

NORTH BUD FARMS INC.

Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended August 31, 2019

(Expressed in Canadian Dollars)

Condensed Consolidated Interim Financial Statements

Condensed Consolidated Interim Statements of Financial Position	2
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss	3
Condensed Consolidated Interim Statements of Changes in Equity	4
Condensed Consolidated Interim Statements of Cash Flows	5
Notes to the Condensed Consolidated Interim Financial Statements	6 to 17

The accompanying unaudited condensed consolidated interim financial statements 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 unaudited condensed consolidated interim financial statements.

North Bud Farms Inc.Condensed Consolidated Interim Statements of Financial Position (Unaudited)
(Expressed in Canadian dollars)

As at	August 31, 2019	November 30, 2018
	\$	\$
ASSETS		
Current assets		
Cash	1,462,468	4,015,098
Sales taxes receivable	295,453	266,116
Other receivables	-	36,437
Loan receivable (Note 10)	389,213	-
Prepaid expenses	556,491	197,495
	2,703,625	4,515,146
Construction advances	-	224,350
Capital assets (Note 3)	4,726,788	1,102,573
Intangible assets (Note 4)	1,849,087	1,849,087
Total assets	9,279,500	7,691,156
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,289,864	1,008,259
Total liabilities	1,289,864	1,008,259
EQUITY		
Share capital (Note 6)	8,473,128	6,826,614
Warrants (Note 7)	1,432,673	721,987
Contributed surplus (Note 8)	978,075	938,836
Deficit	(2,894,240)	(1,804,540)
Total equity	7,989,636	6,682,897
Total liabilities and equity	9,279,500	7,691,156

On behalf of the Board

(signed) "Andre Audet"
Andre Audet, Director(signed) "Ryan Brown"
Ryan Brown, Director*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

North Bud Farms Inc.

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss (Unaudited)

(Expressed in Canadian dollars)

	Three months ended August 31,		Nine months ended August 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Operating expenses				
Management and consulting fees	82,667	107,193	261,806	146,193
Salaries and benefits	68,244	-	108,240	-
Travel and promotion	72,820	34,122	266,519	34,122
Professional fees	78,348	122,440	124,269	192,840
Office	37,866	20,407	159,533	31,268
Stock-based compensation (Note 8)	-	-	39,239	-
Insurance	119,377	57,674	151,798	57,674
Loss from operations	(459,322)	(341,836)	(1,111,404)	(462,097)
Other income				
Interest income	6,966	3,189	21,704	3,189
Net loss and total comprehensive loss	(452,356)	(338,647)	(1,089,700)	(458,908)
Basic and diluted net loss per common share	(0.007)	(0.008)	(0.019)	(0.015)
Basic and diluted weighted average number of common shares outstanding	61,327,944	43,789,926	57,487,449	29,976,976

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

North Bud Farms Inc.

Condensed Consolidated Interim Statements of Changes in Equity (Unaudited)

(in Canadian dollars)

