

# **TRANSCANNA HOLDINGS INC.**

## **Condensed Consolidated Interim Financial Statements**

For the period ended February 29, 2020

(Expressed in Canadian dollars)

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

February 29, 2020

**TRANSCANNA HOLDINGS INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Amounts expressed in Canadian dollars)

	<i>Note</i>	<b>February 29, 2020</b>	<b>November 30, 2019</b>
<b>ASSETS</b>			
CURRENT			
Cash		\$ 2,146,739	\$ 3,119,533
Accounts receivable	7	\$ 473,320	375,093
Prepaid expenses		202,067	270,800
Inventory	4	228,055	130,693
Biological assets	5	268,764	144,479
Advances receivable	14	200,880	196,095
Due from related parties	14	275,957	275,747
<b>TOTAL CURRENT ASSETS</b>		<b>3,795,782</b>	<b>4,512,440</b>
Property, plant and equipment	8	21,593,073	20,912,553
Right-of-use asset	3	894,948	-
Deposits		16,285	-
Intangible assets	12	1,218,556	1,276,347
Goodwill	12	6,068,526	6,068,526
<b>TOTAL ASSETS</b>		<b>\$ 33,587,170</b>	<b>\$ 32,769,866</b>
<b>LIABILITIES AND EQUITY (DEFICIENCY)</b>			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	6	\$ 1,908,879	\$ 2,220,282
Current portion of lease liability	3	111,467	-
Legal provision	15, 19	67,535	-
Loans payable	13	4,205,235	13,619,751
<b>TOTAL CURRENT LIABILITIES</b>		<b>6,293,116</b>	<b>15,840,033</b>
Deferred income tax liability		303,876	303,876
Long-term lease liability	3	797,691	-
Long-term debt		8,751,240	-
<b>TOTAL LIABILITIES</b>		<b>16,145,923</b>	<b>16,143,909</b>
<b>EQUITY (DEFICIENCY)</b>			
Share capital	9	42,034,170	38,465,541
Reserves	10, 11	6,838,196	6,411,036
Deficit		(31,054,454)	(28,132,613)
Accumulated other comprehensive income (loss)		(376,665)	(118,007)
<b>TOTAL EQUITY (DEFICIENCY)</b>		<b>17,441,247</b>	<b>16,625,957</b>
<b>TOTAL LIABILITIES AND EQUITY (DEFICIENCY)</b>		<b>\$ 33,587,170</b>	<b>\$ 32,769,866</b>

Operations of the Company and Going Concern (Note 1)  
Commitments and contingencies (Note 15)  
Subsequent events (Note 19)

Approved on behalf of the Board of Directors on June 30, 2020

*/s/ Stephanie Wesik*  
\_\_\_\_\_  
*Director*

*/s/ Bob Blink*  
\_\_\_\_\_  
*Director*

*The accompanying notes are an integral part of the condensed consolidated interim financial statements.*

**TRANSCANNA HOLDINGS INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS**  
(Amounts expressed in Canadian dollars)

<b>For the three months ended</b>	<i>Note</i>	<b>February 29, 2020</b>	<b>February 28, 2019</b>
<b>REVENUES</b>			
Product revenue		\$ 436,722	\$ -
Service revenue		469,079	-
Direct inventory costs		(404,601)	-
<b>GROSS MARGIN BEFORE FAIR VALUE ADJUSTMENTS</b>		501,200	-
Change in fair value of biological assets	5	124,285	-
<b>GROSS MARGIN</b>		625,485	-
<b>EXPENSES</b>			
Advertising and promotion		221,552	845,532
Amortization	8, 12	171,016	2,675
Consulting		26,344	218,782
Insurance		32,947	-
Investor relations		291,637	236,890
Legal fees		228,532	18,708
Management fees	14	94,052	37,500
Meals and entertainment		127	6,894
Office and miscellaneous		191,045	184,563
Professional fees		174,930	1,982
Regulatory and transfer fees		7,457	33,133
Rent and utilities		86,755	-
Research and development		-	9,891
Salaries, wages and benefits		861,494	-
Share-based compensation	11	972,188	-
Tax expense		46,642	-
Travel		14,182	54,971
<b>TOTAL EXPENSES</b>		(3,420,900)	(1,651,521)
<b>LOSS BEFORE OTHER ITEMS</b>		(2,795,415)	(1,651,521)
Accretion expense	13	(199,502)	-
Loss from legal settlement	15, 19	(67,535)	-
Loss on foreign exchange		140,611	(8,458)
Interest income		-	521
<b>NET LOSS FOR THE PERIOD</b>		(2,921,841)	(1,659,458)
<b>OTHER COMPREHENSIVE INCOME</b>			
Foreign currency translation		(258,658)	(859)
<b>COMPREHENSIVE LOSS FOR THE PERIOD</b>		\$ (3,180,499)	\$ (1,660,317)
<b>Loss per share</b>			
Basic and diluted		\$ (0.07)	\$ (0.11)
Weighted average number of shares outstanding, basic and diluted		40,656,601	15,446,828

*The accompanying notes are an integral part of the condensed consolidated interim financial statements.*

**TRANSCANNA HOLDINGS INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)**  
(Amounts expressed in Canadian dollars)

