Ventura Cannabis & Wellness Corp.

Condensed Interim Consolidated Financial Statements

2020 Second Quarter

For the three and six months ended
August 31, 2019 and August 31, 2018
(Unaudited)

(Expressed in Canadian Dollars in Thousands)

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Ventura Cannabis & Wellness Corp.

Condensed interim consolidated statements of financial position

As at August 31, 2019, and February 28, 2019
Unaudited
(CAD $000s)

	August 31, 2019	February 28, 2019
ASSETS		
Current		
Cash and restricted cash (note 4)	$4,531	$5,036
Accounts receivable, net (note 5)	4,359	7,038
Prepaid expenses	753	1,133
Other current assets	855	222
Total current assets	**$10,497**	**$13,430**
Long-term		
Property, plant and equipment (note 6)	$6,510	$6,847
Prepaid Finance Fee (note 17)	164	411
Deposits and other assets	207	228
Right-of-use assets (note 17)	2,373	-
Intangible assets, net (note 8)	769	-
Total long-term assets	**$10,023**	**$7,486**
TOTAL ASSETS	**$20,521**	**$20,916**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$4,754	$7,557
Current portion of finance leases (note 9)	22	28
Total current liabilities	**$4,776**	**$7,584**
Long-term liabilities		
Lease obligations (note 17)	$2,718	-
Long-term portion of finance leases (note 9)	4,741	$3,974
Total long-term liabilities	**$7,458**	**$3,974**
TOTAL LIABILITIES	**$12,234**	**$11,558**
SHAREHOLDERS' EQUITY		
Share capital (note 10)	$44,517	$43,936
Contributed surplus (note 11)	$4,031	3,879
Accumulated other comprehensive gain	2,491	2,721
Accumulated deficit	(42,752)	(41,178)
TOTAL SHAREHOLDERS EQUITY	**$8,287**	**$9,358**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**$20,521**	**$20,916**

Going concern (note 2)
Commitments (note 17)
Contingencies (note 7)

Approved on behalf of the Board

Chris Heath
Director [signed]

Michael Hynes
Director [signed]

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

Ventura Cannabis & Wellness Corp.

Condensed interim consolidated statements of loss and comprehensive loss

For the three and six months ended August 31, 2019 and August 31, 2018
Unaudited
(CAD$000s)

	Three months ended August 31, 2019	Three months ended August 31, 2018	Six months ended August 31, 2019	Six months ended August 31, 2018
Revenues	$4,000	6,239	$8,417	13,867
Cannabis	406	-	498	-
Addiction Treatment	3,594	6,239	7,919	13,867
Cost of services (note 12)	2,722	4,704	6,116	10,659
Cost of services - Cannabis	252	-	315	-
Cost of services - Addiction Treatment	2,470	4,704	5,801	10,659
Gross Profit	**1,278**	**1,536**	**2,301**	**3,208**
Expenses				
Facilities (note 12)	$189	$131	$80	$314
Sales and marketing (note 12)	31	-	55	-
Bad debt expense (note 5)	-	288	-	643
New facility start-up costs and nonrecurring cost	-	3	-	8
General and administrative (note 12)	496	575	1,386	1,306
Billing and other outside services (note 12)	561	141	885	818
Depreciation and amortization (note 6)	355	194	723	386
Stock based compensation (note 11)	86	59	152	119
Realized foreign exchange loss	-	-	-	-
Interest expense	250	183	469	420
Interest expense on lease liability	65	-	125	-
Net loss before income taxes	**(755)**	**(37)**	**(1,574)**	**(807)**
Deferred tax recovery (note 12)	-	-	-	-
Net loss	**(755)**	**(37)**	**(1,574)**	**(807)**
Other comprehensive (loss) income				
Amounts that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustment	(127)	95	(230)	256
Comprehensive loss	**(882)**	**58**	**(1,804)**	**(551)**
Basic and diluted loss per share (note 18)	**(0.02)**	**(0.00)**	**(0.04)**	**(0.03)**

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

Ventura Cannabis & Wellness Corp.

