



Condensed Combined Consolidated Interim Financial  
Statements of

**Harvest One Cannabis Inc.**

For the three and six months ended

December 31, 2017 and 2016

# Harvest One Cannabis Inc.

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# Harvest One Cannabis Inc.

Condensed combined consolidated interim statements of financial position  
(Expressed in Canadian dollars)  
(Unaudited)

	December 31 2017	June 30 2017
	\$	\$
<b>Assets</b>		
Current assets		
Cash	29,066,685	14,246,320
Accounts receivable (note 5)	391,281	180,041
Prepaid expenses and deposits	569,905	115,876
Biological assets (note 6)	330,122	110,489
Inventories (note 7)	1,728,740	1,213,684
	<b>32,086,733</b>	<b>15,866,410</b>
Non-current asset		
Property, plant and equipment (note 8)	8,344,644	8,225,514
Intangibles	34,737	31,165
	<b>8,379,381</b>	<b>8,256,679</b>
	<b>40,466,114</b>	<b>24,123,089</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	1,276,498	766,948
Due to related party (note 10)	199,546	234,390
	<b>1,476,044</b>	<b>1,001,338</b>
Non-current liabilities		
Convertible debentures (notes 11 and 13)	6,943,737	-
	<b>8,419,781</b>	<b>1,001,338</b>
<b>Equity</b>		
Share capital (note 12)	41,562,750	33,843,668
Other reserves (note 13)	9,828,886	3,397,775
Accumulated other comprehensive loss	(84,099)	(89,019)
Accumulated deficit	(19,261,204)	(14,030,673)
	<b>32,046,333</b>	<b>23,121,751</b>
	<b>40,466,114</b>	<b>24,123,089</b>
Commitments (note 16)		
Subsequent events (note 19)		

**"Jason Bednar"**

Jason Bednar, Director

**"Andreas Gedeon"**

Andreas Gedeon, Director

# Harvest One Cannabis Inc.

Condensed combined consolidated interim statements of loss and comprehensive loss  
(Expressed in Canadian dollars)  
(Unaudited)

	Three months ended		Six months ended	
	December 31		December 31	
	2017	2016	2017	2016
	\$	\$	\$	\$
Revenue (note 15)	4,740	-	179,284	-
Gain on changes in fair value of biological assets (note 6)	396,172	-	753,584	-
Inventory expensed to cost of sales	(8,325)	-	(160,641)	-
Cost of goods sold, net of gain on changes in fair value of biological assets	387,847	-	592,943	-
Gross profit	392,587	-	772,227	-
Operating expenses				
Depreciation and amortization	259,739	(578)	510,025	15,020
General and administration	409,654	7,558	661,778	139,928
Insurance	23,475	8,529	49,839	16,809
Marketing and investor relations	200,933	68,096	313,644	124,870
Professional and consulting services	368,823	4,790	482,416	4,790
Rent	45,375	36,341	91,190	73,131
Salaries, bonus and benefits	500,768	38,453	1,068,289	230,400
Share-based payments (note 13)	676,684	130,941	1,395,670	255,675
Regulatory	154,364	213,200	198,881	308,202
Travel	112,646	7,550	172,279	9,022
Inventory impairment (note 7)	210,000	-	210,000	-
	2,962,461	514,880	5,154,011	1,177,847
Loss from operations	(2,569,874)	(514,880)	(4,381,784)	(1,177,847)
Finance costs (note 11)	(754,117)	(32,130)	(756,191)	(58,922)
Foreign exchange	(18,522)	23,390	(92,855)	(59,699)
Interest income	166	2,042	299	4,077
<b>Net loss</b>	<b>(3,342,347)</b>	<b>(521,578)</b>	<b>(5,230,531)</b>	<b>(1,292,391)</b>
Foreign currency translation	7,910	26,079	4,920	7,487
<b>Comprehensive loss</b>	<b>(3,334,437)</b>	<b>(495,499)</b>	<b>(5,225,611)</b>	<b>(1,284,904)</b>
<b>Net loss per share – basic and diluted</b>	<b>(0.04)</b>	<b>(0.01)</b>	<b>(0.06)</b>	<b>(0.03)</b>
<b>Weighted average number of outstanding common shares</b>	<b>90,952,663</b>	<b>51,000,000</b>	<b>89,715,060</b>	<b>51,000,000</b>

# Harvest One Cannabis Inc.

## Condensed combined consolidated interim statements of changes in equity

(Expressed in Canadian dollars)

(Unaudited)

	Number of shares	Share capital	Other reserves	Accumulated other comprehensive income	Accumulated losses	Total
	#	\$	\$	\$	\$	\$
<b>Balance, July 1, 2016</b>	51,000,000	4,859,005	197,143	9,990	(6,532,116)	(1,465,978)
Share-based payments	-	-	255,675	-	-	255,675
Foreign currency translation	-	-	-	7,487	-	7,487
Loss for the period	-	-	-	-	(1,292,391)	(1,292,391)
<b>Balance, December 31, 2016</b>	<b>51,000,000</b>	<b>4,859,005</b>	<b>452,818</b>	<b>17,477</b>	<b>(7,824,507)</b>	<b>(2,495,207)</b>
<b>Balance, July 1, 2017</b>	<b>89,177,458</b>	<b>33,843,668</b>	<b>3,397,775</b>	<b>(89,019)</b>	<b>(14,030,673)</b>	<b>23,121,751</b>
Convertible debentures issued (note 11)	-	-	7,603,657	-	-	7,603,657
Issuance costs (note 11)	-	-	(875,398)	-	-	(875,398)
Convertible debentures converted (note 11)	10,083,330	6,724,333	(1,361,235)	-	-	5,363,098
Warrants exercised (note 13)	663,166	994,749	(331,583)	-	-	663,166
Share-based payments (note 13)	-	-	1,395,670	-	-	1,395,670
Foreign currency translation	-	-	-	4,920	-	4,920
Loss for the period	-	-	-	-	(5,230,531)	(5,230,531)
<b>Balance, December 31, 2017</b>	<b>99,923,954</b>	<b>41,562,750</b>	<b>9,828,886</b>	<b>(84,099)</b>	<b>(19,261,204)</b>	<b>32,046,333</b>

