

PONDEROUS PANDA CAPITAL CORP.

**CONDENSED INTERIM FINANCIAL STATEMENTS
(Unaudited)**

September 30, 2018

PONDEROUS PANDA CAPITAL CORP.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)
AS AT

	September 30, 2018	December 31, 2017
	\$	\$
ASSETS		
Current		
Cash	552,694	89,804
Deferred financing costs (Note 5)	-	15,000
Total Assets	552,694	104,804
LIABILITIES		
Current		
Accounts payable and accrued liabilities	15,514	231
	15,514	231
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	640,300	105,000
Reserves (Note 5)	63,000	-
Deficit	(166,120)	(427)
	537,180	104,573
Total Liabilities and Shareholders' Equity	552,694	104,804

Nature and continuance of operations (Note 1)

Approved on November 29, 2018 on behalf of the Board:

"David Smalley"

Director

"Larry K. Doan"

Director

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

PONDEROUS PANDA CAPITAL CORP.
CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Unaudited)

	Three month period ended Sept. 30, 2018	Three month period ended Sept. 30, 2017	Nine month period ended Sept. 30, 2018	Period from Incorporation on March 22, 2017 to Sept. 30, 2017
	\$	\$	\$	\$
Regulatory fees	-	-	10,028	-
Transfer agent and filing fees	10,248	-	33,240	-
Share-based payments (Note 6)	-	-	38,000	-
Professional fees (Note 6)	15,982	-	83,528	-
Rent expense	296	-	897	-
Loss and comprehensive loss for the period	(26,526)	-	(165,693)	-
Basic and diluted loss per common share	\$ (0.01)	\$ (0.00)	\$ (0.08)	\$ (0.00)
Weighted average number of common shares outstanding – basic and diluted	3,065,004	1	2,165,993	1

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

PONDEROUS PANDA CAPITAL CORP.
CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

	Number of Common Shares	Share Capital	Reserves	Deficit	Total Shareholders' Equity
		\$	\$	\$	\$
Balance, March 22, 2017 (incorporation)	-	-	-	-	-
Incorporation share issued	1	-	-	-	-
Common share cancelled	(1)	-	-	-	-
Common shares issued	700,003	105,000	-	-	105,000
Loss for the period	-	-	-	(427)	(427)
Balance, December 31, 2017	700,003	105,000	-	(427)	104,573
Common shares issued	2,365,001	654,750	-	-	654,750
Share issuance costs – cash	-	(94,450)	-	-	(94,450)
Share issuance costs – finders' warrants	-	(25,000)	25,000	-	-
Share-based payments	-	-	38,000	-	38,000
Loss for the period	-	-	-	(165,693)	(165,693)
Balance, September 30, 2018	3,065,004	640,300	63,000	(166,120)	537,180

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PONDEROUS PANDA CAPITAL CORP.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine month ended Sept. 30, 2018	For the Period from Incorporation on March 22, 2017 to Sept. 30, 2017
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	(165,693)	-
Item not involving cash:		
Share-based payments	38,000	-
Changes in non-cash working capital item:		
Accounts payable and accrued liabilities	15,283	-
Net cash used in operating activities	(112,410)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common shares	654,750	-
Share issuance costs	(79,450)	-
Net cash provided by financing activities	575,300	-
Change in cash during the period	462,890	-
Cash, beginning of period	89,804	-
Cash, end of period	552,694	-
Supplemental disclosure:		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -
Significant non-cash transactions:		
Fair value of finders' warrants issued	\$ 25,000	\$ -
Deferred financing costs included in share issuance costs	\$ 15,000	\$ -

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

PONDEROUS PANDA CAPITAL CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2018
(Unaudited)

1. NATURE AND CONTINUANCE OF OPERATIONS

Ponderous Panda Capital Corp. (the “Company”) was incorporated by Certificate of Incorporation issued pursuant to the provisions of the British Columbia Business Corporations Act on March 22, 2017. The Company completed an initial public offering (“IPO”) of its common shares and began trading its common shares on the TSX Venture Exchange (“TSX-V” or the “Exchange”) on April 27, 2018.

The Company’s head office and registered and records office address is Suite 2300, 1066 West Hastings Street, Vancouver, British Columbia, Canada, V6E 3X2.

The Company has an accumulated deficit of \$166,120 as at September 30, 2018. The Company’s continuing operations are dependent upon its ability to identify and evaluate assets or businesses with a view to potential acquisition or participation by completing a Qualifying Transaction, as defined in Exchange Policy 2.4, within 24 months of listing on the TSX-V. Any acquisition or investment proposed by the Company will be subject to regulatory approval. The inability to achieve these objectives may cast significant doubt about the Company’s ability to continue as a going concern. These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation.

