



Harvest One Cannabis Inc.

Consolidated Financial Statements

For the years ended June 30, 2018 and 2017

Harvest One Cannabis Inc.

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Independent Auditor's Report

To the Shareholders of
Harvest One Cannabis Inc.

We have audited the accompanying consolidated financial statements of Harvest One Cannabis Inc., which comprise the consolidated statement of financial position as at June 30, 2018 and the consolidated statement of loss and comprehensive loss, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Harvest One Cannabis Inc. as at June 30, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of Harvest One Cannabis Inc. for the year ended June 30, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on September 28, 2017.

/s/ Deloitte LLP

Chartered Professional Accountants
October 26, 2018
Vancouver, British Columbia

Harvest One Cannabis Inc.

Consolidated statements of financial position

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

	Note	June 30 2018	June 30 2017
			<i>Restated – See Note 3(c)</i>
		\$	\$
Assets			
Current assets			
Cash		56,845,541	14,246,320
Accounts receivable	6	989,817	180,041
Inventories	7	4,743,966	1,213,684
Biological assets	8	904,017	110,489
Prepaid expenses and deposits	9	1,681,369	115,876
		65,164,710	15,866,410
Non-current assets			
Property, plant and equipment	3(c), 10	10,540,200	8,264,607
Intangible assets	5, 11	5,759,187	31,165
Goodwill	5	27,557,000	–
		43,856,387	8,295,772
Total assets		109,021,097	24,162,182
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12	4,109,365	766,948
Due to related party	13	–	234,390
Total liabilities		4,109,365	1,001,338
Equity			
Share capital	15	117,736,375	33,843,668
Other reserves	16	13,856,419	3,397,775
Accumulated other comprehensive loss		(82,749)	(89,019)
Accumulated deficit		(26,598,313)	(13,991,580)
Total equity		104,911,732	23,160,844
Total liabilities and equity		109,021,097	24,162,182

Commitments (note 20)

Subsequent events (note 23)

“Jason Bednar”
Jason Bednar, Director

“Grant Froese”
Grant Froese, Director

Harvest One Cannabis Inc.

Consolidated statements of loss and comprehensive loss

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

	Note	For the year ended	
		June 30 2018	June 30 2017
			<i>Restated – See Note 3(b)</i>
		\$	\$
Revenue	19	725,975	75,950
Cost of sales			
Production costs		(2,020,603)	(1,822,844)
Inventory expensed to cost of sales		(565,939)	(102,180)
(Loss) gain relating to inventory impairment	7	(673,743)	103,417
Gross loss before fair value adjustments		(2,534,310)	(1,745,657)
Realized fair value amounts included in inventory sold		(137,413)	–
Change in fair value of biological assets	8	3,595,541	670,366
Gross profit (loss)		923,818	(1,075,291)
Operating expenses			
Depreciation and amortization	3(c)	75,154	55,370
General and administration		673,873	207,728
Insurance		155,097	44,775
Marketing and investor relations		780,038	470,608
Professional and consulting services		3,373,916	785,215
Rent		200,165	172,062
Salaries, bonus and benefits		2,935,299	780,396
Share-based compensation	16	2,240,476	1,894,356
Regulatory		378,852	254,947
Travel		709,234	406,254
		11,522,104	5,071,711
Loss from operations		(10,598,286)	(6,147,002)
Finance costs	14	(1,901,044)	(149,387)
Foreign exchange		(121,905)	(69,297)
Listing fee	4	–	(2,097,509)
Interest income		14,502	24,970
Net loss		(12,606,733)	(8,438,225)
Foreign currency translation		6,270	(99,009)
Comprehensive loss		(12,600,463)	(8,537,234)
Net loss per share – basic and diluted		(0.11)	(0.16)
Weighted average number of outstanding common shares		120,056,383	53,797,482

Harvest One Cannabis Inc.