# Harvest One Cannabis Inc.

## Condensed combined consolidated interim statements of cash flows

(Expressed in Canadian dollars)

(Unaudited)

	Three months ended		Six months ended	
	December 31		December 31	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>Operating activities</b>				
Loss for the period	(3,342,347)	(521,578)	(5,230,531)	(1,292,391)
Adjustments to reconcile non-cash items				
Depreciation and amortization	259,739	(578)	510,025	15,020
Inventory impairment (note 7)	210,000	-	210,000	-
Share-based payments	676,684	130,941	1,395,670	255,675
Interest expense (note 11)	692,595	30,086	692,595	35,219
Gain on change in fair value of biological assets	(396,172)	-	(753,584)	-
Foreign currency translation	7,910	-	4,920	-
Changes in non-cash working capital				
Accounts receivable	(25,928)	-	(206,609)	-
Inventories	(185,358)	(57,787)	(191,106)	(92,942)
Prepaid expenses and deposits	(401,049)	(166,412)	(454,029)	(176,562)
Accounts payable and accrued liabilities	178,479	(226,631)	47,163	9,111
	(2,325,447)	(811,959)	(3,975,486)	(1,246,870)
<b>Investing activities</b>				
Acquisition of property, plant and equipment	(204,304)	(25,973)	(623,002)	(87,446)
Acquisition of intangibles	(900)	-	(9,725)	-
Repayment of loan to director	-	(2,005)	-	-
	(205,204)	(27,978)	(632,727)	(87,446)
<b>Financing activities</b>				
Convertible debenture units issued (note 11)	20,125,000	-	20,125,000	-
Issuance costs (note 11)	(1,324,744)	-	(1,324,744)	-
Warrants exercised (note 13)	663,166	-	663,166	-
Repayment of borrowings	-	(22,018)	-	(43,763)
(Repayment to) advances from related party	(28,952)	1,200,329	(34,844)	1,274,769
	19,434,470	1,178,311	19,428,578	1,231,006
Change in cash during the period	16,903,819	338,374	14,820,365	(103,310)
Cash, beginning of the period	12,162,866	438,653	14,246,320	880,337
<b>Cash, end of the period</b>	<b>29,066,685</b>	<b>777,027</b>	<b>29,066,685</b>	<b>777,027</b>

# Harvest One Cannabis Inc.

Notes to the condensed combined consolidated interim financial statements  
For the three and six months ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)  
(Unaudited)

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## 1. Nature of operations

Harvest One Cannabis Inc. ("Harvest One" or the "Company") was originally incorporated as Harvest One Capital Inc. on August 28, 2008 under the *British Columbia Company Act* and continues under the *Business Corporations Act of British Columbia*. The Company was classified as a Capital Pool Company ("CPC") as defined in the TSX Venture Exchange (the "TSX-V") Policy 2.4. Harvest One is a publicly traded corporation, with its head office located at 2650 – 1066 West Hastings Street, Vancouver, BC, V6E 3X1. The Company's common shares are listed on the TSX-V under the trading symbol "HVT", with MMJ PhytoTech Limited ("MMJ") owning 53,333,333 of the outstanding common shares.

On April 26, 2017, the Company acquired 100% of the issued and outstanding shares of United Greeneries Holdings Ltd. ("United Greeneries") and Satipharm AG ("Satipharm") (the "Acquisition"). In connection with the Acquisition, the Company completed a \$25 million private placement and, immediately prior to the closing of the Acquisition, the Company completed a share consolidation on the basis of 1.79 pre-consolidation common shares to one post-consolidation common share. The Acquisition constituted the Company's "Qualifying Transaction" within the meaning of TSX-V policies (Note 2).

United Greeneries is a Canadian Access to Cannabis for Medical Purposes Regulations ("ACMPR") Licensed Producer and seller of medical cannabis and was formed on July 31, 2015 by way of an amalgamation pursuant to the *Business Corporations Act of British Columbia* between MMJ Bioscience Inc. ("Bioscience"), the predecessor to United Greeneries, and 1032831 BC Ltd., a wholly-owned subsidiary of PhytoTech Medical (UK) PTY Ltd. ("Phyto UK"). United Greeneries continued to operate under the name MMJ Bioscience Inc. until August 17, 2016 when it changed its name to United Greeneries Holdings Ltd.

Satipharm is a European pharmaceutical and nutraceutical company, specialized in the development, manufacturing and production of cannabis-based health and dietary products with a focus on legally accessible cannabidiol ("CBD"). Satipharm was incorporated on August 11, 2015, under the *Swiss Code of Obligations* (Switzerland).

## 2. Reverse take-over transaction

On April 26, 2017, pursuant to a share exchange agreement dated December 7, 2016, the Company acquired from Phyto UK, a wholly owned subsidiary of MMJ, 100% of the issued and outstanding shares of United Greeneries and Satipharm for \$33,180,997 payable as follows:

- a) \$2,000,000 in cash; and
- b) 41,574,662 common shares of the Company at \$0.75 per share.