Consolidated statements of changes in equity

For the three months ended August 31, 2019 and August 31, 2018
Unaudited
(CAD $000s)

	Shares	Share Capital	Shares to be issued	Contributed Surplus	Deficit	Accumulated other comprehensive gain (loss)	Total equity
Balance February 28, 2018	**31,691,721**	**$40,724**	**$2,340**	**$2,874**	**($35,888)**	**$2,372**	**$12,422**
Net loss	-	-	-	-	(807)	-	(807)
Other comprehensive loss	-	-	-	-	-	267	267
Stock based compensation (note 11)	-	-		119	-	-	119
Balance August 31, 2018	**31,691,721**	**$40,724**	**$2,340**	**$2,993**	**($36,695)**	**$2,639**	**$12,001**
Net loss	-	-	-	-	(4,483)	-	(4,483)
Other comprehensive loss	-	-	-	-	-	82	82
Shares issued	3,167,355	3,212	(2,340)	-	-	-	872
Stock based compensation (note 11)	-	-		886	-	-	886
Balance February 28, 2019	**34,859,076**	**$43,936**	**$0**	**$3,879**	**($41,178)**	**$2,721**	**$9,358**
Net loss	-	-	-	-	(1,574)	-	(1,574)
Other comprehensive loss	-	-	-	-	-	(230)	(230)
Shares issued	817,438	581	-	-	-	-	581
Stock based compensation (note 11)	-	-		152	-	-	152
Balance August 31, 2019	**35,676,514**	**$44,517**	**$0**	**$4,031**	**($42,752)**	**$2,491**	**$8,287**

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

Ventura Cannabis & Wellness Corp.
Condensed interim consolidated statements of cash flow
For the three and six months ended August 31, 2019 and August 31, 2018
Unaudited
(CAD $000s)

	Three months ended August 31, 2019	Three months ended August 31, 2018	Six months ended August 31, 2019	Six months ended August 31, 2018
Cash flow from operating activities				
Net loss	(755)	(37)	(1,574)	(807)
Items not affecting cash:				
Goodwill and intangible assets impairment	-	-	-	-
Stock based compensation (recovery)	86	59	152	119
Non cash share issued	-	-	406	-
Bad debt expense	-	288	-	643
Amortization of prepaid finance fee	123	123	246	246
Loss on disposal of PPE	23	-	129	-
Depreciation and amortization	357	194	723	386
	(166)	**627**	**82**	**587**
Changes in working capital:				
Accounts receivable	2,420	1,802	3,190	3,930
Prepaid expenses, deposits and other assets	141	1,830	(3,071)	853
Accounts payable and accrued liabilities	(1,824)	(4,853)	(2,809)	(4,368)
Lease obligations	(280)	-	2,718	-
Net cash (used in) provided by operating activities	**291**	**(594)**	**110**	**1,002**
Investing activities				
Advances of loan receivable	(173)	(236)	(628)	(823)
Repayments of loan receivable	31	1,330	118	1,330
Cash paid for Acquisitions, net of cash acquired	-	-	(769)	-
Purchase of property, plant and equipment	-	(47)	(8)	(161)
Net cash (used in) provided by investing activities	**(142)**	**1,048**	**(1,287)**	**346**
Financing activities				
Repayments of loans	-	15	-	44
Proceeds from issuance of common shares	175	-	175	-
Proceeds from borrowings	656	-	767	-
Net cash provided by investing activities	**831**	**15**	**942**	**44**
Effect of exchange rate changes on cash	**(14)**	**97**	**(269)**	**256**
Net (decrease) increase in cash and restricted cash	966	566	(505)	1,649
Cash and restricted cash balance, beginning of peri	3,566	6,695	5,036	5,612
Cash and restricted cash balance, end of period	**4,531**	**7,261**	**4,531**	**7,261**

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

1. Incorporation and operations

Ventura Cannabis & Wellness Corp. (the "Company" or "VCAN") was incorporated under the Business Corporations Act (British Columbia) ("BCBCA") on June 7, 2013. On February 11, 2015 as a result of the Amalgamation transaction, VCAN obtained the listing status of Valiant Minerals Ltd. ("Valiant"), on the NEX trading board of the TSX Venture Exchange (the "Exchange"). VCAN trades under the trading symbol "VCAN" on the CSE.

VCAN is a vertically integrated, California-based cannabis product company. The Company is currently building out its distribution channel through acquiring cannabis assets to ensure its products get premium shelf space. The Company plans to target four significant segments in the U.S. cannabis and CBD market with products suited to their needs: senior citizens, upwardly mobile middle-aged female professionals, upwardly mobile middle-aged male professionals and individuals suffering from addiction. These segments desire discrete and well-designed products as well as accurate dosing. The Company officially launched into the cannabis industry after a shareholder vote in April 2019, overwhelmingly approving the change in business from addiction treatment to cannabis. The Company's headquarters and registered address is 800 W. 6th St. Suite 1415, Los Angeles, CA 90017.