	Share Capital		Warrants	Contributed Surplus	Deficit	Total
	# of shares	\$	\$	\$	\$	\$
Balance, November 30, 2017	100	1	-	-	-	1
Shares issued for cash (Note 6)	35,458,000	4,430,637	-	-	-	4,430,637
Warrants issued for cash (Note 6)	-	-	558,863	-	-	558,863
Shares issued to acquire GrowPros MMP Inc. (Note 4)	15,550,000	1,555,000	-	-	-	1,555,000
Shares issued to acquire 9366-4027 Quebec Inc. (Note 3)	760,000	190,000	-	-	-	190,000
Net loss and total comprehensive loss	-	-	-	-	(458,908)	(458,908)
Balance, August 31, 2018	51,768,100	6,175,638	558,863	-	(458,908)	6,275,593
Shares issued for cash (Note 6)	3,778,000	781,376	-	-	-	781,376
Warrants issued for cash (Note 6)	-	-	163,124	-	-	163,124
Shares issued to acquire 9366-4027 Quebec Inc. (Note 3)	-	(30,400)	-	-	-	(30,400)
Share issuance costs	-	(100,000)	-	-	-	(100,000)
Stock-based compensation	-	-	-	938,836	-	938,836
Net loss and total comprehensive loss	-	-	-	-	(1,345,632)	(1,345,632)
Balance, November 30, 2018	55,546,100	6,826,614	721,987	938,836	(1,804,540)	6,682,897
Shares issued for cash (Note 6)	7,766,664	1,619,314	-	-	-	1,619,314
Warrants issued for cash (Note 6)	-	-	710,686	-	-	710,686
Shares issued for services (Note 6)	129,142	45,200	-	-	-	45,200
Share issuance costs	-	(18,000)	-	-	-	(18,000)
Stock-based compensation	-	-	-	39,239	-	39,239
Net loss and total comprehensive loss	-	-	-	-	(1,089,700)	(1,089,700)
Balance, August 31, 2019	63,441,906	8,473,128	1,432,673	978,075	(2,894,240)	7,989,636

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

North Bud Farms Inc.

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

(Expressed in Canadian dollars)

	Three months ended August 31,		Nine months ended August 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss	(452,356)	(338,647)	(1,089,700)	(458,908)
Adjustments for:				
Stock-based compensation	-	-	39,239	-
Changes in non-cash working capital items	175,579	46,997	(414,304)	76,541
Net cash flows from operating activities	(276,777)	(291,650)	(1,464,765)	(382,367)
INVESTING ACTIVITIES				
Construction advances	-	-	224,350	-
Acquisition of subsidiary, net of cash (Note 4)	-	913	-	(349,087)
Investment in capital assets	(1,327,469)	(67,764)	(3,624,215)	(203,952)
Net cash flows from investing activities	(1,327,469)	(66,851)	(3,399,865)	(553,039)
FINANCING ACTIVITIES				
Shares issued for cash	1,619,314	2,680,637	1,619,314	4,430,637
Warrants issued for cash	710,686	558,863	710,686	558,863
Share issuance costs	(18,000)	-	(18,000)	-
Net cash flows from financing activities	2,312,000	3,239,500	2,312,000	4,989,500
Increase (decrease) in cash	707,754	2,880,999	(2,552,630)	4,054,094
Cash, beginning of the period	754,714	1,173,096	4,015,098	1
Cash, end of the period	1,462,468	4,054,095	1,462,468	4,054,095
Changes in non-cash working capital items consists of the following:				
Sales taxes receivable	64,457	(27,715)	(29,337)	(68,416)
Other receivables	33,900	-	36,437	-
Loan receivable	(389,213)	-	(389,213)	-
Prepaid expenses	(307,514)	(52,969)	(358,996)	(191,053)
Accounts payable and accrued liabilities	773,949	127,681	326,805	336,010
	175,579	46,997	(414,304)	76,541

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

North Bud Farms Inc.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended August 31, 2019

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

North Bud Farms Inc. (the “Company” or “North Bud”), formerly 10002402 Canada Inc., was incorporated on November 29, 2016 under the Canada Business Corporations Act.

North Bud, through its wholly-owned subsidiary GrowPros MMP Inc. (“GrowPros”), has applied for a cultivation license under the Cannabis Act for its newly completed facility in Venosta, Quebec. The Company is focused on pharmaceutical-grade cannabis production as well as food grade cannabinoid infused inputs for both the international pharmaceutical market and the pending consumer goods and consumables segment of the recreational cannabis market. The address of the Company’s corporate office is 4400-181 Bay Street, Toronto, Ontario, Canada, M5J 2T3. North Bud’s common shares are listed for trading on the Canadian Securities Exchange (“CSE”) under the symbol NBUD and also trade on the OTCQB under the symbol NOBDF.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. As at August 31, 2019, the Company had not yet generated any revenues from operations. The Company has no income or cash inflow from operations. Continued operation of the Company is dependent on becoming a licensed producer of cannabis, which requires continued financial support through equity and/or debt financings, or the achievement of profitable operations in the future. Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. Nevertheless, there is no assurance that these initiatives will be successful or sufficient. These financial statements do not include any adjustments to the carrying value of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary should the Company be unable to continue as a going concern and these adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”).

These condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company’s annual financial statements for the year ended November 30, 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on October 21, 2019.

(b) Basis of presentation

These condensed consolidated interim financial statements have been prepared on a historical cost basis and are expressed in Canadian dollars, which is also the functional currency of the parent company.

These condensed consolidated interim financial statements have been prepared using accounting policies that are consistent with those used in the preparation of the Company’s audited financial statements for the year ended November 30, 2018.

North Bud Farms Inc.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended August 31, 2019

(Expressed in Canadian dollars)

3. CAPITAL ASSETS

	Land (1)	Construction in progress (2)	Total
	\$	\$	\$
Cost			
Balance, November 30, 2018	159,600	942,973	1,102,573
Additions	-	3,624,215	3,624,215
Cost, August 31, 2019	159,600	4,567,188	4,726,788
Accumulated depreciation			
Balance, November 30, 2018	-	-	-
Depreciation	-	-	-
Accumulated depreciation, August 31, 2019	-	-	-
Net Book Value, August 31, 2019	159,600	4,567,188	4,726,788

	Land (1)	Construction in progress (2)	Total
	\$	\$	\$
Cost			
Balance, November 30, 2017	-	-	-
Additions	159,600	942,973	1,102,573
Cost, November 30, 2018	159,600	942,973	1,102,573
Accumulated depreciation			
Balance, November 30, 2017	-	-	-
Depreciation	-	-	-
Accumulated depreciation, November 30, 2018	-	-	-
Net Book Value, November 30, 2018	159,600	942,973	1,102,573

- (1) On June 7, 2018, the Company acquired all of the issued and outstanding shares of 9366-4027 Quebec Inc. ("9366-4027"), a company controlled by North Bud's CEO, in consideration for 760,000 common shares of North Bud. 9366-4027 is a holding company which owns land in Venosta, Quebec, where the Company recently completed building its future production facility. The acquisition does not meet the definition of a business combination under IFRS and, as such, has been accounted for as an asset acquisition. The land was recorded at an amount of \$159,600, being the estimated fair value of the 760,000 common shares issued, based on the Company's private placement that was ongoing at that time.
- (2) During the nine month period ended August 31, 2019, the Company incurred expenditures of \$3,624,215 on the construction of its future production facility. The building is complete but not yet available for use, therefor it is still included in construction in progress and has not been depreciated.

North Bud Farms Inc.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended August 31, 2019

(Expressed in Canadian dollars)

4. INTANGIBLE ASSETS

	License application (1)	Total
	\$	\$
Cost		
Balance, November 30, 2017	-	-
Additions	1,849,087	1,849,087
Cost, November 30, 2018 and August 31, 2019	1,849,087	1,849,087
Accumulated amortization		
Balance, November 30, 2017	-	-
Amortization	-	-
Accumulated amortization, November 30, 2018 and August 31, 2019	-	-
Net Book Value, November 30, 2018 and August 31, 2019	1,849,087	1,849,087

- (1) On February 16, 2018, the Company entered into a share purchase agreement (“SPA”) with Tetra Bio-Pharma (“Tetra”), to acquire all of the issued and outstanding shares of GrowPros MMP Inc. (“GrowPros”) for \$350,000 and 15,000,000 common shares of North Bud. The transaction was conditional on North Bud listing its shares on a recognized Canadian stock exchange. Effective July 31, 2018, the Company and Tetra executed an amendment to the SPA, whereby it was agreed that North Bud would issue 550,000 additional common shares to Tetra as consideration under the SPA. This measure was agreed to by the Company and Tetra so as to respect the anti-dilution covenant found in the SPA, which stipulated that Tetra should maintain ownership over a number of common shares representing at least 30% of all issued and outstanding shares of the Company on a non-diluted basis following the completion of the GrowPros acquisition and immediately prior to the listing of the common shares on a recognized Canadian stock exchange.