For accounting purposes, the \$2,000,000 in cash paid to Phyto UK was treated as a return of equity to the original shareholder.

Further, in completing this transaction, the Company issued 11,758,671 common shares of the Company to MMJ to extinguish \$8,819,003 in intercompany debts. A gain of \$2,939,668 was recognized in equity on settlement of this debt in accordance with IAS 1, *Presentation of Financial Statements*.

In connection with the Acquisition, the Company completed a \$25 million private placement, by issuing 33,334,000 Units of the Company at \$0.75 per Unit. Each Unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share of the Company for an exercise price of \$1.00 per share for a period of 36 months from issuance.

Immediately prior to closing of the Acquisition, the Company completed a share consolidation on the basis of 1.79 pre-consolidation common shares to one post-consolidation common share, and changed its name from Harvest One Capital Inc. to Harvest One Cannabis Inc. The Acquisition constituted the Company's Qualifying Transaction within the meaning of TSX-V policies. Further, in connection with the completion of its Qualifying Transaction, the Company obtained final approval to list its common shares on the TSX-V as a Tier 1 Industrial or Life Sciences Issuer. The common shares began trading on the TSX-V on April 28, 2017 under the symbol "HVST", which was subsequently changed on February 2, 2018 to "HVT".

# Harvest One Cannabis Inc.

Notes to the condensed combined consolidated interim financial statements  
For the three and six months ended December 31, 2017 and 2016  
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## 2. Reverse take-over transaction (continued)

The Acquisition has been accounted for as a reverse take-over (“RTO”) that does not constitute a business combination for accounting purposes. The Company’s legal subsidiaries, United Greeneries and Satipharm, have been treated as the accounting acquirer and Harvest One, the legal parent, has been treated as the accounting acquiree.

Consideration transferred:

Fair value of 2,286,659 post-consolidated Harvest One shares	\$	1,143,328
Fair value of 223,464 post-consolidation Harvest One options		148,225
		<u>1,291,553</u>

Net assets acquired:

Cash		200,615
Accounts payable and accrued liabilities		(218,668)
		<u>(18,053)</u>

Excess attributed to cost of listing	\$	1,273,500
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Listing costs:

Legal		497,367
Professional, consulting and other fees		326,642
		<u>2,097,509</u>

For accounting purposes, these condensed combined consolidated interim financial statements reflect a continuation of the financial position, operating results and cash flows from the Company’s legal subsidiaries, United Greeneries and Satipharm.

## 3. Basis of presentation

### a) Statement of compliance

The Company’s condensed combined consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, following the same accounting policies and methods of application as those disclosed in the annual audited combined consolidated financial statements for the year ended June 30, 2017. These condensed combined consolidated interim financial statements do not include all of the information required for the full annual combined consolidated financial statements and should be read in conjunction with the annual combined consolidated financial statements of the Company for the year ended June 30, 2017, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These condensed combined consolidated interim financial statements were approved by the Board of Directors and authorized for issue on February 28, 2018.

### b) Basis of measurement

These condensed combined consolidated interim financial statements are presented in Canadian dollars and are prepared on a historical cost basis, except for biological assets, inventory and certain financial instruments which are measured at fair value.



# Harvest One Cannabis Inc.

Notes to the condensed combined consolidated interim financial statements  
For the three and six months ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)  
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## 4. Significant accounting policies

### a) Basis of consolidation

These condensed combined consolidated interim financial statements incorporate the financial statements of the Company and its subsidiaries. The accounts of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Intercompany transactions, balances and unrealized gains or losses on transactions are eliminated. The table below lists the Company's subsidiaries and the ownership interests in each:

<b>Subsidiary</b>	<b>Jurisdiction</b>	<b>% ownership</b>	<b>Accounting method</b>
United Greeneries Holdings Ltd.	Canada	100%	Consolidation
United Greeneries Ltd.	Canada	100%	Consolidation
United Greeneries Operations Ltd.	Canada	100%	Consolidation
United Greeneries Saskatchewan Ltd.	Canada	100%	Consolidation
Satipharm AG Switzerland	Switzerland	100%	Consolidation
Satipharm Canada	Canada	100%	Consolidation
Satipharm Australia	Australia	100%	Consolidation
Satipharm Europe Ltd.	U.K.	100%	Consolidation

The comparative figures presented in these condensed combined consolidated interim financial statements are those of the combined financial statements of United Greeneries Holdings Ltd. and Satipharm AG Switzerland and include all entities in the above table.

### b) New and revised IFRS issued but not yet effective

#### **IFRS 15 Revenue from Contracts with Customers ("IFRS 15")**

IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. On April 12, 2016, the IASB published final clarifications to IFRS 15 with respect to identifying performance obligations, principal versus agent considerations, and licensing. IFRS 15 is effective for the Company for its year ended June 30, 2019 with early adoption permitted. The Company does not anticipate any material impact from the implementation of IFRS 15.

#### **IFRS 9 Financial Instruments ("IFRS 9")**

IFRS 9 was issued by the IASB in November 2009 and October 2010 and will replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied.

The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. IFRS 9 is effective for the Company for its year ended June 30, 2019. The Company does not anticipate any material impact from the implementation of IFRS 9.

