows provided by financing activities	878,800	442,800
Increase in cash	320,640	423,173
Cash, beginning	423,173	-
Cash, ending	743,813	423,173

The accompanying notes are integral to these financial statements.

Commonwealth Cannabis Corp.

Notes to the Financial Statements

September 30, 2019

1. Nature and Continuance of Operations

Commonwealth Cannabis Corp. was incorporated as 1093684 B.C. Ltd. (the "Company" or "Commonwealth") on October 19, 2016 under the laws of British Columbia, Canada. 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. Commonwealth operates in 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 the Company's 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, 2019, the Company had no profits, and had a deficit of \$467,760 (2018: \$33,042) 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. Management believes its working capital will be sufficient to support operations for the next twelve months.

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. The Company's continuation as a going concern is dependent upon raising the necessary funds through the selling of investments and issuance of equity or debt sufficient to meet current and future obligations. Management is aware, in making its 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 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.

2. Basis of Presentation

Statement of Compliance -

The financial statements for the year ended September 30, 2019 with comparative figures for the year ended September 30, 2018 were prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financing Reporting Interpretations Committee ("IFRIC"). The accounting policies set out in Note 3 are in effect in the financial statements and have been applied consistently to all periods presented unless otherwise indicated.

Commonwealth Cannabis Corp.

Notes to the Financial Statements

September 30, 2019

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 certain 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 recognition of deferred income tax amounts.

c) Financial Instruments -

(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.

Commonwealth Cannabis Corp.

Notes to the Financial Statements

September 30, 2019

3. Significant Accounting Policies (continued)

c) Financial Instruments (continued)

(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. 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 in the period in which they arise. Cash, loans receivable and investments are classified as FVTPL.

Debt investments at FVTOCI

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 other comprehensive income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss

Equity investments at FVTOCI

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.

Commonwealth Cannabis Corp.

Notes to the Financial Statements

September 30, 2019

3. Significant accounting policies (continued)

c) Financial Instruments (continued)

(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.

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.

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 asset and 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.

Commonwealth Cannabis Corp.

Notes to the Financial Statements

September 30, 2019

3. Significant Accounting Policies (Continued)

f) New accounting standards adopted –

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 16 Leases. IFRS 16 replaces the existing lease accounting guidance, IAS 17, Leases and related interpretations. IFRS 16 specifies how to recognize, measure, present and disclose 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. Application of the standard is mandatory for annual periods beginning on or after January 1, 2019, with early application permitted. This new standard is not expected to have an impact on the Company's financial statements because the Company does not have any leases.

Other accounting pronouncements with future effective dates are either not applicable or are not expected to have a material impact on the Company's financial statements.

4. Share Capital

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. 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 post-consolidation basis.

Common Shares

Authorized:

Unlimited common shares without par value.

Issued:

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. The Company 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 the Company 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, in accordance with the 2016 PoA, the Company issued 101,054 common shares with a fair value of \$1,000 to shareholders of Monterey Minerals Inc.

Commonwealth Cannabis Corp.

Notes to the Financial Statements

September 30, 2019

4. Share Capital (continued)

Common Shares (continued)

On June 12, 2018, the Company issued 50,000 common shares at \$0.20 per share to a director, in settlement of \$10,000 in management fees payable.

On January 31, 2019 the Company issued 8,552,000 common shares at \$0.10 per share for total proceeds of \$855,200.

Special Warrants

On October 1, 2018, the Company issued 118,000 Special Warrants at \$0.20 per Special Warrant for total proceeds of \$23,600, which completed a non-brokered private placement of 2,332,000 Special Warrants of the Company at a price of \$0.20 per Special Warrant for total proceeds of \$466,400. 2,214,000 Special Warrants for total proceeds of \$442,800 were issued during the year ended September 30, 2018.

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.

On February 4, 2019 all outstanding warrants were exercised, for no further consideration, into 2,332,000 of Company's common shares.

5. Loans Receivable

On October 30, 2018, the Company entered into a loan assignment agreement with a creditor of Orley Group Pty Ltd. ("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. The loan is due on demand, bears interest at 4% per annum, and it secured pursuant to a general security deed provided by Orley. At September 30, 2019, the principal balance was \$89,410 and accrued interest was \$4,667.