On August 23, 2018, further to receiving notice of final receipt for its non-offering prospectus from the Ontario Securities Commission (the “OSC”) and listing approval from the Canadian Securities Exchange (the “CSE”), North Bud completed the acquisition of GrowPros.

The acquisition did not meet the definition of a business combination under IFRS and, as such, has been accounted for as an acquisition of assets. Total consideration paid to Tetra was \$1,850,000, which included \$350,000 in cash and 15,000,000 common shares with an estimated fair value of \$1,500,000, or \$0.10 per share, based on the price of the shares issued in the Company’s private placement that closed two days prior to the execution of the SPA, on February 14, 2018 (Note 6). The 550,000 additional common shares issued to Tetra, so as to respect the anti-dilution covenant in the SPA, have been excluded from the acquisition cost and instead recorded as a reduction of share capital given that they became issuable only when Tetra’s ownership interest fell below 30% as a result of the private placement closed by the Company on September 20, 2018. On acquisition, the Company recorded an intangible asset in the amount of \$1,849,087, related to GrowPros’ license application with Health Canada.

The fair value of the net assets acquired, based on the consideration paid, was as follows:

	\$
Cash	913
Intangible assets	1,849,087
Net assets acquired	1,850,000

North Bud Farms Inc.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended August 31, 2019

(Expressed in Canadian dollars)

5. FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT

Financial instruments

The Company's financial instruments consist of cash, other receivables, loan receivable and accounts payable and accrued liabilities. The fair value of the Company's financial instruments approximates their carrying value due to their short-term nature.

The classification of financial instruments is as follows:

	August 31, 2019	November 30, 2018
	\$	\$
Financial assets		
Amortized cost		
Cash	1,462,468	4,015,098
Other receivables	-	36,437
Loan receivable	389,213	-
Total financial assets	1,851,681	4,051,535
Financial liabilities		
Amortized cost		
Accounts payable and accrued liabilities	(1,289,864)	(1,008,259)
Total financial liabilities	(1,289,864)	(1,008,259)

Risk management

The Company thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include credit risk and liquidity risk. Where material, these risks are reviewed and monitored by the Board of Directors.

(i) Credit risk

Credit risk is the risk of an unexpected loss if a party to its financial instruments fails to meet its contractual obligations. The Company's financial assets exposed to credit risk are primarily composed of cash and loan receivable. The Company's cash is held at reputable financial institutions with high external credit ratings. It is Management's opinion that the Company is not exposed to significant credit risk.

None of the Company's financial assets are secured by collateral or other credit enhancements.

Management considers that all the above financial assets that are not impaired or past due for each of the reporting dates are of good credit quality. There are no financial assets that are past due but not impaired for the periods presented.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if its access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the

North Bud Farms Inc.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended August 31, 2019

(Expressed in Canadian dollars)

Company. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as liquidity.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares through equity offerings or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis. There have been no changes to the Company's capital management approach during the nine month period ended August 31, 2019.

6. SHARE CAPITAL

Authorized

An unlimited number of the following shares:

Class "A" common shares - voting common shares, no par value

Issued

Class "A" common shares

	Number of shares	\$
Balance, November 30, 2017	100	1
Shares issued for cash (1)(2)(3)(4)(5)	39,236,000	5,212,013
Shares issued to acquire GrowPros MMP Inc. (Note 4)	15,550,000	1,555,000
Shares issued to acquire 9366-4027 Quebec Inc. (Note 3)	760,000	159,600
Share issuance costs	-	(100,000)
Balance, November 30, 2018	55,546,100	6,826,614
Shares issued for cash (6)(7)	7,766,664	1,619,314
Shares issued for services (8)	129,142	45,200
Share issuance costs	-	(18,000)
Balance, August 31, 2019	63,441,906	8,473,128

(1) On January 15, 2018, the Company closed a private placement for gross proceeds of \$500,000. The private placement was comprised of 10,000,000 shares at a price of \$0.05 per share. Directors of the Company (or corporations controlled by directors of the Company) participated in the private placement for a total amount of \$500,000.