# Harvest One Cannabis Inc.

Notes to the condensed combined consolidated interim financial statements  
For the three and six months ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)  
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## 4. Significant accounting policies (continued)

b) *New and revised IFRS issued but not yet effective (continued)*

### **IFRS 7 Financial Instruments: Disclosure ("IFRS 7")**

IFRS 7 was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for the Company for its year ended June 30, 2019. The Company is assessing the impact of this standard.

### **IFRS 16 Leases ("IFRS 16")**

IFRS 16 was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for the Company for its year ended June 30, 2020 with early adoption permitted. The Company is assessing the impact of this standard on its financial position and financial performance.

### **IFRS 2 Share-based Payment ("IFRS 2")**

In June 2016, the IASB issued amendments to IFRS 2, including the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and accounting for modifications to the terms and conditions of a share-based payment that changes the classification of the share-based payment transaction from cash-settled to equity-settled. The IFRS 2 amendments are effective for the Company for its year ended June 30, 2019. The Company is assessing the impact of this standard on its financial position and financial performance.

## 5. Accounts receivable

The summary of the Company's accounts receivable is as follows:

	December 31 2017	June 30 2017
	\$	\$
Taxes receivable from governments	237,015	138,422
Trade and other receivables	154,266	41,619
	<b>391,281</b>	<b>180,041</b>

At the reporting date, none of the accounts receivable were impaired.

# Harvest One Cannabis Inc.

Notes to the condensed combined consolidated interim financial statements  
For the three and six months ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)  
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## 6. Biological assets

The Company's biological assets consist of seeds and medical cannabis plants. The continuity of biological assets for the period ended December 31, 2017 and year ended June 30, 2017 is as follows:

	December 31 2017	June 30 2017
	\$	\$
Balance, beginning of the period	110,489	-
Purchase of seeds	-	20,914
Change in fair value less costs to sell due to biological transformation	1,100,722	670,368
Transferred to inventory upon harvest	(881,089)	(580,793)
Balance, end of the period	330,122	110,489

As at December 31, 2017, included in the carrying amount of biological assets was \$20,914 in seeds and \$309,208 in live plants (\$20,914 in seeds and \$89,575 in live plants at June 30, 2017).

The Company expenses its production costs during biological transformation in the period incurred. Direct production labour, direct production costs, indirect production costs, product testing and packaging and shipping costs are included in the gain on changes in fair value of biological assets.

A reconciliation of the gain on changes in fair value of biological assets for the three and six months ended December 31, 2017 and 2016 is as follows:

	Three months ended December 31		Six months ended December 31	
	2017	2016	2017	2016
	\$	\$	\$	\$
Direct production labour	(121,317)	-	(219,817)	-
Direct production costs	(4,366)	-	(57,048)	-
Indirect production costs	(35,608)	-	(56,230)	-
Product testing	(11,366)	-	(11,366)	-
Packaging and shipping costs	(1,766)	-	(2,677)	-
Gain on transformation of biological assets	570,595	-	1,100,722	-
Gain on changes in fair value of biological assets	396,172	-	753,584	-

# Harvest One Cannabis Inc.

Notes to the condensed combined consolidated interim financial statements  
For the three and six months ended December 31, 2017 and 2016  
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## 6. Biological assets (continued)

The significant assumptions applied in determining the fair value of medical cannabis plants are as follows:

- wastage of plants based on their various stages;
- yield by strain of plant;
- percentage of costs incurred to date compared to the total costs to be incurred; and
- percentage of costs incurred for each stage of plant growth

On average, the growth cycle of a cannabis plant is 15 weeks. All of the plants are to be harvested as agricultural produce (i.e. medical cannabis) and as at December 31, 2017, on average, were 52% complete, compared to 37% average stage of completion as at June 30, 2017.

The fair value of biological assets is measured using Level 3 inputs. The Company estimates the harvest yields for the plants at various stages of growth. As of December 31, 2017, it is estimated that the Company's biological assets will yield approximately 113.02 kg of dry cannabis, compared to 92.51 kg of dry cannabis at June 30, 2017. The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the fair value of the biological assets.

## 7. Inventories

Inventories consist of dry cannabis, Gelpell CBD capsules, and supplies and consumables for use in the production of inventories and the transformation of biological assets.

As at December 31, 2017, the Company held 324.90 kg of dry cannabis (June 30, 2017 – 124.79 kg).

Inventories was comprised of the following items:

	<b>December 31 2017</b>	June 30 2017
	\$	\$
Dry cannabis finished goods	<b>1,229,605</b>	571,919
Supplies	<b>79,371</b>	33,057
CBD capsules	<b>419,764</b>	608,708
	<b>1,728,740</b>	1,213,684

Cost of inventory is recognized as an expense and included in cost of goods sold. Included in costs of goods sold for the three and six months ended December 31, 2017 is a \$396,172 and \$753,584 gain on changes in fair value of biological assets and \$8,325 and \$160,641 related to the cost of purchased CBD capsules.

The Company regularly reviews its cannabis inventory for quality and freshness. During the three months ended December 31, 2017, 69.27 kg of cannabis inventory did not meet the quality standards for dry bud sale and therefore will be sold as extraction grade cannabis. As a result, the Company impaired \$210,000 of dry cannabis finished goods to reduce the carrying amount to its estimated net realizable value.