	Number of common shares	Share Capital	Reserves	Obligation to Issue Shares	Accumulated Other Comprehensive Income	Deficit	Total equity (deficiency)
<b>Balance at November 30, 2018</b>	<b>12,164,973</b>	<b>1,803,241</b>	<b>280,951</b>	<b>18,750</b>	<b>(3,526)</b>	<b>(2,351,864)</b>	<b>(252,448)</b>
Shares issued for cash	4,400,000	2,200,000	-	-	-	-	2,200,000
Share issuance costs - cash	-	(73,932)	-	-	-	-	(73,932)
Share issuance costs - broker units	308,400	-	-	-	-	-	-
Share issuance costs - broker warrants	-	(73,177)	73,177	-	-	-	-
Shares issued upon exercise of warrants	1,511,950	1,373,450	-	-	-	-	1,373,450
Shares issued upon exercise of options	7,000	3,500	-	-	-	-	3,500
Shares for services	82,281	41,141	-	(18,750)	-	-	22,391
Shares for settlement of debt	56,266	110,000	-	-	-	-	110,000
Shares for loan extension	-	-	2,201,216	-	-	-	2,201,216
Foreign currency translation adjustments	-	-	-	-	2,667	-	2,667
Loss for the period	-	-	-	-	-	(1,659,458)	(1,659,458)
<b>Balance at February 28, 2019</b>	<b>18,530,870</b>	<b>5,384,223</b>	<b>2,555,344</b>	<b>-</b>	<b>(859)</b>	<b>(4,011,322)</b>	<b>3,927,386</b>
Shares issued for cash	10,000,350	26,001,750	-	-	-	-	26,001,750
Share issuance costs - cash	-	(1,639,956)	-	-	-	-	(1,639,956)
Share issuance costs - broker units	414,166	-	-	-	-	-	-
Share issuance costs - broker warrants	-	(3,174,555)	3,174,555	-	-	-	-
Shares issued upon exercise of warrants	2,322,650	2,349,260	(64,110)	-	-	-	2,285,150
Shares issued upon exercise of options	318,000	260,912	(101,912)	-	-	-	159,000
Shares for services	2,825,000	6,754,000	-	-	-	-	6,754,000
Shares for loan extension	500,000	305,000	-	-	-	-	305,000
Acquisition of Tres Ojos Naturals, LLC (Note 9)	810,000	617,867	-	-	-	-	617,867
Acquisition of Lyfted Farms Inc. (Note 10)	2,660,750	1,607,039	-	-	-	-	1,607,039
Share-based compensation	-	-	847,160	-	-	-	847,160
Foreign currency translation adjustments	-	-	-	-	(117,148)	-	(117,148)
Loss for the period	-	-	-	-	-	(24,121,291)	(24,121,291)
<b>Balance at November 30, 2019</b>	<b>38,381,786</b>	<b>38,465,540</b>	<b>6,411,036</b>	<b>-</b>	<b>(118,007)</b>	<b>(28,132,613)</b>	<b>16,625,957</b>
Share issuance costs - cash refund	-	4,755	-	-	-	-	4,755
Shares issued upon exercise of warrants	1,625,750	1,770,437	(144,687)	-	-	-	1,625,750
Shares issued upon exercise of options	625,000	888,843	(400,340)	-	-	-	488,503
Shares for settlement of debt	850,504	904,595	-	-	-	-	904,595
Share-based compensation	-	-	972,187	-	-	-	972,187
Other comprehensive income	-	-	-	-	(258,658)	-	(258,658)
Loss for the period	-	-	-	-	-	(2,921,841)	(2,921,841)
<b>Balance at February 29, 2020</b>	<b>41,483,040</b>	<b>42,034,170</b>	<b>6,838,196</b>	<b>-</b>	<b>(376,665)</b>	<b>(31,054,454)</b>	<b>17,441,247</b>

*The accompanying notes are an integral part of the condensed consolidated interim financial statements*

**TRANSCANNA HOLDINGS INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
(Amounts expressed in Canadian dollars)

<b>For the three months ended</b>	<b>February 29, 2020</b>	<b>February 28, 2019</b>
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (2,921,841)	\$ (1,659,458)
Items not affecting cash		
Accretion	199,502	-
Amortization	171,016	2,675
Accrued interest	23,250	-
Shares issued for services	-	122,500
Share-based compensation	972,187	-
Shares issued for research and development fees	-	9,890
Shares issued as finders fees	-	154,200
Changes in non-cash working capital:		
Accounts payable and accrued liabilities	(311,403)	74,860
Accounts receivable	(98,437)	(10,503)
Advances receivable	-	-
Biological assets	(124,285)	-
Due to/from related parties	-	(65,199)
Inventory	(97,362)	-
Legal provision	67,535	-
Prepaid expenses	68,733	(54,941)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(2,051,105)</b>	<b>(1,425,976)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of shares	-	3,385,210
Proceeds from exercise of warrants	1,625,750	(61,066)
Proceeds from exercise of options	488,500	-
Share issuance costs - cash	4,755	-
Loans payable	(213,183)	(388,521)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>1,905,822</b>	<b>2,935,623</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of property, plant, and equipment	(725,446)	-
Lease obligation expense	(38,640)	-
Advances receivable	(4,785)	-
Deposits	(16,285)	(535,549)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(785,156)</b>	<b>(535,549)</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>(42,355)</b>	<b>2,667</b>
Change in cash during the period	(972,794)	976,765
Cash, beginning of the period	3,119,533	74,310
<b>CASH, END OF THE PERIOD</b>	<b>\$ 2,146,739</b>	<b>\$ 1,051,075</b>

Supplemental cash flow information (Note 18)

*The accompanying notes are an integral part of the condensed consolidated interim financial statements*

## **TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended February 29, 2020 and February 28, 2019  
(Amounts expressed in Canadian dollars, unless otherwise indicated)

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### **1. OPERATIONS OF THE COMPANY AND GOING CONCERN**

TransCanna Holdings Inc. (the “Company” or “TransCanna”) was incorporated on October 26, 2017, under the Business Corporations Act (British Columbia). The Company’s principal business activity is the creation of consumer brands, from inception to sales, which includes, but is not limited, to the manufacturing transportation and distribution services in the state of California including cannabis related products.

On January 9, 2019, the Company completed an initial public offering (“IPO”) transaction and private placement. Following the transaction, the Company’s shares were traded on the Canadian Securities Exchange (the “CSE”) under the symbol “TCAN”. The Company’s head office and registered office is located at Suite 928-1030 West Georgia Street, Vancouver, BC V6E 2Y3.