On November 19, 2018, the Company loaned Orley AUS\$50,000 (CAD \$49,010). The loan is unsecured, bears an interest of 8% per annum, and was due on May 15, 2019. At September 30, 2019, the principal balance was \$44,705 and accrued interest was \$3,455.

On February 15, 2019, the Company loaned Orley AUS\$100,000 (CAD \$96,530). The loan is unsecured, bears an interest of 8% per annum, and was due on August 15, 2019. At September 30, 2019, the principal balance was \$89,410 and accrued interest was \$5,000.

On August 1, 2019, the Company gave notice to Orley demanding repayment of all three loans plus accrued interest. Due to uncertainty about the recoverability of these loans, the Company recognized impairment of the principal and accrued interest of \$236,647.

Commonwealth Cannabis Corp.

Notes to the Financial Statements

September 30, 2019

6. Investments

On August 8, 2019, the Company subscribed to 1,000,000 units of Champignon Brands Inc. (“Champignon”), a private company, for cash consideration of \$100,000. Each unit consists of one common share and one half of one share purchase warrant. Each whole warrant is exercisable into one common share at \$0.15 per share for a period of three years. At September 30, 2019, the fair value of this investment was \$125,000, which was based on the fair value of recent share subscriptions by Champignon. A gain of \$25,000 was recognized in the statement of comprehensive loss.

7. Income Taxes

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

	September 30, 2019 \$	September 30, 2018 \$
Loss before income taxes	(434,718)	(32,689)
Statutory rates	27.00%	27.00%
Expected income tax recovery at statutory rates	(117,374)	(8,826)
Non-deductible items	57,144	-
Effect of an increase in tax rates	-	(3)
Increase in unrecognized deferred taxes	60,230	8,829
Deferred income tax recovery	—	—

Details of deferred income tax assets are as follows:

	September 30, 2019 \$	September 30, 2018 \$
Deferred income tax assets:		
Non-capital losses carried forward	69,151	8,921
	69,151	8,921
Less: unrecognized deferred tax assets	(69,151)	(8,921)
Deferred income tax assets	—	—

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, 2019, the Company has non-capital losses of \$256,113, which may be carried forward to apply against future years income tax for Canadian income tax purposes. Of the total, \$353 expires in 2037 and \$32,689 expires in 2038 and \$223,071 expires in 2039.

Commonwealth Cannabis Corp.

Notes to the Financial Statements

September 30, 2019

8. 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. The Company is not subject to externally imposed capital requirements. There were no changes to the Company's approach to capital management during the year.

9. 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 value of accounts payable approximates 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, 2019 as follows:

	Level 1	Level 2	Level 3
Financial Assets			
Cash	\$743,813	-	-
Investment	-	\$125,000	-
	\$743,813	\$125,000	-

Commonwealth Cannabis Corp.

Notes to the Financial Statements

September 30, 2019

9. 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 is exposed to foreign exchange risk on its loans receivable which are denominated in Australian dollars. As at September 30, 2019, a 10% change in the Australian dollar to the Canadian dollar would impact the Company's net loss by \$22,353.

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 and loans receivable. The Company's cash is held by large Canadian financial institutions. The Company's credit risk with respect to cash is minimal. The Company is exposed to significant credit risk on its loans receivable.

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 assets or 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. The Company's exposure to interest rate risk is low.

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. At September 30, 2019, the Company has sufficient funds to meet its short-term commitments.

10. Related Party Transactions

During the year ended September 30, 2019, the Company paid the following advisory and consulting fees:

- \$12,000 (2018: \$Nil) to Lucas Birdsall, the CFO and director of the Company; and
- \$4,500 (2018: \$Nil) to Patrick O'Flaherty, an independent director of the Company.

During the year ended September 30, 2018, the Company paid \$11,650 in management fees to directors of the Company, which is included in consulting expense in the statement of comprehensive loss.

At September 30, 2019, the Company owed \$2,625 (2018: \$1,000) to directors of the Company, which is included in accounts payable. These amounts are unsecured, bear no interest and are due on demand.