# Harvest One Cannabis Inc.

Notes to the condensed combined consolidated interim financial statements

For the three and six months ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

(Unaudited)

## 8. Property, plant and equipment

The summary of the Company's property, plant and equipment is as follows:

	Office	Plant & equipment	Land	Building	Leasehold improvements	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
July 1, 2016	88,705	1,963,838	-	1,393,600	3,021,970	-	6,468,113
Additions	122,034	219,806	431,000	2,440,381	23,618	50,581	3,287,420
Disposals	-	(2,308)	-	-	-	-	(2,308)
<b>June 30, 2017</b>	<b>210,739</b>	<b>2,181,336</b>	<b>431,000</b>	<b>3,833,981</b>	<b>3,045,588</b>	<b>50,581</b>	<b>9,753,225</b>
<b>Accumulated depreciation</b>							
July 1, 2016	16,635	48,521	-	146,792	223,489	-	435,437
Depreciation	27,680	259,317	-	43,932	763,935	-	1,094,864
Disposals	-	(2,590)	-	-	-	-	(2,590)
<b>June 30, 2017</b>	<b>44,315</b>	<b>305,248</b>	<b>-</b>	<b>190,724</b>	<b>987,424</b>	<b>-</b>	<b>1,527,711</b>
<b>Net book value</b>							
<b>June 30, 2017</b>	<b>166,424</b>	<b>1,876,088</b>	<b>431,000</b>	<b>3,643,257</b>	<b>2,058,164</b>	<b>50,581</b>	<b>8,225,514</b>
<b>Cost</b>							
July 1, 2017	210,739	2,181,336	431,000	3,833,981	3,045,588	50,581	9,753,225
Additions	40,789	295,705	-	-	192,266	94,242	623,002
<b>December 31, 2017</b>	<b>251,528</b>	<b>2,477,041</b>	<b>431,000</b>	<b>3,833,981</b>	<b>3,237,854</b>	<b>144,823</b>	<b>10,376,227</b>
<b>Accumulated depreciation</b>							
July 1, 2017	44,315	305,248	-	190,724	987,424	-	1,527,711
Depreciation	21,401	204,578	-	55,716	222,177	-	503,872
<b>December 31, 2017</b>	<b>65,716</b>	<b>509,826</b>	<b>-</b>	<b>246,440</b>	<b>1,209,601</b>	<b>-</b>	<b>2,031,583</b>
<b>Net book value</b>							
<b>December 31, 2017</b>	<b>185,812</b>	<b>1,967,215</b>	<b>431,000</b>	<b>3,587,541</b>	<b>2,028,253</b>	<b>144,823</b>	<b>8,344,644</b>

# Harvest One Cannabis Inc.

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## 9. Accounts payable and accrued liabilities

	December 31 2017	June 30 2017
	\$	\$
Trade payables	523,570	495,932
Accruals	590,705	143,412
Payroll payables	155,689	120,439
Other payables	6,534	7,165
	<b>1,276,498</b>	<b>766,948</b>

Trade payables are non-interest bearing and are normally settled on a 30-day basis. Other payables are non-interest bearing and have an average term of 30 days. All amounts are expected to be settled within twelve months.

## 10. Due to related party

	December 31 2017	June 30 2017
	\$	\$
Due to related party	199,546	234,390

The amount due to related party is unsecured, interest free, with no fixed term of repayment.

## 11. Convertible debenture units

	December 31 2017	June 30 2017
	\$	\$
Balance, beginning of period	-	-
Issued	20,729,000	-
Equity portion	(7,603,657)	-
Conversion	(5,363,098)	-
Financing fees	(885,713)	-
Accretion	67,205	-
Balance, end of period	<b>6,943,737</b>	-

On December 14, 2017, the Company completed a bought deal financing (“the Offering”) of unsecured convertible debentures units (“the Debenture Units”) for the gross principal amount of \$20,125,000. Each Debenture Unit consists of \$1,000 principal amount unsecured convertible debentures of the Company (“the Convertible Debentures”) and 458 common share purchase warrants (“Debenture Warrants”) of the Company.

The Convertible Debentures bear interest at 8.0% per annum, payable semi-annually on June 30 and December 31 of each year and mature on December 14, 2022. The Convertible Debentures are convertible into common shares of the Company at a price of \$0.84 per share, subject to forced conversion at the Company’s option if the volume weighted average price (“VWAP”) of the Company’s common shares equals or exceeds \$1.40 per share for 30 consecutive trading days.

# Harvest One Cannabis Inc.

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## 11. Convertible debenture units (continued)

Upon a change of control of the Company, the Company may be required to repurchase the Convertible Debentures, at the option of the holder, in whole or in part, at a price equal to 104% of the principal amount of the Convertible Debentures outstanding, plus accrued interest.

Each Debenture Warrant entitles the holder to acquire one common share for an exercise price of \$1.09 until December 14, 2020. The Company can accelerate the expiry date of the Debenture Warrants if the closing price of the Company's common shares equals or exceeds \$1.64 for ten consecutive days.

The Company paid the underwriters a cash commission equal to 6.0% of the aggregate principal amount of the Debenture Units issued. In addition, the Company issued the underwriters 604 Debenture Units. Issuance costs have been allocated between the liability and equity components of the Debenture Units.

The liability component of the Convertible Debentures was valued using Company specific interest rates assuming no conversion features exist. The debt component is accreted to fair value over the term to maturity as a non-cash interest charge and the equity component is presented in other reserves as a separate component of equity. The Debenture Warrants were valued based on the quoted price in active markets. The residual amount after valuing the liability component of the Convertible Debentures and Debenture Warrants was allocated to the equity component of the Convertible Debentures.

During the three and six months ended December 31, 2017, the Company recorded \$625,390 of deferred financing fee amortization and \$67,205 of accretion expense which are included in finance costs. In addition, the Company paid interest of \$15,381 and issued 10,083,330 common shares on partial conversion of \$8,470,000 Convertible Debentures.