Proposed Transaction

On May 31, 2018 the Company and Trait Biosciences Inc. (“Trait”) entered into an Agreement in Principle (the “Agreement”) whereby the Company and Trait agreed to complete a business combination that would constitute the Company’s Qualifying Transaction under the policies of the Exchange (the “Proposed Transaction”).

Trait is a private company in the business of the research and development of plant technologies applicable to cannabis and hemp.

Pursuant to the Agreement:

- all of the issued and outstanding Trait common shares will be exchanged for one common share of the Company;
- the Company will change its name and will continue the operations of Trait under a name suitable to the directors of Trait;
- the Company and Trait plan to enter into a definitive share purchase agreement; and
- the Proposed Transaction will complete prior to December 31, 2018;

In addition the Agreement contains a break clause whereby if either party decides to terminate the Agreement, or the subsequent definitive share purchase agreement, the party who so terminates will pay the other party a \$250,000 break fee.

Completion of the Proposed Transaction is subject to various closing conditions, including but not limited to the receipt of all requisite regulatory approval, including the approval of the Exchange, and any third party approvals and authorizations, as well as board approvals.

PONDEROUS PANDA CAPITAL CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2018
(Unaudited)

2. BASIS OF PRESENTATION

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Basis of preparation

The financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. The financial statements of the Company are presented in Canadian dollars, which is the functional currency of the Company.

Use of estimates and judgements

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates. The preparation of these financial statements requires management to make judgments regarding the going concern of the Company, as discussed in Note 1.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Deferred tax assets & liabilities

The measurement of deferred income tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities. The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company’s ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful operations of the Company. To the extent that management’s assessment of the Company’s ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred tax provisions or recoveries could be affected.

PONDEROUS PANDA CAPITAL CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2018
(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income of loss or directly in equity, in which case it is recognized in other comprehensive income or loss or equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the group intends to settle its current tax assets and liabilities on a net basis.

b) Share capital

Common shares are classified as shareholders' equity. Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects.

The proceeds from the issue of units is allocated between common shares and common share purchase warrants based on the residual value method. Under this method, the proceeds are allocated to share capital based on the fair value of the common shares and any residual value is allocated to common share purchase warrants.

c) Share-based payments

The Company accounts for share-based payments using the fair value method. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to reserves. The fair value of options is determined using the Black-Scholes Option Pricing Model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

d) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial Instruments

Recognition

The Company recognizes financial assets and financial liabilities on the date the Company becomes a party to the contractual provisions of the instruments.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: i) those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss, and ii) those to be measured at amortized costs. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at fair value through profit or loss (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

The Company has implemented the following classifications:

Cash is classified as assets at fair value and any period change in fair value is recorded in profit or loss.

Accounts payable and accrued liabilities are classified as other financial liabilities and measured at amortized cost using the effective interest rate method. Interest expense is recorded in profit or loss.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition).

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial Instruments (continued)

Impairment

The Company assesses all information available, including on a forward looking basis the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward looking information.

4. NEW ACCOUNTING PRONOUNCEMENTS

New standards adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after January 1, 2018. The following standard has been adopted by the Company.

- IFRS 9: New standard that replaced IAS 39 for classification and measurement of financial instruments, effective for annual periods beginning on or after January 1, 2018. Upon adopting this standard, certain disclosures relating to financial instruments have been insignificantly impacted. The Company does not have financial instruments for which recognition and measurement have been significantly impacted.

New standards and interpretations not yet adopted

The following has not yet been adopted by the Company.

- IFRS 16, Leases: New standard to establish principles for recognition, measurement, presentation and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019. The Company does not expect a significant impact from adoption this standard.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

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5. SHARE CAPITAL AND RESERVES

Authorized

Unlimited common shares with no par value and unlimited preferred shares with no par value.

Issued and outstanding common shares

Nine Month Period Ended September 30, 2018

On January 31, and February 12, 2018, the Company issued 365,001 common shares at \$0.15 per share for gross proceeds of \$54,750.

On April 27, 2018, the Company completed its initial public offering (“IPO”) of 2,000,000 common shares at \$0.30 per common share for gross proceeds of \$600,000. In connection with the IPO, the Company incurred share issuance costs including finders’ fees, legal and other fees of \$94,450, of which \$15,000 was recorded as deferred financing costs as at December 31, 2017. Additionally, the Company issued 200,000 finders’ warrants with a fair value of \$25,000. Each finders’ warrant is exercisable into one common share of the Company at an exercise price of \$0.30 until April 27, 2019.

Year ended December 31, 2017

On March 22, 2017, the Company issued one common share at \$0.001 per share upon incorporation. The common share was cancelled on December 1, 2017.