On March 1, 2019, the Company effected a 7.34:1 reverse share split on its common shares. Unless otherwise noted, impacted amounts and share information included in the consolidated financial statements and notes thereto have been retroactively adjusted for the reverse share split as if such share split occurred on the first day of the first period presented. Certain amounts in the condensed interim consolidated financial statements and notes thereto may be different than previously reported due to rounding of fractional shares as a result of the reverse share split.

2. Basis of presentation

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all the information required for full annual financial statements required by International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the twelve months ended February 28, 2019.

The condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on October 28, 2019.

Basis of presentation and measurement

The condensed interim consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars (or "CAD" in thousands), except for share and per share information. These condensed interim consolidated financial statements have been prepared under the historical cost convention, except for the measurement of certain financial instruments at fair value as required by IFRS. The interim financial statements have also been prepared on an accrual basis except for cash flows.

Going concern

These condensed interim consolidated financial statements have been prepared on a going concern basis. The application of the going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and can realize its assets and discharge its liabilities and commitments in the normal course of operation. During the quarter ended August 31, 2019, the Company incurred a loss of $755 and has an accumulated deficit of $42,752. In assessing whether the going concern assumption is appropriate, management considers all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. This assessment is based upon planned actions that may or may not occur for a number of reasons including the Company's own resources and external market conditions. These matters represent material uncertainties that cast significant doubt about the ability of the Company to continue as a going concern. These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Management of the Company plans to fund its future operations and settle its debt by obtaining additional financing through loans and share issuance.

2. *Basis of presentation (cont'd)*

Basis of consolidation

The Company consolidates all subsidiaries. As such, assets, liabilities, revenues and expenses of all subsidiaries have been consolidated. All inter-company transactions and balances with subsidiaries have been eliminated. The functional currency for Ventura Cannabis is Canadian dollars.

Subsidiaries

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

The consolidated entity includes the following wholly-owned subsidiaries:

Entity	Country of domicile	% Ownership	Functional Currency
Accredited Rehab and Treatment Services, LLC	United States	100%	United States dollars
BLVD Centers Inc.	United States	100%	United States dollars
CBD Laboratories, Inc.	United States	100%	United States dollars
Convalo Health, Inc.	United States	100%	United States dollars
Harmony Hollywood, LLC	United States	100%	United States dollars
Reflections Recovery, LLC	United States	100%	United States dollars
San Diego Detox, Inc.	United States	100%	United States dollars
Portland Detox & Residential, Inc.	United States	100%	United States dollars
Convalo Health Corp	Canada	100%	Canadian dollars
Altus Nutraceuticals	United States	100%	United States dollars
PRT Management Corp	United States	100%	United States dollars
Oregon Management Holdings Corporation	United States	100%	United States dollars
Salem Asset Holdings Corporation	United States	100%	United States dollars
Portland Asset Holdings Corporation	United States	100%	United States dollars
MJ Asset Holings Inc.	United States	100%	United States dollars
Golden Coast Asset Holdings Corporation	United States	100%	United States dollars
Cathedral Asset Holdings Corporation	United States	100%	United States dollars
Solvang Central Retail Corporation	United States	100%	United States dollars
Cathedral City Central Distribution Corporation	United States	100%	United States dollars
Golden State Porfessional Corporation	United States	100%	United States dollars
Golden State Retail Action Corporation	United States	100%	United States dollars
Golden State Professional Consulting and Advisory Corporation	United States	100%	United States dollars
Golden State Retail Consulting and Advisory Corporation	United States	100%	United States dollars

As of August 31, 2019 and August 31, 2018, and for all the periods then ended, all of the Company's estimated revenues were determined to have been earned and all of the Company's non-current assets were located in the United States.

Reporting currency

All values are in Canadian dollars ($) in thousands, unless specifically indicated otherwise. United States dollars are indicated as US$.

3. Accounting standards issued but not yet effective

The IASB has issued several new standards and amendments that will be effective on various dates. The listing below is of standards, interpretation and amendments issued which the Company reasonably expects to be applicable at a future date. The Company intended to adopt those standards when they become effective. The impact on the Company is currently being assessed.