## 12. Share capital

### a) Authorized

The Company has an unlimited number of authorized common shares with no par value.

### b) Issued capital

- (i) During the six months ended December 31, 2017, 663,166 common shares were issued for gross proceeds of \$663,166 on exercise of warrants (Note 13(b)).
- (ii) Immediately prior to the completion of the RTO on April 26, 2017, the Company completed a consolidation of its common shares on the basis of 1.79 pre-consolidation share to one post-consolidation common share for a pre-RTO balance of 2,286,659 common shares outstanding in the Company (Note 2).

Upon completion of the RTO (Note 2), the Company issued a total of 41,474,662 common replacement shares to the previous shareholders of United Greeneries and Satipharm.

Concurrently with the completion of the RTO transaction, the Company settled \$8,819,004 of outstanding debt (principal and interest), due from United Greeneries and Satipharm to MMJ, through the issuance of 11,758,671 common shares. The fair value of the shares issued was estimated based on the value of units issued during private placement; comprised of one common share and one-half warrant. A residual fair value method was used to determine the fair value of one common share resulting in \$5,879,336 of shares being issued and a gain on debt settlement of \$2,939,668 being recorded in equity in accordance with IAS 1 as the substance of the settlement was a transaction with a shareholder acting in their capacity as a shareholder (Note 2). The assumptions applied in calculating the fair value of the warrants were as follows:

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## 12. Share capital (continued)

### b) Issued capital (continued)

Risk-free interest rate	<b>0.80%</b>
Expected life of warrants (years)	<b>3.00</b>
Expected annualized volatility	<b>129.00%</b>
Expected dividend yield	<b>Nil</b>

Further, the Company completed a concurrent private placement and issued 33,334,000 units at \$0.75 per unit for gross proceeds of \$25,000,500. Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share of the Company for an exercise price of \$1.00 per warrant for a period of 36 months from issuance.

United Greeneries was formed on July 31, 2015 by way of an amalgamation pursuant to the *Business Corporations Act of British Columbia* between Bioscience and a wholly-owned subsidiary of Phyto UK ("the Merger").

## 13. Other reserves

Other reserves activity during the period ended December 31, 2017 and year ended June 30, 2017 is summarized as follows:

	Stock options	Warrants	Other	Convertible debenture units	Total
	\$	\$	\$	\$	\$
<b>July 1, 2016</b>	-	-	197,143	-	197,143
Options issued	1,601,811	-	-	-	1,601,811
Vesting of share-based payments (options issued by MMJ)	-	-	292,545	-	292,545
Warrants issued	-	1,306,276	-	-	1,306,276
<b>June 30, 2017</b>	<b>1,601,811</b>	<b>1,306,276</b>	<b>489,688</b>	-	<b>3,397,775</b>
Vesting of options issued	1,300,646	-	-	-	1,300,646
Vesting of share-based payments (options issued by MMJ)	-	-	95,024	-	95,024
Warrants issued	-	4,272,247	-	-	4,272,247
Warrants exercised	-	(331,583)	-	-	(331,583)
Convertible debenture units issued	-	-	-	3,331,410	3,331,410
Issuance costs	-	(491,858)	-	(383,540)	(875,398)
Convertible debentures converted	-	-	-	(1,361,235)	(1,361,235)
<b>December 31, 2017</b>	<b>2,902,457</b>	<b>4,755,082</b>	<b>584,712</b>	<b>1,586,635</b>	<b>9,828,886</b>



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## 13. Other reserves (continued)

### a) Stock options and share-based payments

The Company has established a share purchase option plan whereby the Company's directors may from time to time grant share options to employees and non-employees. The maximum number of shares that may be reserved for issuance under the Plan is 10% of the issued common shares of the Company. Vesting is determined by the Board of Directors.

The Company's stock options at December 31, 2017 are as follows:

	Number outstanding #	Weighted average exercise price \$
Outstanding at December 31, 2017 and June 30, 2017	8,050,000	0.75

The following table discloses the number of options and vested options at December 31, 2017:

Exercise price \$	Number of options outstanding #	Weighted average exercise price \$	Number of options exercisable #	Expiry date
0.75	8,050,000	0.75	1,830,000	April 27, 2022

The Company recorded \$650,323 and \$1,300,646 for the three and six months ended December 31, 2017 (December 31, 2016 - \$Nil and \$Nil) in share-based compensation expense as a result of the vesting of options issued in previous periods.

In determining the amount of share-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of options granted during the year ended June 30, 2017 by applying the following assumptions:

Risk-free interest rate	<b>0.80%</b>
Expected life of options (years)	<b>3.59</b>
Expected annualized volatility	<b>128.23%</b>
Expected dividend yield	<b>Nil</b>

Volatility was estimated by using the historical volatility of other companies that the Company considers comparable, that have trading and volatility history prior to the Company becoming public. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate was based on the zero-coupon Canada government bonds with a remaining term equal to the expected life of the option.

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## 13. Other reserves (continued)

### b) Warrants

The following table discloses the number of warrants at December 31, 2017:

	Exercise price	Number of warrants outstanding	Weighted average exercise price	Expiry date
	\$	#	\$	
Brokers' warrants	0.75	2,000,040	0.75	April 27, 2020
Warrants	1.00	16,003,834	1.00	April 27, 2020
Convertible debenture warrants	1.09	9,493,882	1.09	December 14, 2020

#### Brokers' warrants

In connection with the private placement on April 26, 2017, the Company issued 2,000,040 warrants to the Brokers ("Brokers' Warrants") with an exercise price of \$0.75 per warrant and which expire 36 months from the date of issue. Upon exercise of the Brokers' Warrants, the Company will issue one common share and one-half common share purchase warrant ("Secondary Warrant"). Each whole Secondary Warrant will be exercisable into one common share of the Company with an exercise price of \$1.00 per warrant and expire 36 months from the issuance of the Secondary Warrant.