The Company, via its wholly owned subsidiary Lyfted Farms Inc., is licensed to cultivate, distribute, and sell wholesale cannabis products in the state of California. The Company operates in California pursuant to the California Medicinal and Adult-Use Cannabis Regulation and Safety Act. The Company is subject to risks common in the life sciences and consumer products industries including, but not limited to, compliance with government regulations, regulatory approvals, competitive markets, new technological innovations, protection of proprietary technology, dependence on key personnel, uncertainty of market acceptance and the need to obtain additional financing.

The Company’s business activities, and the business activities of its subsidiaries, which operate in jurisdictions where the use of marijuana has been legalized under state and local laws, currently are illegal under U.S. federal law. The U.S. Controlled Substances Act classifies marijuana as a Schedule I controlled substance. Any proceeding that may be brought against the Company could have a material adverse effect on the Company’s business plans, financial condition and results of operations.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company’s ability to realize its assets and discharge its liabilities is dependent upon the Company obtaining the necessary financing and ultimately upon its ability to achieve profitable operations. The Company’s ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, obtain the necessary financing to meet its near-term obligations such that it can repay its liabilities when they become due. The inability to achieve these objectives indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. The Company has incurred losses since its inception and has an accumulated deficit of \$31,054,454 with a working capital deficiency of \$2,497,334 as at February 29, 2020.

Failure to arrange adequate financing on acceptable terms and/or achieve profitability may have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. These condensed consolidated interim financial statements do not give effect to adjustments to assets or liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

### **2. BASIS OF PREPARATION**

#### **Statement of compliance**

These condensed consolidated interim financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”), in particular IAS 34, Interim Reporting, and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) as of December 30, 2019, the date the Company's Board of Directors approved these financial statements.

## TRANSCANNA HOLDINGS INC.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended February 29, 2020 and February 28, 2019  
(Amounts expressed in Canadian dollars, unless otherwise indicated)

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The accompanying condensed consolidated interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") in particular IAS 34, Interim Reporting, and interpretations issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") in effect for the three months ended February 29, 2020 and February 28, 2019.

The condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors of the Company on June 30, 2020.

### Basis of Consolidation

The condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated on consolidation. Subsidiaries are those entities over which the Company has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. The following are TransCanna's wholly-owned subsidiaries and entities over which the Company has control as of February 29, 2020:

Entity	Location	Purpose	Percentage Held
TransCanna Management Inc. ("TCMI")	California	Management Company	100%
GF Group Inc., ("GFG")	California	Brand Management Company	100%
TCM Distribution Inc. ("TCDM")	California	Distribution Company	100%
Dalvi, LLC ("Dalvi")	California	Holding Company	100%
Tres Ojos Naturals, LLC ("SolDaze")	California	Branding Company	100%
Lyfted Farms Inc. ("Lyfted")	California	Cultivation, Production, and Distribution Facility	100%

### Functional and presentation currency

The functional currency of the Company, as determined by management, is the Canadian ("CDN") dollar. The Company's subsidiaries all have the U.S. dollar as their functional currency.

### Basis of measurement

These condensed consolidated interim financial statements were prepared on a going concern basis, at historical cost basis except for biological assets and certain financial instruments, which are measured at fair value as explained in the accounting principles below. Other measurement bases are described in the applicable notes. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

### Foreign currency translation

#### *Transactions and balances:*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.



## **TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended February 29, 2020 and February 28, 2019  
(Amounts expressed in Canadian dollars, unless otherwise indicated)

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### *Currency translations*

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income or loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income or loss. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

### *Foreign operations*

The financial results and position of all of the Company's subsidiaries namely TCMI ,GFG, TCDI, Dalvi, SolDaze, and Lyfted, each having the United States dollar as their functional currency, are translated as follows:

- Assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- Income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of these amounts are recognized in other comprehensive income or loss and recorded in the Company's foreign currency translation reserve in equity.

### **Critical accounting estimates, judgments and assumptions**

The preparation of the Company's condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements are described below:

#### *Estimated useful lives and depreciation of property and equipment*

Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts, considering factors such as economic and market conditions and the useful lives of assets.

#### *Estimated useful lives and amortization of intangible assets*

Amortization of intangible assets is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any.

#### *Biological assets*

Biological assets, consisting of unharvested cannabis plants, are dependent upon estimates of future economic benefits resulting from past events to determine the fair value through an exercise of significant judgment by the Company. In estimating the fair value of its biological assets, the Company uses market observable data to the extent it is available. Biological assets are measured at fair value less costs to sell up to the point of harvest.

With respect to biological assets, where there is no active market for the unharvested produce, determination of the fair values of the biological assets requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to estimating the stage of growth of the cannabis plant, selling and other fulfillment costs, average selling prices and expected yields for the plants.

## TRANSCANNA HOLDINGS INC.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended February 29, 2020 and February 28, 2019  
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### *Valuation of inventory*

Inventory is measured at the lower of cost or net realizable value, which includes the deemed costs arising from the fair value measurement gains on the transformation of biological assets. These deemed costs are estimated using assumptions that include, but are not limited to, selling and other fulfillment costs, and average selling prices. Any change in these assumptions could negatively impact operational results, the actual realizable value of inventory and future expected gains.

### *Deferred tax assets*

Deferred tax assets, including those arising from tax loss carry-forwards, requires the Company to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits rely on estimates of the Company's future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded could be impacted.

### *Equity-based payment arrangements*

The Company uses the Black-Scholes valuation model to determine the fair value of options and warrants granted to employees and non-employees under share-based payment arrangements, where appropriate. In instances where equity awards have performance or market conditions, the Company utilized the Monte Carlo valuation model to simulate the various outcomes that affect the value of the award. In estimating fair value, management is required to make certain assumptions and estimates such as the expected term of the instrument, volatility of the Company's future share price, risk free rates, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **Newly adopted accounting policies**

Effective December 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach, and therefore, the comparative information has not been restated and continues to be reported under IAS 17, *Leases* and IFRIC 4, *Determining whether an arrangement contains a lease*. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize a right-of-use ("ROU") asset and a lease obligation at the lease commencement date.