Consolidated statements of changes in equity

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

	Note	Number of shares #	Share capital \$	Other reserves \$	Accumulated other comprehensive loss \$	Accumulated deficit \$	Total \$
Balance, July 1, 2016		51,000,000	4,859,005	197,143	9,990	(6,532,116)	(1,465,978)
Common shares issued for settlement of debt to parent		11,758,671	5,879,336	–	–	2,939,668	8,819,004
Reverse takeover of Harvest One Capital:	4						
• Common shares issued to Phyto UK as acquirer of Harvest One Capital		41,574,662	–	–	–	–	–
• Elimination of United Greeneries and Satipharm common shares		(51,000,000)	–	–	–	–	–
• Outstanding Harvest One Capital shares post consolidation of 1.79:1		2,286,660	1,143,330	–	–	–	1,143,330
Common shares issued for cash from private placement	15	33,334,000	25,000,500	–	–	–	25,000,500
Issuance costs on private placement	15	–	(3,226,727)	1,306,276	–	–	(1,920,451)
Issuance of stock options on reverse take-over	16	–	–	148,224	–	–	148,224
Stock options exercised	16	223,465	188,224	(148,224)	–	–	40,000
Share-based compensation	16	–	–	1,894,356	–	–	1,894,356
Foreign currency translation		–	–	–	(99,009)	–	(99,009)
Return of equity to shareholders	4	–	–	–	–	(2,000,000)	(2,000,000)
Net loss		–	–	–	–	(8,438,225)	(8,438,225)
Impact of change in accounting policy	3(c)	–	–	–	–	39,093	39,093
Balance, June 30, 2017		89,177,458	33,843,668	3,397,775	(89,019)	(13,991,580)	23,160,844
Convertible debenture units issued	14	–	–	7,603,657	–	–	7,603,657
Equity portion of issuance costs on convertible debenture units	14	–	(376,158)	(491,858)	–	–	(868,016)
Convertible debentures converted	14, 15	24,773,056	16,716,227	(3,331,410)	–	–	13,384,817
Common share units issued	15	22,115,385	34,721,154	5,528,846	–	–	40,250,000
Issuance costs on common share units issued	15	663,461	(3,963,581)	1,207,500	–	–	(2,756,081)
Common shares issued in Dream Water Canada acquisition	5	18,488,954	15,900,499	–	–	–	15,900,499
Warrants issued in Dream Water acquisition	5, 16	–	–	224,528	–	–	224,528
Warrants exercised	16	18,183,138	20,606,894	(2,400,423)	–	–	18,206,471
Stock options exercised	16	220,000	287,672	(122,672)	–	–	165,000
Share-based compensation	16	–	–	2,240,476	–	–	2,240,476
Foreign currency translation		–	–	–	6,270	–	6,270
Net loss		–	–	–	–	(12,606,733)	(12,606,733)
Balance, June 30, 2018		173,621,452	117,736,375	13,856,419	(82,749)	(26,598,313)	104,911,732

Harvest One Cannabis Inc.

Consolidated statements of cash flows

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

	Note	For the year ended	
		June 30 2018	June 30 2017
			<i>Restated – See Note 3(b)</i>
		\$	\$
Operating activities			
Net loss		(12,606,733)	(8,438,225)
Adjustments to reconcile non-cash items			
Depreciation and amortization		456,788	1,095,754
Loss (gain) relating to inventory impairment	7	673,743	(103,417)
Share-based compensation	16	2,240,476	1,894,356
Listing fee	4	–	2,097,509
Finance costs	14	1,770,577	20,516
Interest income		(12,131)	–
Change in fair value of biological assets	8	(3,595,541)	(670,366)
Warrants issued in Dream Water acquisition	5	224,528	–
Changes in non-cash working capital			
Accounts receivable		(659,491)	36,921
Inventories		150,449	(30,317)
Prepaid expenses and deposits		(1,367,386)	(94,889)
Accounts payable and accrued liabilities		1,617,626	269,447
		(11,107,095)	(3,922,711)
Investing activities			
Acquisition of property, plant and equipment	10	(2,672,551)	(3,288,590)
Acquisition of intangible assets	11	(26,285)	(31,165)
Acquisition of Dream Water, net of cash acquired	5	(16,822,119)	–
		(19,520,955)	(3,319,755)
Financing activities			
Common share units issued	15	40,250,000	–
Issuance costs on common share units	15	(2,756,081)	–
Convertible debenture units issued	14	20,125,000	–
Issuance costs on convertible debenture units	14	(1,879,301)	–
Warrants exercised	16	18,206,471	–
Stock options exercised		165,000	–
Repayment of loan payable assumed on Dream Water USA acquisition	5	(254,945)	–
Repayment of borrowings		–	(492,997)
(Repayments to) advances from related parties	13, 17	(634,389)	667,694
Proceeds from issuance of shares in private placement		–	25,040,500
Share issue costs from private placement		–	(1,920,451)
Distribution to MMJ PhytoTech Limited		–	(2,000,000)
Cash acquired at reverse takeover	4	–	200,615
Transactions costs relating to reverse takeover	4	–	(787,903)
		73,221,755	20,707,458
Effect of foreign exchange on cash		5,516	(99,009)
Increase in cash during the year		42,599,221	13,365,983
Cash, beginning of year		14,246,320	880,337
Cash, end of year		56,845,541	14,246,320
Supplemental disclosure of cash flow information			
Cash paid during the year for interest		87,422	–

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

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".