IFRS 10 – Consolidated Financial Statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted. The Company has yet to fully assess the impact of the new standard on its results of operations, financial position and disclosures.

(CAD $000s)

IFRIC 23 – Uncertainty Over Income Tax Treatments ("IFRIC 23") was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted. The Company has yet to fully assess the impact of the new standard on its results of operations, financial position and disclosures.

Accounting changes
During the three months ended August 31, 2019, the Company did not adopt any new IFRS standards, interpretations, amendments and improvements of existing standards.

4. Summary of significant accounting policies

The accounting policies applied in preparation of these unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's consolidated financial statements for the year ended February 28, 2019 except for the following;

Standards Adopted during the fiscal year to date

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, which replaced the previous guidance on leases, IAS 17, Leases. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in deficit at January 1, 2019. Accordingly, the comparative information presented for previous period have not been restated.

The Company has elected to apply the practical expedient to account for leases for which the leas term ends within 12 months of the date of initial application as short-term leases. The Company's borrowing rates used for IFRS 16 purposes ranged from 8.60% to 8.76% defined based on the asset classes related risks.

The following table summarizes the impacts of adopting IFRS 16 on the Company's condensed interim consolidated financial statements as at March 1, 2019, the date of the initial applications.

	March 1, 2019
Assets	
Right-of-use assets	$2,888
Liabilities	
Lease liability	$3,225
Shareholder's equity	
Deficit	($337)

(CAD $000s)

Goodwill

Goodwill represents the difference between the purchase price for acquisitions and the fair value of identifiable tangible and intangible assets acquired. The Company's goodwill arose as a result of the acquisitions of Harmony Hollywood, LLC, Accredited Rehab, Amberlight, and Treatment Services, LLC (note 7). The goodwill arose as a result of synergies expected to benefit all of the Company, including the addition of key management personnel and merging of all operations. As a result, the lowest level cash generating unit ("CGU") at which goodwill is monitored for internal management purposes is at the total Company level.

Goodwill for the CGU is tested for impairment annually or more frequently when there is an indication that the goodwill may be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset. Any impairment loss for goodwill is recognized directly in profit or loss (Note 7). An impairment loss recognized for goodwill is not reversed in subsequent periods.

5. Accounts receivable

Accounts receivable	**August 31, 2019**	**February 28, 2019**
Gross receivables	$5,149	$7,821
Allowance for doubtful accounts	(791)	(783)
Balance, ending	**$4,359**	**$7,038**

Allowance for doubtful accounts	**For the three months ended August 31, 2019**	**For the year ended February 28, 2019**
Balance, beginning	$783	$443
Change in provision	8	340
Balance, ending	**$791**	**$783**

During the quarter ended August 31, 2019, the allowance for doubtful accounts ($791) reflects the management's adjusted accounting practice for estimating collectible revenues and bad debts which had a slight effect on estimated revenues over the quarter with no significant impact on the net loss. The bad debt is a significant estimate and bad debt and revenue can only be known over time.

The accounts receivable for August 31, 2018 is as per IAS 39/IAS 18, while August 31, 2019 is as per IFRS 9 and IFRS 15.

(CAD $000s)

6. Plant, property and equipment

Net book value of property, plant and equipment as of August 31,2019	Cost	Accumulated depreciation	Net
Vehicles	$0	$0	$0
Furniture and fixtures	647	(466)	181
Computer hardware	156	(154)	2
Leasehold improvement	756	(675)	81
Buildings	6,291	(591)	5,700
Land	546	-	546
Net carrying amount	**$8,396**	**($1,886)**	**$6,510**

Net book value of property, plant and equipment as of February 28, 2019	Cost	Accumulated depreciation	Net
Vehicles	$68	($38)	$30
Furniture and fixtures	627	(388)	239
Computer hardware	160	(154)	6
Leasehold improvement	1,237	(958)	279
Buildings	6,223	(470)	5,753
Land	540	-	540
Net carrying amount	**$8,855**	**($2,008)**	**$6,847**

Cost: As of August 31, 2019	At February 28, 2019	Additions	Disposals	Foreign exchange impact	At August 31,2019
Vehicles	$68	$0	($69)	$1	$0
Furniture and fixtures	627	45	(31)	6	$647
Computer hardware	160	-	(6)	2	$156
Leasehold improvement	1,237	-	(503)	22	$756
Buildings	6,223	-	-	68	$6,291
Land	540	-	-	6	$546
Total cost	**$8,855**	**$45**	**($609)**	**$105**	**$8,396**