#### *Accounting policy applicable from December 1, 2019*

At the inception of a contract, the Company assess whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset, either explicitly or implicitly, including consideration of supplier substitution rights;
- The Company has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset.

**TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended February 29, 2020 and February 28, 2019  
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The ROU asset is initially measured based on the initial amount of the lease liability plus any initial direct costs incurred less any lease incentives received. The ROU asset is depreciated to the earlier of the end of the useful life or the lease term using either the straight-line or units-of-production method, depending on which method more accurately reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise the option. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, in the case that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method and remeasured when there is a change in future lease payments. Future lease payments can arise from a change in an index or rate, if there is a change in the Company's estimate of the expected payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded to the statement of loss if the carrying amount of the ROU asset has been reduced to zero.

*Transition to IFRS 16*

The Company previously classified leases as operating, or finance leases based on the Company's assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset. The Company did not have any finance leases in the comparative periods.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at December 1, 2019. ROU assets were measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

The Company has elected to apply the practical expedient to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of twelve months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

An incremental ROU asset and lease liability of \$ 699,871 was recorded as of December 1, 2019, with no net impact on deficit. When measuring the lease liability, the Company discounted lease payments using the incremental borrowing rate of 11.31 % at December 1, 2019.

The following table reconciles the Company's operating lease commitments at February 29, 2020, as previously disclosed in the Company's annual audited consolidated financial statements, to the lease liability recognized on initial application of IFRS 16 on December 1, 2019:

Operating lease commitments, November 30, 2019	\$	1,005,354
IFRS 16 recognition exemption - Short-term leases		(22,500)
Effect of discounting using the incremental borrowing rate - December 1, 2019		(282,983)
Lease liability recognized on adoption of IFRS 16 - December 1, 2019	\$	699,871

**TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended February 29, 2020 and February 28, 2019  
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**Other significant accounting policies**

We applied the same accounting policies in these condensed consolidated interim financial statements as those applied in the Company's annual audited consolidated financial statements as at and for the year ended November 30, 2019.

In preparing these condensed consolidated interim financial statements, the significant judgements we made in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements as at and for the year ended November 30, 2019.

You should read these condensed consolidated interim financial statements in conjunction with the Company's annual audited consolidated financial statements as at and for the years ended November 30, 2019 and 2018.

**4. INVENTORY**

Details of the Company's inventory are shown in the table below:

Raw materials	\$	40,722
Finished goods		89,971
Carrying amount, November 30, 2019	\$	130,693
Raw materials		138,084
Finished goods		89,971
Carrying amount, February 29, 2020	\$	228,055

During the period ended February 29, 2020, inventory expensed to cost of goods sold was \$404,601 (2019 - \$nil).

**5. BIOLOGICAL ASSETS**

Biological assets consist of actively growing cannabis plants expected to be harvested as agricultural produce. The changes in the carrying amount of the biological assets are shown in the table below:

Carrying amount, November 30, 2018 and 2017	\$	-
Biological assets acquired		74,383
Changes in fair value less costs to sell due to biological transformation		70,096
Carrying amount, November 30, 2019	\$	144,479
Changes in fair value less costs to sell due to biological transformation		124,285
Carrying amount, February 28, 2020	\$	268,764

The Company's biological assets consist of unharvested cannabis plants and are presented at their fair values less costs to sell up to the point of harvest. The valuation of these biological assets is obtained using a specific valuation technique where the inputs are based upon unobservable market data (Level 3 in the fair value hierarchy).

The valuation of biological assets is based on a market approach where fair value at the point of harvest is estimated based on future selling prices less the costs to sell at harvest. For in-process biological assets, the estimated fair value at the point of harvest is adjusted based on the plants' stage of growth, which is determined by reference to days remaining to harvest over the average growth cycle. The number of weeks in a production cycle is approximately 16 weeks from propagation to harvest.

**TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Interim Financial Statements  
 For the three months ended February 29, 2020 and February 28, 2019  
 (Amounts expressed in Canadian dollars, unless otherwise indicated)

The Company's estimates are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets. These estimates include the following assumptions:

- a. Selling prices per gram were determined by estimating the Company's average selling price for each respective period. The Company's average selling price for the years ended February 29, 2020 was USD \$5.70 per gram;
- b. The stage of plant growth at which point of harvest is determined. As of February 29, 2020, the biological assets were on average 94% completed;
- c. Expected costs to grow were determined by estimating the Company's average cost per gram, which was \$3.90 per gram and equivalent gram of cannabis sold as of February 29, 2020; and
- d. Expected yield per plant varies by strain and is estimated through historical growing. The Company's average dry yield per plant as of February 29, 2020 was 71 grams per cannabis plant.

Significant unobservable assumptions used in the valuation of biological assets, including the sensitivities on changes in these assumptions and their effect on the fair value of biological assets, are shown in the table below:

Significant assumptions	Inputs	Impact of 20% change		
Estimated selling price per gram	USD	\$5.70	\$	102,479
Stage of growth		94%	\$	114,158
Expected yield per plant in grams		71 g	\$	53,745

The Company's estimates are subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	February 29, 2020	February 28, 2019
Trade payables	\$ 1,676,064	\$ 1,946,879
Accrued liabilities	232,815	273,403
	\$ 1,908,879	\$ 2,220,282

**7. ACCOUNTS RECEIVABLE**

	February 29, 2020	February 28, 2019
Sales tax receivable	\$ 322,606	\$ 293,247
Trade receivables	79,360	11,126
Employee advances receivable	71,354	70,720
	\$ 473,320	\$ 375,093

**TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended February 29, 2020 and February 28, 2019  
(Amounts expressed in Canadian dollars, unless otherwise indicated)