The Company's principal business is to provide lifestyle and wellness products to consumers and patients in regulated markets around the world through its three wholly-owned subsidiaries as discussed below.

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 \$25,000,000 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 4).

United Greeneries Ltd., a wholly-owned subsidiary of United Greeneries, is a Canadian Licensed Producer and seller of medical cannabis under the Access to Cannabis for Medical Purposes Regulations ("ACMPR"). United Greeneries was formed on July 31, 2015 by way of an amalgamation pursuant to the Business Corporations Act of British Columbia between MMJ Bioscience Inc., 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. On June 18, 2018, United Greeneries Ltd. received a Dealer's License authorized by Health Canada to import narcotics into Canada, export its cannabis products to other markets, and further engage in research and development of cannabis infused products.

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).

On May 29, 2018, the Company acquired 100% of the outstanding shares of Dreamwater Products Canada Inc. ("Dream Water Canada") and Sarpes Beverages, LLC ("Dream Water USA") (collectively, "Dream Water"). As part of the acquisition, Dream Products Inc. was formed by way of an amalgamation pursuant to the *Business Corporations Act of Ontario* between Dream Water Canada and 2632127 Ontario Inc., a wholly-owned subsidiary of the Company. Dream Products USA Inc. was incorporated by the Company pursuant to the *General Corporation Law of the State of Delaware* which acquired Dream Water USA (note 5). Dream Water is a consumer goods company that produces single serving 74 ml liquid sleep shots and sleep powder packets.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

2. Basis of presentation

a) *Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These consolidated financial statements were approved by the Board of Directors and authorized for issue on October 22, 2018.

b) *Basis of measurement*

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

3. Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except as otherwise indicated below (note 3(c)).

a) *Basis of consolidation*

These consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The accounts of the subsidiaries are prepared for the same reporting period as the 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:

Subsidiary	Jurisdiction	% ownership	Accounting method
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	100%	Consolidation
Satipharm Canada Limited	Canada	100%	Consolidation
Satipharm Australia Pty Ltd.	Australia	100%	Consolidation
Satipharm Europe Ltd.	UK	100%	Consolidation
Satipharm Limited	Ireland	100%	Consolidation
Dream Products Inc.	Canada	100%	Consolidation
Dream Products USA Inc.	USA	100%	Consolidation
Sarpes Beverages, LLC	USA	100%	Consolidation
Dreaming Koala, LLC	USA	100%	Consolidation
Green Dream Products, LLC	USA	100%	Consolidation

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

a) Basis of consolidation (continued)

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The Company measures goodwill as the fair value of the consideration transferred less the fair value amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

b) Classification of expenses

For the year ended June 30, 2017, \$391,765 of production costs were disclosed as part of change in fair value of biological assets on the consolidated statement of loss and comprehensive loss. The Company has reclassified an additional \$1,431,079 of previously reported operating expenses to production costs, which is included in cost of sales. The reclassifications primarily relate to depreciation of the Company's facility where cannabis is cultivated, security costs of the facility, security labour, quality assurance costs, and quality assurance labour. A quantitative analysis of the line items affected is summarized below:

For the year ended June 30, 2017	As previously reported	Adjustment	As restated
	\$	\$	\$
Production costs	–	(1,822,844)	(1,822,844)
Change in fair value of biological assets	278,601	391,765	670,366
Operating expenses			
Depreciation and amortization	1,095,754	(1,040,384)	55,370
General and administration	493,327	(285,599)	207,728
Regulatory	360,043	(105,096)	254,947

The Company commenced sales of medical cannabis during the year ended June 30, 2018. As a result, the Company had a change in estimate and updated its fair value less costs to sell assumption in its biological assets valuation model. In conjunction with the updated valuation model, the Company concluded that all production costs, including those utilized in the valuation model for the calculation of the change in fair value of biological assets, should be presented in cost of sales. The Company believes this presentation is more appropriate for the understandability of the financial information by the users of the consolidated financial statements.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

c) *Change in accounting policy*

Effective July 1, 2017, the Company changed its accounting policy with respect to depreciation of property, plant and equipment. Prior to this change, the Company provided depreciation expense on a declining balance basis over the asset's estimated useful life from the time the asset is available for use. The Company now provides depreciation on a straight-line basis over the asset's estimated useful life from the time the asset is available for use. In addition, the Company now uses a component approach when determining depreciation expense. The Company believes that the revised policy provides reliable and more relevant financial information to the users of the consolidated financial statements.

The policy has been applied retrospectively as an adjustment to equity as at June 30, 2017. The effect on the prior year is to decrease the accumulated deficit and to increase the carrying amount of property, plant and equipment by approximately \$39,000. The effect on the current year is to decrease depreciation and amortization expense by approximately \$286,000 and no change to loss per share.