The Company valued the warrants using the Black-Scholes option pricing model to establish the fair value of the Brokers' Warrants granted by applying the following assumptions:

Risk-free interest rate	<b>0.80%</b>
Expected life of warrant (years)	<b>3.00</b>
Expected annualized volatility	<b>129%</b>
Expected dividend yield	<b>Nil</b>

Volatility was estimated by using the historical volatility of other companies that the Company considers comparable, that have trading and volatility history prior to the Company becoming public. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate was based on the zero-coupon Canada government bonds with a remaining term equal to the expected life of the warrant.

#### Warrants

In connection with the private placement on April 26, 2017, the Company issued 16,667,000 warrants (Note 12(b)).

During the three and six months ended December 31, 2017, 663,166 warrants were exercised for proceeds of \$663,166 and exchanged for 663,166 common shares.

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## 13. Other reserves (continued)

### b) Warrants (continued)

#### Convertible debenture warrants

In connection with the Offering on December 14, 2017, the Company issued 9,493,882 Debenture Warrants (Note 11).

### c) Other

During the three and six months ended December 31, 2017, the Company recorded \$26,361 and \$95,024 (December 31, 2016 - \$130,941 and \$292,545) in stock-based compensation expense as a result of vesting of stock options from the Company's parent, MMJ, issued to employees of Harvest One, UG and Satipharm in previous years, whereby the Company incurred the expense as it is the primary recipient of the services provided.

## 14. Related parties

In addition to related party transactions described elsewhere in the notes to the financial statements, the Company had the following related party transactions:

### a) Compensation of key management personnel

Key management personnel include persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. Compensation provided to key management is as follows:

	Three months ended		Six months ended	
	December 31		December 31	
	2017	2016	2017	2016
	\$	\$	\$	\$
Salaries and benefits	163,292	23,066	353,100	46,481
Consulting fees	69,562	-	139,124	-
Directors' fees	36,000	3,000	72,000	6,000
Share-based compensation	501,856	-	1,003,712	-
Total	770,710	26,066	1,567,936	52,481

### b) Related parties

At December 31, 2017, there was \$33,000 in directors' fees (June 30, 2017 - \$22,000) included in accounts payable and accrued liabilities.

During the three and six months ended December 31, 2017, the Company paid \$10,557 and \$24,535 (December 31, 2016 - \$Nil and \$Nil) in legal fees to a company owned by a director of the Company and consulting fees of \$6,555 and \$6,555 (December 31, 2016 - \$Nil and \$Nil) to an individual related to a director of the Company.

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## 15. Segmented information

The Company has three reportable segments, cultivation, processing and distribution and corporate, which is the way the Company reports information to its Board of Directors.

The cultivation segment includes the legal cultivation and distribution of cannabis under the federally regulated ACMPR license issued by Health Canada. Segment assets include cash, biological assets, inventories, property, plant and equipment and intangible assets relating to the Company's cultivation facility in Canada.

The processing and distribution segment includes the processing, manufacturing and distribution of cannabis-based food supplement products through Europe. Segment assets include cash, inventories and key agreements with international partnerships for the production and distribution of its cannabinoid-based products.

The corporate segment includes corporate growth activities, administration, financial and other support to our business units.

# Harvest One Cannabis Inc.

Notes to the condensed combined consolidated interim financial statements

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## 15. Segmented information (continued)

The operating segments for the three months ended December 31, 2017 and 2016 are as follows:

	Three months ended December 31, 2017				Three months ended December 31, 2016			
	Cultivation	Processing and distribution	Corporate	Total	Cultivation	Processing and distribution	Corporate	Total
Revenue	\$ -	\$ 4,740	\$ -	\$ 4,740	\$ -	\$ -	\$ -	\$ -
Gain on changes in fair value of biological assets (note 6)	396,172	-	-	396,172	-	-	-	-
Inventory expensed to cost of sales	-	(8,325)	-	(8,325)	-	-	-	-
Cost of goods sold, net of gain on changes in fair value of biological assets	396,172	(8,325)	-	387,847	-	-	-	-
Gross profit (loss)	396,172	(3,585)	-	392,587	-	-	-	-
Other operating expenses	(978,727)	(173,280)	(1,810,454)	(2,962,461)	(316,889)	(197,991)	-	(514,880)
Loss from operations	(582,555)	(176,865)	(1,810,454)	(2,569,874)	(316,889)	(197,991)	-	(514,880)
Net finance expense	(2,029)	(363)	(751,559)	(753,951)	-	-	(30,088)	(30,088)
Non-operating expenses	-	(18,522)	-	(18,522)	-	-	23,390	23,390
Net loss	(584,584)	(195,750)	(2,562,013)	(3,342,347)	(316,889)	(197,991)	(6,698)	(521,578)

# Harvest One Cannabis Inc.

Notes to the condensed combined consolidated interim financial statements

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## 15. Segmented information (continued)

The operating segments for the six months ended December 31, 2017 and 2016 are as follows:

	Six months ended December 31, 2017				Six months ended December 31, 2016			
	Cultivation	Processing and distribution	Corporate	Total	Cultivation	Processing and distribution	Corporate	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	-	179,284	-	179,284	-	-	-	-
Gain on changes in fair value of biological assets (note 6)	753,584	-	-	753,584	-	-	-	-
Inventory expensed to cost of sales	-	(160,641)	-	(160,641)	-	-	-	-
Cost of goods sold, net of gain on changes in fair value of biological assets	753,584	(160,641)	-	592,943	-	-	-	-
Gross profit	753,584	18,643	-	772,227	-	-	-	-
Other operating expenses	(1,621,222)	(364,952)	(3,167,837)	(5,154,011)	(705,385)	(472,462)	-	(1,177,847)
Loss from operations	(867,638)	(346,309)	(3,167,837)	(4,381,784)	(705,385)	(472,462)	-	(1,177,847)
Net finance expense	(3,555)	(805)	(751,532)	(755,892)	-	-	(54,845)	(54,845)
Non-operating expenses	-	(92,855)	-	(92,855)	-	-	(59,699)	(59,699)
Net loss	(871,193)	(439,969)	(3,919,369)	(5,230,531)	(705,385)	(472,462)	(114,544)	(1,292,391)

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## 15. Segmented information (continued)

The operating segments at December 31, 2017 and June 30, 2017 are as follows:

	December 31, 2017			Total \$
	Cultivation \$	Processing and distribution \$	Corporate \$	
Total assets	19,607,645	1,054,693	19,803,776	40,466,114
Total liabilities	713,097	99,176	7,607,508	8,419,781

  

	June 30, 2017			Total \$
	Cultivation \$	Processing and distribution \$	Corporate \$	
Total assets	22,982,446	839,094	301,549	24,123,089
Total liabilities	778,261	66,465	156,612	1,001,338

## 16. Commitments

The Company entered into a 10-year lease agreement for a ground lease on the property adjacent to the Company's current operations in Duncan, BC. Commencing March 1, 2017, the Company began paying monthly rent at a rate of \$2,275 for the first five years and \$2,616 for the remaining 5 years.

The Company entered into an agreement with GelPell AG for the exclusive marketing, distribution and sale of the GelPell capsules worldwide. As part of this agreement, the Company has yearly minimum purchase commitments.

The Company entered into a lease five-year lease agreement for office space in Vancouver, BC, commencing on February 28, 2017. The Company pays monthly rent at a rate of \$13,038 under this agreement.

As at December 31, 2017, the Company's commitments that have not been disclosed elsewhere in the condensed combined consolidated interim financial statements were as follows:

	Within 1 year \$	2-4 years \$	Over 4 years \$	Total \$
Operating lease commitments	115,875	555,250	279,475	950,600
Purchase commitments	543,830	2,089,473	776,084	3,409,387
	659,705	2,644,723	1,055,559	4,359,987

## 17. Financial instruments and risk

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

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## 17. Financial instruments and risk (continued)

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility.

### *Foreign exchange risk*

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. As at December 31, 2017, the Company is exposed to foreign currency risk through its bank accounts denominated in Swiss Francs ("CHF"). A 10% appreciation (depreciation) of the CHF against the CAD, with all other variables held constant, would result in an immaterial change in the Company's loss and comprehensive loss for the interim periods presented.

### *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's cash and accounts receivable are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with financial institutions of high credit worthiness. The Company's accounts receivable are primarily receivable from government agencies. As at December 31, 2017, the Company is not exposed to any significant credit risk.

### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Included in the loss for the period in the financial statements is interest expense on loans payable and interest income on Canadian dollar cash. As at December 31, 2017, the Company is not exposed to any significant interest rate risk. The Company's convertible debentures have a fixed rate of interest and therefore expose the Company to a limited interest rate fair value risk.

### *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities have maturities of 30 days or less or are due on demand, and are subject to normal trade terms. As at December 31, 2017 the Company has working capital of \$30,610,689. The Company addresses its liquidity through capital market financings. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

### *Fair value*

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, due to related party and convertible debentures approximate their fair value.

### *Fair value hierarchy*

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.

During the year, there were no transfers of amounts between levels.

Cash and convertible debentures are classified as Level 1 financial instruments. Due to related party is classified as Level 2 financial instruments.



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## 17. Financial instruments and risk (continued)

The Company's other financial instruments, including accounts receivable and accounts payable and accrued liabilities, are carried at cost which approximates fair value due to the relatively short maturity of those instruments.

## 18. Capital management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of the components of shareholders' equity and convertible debentures.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements.

## 19. Subsequent events

- a) On January 31, 2018, the Company completed a bought-deal financing of 22,115,385 Units at a price of \$1.82 per Unit for gross proceeds of \$40,250,000. Each Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of \$2.30 per warrant until January 31, 2020.
- b) On February 1, 2018, the Company completed the purchase of 398 acres of agricultural land in British Columbia for \$865,799 as part of its comprehensive cannabis outdoor growing strategy.
- c) Subsequent to December 31, 2017, the Company issued 8,774,991 common shares on partial conversion of \$7,371,000 Convertible Debentures.
- d) Subsequent to December 31, 2017, 17,461,972 common shares were issued for gross proceeds of \$17,485,305 on exercise of warrants.
- e) On February 23, 2018, the Company announced it will be exercising its option to convert the remaining principal amount of Convertible Debentures outstanding into common shares of the Company at a price of \$0.84 as the VWAP of the Company's common shares exceeded \$1.40 per share for 30 consecutive trading days. The Mandatory Conversion is expected to be completed on or about March 28, 2018.