During the period from incorporation on March 22, 2017 to December 31, 2017, the Company issued 700,003 common shares at \$0.15 per share for gross proceeds of \$105,000.

Stock options

On January 22, 2018, the Company adopted a Stock Option Plan (the “Plan”) under which it is authorized to grant stock options to executive officers, directors, employees, and consultants. Under the Plan, the number of options that may be issued is limited to no more than 10% of the Company’s issued and outstanding shares immediately prior to the grant. While the Company is a CPC until completion of a Qualifying Transaction, the aggregate number of common shares that may be reserved for issuance under the Plan shall not exceed 10% of the common shares to be outstanding as at the closing of the Company’s initial public offering. The exercise price of each stock option shall equal the market price of the Company’s shares, less any applicable discount, as calculated on the date of grant. The options can be granted for a maximum term of 10 years and vest at the discretion of the Board of Directors.

Stock options transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at March 22, 2017 and December 31, 2017	-	\$ -
Granted	306,500	\$ 0.30
Outstanding at September 30, 2018	306,500	\$ 0.30

On April 27, 2018, the Company granted 306,500 stock options to directors and officers of the Company with a fair value of \$38,000. Each option is exercisable into one common shares of the Company at an exercise price of \$0.30 until April 27, 2028.

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(Unaudited)

5. SHARE CAPITAL AND RESERVES (CONTINUED)

Stock Options (continued)

The fair value of the options granted was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Sept. 30, 2018	December 31, 2017
Expected stock price volatility	75%	N/A
Expected life	10 years	N/A
Risk free interest rate	0.77%	N/A
Expected forfeitures	0%	N/A
Expected dividend yield	0%	N/A

As at September 30, 2018, the outstanding stock options were as follows:

	Number of Options	Exercise Price	Expiry Date
	306,500	\$ 0.30	April 27, 2028
Total	306,500		

Warrants

Stock purchase warrants transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding at March 22, 2017 and December 31, 2017	-	\$ -
Finders' warrants issued	200,000	\$ 0.30
Outstanding at September 30, 2018	200,000	\$ 0.30

The fair value of the finders' warrants issued was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	September 30, 2018	December 31, 2017
Expected stock price volatility	75%	N/A
Expected life	2 years	N/A
Risk free interest rate	0.77%	N/A
Expected forfeitures	0%	N/A
Expected dividend yield	0%	N/A

As at September 30, 2018, the outstanding share purchase warrants were as follows:

	Number of Warrants	Exercise Price	Expiry Date
	200,000	\$ 0.30	April 27, 2019
Total	200,000		

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6. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. The Company has identified its directors and certain senior officers as its key management personnel.

During the nine-month period ended September 30, 2018, included in professional fees was \$62,381 (March 22, 2017 to June 30, 2017 - \$Nil) of legal fees for services rendered by a law firm owned by the Chief Executive Officer.

During the nine-month period ended September 30, 2018, the Company granted 306,500 stock options to directors and officers of the Company with a fair value of \$38,000 (March 22, 2017 to June 30, 2017 - \$Nil).

As at September 30, 2018, included in accounts payable and accrued liabilities were \$11,514 owing to a related party (December 31, 2017 - \$Nil).

7. FINANCIAL INSTRUMENTS

Fair value

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 three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Cash is carried at fair value using a level 1 fair value measurement. The recorded values of accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity.

Financial risk management

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 an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company limits its exposure to credit risk by placing its cash with a major financial institution. Management feels that the Company's credit risk with respect to cash is remote.

Interest rate risk

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. The interest rate risk on cash is not considered significant.

Liquidity risk

All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The Company intends to settle these with funds from its positive working capital position.

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(Unaudited)

7. FINANCIAL INSTRUMENTS

Foreign currency risk

Currency risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate due to changes in foreign exchange rates. As at September 30, 2018, the Company did not have any financial instruments denominated in foreign currencies and considers foreign currency risk insignificant.

Price risk

The Company has no exposure to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market.

8. CAPITAL MANAGEMENT

Capital is comprised of the Company's shareholders' equity. As at September 30, 2018, the Company's shareholders' equity was \$537,180 and there was no long term debt outstanding. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital.

The proceeds raised from the issuance of common shares may only be used to identify and evaluate assets or businesses for future investment, with the exception that no more than the lesser of 30% of the gross proceeds from the issuance of common shares or \$210,000 may be used to cover prescribed costs of issuing the common shares or administrative and general expenses of the Company. These restrictions apply until completion of a Qualifying Transaction by the Company as defined under the Exchange Policy 2.4. The Company currently is not subject to other externally imposed capital requirements.