Accumulated depreciation: As of August 31, 2019	At February 28, 2019	Depreciation	Disposals	Foreign exchange impact	At August 31,2019
Vehicles	($38)	($6)	$46	($2)	$0
Furniture and fixtures	(388)	(57)	18	(39)	(466)
Computer hardware	(154)	(4)	6	(2)	(154)
Leasehold improvement	(958)	(73)	372	(16)	(675)
Buildings	(470)	(116)	-	(5)	(591)
Land	-	-	-	-	-
Total cost	**($2,008)**	**($256)**	**$442**	**($64)**	**($1,886)**

(CAD $000s)

7. Contingencies

From time to time the Company is subject to audits by commercial insurers. These audits typically cover claims upon which payment has already been made to the Company.

The Company is participating in two legal proceedings that Management is aware of at this time. The Company has not estimated or accrued any amounts related to such proceedings as they are believed to be without merit although no outcome can be reasonably estimated.

8. Goodwill and Intangible assets

During the six months ended August 31, 2019, the Company had acquired certain businesses and allocated a portion of the purchase price to goodwill and intangible assets.

Cost	Goodwill	Non-complete agreements	Trademarks	Licenses	Customer relationships	Sub-total Intangibles with finite lives	Total
Balance February 29, 2019	$0	$0	$0	$0	$0	$0	$0
Additions	87	101	66	348	167	682	$769
Effect of changes in exchange rates	-	-	-	-	-	-	$0
Impairment	-	-	-	-	-	-	$0
Disposals	-	-	-	-	-	-	-
Balance August 31, 2019	**$87**	**$101**	**$66**	**$348**	**$167**	**$682**	**$769**

9. Finance and Capital leases and loans

	August 31, 2019	February 28, 2019
Finance lease and other borrowings (a)	$4,762	$4,001
Less:		
Current portion of finance lease and other borrowings	(22)	(27)
Long-term portion of finance lease and other borrowings	**$4,741**	**$3,974**

On June 1, 2019, the Company entered into a loan agreement with Civic Financial Services LLC in the amount of $4,741. owned by the Company. Current interest rates are fixed and average 8.990%. The loan term is for 2 years and matures on June 1, 2021. An addendum to the loan agreement requires interest payments for 23 months with a balloon payment of the loan proceeds in month 24. The carrying amount of the borrowings are a reasonable approximation of the fair value.

The Company also has finance leases for a single vehicle which matures in April 2021. Interest on this lease is approximately 2.9% - 7.0%. The carrying amount of these this lease is $22. Borrowings is secured by the vehicle owned by the Company (note 6).

(CAD $000s)

10. Share capital

	August 31, 2019	August 31, 2018
Authorized		
Unlimited voting common shares without par value		
Issued		
35,676,514 voting common shares (2018 - 31,691,721)	**$44,517**	**$40,724**
Changes to share capital:		
	Number of Shares	**Amount**
As of February 28, 2018	**31,691,721**	**40,724**
Shares issued for services	3,167,355	3,212
As of February 28, 2019	**34,859,076**	**43,936**
Shares issued	817,438	581
As of August 31, 2019	**35,676,514**	**44,517**

(i) On January and February 2019, the Company issued 3,167,355 shares in conjunction with its contractual lease obligations and for services performed related to business acquisitions.

(ii) On May 2019, the Company issued 817,438 shares as part of the purchase agreement of Amberlight in Portland, Oregon.

11. Options and warrants

Options

The Company has an incentive stock option plan that provides that the Board of Directors of VCAN may from time to time, in its discretion and in accordance with Exchange requirements, grant to directors, officers and employees and consultants of VCAN, non-transferable options to purchase VCAN shares, provided that the number of shares reserved for issuance will not exceed 10% of the total issued and outstanding VCAN shares, exercisable for a period of up to ten (10) years from the date of the grant. The number of VCAN shares reserved for issuance to any individual director or officer of VCAN will not exceed 5% of the issued and outstanding VCAN shares and the total number of options awarded to any one consultant in any twelve-month period shall not exceed 2% of the issued and outstanding shares of VCAN at the date that the particular option was granted without consent being obtained from the Exchange. The exercise price of any options granted under the VCAN option plan shall not be less than the closing price of VCAN shares on the day preceding the day on which the directors grant such options, less any discount permitted by the Exchange. Options held by a director or employee who ceases to be employed by VCAN expire 30 days from the date the director or ceases to be a director of VCAN or the employee ceases to be employed by VCAN.