**8. PROPERTY, PLANT AND EQUIPMENT**

<b>Cost</b>	<b>Computer hardware</b>	<b>Furniture and fixtures</b>	<b>Vehicle</b>	<b>Property, plant, and equipment</b>	<b>Land</b>	<b>Leasehold improvements</b>	<b>TOTAL</b>
Balance, November 30, 2018	\$ 41,955	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,955
Additions	3,888	14,100	113,572	28,791,366	1,627,977	1,075,520	31,626,423
Impairment	-	-	-	(10,833,224)	-	-	(10,833,224)
Carrying amount, November 30, 2019	\$ 45,843	\$ 14,100	\$ 113,572	\$ 17,958,142	\$ 1,627,977	\$ 1,075,520	\$ 20,835,154
Additions	-	-	-	656,252	-	-	656,252
Carrying amount, February 29, 2020	\$ 45,843	\$ 14,100	\$ 113,572	\$ 18,614,394	\$ 1,627,977	\$ 1,075,520	\$ 21,491,406

  

<b>Accumulated amortization</b>	<b>Computer hardware</b>	<b>Furniture and equipment</b>	<b>Vehicle</b>	<b>Property, plant, and equipment</b>	<b>Land</b>	<b>Leasehold improvements</b>	<b>TOTAL</b>
Balance, November 30, 2018	\$ (6,293)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (6,293)
Amortization	(10,698)	(1,410)	(15,473)	(551)	-	(906)	(29,037)
Balance, November 30, 2019	\$ (16,991)	\$ (1,410)	\$ (15,473)	\$ (551)	\$ -	\$ (906)	\$ (35,330)
Amortization	(4,235)	(705)	(5,679)	(7,053)	-	(53,776)	(71,448)
Balance, February 29, 2020	\$ (21,226)	\$ (2,115)	\$ (21,152)	\$ (7,604)	\$ -	\$ (54,682)	\$ (106,778)

  

<b>Foreign exchange adjustments</b>	<b>Computer hardware</b>	<b>Furniture and equipment</b>	<b>Vehicle</b>	<b>Property, plant, and equipment</b>	<b>Land</b>	<b>Leasehold improvements</b>	<b>TOTAL</b>
Balance November 30, 2019	\$ -	\$ -	\$ 242	\$ 108,732	\$ (8,672)	\$ 12,427	\$ 112,729
Balance February 29, 2020	\$ 4,980	\$ -	\$ 1,031	\$ 180,286	\$ 5,847	\$ 16,301	\$ 208,445

  

<b>Net book value, November 30, 2019</b>	<b>\$ 28,852</b>	<b>\$ 12,690</b>	<b>\$ 98,341</b>	<b>\$ 18,066,323</b>	<b>\$ 1,619,305</b>	<b>\$ 1,087,042</b>	<b>\$ 20,912,553</b>
<b>Net book value, February 29, 2020</b>	<b>\$ 29,597</b>	<b>\$ 11,985</b>	<b>\$ 93,451</b>	<b>\$ 18,787,076</b>	<b>\$ 1,633,824</b>	<b>\$ 1,037,140</b>	<b>\$ 21,593,073</b>

## TRANSCANNA HOLDINGS INC.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended February 29, 2020 and February 28, 2019  
(Amounts expressed in Canadian dollars, unless otherwise indicated)

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### 9. SHARE CAPITAL

**Authorized:** unlimited number of common voting shares without nominal or par value.

During the period ended February 29, 2020, the Company:

- Issued 1,625,750 shares upon the exercise of warrants for proceeds of \$1,625,750.
- Issued 625,000 shares upon the exercise of options for proceeds of \$488,500.
- Issued 850,504 shares with a fair value of \$904,595 for the extinguishment of \$904,595 in outstanding debt.

During the year ended November 30, 2019, the Company:

- Issued 4,400,000 units as part of an initial public offering at \$0.50 for gross proceeds of \$2,200,000. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to purchase one additional share at an exercise price of \$1.00 per share until January 8, 2020. As part of the offering, the Company paid finder's fees as follows:
  - \$95,107 in cash;
  - 352,000 broker warrants with a fair value of \$51,829 entitling the holder to purchase one additional share for \$0.50 until January 8, 2020; and
  - 308,400 broker units valued at \$132,852 comprised of one common share and one common share purchase warrant entitling the holder to purchase one additional share at an exercise price of \$1.00 per share until January 8, 2020.
  - 308,400 agent warrants valued at \$21,348 entitling the holder to purchase one additional share at an exercise price of \$1.00 per share until January 8, 2020
- Issued 8,000,000 units as part of a brokered private placement at \$2.00 for gross proceeds of \$16,000,000. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to purchase one additional share at an exercise price of \$3.00 per share until April 4, 2020. As part of the financing, the Company paid finder's fees as follows:
  - \$744,657 in cash;
  - 351,666 broker units valued at \$703,332;
  - 62,500 broker units valued at \$125,000;
  - 207,083 broker warrants valued at \$224,733 entitling the holder to purchase one additional share at an exercise price of \$3.00 per share until April 4, 2020; and
  - 640,000 broker warrants valued at \$2,548,233 entitling the holder to purchase one additional share at an exercise price of \$2.00 per share until April 4, 2020.
- Issued 2,000,350 units as part of a brokered private placement at \$5.00 for gross proceeds of \$10,001,750. Each unit is comprised of one common share and one half common share purchase warrant entitling the holder to purchase one additional share at an exercise price of \$6.00 per share until June 7, 2022. As part of the financing, the Company paid finder's fees as follows:
  - \$874,123 in cash.
  - 140,024 agent warrants valued at \$401,589 entitling the holder to purchase one additional share at an exercise price of \$6.00 per share until June 7, 2022

**TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended February 29, 2020 and February 28, 2019  
(Amounts expressed in Canadian dollars, unless otherwise indicated)

- Issued 810,000 shares to acquire a 100% interest in Tres Ojos Naturals, LLC with a fair value of \$617,867.
- Issued 2,660,750 shares to acquire a 100% interest in Lyfted Farms, Inc. with a fair value of \$1,607,039.
- Issued 2,907,281 shares for services with a fair value of \$6,795,141.
- Issued 56,266 shares with a fair value of \$110,000 for the extinguishment of \$110,000 in outstanding debt.
- Issued 500,000 shares for a loan extension with a fair value of \$305,000.
- Issued 3,834,600 shares upon the exercise of warrants for proceeds of \$3,658,600.
- Issued 325,000 shares upon the exercise of options for proceeds of \$162,500.