North Bud Farms Inc.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended August 31, 2019

(Expressed in Canadian dollars)

- (2) On February 14, 2018, the Company closed a private placement for gross proceeds of \$1,100,000. The private placement was comprised of 11,000,000 shares at a price of \$0.10 per share. A Director of the Company participated in the private placement for an amount of \$25,000.
- (3) On April 20, 2018, the Company closed a private placement for gross proceeds of \$150,000. The private placement was comprised of 1,500,000 shares at a price of \$0.10 per share.
- (4) On July 25, 2018, the Company closed a private placement for gross proceeds of \$3,239,500. The private placement was comprised of 12,958,000 units at a price of \$0.25 per unit. Each unit is comprised of one common share and one-half of a common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share of the Company at a price of \$0.40 for a period of twenty-four months following the date upon which the common shares were listed for trading on a recognized Canadian stock exchange (September 20, 2018). The warrants issued in connection to the private placement have been recorded at a value of \$558,863 based on the proportional method and using the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.25, risk-free interest rate of 2.05%, expected life of warrants of 2 years, annualized volatility of 100% and dividend rate of 0%. The underlying volatility is based on historical data of similar companies, as the Company has limited historical data itself on which it could be based. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of issuance with an expiry commensurate with the expected life of the warrants. Share issuance costs totaling \$34,842 were presented as a reduction of share capital.
- (5) On September 20, 2018, the Company closed a private placement for gross proceeds of \$944,500. The private placement was comprised of 3,778,000 units at a price of \$0.25 per unit. Each unit is comprised of one common share and one-half of a common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share of the Company at a price of \$0.40 for a period of twenty-four months. The warrants issued in connection to the private placement have been recorded at a value of \$163,124 based on the proportional method and using the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.25, risk-free interest rate of 2.18%, expected life of warrants of 2 years, annualized volatility of 100% and dividend rate of 0%. The underlying volatility is based on historical data of similar companies, as the Company has limited historical data itself on which it could be based. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of issuance with an expiry commensurate with the expected life of the warrants. Share issuance costs totaling \$10,158 were presented as a reduction of share capital.
- (6) On June 19, 2019, the Company closed a private placement for gross proceeds of \$1,208,000. The private placement was comprised of 4,026,664 units at a price of \$0.30 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share of the Company at a price of \$0.40 until June 19, 2021. The warrants issued in connection to the private placement have been recorded at a value of \$367,238 based on the proportional method and using the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.275, risk-free interest rate of 1.40%, expected life of warrants of 2 years, annualized volatility of 100% and dividend rate of 0%. The underlying volatility is based on historical data of similar companies, as the Company has limited historical data itself on which it could be based. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of issuance with an expiry commensurate with the expected life of the warrants. Share issuance costs totaling \$9,332 were presented as a reduction of share capital.
- (7) On July 3, 2019, the Company closed a private placement for gross proceeds of \$1,122,000. The private placement was comprised of 3,740,000 units at a price of \$0.30 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share of the Company at a price of \$0.40 until July 3, 2019. The warrants issued in connection to the private placement have been recorded at a value of \$343,448 based on the proportional method and using the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.28, risk-free interest rate of 1.40%, expected life of warrants of 2 years, annualized

North Bud Farms Inc.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended August 31, 2019

(Expressed in Canadian dollars)

volatility of 100% and dividend rate of 0%. The underlying volatility is based on historical data of similar companies, as the Company has limited historical data itself on which it could be based. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of issuance with an expiry commensurate with the expected life of the warrants. Share issuance costs totaling \$8,668 were presented as a reduction of share capital.