On June 24, 2016, the shareholders approved a new 20% fixed number stock option plan (the "2016 Option Plan") at VCAN's Annual and Special Meeting of Shareholders. The 2016 Option Plan reserves 45,606,510 common shares and replaces VCAN's 10% rolling stock option plan.

(CAD $000s)

11. Options and warrants (cont'd)

	Number of options	Weighted average exercise price	Weighted average
Outstanding at February 28, 2018	**1,409,741**	**$1.10**	**6.99**
Options granted	-	-	0.0
Options cancelled / forfeited	-	-	0.0
Options exercised	-	-	0.0
Outstanding at August 31, 2018	**1,409,741**	**$1.10**	**6.99**
Options granted	4,686,649	1.43	0.9
Options cancelled / forfeited	(204,360)	1.10	na
Options exercised	-	-	0.0
Outstanding at February 29, 2019	**5,892,030**	**$1.25**	**6.99**
Options granted	806,500	0.44	9.0
Options cancelled / forfeited	-	-	na
Options exercised	-	-	0.0
Outstanding at August 31, 2019	**6,698,530**	**$0.88**	**8.61**

Details of stock options outstanding at August 31, 2019

Exercise Price	Number of options outstanding	Number of options exercisable	Expiry Date
$0.73	572,207	572,207	Tuesday, February 11, 2025
$4.04	68,120	68,120	Tuesday, May 19, 2020
$3.41	27,248	27,248	Monday, July 13, 2020
$1.76	68,120	68,120	Monday, March 1, 2021
$0.99	67,779	59,946	Monday, September 6, 2021
$0.62	68,120	45,413	Saturday, March 6, 2027
$0.84	238,420	158,946	Tuesday, April 13, 2027
$1.25	95,368	63,579	Monday, June 28, 2027
$0.37	136,240	45,413	Monday, June 12, 2028
$2.57	531,335	440,509	Thursday, October 26, 2028
$1.47	2,043,597	885,559	Sunday, January 14, 2029
$0.55	1,158,038	953,678	Thursday, February 8, 2029
$0.73	681,199	681,199	Sunday, February 25, 2029
$0.66	136,240	-	Wednesday, February 28, 2029
$0.77	150,000	-	Monday, April 30, 2029
$0.47	636,000	372,340	Monday, June 19, 2028
$0.33	20,500	-	Wednesday, August 15, 2029
$1.27	6,698,530	4,442,277	

For unvested options cancelled/forfeited during the three months ended August 31, 2019, stock-based compensation previously recorded is reversed.

The estimated fair value of options is expensed on a graded basis over the vesting or service period for each tranche. The vesting period approximates three years for all issued and outstanding option compensation. Stock based compensation net of the effects of reversals for forfeited options for the three months ended August 31, 2019 was $86. For the three months ended August 31, 2018, stock-based compensation totaled $59.

(CAD $000s)

11. Options and warrants (cont'd)

Category	August 31, 2019	February 28, 2018
Expected option life	5 years	5 years
Expected volatility	136.00%	128.00%
Risk-free interest rate	1.13%	1.82%
Expected dividend yield	Nil	Nil
Weighted average share price at grant date	$0.44	$0.20
Weighted average exercise price	$0.44	$0.07
Estimated forfeiture rate	0%	0%

Expected volatility was estimated by reference to comparable listed entities since the Company's own shares have limited trading history.

Warrants

Outstanding and exercisable at February 28, 2017	**24,486,750**	**$0.39**
Warrants expired (i)	(22,330,500)	0.39
Outstanding and exercisable at February 28, 2018	**2,156,250**	**$0.14**
Warrants expired (ii)	(2,156,250)	0.14
Outstanding and exercisable at August 31, 2018	**0**	**$0.00**
Outstanding and exercisable at February 28, 2019	**0**	**$0.00**
Outstanding and exercisable at August 31, 2019	**0**	**$0.00**

Warrants to acquire voting common shares outstanding and exercisable at August 31, 2018 and February 28, 2019 were as follows:

(i) On June 28, 2016, the Company amended the original warrant terms, including price and expiry date, (part of the $17,250 financing closed in April 2015 in which issued 43,125,000 warrants) resulting in the warrants being exercisable for 21,562,500 common shares, half at $0.30 with a six-month term and half at $0.38 with a nine-month term. During 2017, 21,562,500 of the modified warrants, expired. During 2018, the remaining warrants expired.