**10. WARRANTS**

A summary of the Company's warrant activity is as follows:

	Number of warrants	Weighted average exercise price	Weighted average remaining life (in years)
<b>Balance, November 30, 2018</b>	<b>2,275,000</b>	<b>\$ 0.84</b>	<b>1.98</b>
Granted	12,247,682	2.35	0.97
Exercised	(3,999,600)	0.96	-
Expired/forfeited	(750,000)	0.50	-
<b>Balance, November 30, 2019</b>	<b>9,773,082</b>	<b>\$ 2.72</b>	<b>1.23</b>
Exercised	(1,625,750)	1.00	-
<b>Balance, February 29, 2020</b>	<b>8,147,332</b>	<b>\$ 3.05</b>	<b>1.19</b>

As of February 29, 2020, outstanding equity-classified warrants to purchase common shares consisted of the following:

Expiry date	Number of warrants	Exercise price	Weighted average remaining life (in years)
April 19, 2020	213,000	\$ 1.00	0.39
May 1, 2020	200,000	\$ 1.00	0.42
May 1, 2020	15,000	\$ 1.00	0.42
May 28, 2020	400,000	\$ 1.00	0.49
May 28, 2020	32,500	\$ 1.00	0.49
June 4, 2020	7,500	\$ 1.00	0.51
January 8, 2020	92,050	\$ 1.00	0.11
April 4, 2020	4,000,000	\$ 3.00	0.35
April 4, 2022	207,083	\$ 3.00	2.35
April 4, 2022	640,000	\$ 2.00	2.35
February 21, 2024	1,200,000	\$ 2.60	4.23
June 7, 2022	1,000,175	\$ 6.00	2.52
June 7, 2022	140,024	\$ 6.00	2.52
	<b>8,147,332</b>	<b>\$ 3.05</b>	<b>1.19</b>



**TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended February 29, 2020 and February 28, 2019  
(Amounts expressed in Canadian dollars, unless otherwise indicated)

**11. STOCK OPTIONS**

The Company has adopted a stock option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date immediately preceding the date on which the option is granted. The aggregate number of stock options granted shall not exceed 10% of the issued and outstanding common shares of the Company at the time of shareholder approval of the plan, with no one individual being granted more than 5% of the issued and outstanding common shares.

A summary of the Company's options activity is as follows:

	Number of options	Weighted average exercise price	Weighted average remaining life (in years)
<b>Balance, November 30, 2018 and 2017</b>	-	\$ -	-
Granted	2,729,000	0.82	3.52
Exercised	(325,000)	0.50	-
Expired/forfeited	(800,000)	0.50	-
<b>Balance, November 30, 2019</b>	<b>1,604,000</b>	<b>\$ 0.50</b>	<b>4.51</b>
Granted	1,378,000	0.91	4.90
Exercised	(625,000)	0.78	-
<b>Balance, November 30, 2019</b>	<b>2,357,000</b>	<b>\$ 1.03</b>	<b>4.52</b>

As of February 29, 2020, outstanding and exercisable options to purchase common shares consisted of the following:

Expiry date	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining life (in years)
January 20, 2022	50,000	50,000	\$ 1.37	1.89
January 20, 2022	169,000	169,000	1.37	1.89
November 6, 2024	1,160,000	349,800	1.00	4.69
November 6, 2024	200,000	66,000	1.00	4.69
February 18, 2025	778,000	778,000	1.00	4.98
	<b>2,357,000</b>	<b>1,412,800</b>	<b>\$ 1.03</b>	<b>4.52</b>

During the period ended February 29, 2020, the Company recorded share-based compensation of 972,187 with respect to 1,378,000 stock options granted. The weighted average fair value of these options was \$0.78 per option and was estimated using the Black-Scholes option pricing model. The weighted average assumptions used in calculating the fair value are as follows:

Risk-free interest rate	1.33% - 1.62%
Expected life	5 years
Annualized volatility	100.00%
Dividend rate	0%
Weighted average fair value per option	\$ 0.78

**TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended February 29, 2020 and February 28, 2019  
(Amounts expressed in Canadian dollars, unless otherwise indicated)

**12. INTANGIBLE ASSETS AND GOODWILL**

<b>Cost</b>	<b>License</b>	<b>Brand</b>	<b>Total intangibles</b>	<b>Goodwill</b>
Balance, November 30, 2018	\$ -	\$ -	\$ -	\$ -
Acquisition of Tres Ojos Naturals, LLC (Note 9)	-	140,545	140,545	-
Acquisition of Lyfted Farms, Inc. (Note 10)	460,495	557,857	1,018,352	6,068,526
GF Group - 'Daly' Brand	-	132,890	132,890	-
<b>Balance, November 30, 2019</b>	<b>\$ 460,495</b>	<b>\$ 831,292</b>	<b>\$ 1,291,787</b>	<b>\$ 6,068,526</b>
<b>Balance, February 29, 2020</b>	<b>\$ 460,495</b>	<b>\$ 831,292</b>	<b>\$ 1,291,787</b>	<b>\$ 6,068,526</b>
<b>Accumulated amortization</b>	<b>License</b>	<b>Brand</b>	<b>Total</b>	<b>Goodwill</b>
Balance, November 30, 2018	\$ -	\$ -	\$ -	\$ -
Amortization	(5,543)	(10,040)	(15,583)	-
<b>Balance, November 30, 2019</b>	<b>\$ (5,543)</b>	<b>\$ (10,040)</b>	<b>\$ (15,583)</b>	<b>\$ -</b>
Amortization	(7,027)	(50,918)	(57,945)	-
<b>Balance, February 29, 2020</b>	<b>\$ (12,570)</b>	<b>\$ (60,958)</b>	<b>\$ (73,528)</b>	<b>\$ -</b>
<b>Foreign exchange adjustments</b>				
Balance, November 30, 2019	\$ 63	\$ 80	\$ 143	\$ -
Balance, February 29, 2020	\$ 71	\$ 226	\$ 297	\$ -
<b>Net book value, November 30, 2019</b>	<b>\$ 455,015</b>	<b>\$ 821,332</b>	<b>\$ 1,276,347</b>	<b>\$ 6,068,526</b>
<b>Net book value, February 29, 2020</b>	<b>\$ 447,996</b>	<b>\$ 770,560</b>	<b>\$ 1,218,556</b>	<b>\$ 6,068,526</b>

**TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended February 29, 2020 and February 28, 2019  
(Amounts expressed in Canadian dollars, unless otherwise indicated)

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**13. LOANS PAYABLE**

During the year ended November 30, 2019, the Company, through its wholly owned subsidiary, Dalvi, LLC entered into an agreement to purchase a 196,000 square foot facility in Modesto California for USD \$15,000,000 (CAD \$20,100,000). The Company paid a USD \$250,000 deposit followed by a cash payment of USD \$8,000,000 (CAD \$10,700,000). The balance of USD \$6,750,000 (CAD \$8,970,075) was financed by a promissory note with an interest rate of 7% per annum and an original maturity date of October 15, 2019 secured against the facility. On October 10, 2019, the Company exercised an option to extend the maturity date of the loan to April 15, 2020 by issuing 500,000 shares valued at \$305,000.

As consideration for the seller's agreement to accept the promissory note, and to provide an additional month extension for closing, the Company agreed to pay the seller USD \$200,000 (CAD \$305,000) immediately and issue to the seller an aggregate of 500,000 common shares valued at \$ 1,695,000 and 1.2 million share purchase warrants valued at \$ 2,201,215 upon closing of the acquisition. Each warrant will be exercisable to acquire one common share of the Company at an exercise price of \$2.60 per share for a five-year period from the date of issuance, vesting quarterly in equal portions over the initial 12 months of the five-year term commencing on the date of the original extension, being February 21, 2019, notwithstanding the warrants were issued upon closing of the acquisition of the Property. Additionally, the company issued 2,000,000 shares (valued at \$ 4,740,000) for consulting services related to due diligence on the purchase of the property. (Note 9)

On January 9, 2019, the Company amended the original loan agreement to extend the maturity date of the loan to April 15, 2022 by paying an extension fee of USD \$135,000 (CAD \$179,928).

During the period ended February 29, 2020, the Company recorded accrued interest expense for \$124,998 and accretion expense of \$45,144 which was capitalized to the carrying cost of the building. (Note 8)

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Balance, November 30, 2018	\$	388,521
Loans received		8,796,384
Interest accrued		3,398
Loan extension fee		(305,000)
Accretion		82,152
Loans and interest repaid		(391,919)
Foreign exchange adjustments		(12,464)
Balance, November 30, 2019	\$	8,561,072
Interest accrued		124,998
Loan extension fee		(179,928)
Accretion		45,144
Foreign exchange adjustments		199,954
Balance, February 29, 2020		8,751,240

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**TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Interim Financial Statements  
 For the three months ended February 29, 2020 and February 28, 2019  
 (Amounts expressed in Canadian dollars, unless otherwise indicated)

On November 12, 2019, the Company acquired a 100% interest in Lyfted. Pursuant to the terms of the purchase, the Company provided a non-interest bearing note payable for the amount with a face value \$5,316,000 due June 30, 2020. This was present valued using the discount rate method for a fair value of \$4,804,027 due to being a below market rate debt instrument.

During the period ended February 29, 2020, the Company recognized accretion expense for the amount of \$199,502.

Balance, November 30, 2018	\$	-
Loans received		4,804,027
Accretion		38,652
Foreign exchange adjustments		42,309
Balance, November 30, 2019	\$	4,884,988
Accretion		199,502
Loans and interest repaid via issuance of shares		(500,000)
Foreign exchange adjustments		(379,254)
Balance, February 29, 2020	\$	4,205,236

**14. RELATED PARTY TRANSACTIONS***Key management personnel*

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's board of directors and corporate officers and/or companies controlled by those individuals. Remuneration attributed to key management personnel during the three months ended February 29, 2020 and February 28, 2019, are summarized in the table below:

	<b>February 29, 2020</b>	<b>February 28, 2019</b>
Salaries and benefits	\$ 82,765	\$ 37,500
Consulting and accounting	120,000	24,000
Share-based compensation	-	-
	\$ 202,765	\$ 61,500

As at February 29, 2020, included in accounts payable and accrued liabilities is \$11,421 owed to related parties for salaries and benefits with \$275,957 (2019 - \$275,747) receivable for advances for expenses.

During the year ended November 30, 2019, the Company's former CEO resigned. Pursuant to the termination of his employment with the Company, he forfeited 750,000 share purchase warrants issued during the year ended November 30, 2018 originally valued at \$123,205.

## TRANSCANNA HOLDINGS INC.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended February 29, 2020 and February 28, 2019  
(Amounts expressed in Canadian dollars, unless otherwise indicated)

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### 15. COMMITMENTS AND CONTINGENCIES

#### *Leases*

During the year ended November 30, 2019, the Company entered into a 10 month lease agreement terminating on August 30, 2020 for their office space. The total lease commitments are as follows:

2020	\$	15,000
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#### *Contingencies*

The Company is involved in litigation and disputes arising in the normal course of operations. Management is of the opinion that any potential litigation will not have a material adverse impact on the Company's financial position or results of operations and, therefore, the commitment table does not include any provisions for outstanding litigation and potential claims.