- (8) On June 19, 2019, the Company issued 129,142 common shares to a consultant at a price per share of \$0.35, for marketing services rendered to the Company through to June 15, 2019.

7. WARRANTS

Outstanding warrants entitle the holders thereof to subscribe to an equivalent number of common shares.

The following table reflects the continuity of warrants:

	Number of warrants	Weighted average exercise price
		\$
Balance, November 30, 2017	-	-
Issued	8,368,000	0.40
Balance, November 30, 2018	8,368,000	0.40
Issued	7,766,664	0.40
Balance, August 31, 2019	16,134,664	0.40

As at August 31, 2019, the following warrants were issued and outstanding:

Number of warrants	Issue date fair value	Exercise price	Expiry date
	\$	\$	
6,479,000	558,863	0.40	September 20, 2020
1,889,000	163,124	0.40	September 20, 2020
4,026,664	367,238	0.40	June 19, 2021
3,740,000	343,448	0.40	July 3, 2021
16,134,664	1,432,673		

As at November 30, 2018, the following warrants were issued and outstanding:

Number of warrants	Issue date fair value	Exercise price	Expiry date
	\$	\$	
6,479,000	558,863	0.40	September 20, 2020
1,889,000	163,124	0.40	September 20, 2020
8,368,000	721,987		

North Bud Farms Inc.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended August 31, 2019

(Expressed in Canadian dollars)

8. STOCK OPTIONS

On September 18, 2018, the Company adopted an incentive stock option plan (the "Option Plan"). The purpose of the Option Plan is to provide the Company with a share-related mechanism to attract, retain and motivate qualified directors, officers, employees and consultants and to reward them for their contributions toward creating shareholder value through the achievement of the short and long-term goals of the Company.

The following table reflects the continuity of stock options:

	Number of options	Weighted average exercise price \$
Balance, November 30, 2017	-	-
Granted (1)(2)(3)	5,235,000	0.26
Balance, November 30, 2018	5,235,000	0.26
Granted (4)	150,000	0.35
Forfeited	(85,000)	0.60
Balance, August 31, 2019	5,300,000	0.25

(1) On September 18, 2018, 4,650,000 stock options were granted to directors, officers, employees and consultants of the Company at an exercise price of \$0.25 per share, which all vested immediately and expire on September 18, 2023.

(2) On September 18, 2018, 500,000 stock options were granted to certain consultants of the Company at an exercise price of \$0.25 per share, which all vested immediately and expire on September 18, 2020.

(3) On September 27, 2018, 85,000 stock options were granted to a consultant of the Company at an exercise price of \$0.60 per share, which vest evenly over a twenty-four month period and expire on September 27, 2023.

(4) On March 6, 2019, 150,000 stock options were granted to an employee and a consultant of the Company at an exercise price of \$0.35 per share, which all vested immediately and expire on March 6, 2024.

As at August 31, 2019, the following stock options were outstanding and exercisable:

Exercise prices	Outstanding			Exercisable	
	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average outstanding exercise price	Number vested	Weighted average vested exercise price
\$0.25	5,150,000	3.76	\$0.25	5,150,000	\$0.25
\$0.35	150,000	4.52	\$0.35	150,000	\$0.35
	5,300,000	3.78	0.25	5,300,000	0.25

North Bud Farms Inc.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended August 31, 2019

(Expressed in Canadian dollars)

As at November 30, 2018, the following stock options were outstanding and exercisable:

Exercise prices	Number outstanding	Outstanding		Exercisable	
		Weighted average remaining contractual life (in years)	Weighted average outstanding exercise price	Number vested	Weighted average vested exercise price
\$0.25	5,150,000	4.51	\$0.25	5,150,000	\$0.25
\$0.60	85,000	4.83	\$0.60	-	-
	5,235,000	4.52	0.26	5,150,000	0.25