(ii) During the year ended February 28, 2019, 2,156,250 warrants expired unexercised.

(CAD $000s)

12. Expenses by nature

Category	Three Months ended August 31, 2019	Three Months ended August 31, 2018
Included in cost of services:		
Employee salary and benefits		1
Direct client service cost		(7)
Outside services-clinical		4
Service fee	2,466	4,685
All other	256	22
	$2,722	**$4,704**
Included in general and administrative:		
Employee salary and benefits	427	282
Insurance	104	78
All other	128	215
	$658	**$575**
Included in facilities:		
Rent	37	122
Supplies and services		8
All other	152	-
	$190	**$130**
Included in sales & marketing:		
Employee salary and benefits		-
Advertising		-
All other	31	-
	31	**$0**
Included in billing and other outside services:		
Outside billing expense		1
Other outside services	561	140
	$561	**$141**

Service Fee balances are calculated based on the Management Service Agreements (MSAs) in place at each treatment facility. These fees are calculated as a percentage of receipts for each facility and varies from facility to facility.

13. Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes are measured using the current or substantively enacted tax rates expected to apply when the differences reverse. A deferred tax asset is recognized to the extent that the recoverability of deferred income tax assets is considered probable.

The Company's provision for (recovery of) income taxes differs from the amount that is computed by applying the combined federal and state statutory income tax rate of 40% in the United States to the Company's net loss before income taxes.

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset. It is more probable than not that the Company will utilize available non-capital loss carry- forwards and deferred tax assets to offset the anticipated future taxable profits. Therefore, a net deferred income tax asset is being recognized for US non-capital tax loss carry-forwards and other available tax assets.

(CAD $000s)

13. Income taxes (cont'd)

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

As at August 31, 2019, the Company had approximately USD$16,650 (2018 – USD$11,696) of US non-capital losses. The US non-capital loss carry forwards expire in 2039. The Canadian non-capital loss carry forwards expire as noted in the table below:

Year of expiry	Non-capital Income tax loss
2034	$911
2036	56
2037	1,654
2038	757
2039	2,950
Total	**$6,328**

14. Financial instruments and financial risk management

Foreign currency risk

All of the Company's revenues are transacted in US dollars and as a result, fluctuations in the rate of exchange between the U.S. dollar and Canadian dollar can have a significant impact on the Company's cash flows and reported results. As a majority of the Company's operating expenses are also in United States dollars, operational foreign currency risk is limited.

Fair value

The fair values of cash, restricted cash, accounts receivable, other current assets and accounts payable and accrued liabilities approximate their carrying values given their short-term maturities.

Credit risk

Credit risk is the potential that customers or a counterparty to a financial instrument fail to meet their obligation to the Company. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable as the Company's revenues are concentrated to California and Oregon. The Company had many customers during the course of the year and believes that there is minimal risk associated with collection of these amounts. The Company manages its credit risk by ensuring the eligibility of its patients for insurance or other coverage prior to admittance and not extending credit to cannabis customers.

As explained in Note 4, non-cannabis revenue is estimated to be the amount collectible from the insurer. Given the counterparties in these transactions, which are generally large, financially stable commercial insurers, the Company considers the credit quality of these receivables to be high. Credit risk is generally limited to the risk that the estimated amount of revenue that can be collected is not accurate.

As explained in Note 4, non-cannabis revenue is estimated to be the amount collectible from the insurer. As of August 31, 2019, two commercial payors individually represented 19 % and 11 %, respectively of outstanding accounts receivable. Given the counterparties in these transactions, which are generally large, financially stable commercial insurers, the Company considers the credit quality of these receivables to be high. Credit risk is generally limited to the risk that the estimated amount of revenue that can be collected is not accurate.

14. Financial instruments and financial risk management (cont'd)

The Company's non-cannabis revenues primarily consisted of service charges related to providing addiction treatment and related services to clients in both inpatient and outpatient settings. Most of the Company's revenues are reimbursable by commercial payors, at out-of-network rates, with the remaining revenues payable directly by the Company's clients. The Company billed commercial payors, once insurance have been verified and services have been performed, based on usual and customary rates for each service. These billed rates were discounted to expected reimbursement rates (or net realizable value) as determined by management after taking into account the historical collections received from the commercial payors services to arrive at the revenues that are recognized. During 2018, management adjusted the accounting practice for estimating collectible revenues and expected credit losses which had a slight effect on estimated revenues over the year with no significant impact on the net loss. The expected credit losses account is a significant estimate and credit losses and revenue can only be known over time. The Company does not recognize revenues for scholarships provided.