On October 1st, 2019 the Company received a notice that a lawsuit was filed with the court of Federal District Court for the Southern District of Florida by ROK Consulting ("ROK"). The plaintiffs are seeking damages of USD \$300,000 and 180,000 shares for the termination of a consulting agreement entered into with the Company. The Company is of the view that the allegations contained in the claim are without merit and intends to vigorously defend its position.

On December 9th, 2019 the Company received a notice that a lawsuit was filed with the court of Nassau County, New York by Pacific Agriculture ("PacAg"). The plaintiffs are seeking damages for the termination of the signed Letter of Intent to acquire PacAg by the Company. See subsequent events note for further discussion. (Note 19)

### 16. FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values.

The fair value of the Company's receivables, accounts payable and accrued liabilities, loans payable, and amounts due to related parties approximate carrying value, which is the amount recorded on the statements of financial position. The fair value of the Company's cash under the fair value hierarchy are based on level 1 quoted prices in active markets for identical assets and liabilities.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

#### *Credit risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's cash and cash equivalents are held with major financial institutions in Canada and USA which management believes the risk of loss to be remote. Receivables consist of tax refunds from the Federal Government of Canada and, in which regular collection occurs. The Company believes its credit risk is equal to the carrying value of this balance.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support normal operation requirements. The Company coordinates this planning and budgeting process with its financing activities through the capital management process described in Note 23, in normal circumstances.

**TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Interim Financial Statements  
 For the three months ended February 29, 2020 and February 28, 2019  
 (Amounts expressed in Canadian dollars, unless otherwise indicated)

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

The Company's financial liabilities are comprised of its accounts payable and accrued liabilities and advances payable.

*Interest rate risk*

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's is held mainly in chequing accounts and therefore are exposed to minimal interest rate risk. Because of the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values compared to carrying value.

The Company's interest rate risk arises principally from the changes in interest rates related to the loan used to finance the purchase of their facility in Modesto, California at 7%. A one percent increase in interest rates would result in an increase of approximately \$17,900 to the Company's loss for the period ended February 29, 2020.

*Foreign currency risk*

The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, receivables, and accounts payable and accrued liabilities that are denominated in US dollars.

	<b>February 29, 2020</b>	<b>February 28, 2019</b>
Cash denominated in USD	\$ 167,616	\$ -
Accounts receivable denominated in USD	152,886	1,330
Accounts payable and accrued liabilities denominated in USD	(656,373)	-
Loans denominated in USD	(4,205,235)	-
<b>Total</b>	<b>\$ (4,541,106)</b>	<b>\$ 1,330</b>
Effect of a 10% change in exchange rates	\$ (454,111)	\$ 133

**17. CAPITAL MANAGEMENT**

The Company defines its capital as shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the growth of the business and finance future expansion while maintaining strong creditor relationships and shareholder return. The Board of Directors do 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. 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 and there has been no change with respect to the capital management strategy during the period ended February 29, 2020.

**18. SUPPLEMENTAL CASH FLOW INFORMATION**

	<b>February 29, 2020</b>	<b>February 28, 2019</b>
Impact of initial adoption of IFRS 16, Leases	\$ 940,833	\$ -
Share issuance costs - finders units	-	154,200
Shares issued for services	-	141,250
Shares issued for research and development	-	9,890

## TRANSCANNA HOLDINGS INC.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended February 29, 2020 and February 28, 2019  
(Amounts expressed in Canadian dollars, unless otherwise indicated)

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### 19. SUBSEQUENT EVENTS

Subsequent to the period end, the Company received gross proceeds of \$283,000 were realized through the exercise of 283,000 warrants priced at \$1.00 per warrant.

On March 12, 2020, the Board granted common shares for the 2019 fiscal year to certain individuals responsible for the current stage of development of TransCanna who are directors, key employees, or consultants totaling \$520,000, which indebtedness was settled by the issuance of 650,000 common shares which are subject to a hold period and may not be traded until July 7, 2020.

On April 30, 2020, the Company granted 400,000 options to a consultant of the Company at a price of \$0.75 for a period of three years.

On April 30, 2020, the Company entered into an agreement for the settlement of \$225,000 in debt through the issuance of common shares of the Company (the "Debt Settlements"). Pursuant to the Debt Settlement, the Company will issue a total of 300,000 common shares of the Company at a price of \$0.75 per. All securities will be subject to a four-month hold.

On May 8, 2020, the Company closed a non-brokered private placements with the issuance of 3,600,000 Units at a price of \$0.50 per Unit for gross proceeds of \$1,800,000. Each unit consists of one common share and one common share purchase warrant exercisable at a price \$0.75 per warrant for a period of two years.

The warrant includes an acceleration clause where if the share price on the Exchange is equal to or greater than \$1.25 for a period of 20 consecutive trading days, the Company will have the right to accelerate the expiry of the Warrants, in which event the expiry date of the Warrants will be the date which is 30 days following the dissemination of a press release by the Company announcing the Accelerated Expiry Date.

On May 29, 2020, the Company reached a settlement agreement with a related party wherein they agreed to extinguish \$150,000 in debt owed to the Company in lieu of the party returning 250,000 common shares to the treasury.

On May 29, 2020, the Company pursuant to a mutual agreement with certain contractors and related parties, it will be returning 500,000 common shares to treasury.

On June 29, 2020, the Company executed a general release and settlement agreement with Pacific Agriculture LLC. With no admission of liability the Company agreed to pay consideration to Pacific Agriculture in the amount of \$67,535 (US\$50,000) which was accrued in legal provisions, with the lawsuit filed on November 25, 2019 in the New York State Supreme Court, Nassau County, to be dismissed with prejudice.

The recent outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company's business activities. The extent to which the coronavirus may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine their financial impact at this time.