The following table reflects the weighted-average fair value of stock options granted between December 1, 2017 and August 31, 2019 and the related Black-Scholes option pricing model inputs that were used in the calculations:

	Nine months ended August 31, 2019	Year ended November 30, 2018
Stock options granted	150,000	5,235,000
Weighted average fair value	0.26	0.19
Weighted-average exercise price	0.35	0.26
Weighted-average market price at date of grant	0.35	0.26
Expected life of stock options (years)	5.00	4.71
Expected stock price volatility	100%	100%
Risk-free interest rate	1.69%	2.18%
Expected dividend yield	0%	0%

The underlying expected stock price volatility is based on historical data of similar companies, as the Company has limited historical data itself on which it could be based.

The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the options.

In total, \$39,239 of stock-based payments (all of which relate to equity-settled stock-based payment transactions) were included in profit or loss for the nine month period ended August 31, 2019 (2018 - \$Nil) and credited to contributed surplus.

North Bud Farms Inc.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and nine month periods ended August 31, 2019
(Expressed in Canadian dollars)

9. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

Related parties include the Board of Directors and key management personnel, as well as close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions. Unless otherwise stated, none of these transactions incorporated special terms and conditions and no guarantees were given or received.

Remuneration of directors and key management personnel of the Company was as follows:

	Three months ended August 31,		Nine months ended August 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Consulting fees	37,500	30,000	112,500	45,000
	37,500	30,000	112,500	45,000

10. COMMITMENTS

Binding of letter of intent to acquire Eureka Vapor LLC.

On March 6, 2019, the Company announced the signing of a binding letter of intent (“LOI”), dated March 3, 2019, to acquire all the issued and outstanding shares of Eureka Vapor LLC and all of its subsidiaries (“Eureka”), a U.S. multi-state cannabis operator, and arm’s length to the Company. Eureka, through its wholly-owned subsidiaries holds manufacturing and distribution licenses in the states of California and Colorado. Eureka manufactures and sells a premium line of disposable vapor pens as well as multi-use cartridge-style vapor pens and hardware.

Subsequent to quarter end, on September 12, 2019, the Company announced that the parties had mutually agreed to terminate the LOI.

Binding of letter of intent to acquire Tanforan Ventures LLC

On June 18, 2019, the Company announced the signing of a binding letter of intent (“LOI”), effective June 15, 2019, to acquire all of the issued and outstanding securities of Tanforan Ventures LLC (“Tanforan”). Tanforan holds manufacturing and distribution licenses in the state of California and is in the final stages of completing its new Category 7 licensed extraction facility in Woodland, California.

Subsequent to quarter end, on September 12, 2019, the Company announced that the parties had mutually agreed to terminate the LOI.

Letter of Intent to Acquire Nevada Botanical Science

On June 25, 2019, the Company announced the signing of a binding letter of intent (“LOI”), effective June 23, 2019, to acquire all of the issued and outstanding securities of Nevada Botanical Science, Inc. (“NBS”). Located in Reno, Nevada, NBS holds medical and adult use licenses for cultivation, extraction and distribution. Operated by healthcare professionals, NBS has been primarily focused on the cultivation and manufacturing of medical cannabis products.

North Bud Farms Inc.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended August 31, 2019

(Expressed in Canadian dollars)

The proposed transaction (the “Transaction”) is currently structured as a share purchase agreement whereby in exchange for the purchase of all of the securities of NBS, North Bud will pay USD\$6M in cash and issue USD\$1M in common shares (“Common Shares”) to the shareholders of NBS with the price per Common Share to be determined based on a formula of the higher of (a) CAD\$0.35 per Common Share and (b) the 30-day volume weighted average price (“VWAP”) calculated on the closing date of a definitive agreement in respect of the Transaction (the “Definitive Agreement”). In addition, North Bud has agreed to loan up to USD\$500,000 under a promissory note to NBS while the companies work towards a definitive agreement. Specific terms of the promissory note are not yet determined, however any amounts loaned to NBS under the promissory note are fully refundable and may be converted into equity in NBS, at the option of North Bud, in the event that the transaction is not completed. As at August 31, 2019, the Company has loaned NBS USD\$295,000, the equivalent of CAD\$389,213, which is included in loan receivable in the statement of financial position.