The Company does not extend credit to cannabis customers at this time.

Liquidity risk

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial liability obligations as they become due. The Company manages its liquidity risk through cash management. In managing liquidity risk, the Company maintains access to equity markets, the availability of which is dependent on market conditions. The Company monitors its requirements through the use of rolling future net cash flow projections and budgets and believes it has sufficient funding through its current cash position to continue operating for the foreseeable future.

Other risk

The Company is not exposed to any significant interest rate risk as it does not have any borrowings and loans receivable that carry variable rates of interest. The Company is not exposed to any significant price risk or other financial risks due to the nature of its business

15. Capital management

The Company's objectives in managing capital are to maintain a strong capital base to preserve investor and creditor confidence; to ensure enough liquidity to service its debts, support capital projects and growth-oriented acquisitions; and to provide a return to shareholders.

Capital is used by the Company to finance capital expenditures and fund acquisitions that add to its ability to generate returns and meet long-term strategic growth objectives.

The Company sets the amount and type of capital required relative to its assessment of risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets. In order to maintain or modify its capital structure, the Company may adjust or defer the number of dividends paid to shareholders, issue new shares, seek other forms of financing, or sell assets to reduce debt.

The Company manages its share capital, contributed surplus, deficit and long-term debt as capital. The Company is not subject to any external covenants. There has been no significant change to the capital management policies for the three months ended August 31, 2019.

(CAD $000s)

16. Related Party Transactions

Key management personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of Company, directly or indirectly including executive directors. The total compensation of key management personnel are as follows:

Category	Three months ended August 31, 2019	Three months ended August 31, 2018
Salaries and short term benefits	$143	$112
Stock based compensation	66	55
Total	**$209**	**$167**

17. Leases

The Company's leasing activities relate to various office and facility leaseholds across the United States.

(a) Right-of-use Assets

A Reconciliation of the beginning and ending balances of the right-of-use assets for the three months ended August 31, 2019 is as follows:

	Property Leases	Other	Total
Balance February 29, 2019	$0	$0	$0
Additions (IFRS 16)	2,888	-	2,888
Accumulated depreciation (IFRS 16)	(515)	-	(515)
Effect of changes in exchange rates	-	-	-
Balance August 31, 2019	**$2,373**	**$0**	**$2,373**

(b) Lease liabilities

A Reconciliation of the beginning and ending balances of the lease liabilities for the three months ended August 31, 2019 is as follows:

	Property Leases	Other	Total
Balance February 29, 2019	$0	$0	$0
Additions (IFRS 16)	3,225	-	3,225
Interest on lease liabilities	125	-	125
Interest payments on lease liabilities	(125)	-	(125)
Principal payments on lease obligations	(507)	-	(507)
Effect of changes in exchange rates	-	-	-
Balance August 31, 2019	**$2,718**	**$0**	**$2,718**

(c) Future minimum lease payments

The Company leases certain business facilities from third parties under operating lease agreements that specify minimum rentals. The leases expire over the next 3 years and have certain extension provisions thereafter. Future minimum lease payments under non-

(CAD $000s)

17. Leases (cont'd)

cancelable operating leases having an initial or remaining term of more than one year are as follows:

Category	
Within 12 months	$987
1-2 years	$770
2-3 years	$755
> 3 years	$537
Total	**$3,050**

18. Loss per share

Loss per share is based on the consolidated net loss for the period divided by the weighted average number of shares outstanding during the period. Diluted loss per share is computed in accordance with the treasury stock method and based on the weighted average number of shares and dilutive share equivalents.

For the three months ended August 31, 2019 and August 31, 2018, respectively, the outstanding warrants and options were excluded from the calculation of diluted loss per share because their effect is anti-dilutive.

The following reflects the earnings and share data used in the basic and diluted loss per share computations:

Category	**Three months ended August 31, 2019**	**Three months ended August 31, 2018**
Net Loss	($755)	($37)
Basic and diluted weighted average number of shares	35,676,514	31,691,721
Total LPS-basic and diluted	**($0.02)**	**($0.00)**