The Transaction is a significant acquisition but will not result in a “Fundamental Change” pursuant to the policies of the Canadian Securities Exchange (“CSE”). North Bud has agreed to pay up to USD\$280,000 in broker/finder fees to arm’s length parties in connection with the closing of the Transaction. The closing of the Transaction is conditional on the receipt by the parties of applicable corporate and regulatory approvals including that of the CSE.

Leases

As at August 31, 2019, the Company’s future minimum operating lease payments are as follows:

Minimum lease payments due		
Within 1 year	1 to 5 years	Total
\$	\$	\$
25,600	-	25,600

Lease payments recognized as an expense during the nine month period ended August 31, 2019 amount to \$53,800 (2018 - \$17,800). This amount consists of minimum lease payments.

11. SUBSEQUENT EVENTS

Land Purchase Agreement

On September 12, 2019, North Bud announced that Bonfire Brands USA, a wholly owned subsidiary of North Bud, has entered into a land purchase agreement with the Qlora Group to acquire a fully operational Cannabis farm consisting of approximately 300,000 sq. ft. of greenhouse capacity located in Salinas, California. With the near 11-acre cultivation facility comes additional licenses for processing and distribution. The facility in Salinas, California is currently licensed and operating a 60,000 sq. ft. greenhouse capable of producing 12,000 kg a year and holds the approval to expand up to approximately 300,000 sq. ft. of capacity with estimated yields of 60,000 kg a year. This infrastructure will serve as the primary operation for Bonfire Brands USA within the state of California.

Bonfire Brands USA entered into the land purchase agreement effective September 9, 2019. The purchase price of the land is USD\$8M. As part of the 60-day escrow agreement Bonfire Brands USA will make an initial deposit of USD\$500,000. The remaining USD\$7.5M mortgage will be held by the seller at a fixed interest rate. Over the first 12 months, Bonfire Brands USA will make interest only payments before entering into a traditional principal and interest mortgage. Upon successfully transferring all licenses from Monterey Holdings to Bonfire Brands USA, the Company will issue a convertible debt note in the amount of CAD\$2.5M. The debt note will be redeemable in four equal instalments to be paid in cash or common shares of North Bud (valued at the 30-day VWAP of the common shares on the CSE) at the discretion of the note holder. If the note holder chooses to redeem in cash, then the instalment will be paid in monthly instalments over a 3-month period. Any issuance

North Bud Farms Inc.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended August 31, 2019

(Expressed in Canadian dollars)

of common shares of the Company will be subject to receipt of applicable regulatory approvals, including that of the CSE, and standard restrictions on resale.

Upon closing of the real estate transaction, it is expected that Bonfire Brands USA will begin to immediately operate the facilities under an operations agreement until the license transfer is complete

In addition, Bonfire Brands USA intends to acquire the remaining assets of the Qlora Group related to the brands "California Bud Co." and "Live For The Day" (LFTD) in exchange for common shares of North Bud. Qlora Group advises that the brands accounted for USD\$4.5M in unaudited revenue in 2018. This transaction is expected to take approximately six months to complete for a consideration of USD\$500,000.

The Transaction is a significant acquisition but will not result in a "Fundamental Change" pursuant to the policies of the CSE. North Bud will be preparing the necessary corporate and securities filings in order to secure the required approvals for the Transaction. The Company has agreed to pay up to 5% in finder fees to arm's length parties in connection with the closing of the Transaction. The fee is payable in common shares of North Bud. The closing of the Transaction is conditional on the receipt by the parties of applicable corporate and regulatory approvals including that of the CSE.