The Company's amended policy is as follows:

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation. Depreciation is provided on a straight line basis over the asset's useful life commencing from the time the asset is available for use. The depreciation rates used for each class of depreciable asset are:

Office equipment	3 – 5 years
Plant and equipment	3 – 25 years
Building and leasehold improvements	40 years

An asset's residual value and useful life are reviewed during each financial year and adjusted if appropriate. Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and recognized in the consolidated statement of loss and comprehensive loss.

Construction in progress is transferred to the appropriate category of property, plant and equipment when available for use and depreciation of the asset commences at that point.

d) *Foreign currency translation*

The presentation and functional currency of the Company is the Canadian dollar. The individual financial statements of each subsidiary are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

Foreign currency transactions are translated into the individual entity's functional currency at the exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to the functional currency of the individual entity at the foreign exchange rate applicable at that date. Realized and unrealized exchange losses are recognized through the consolidated statement of loss and comprehensive loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

d) Foreign currency translation (continued)

The assets and liabilities of foreign operations are translated in Canadian dollars at year-end exchange rates while income and expenses, and cash flows are translated into Canadian dollars using average exchange rates. Exchange differences resulting from translating foreign operations are recognized in other comprehensive loss and accumulated in equity.

e) Biological assets

The Company's biological assets consist of cannabis plants and seeds. The Company measures the biological assets in accordance with IAS 41 - *Agriculture* at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Fair value is determined based on future cash flows of the in-process biological assets less costs to complete. Costs to sell include post-harvest production, shipping, and fulfillment costs. The net unrealized gains or losses arising from changes in fair value less costs to sell during the year are included in the results of operations of the related year. Seeds are measured at cost which approximates fair value.

f) Production costs

Production costs include the direct and indirect costs incurred prior to the harvest of cannabis plants. These costs include a portion of labour, quality and testing, depreciation on facility, and utilities which were not capitalized to inventories.

g) Inventories

Inventories of harvested finished goods and packing materials are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. These costs include the remaining portion of costs not expensed to production costs as discussed above.

Inventories of purchased product are valued at the lower of cost and net realizable value.

Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

h) Finite-life and indefinite-life intangible assets

Intangible assets with a finite life are recorded at cost less accumulated amortization. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization is provided on a straight-line basis over their estimated useful lives:

Website	5 years
Customer relationships	7 years

The estimated useful life and amortization method are reviewed during each financial year and adjusted if appropriate, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives are comprised of acquired brand names which are carried at cost. Brand names are estimated to have an indefinite life because they are expected to generate cash flows indefinitely.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

i) Goodwill

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill is allocated to the cash-generating unit ("CGU") to which it relates. The Company has allocated goodwill to the Consumer segment as this is the lowest level at which management monitors goodwill.

j) Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and intangible assets are evaluated to determine whether there is any indication that these assets are impaired at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset may exceed its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets (the CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in the consolidated statement of loss and comprehensive loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

k) Share capital

The Company's common shares are classified as equity instruments. Incremental costs directly related to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. For equity offerings of units consisting of a common share and warrant, when both instruments are classified as equity, the Company bifurcates the proceeds between the common share and the warrant.

l) Revenue recognition

Revenue is recognized at the fair value of consideration received or receivable, net of allowance for returns. Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the sale of the Company's finished goods is recognized on the date of shipment, which is when the conditions above have been satisfied.

m) Loss per share

Basic loss per share is calculated by dividing net loss by the weighted average number of outstanding common shares during the year. Diluted loss per share is calculated similarly but includes potential dilution from the exercise of warrants, exercise of stock options, and conversion of debt to equity, except when the effect would be anti-dilutive.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

n) *Income taxes*

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in the consolidated statement of loss and comprehensive loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

o) *Share-based compensation*

The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate. Consideration paid by employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from other reserves to share capital.

p) *Financial instruments*

Financial assets

All financial assets (including assets designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Company classifies its financial assets as financial assets at fair value through profit or loss or loans and receivables. A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Financial liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

p) *Financial instruments (continued)*

The Company classifies its financial liabilities as either financial liabilities at fair value through profit or loss or other liabilities. Subsequent to initial recognition other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in the consolidated statement of loss and comprehensive loss.

Classification of financial instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

	Classification
Cash	Fair value through profit or loss
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Due to related party	Other liabilities
Convertible debentures	Other liabilities

Transaction costs

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Impairment of financial assets

Financial assets, other than those classified at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period or whenever circumstances dictate. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

q) *Critical accounting estimates and judgments*

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Biological assets and inventory

In calculating the fair value of biological assets, management is required to make a number of estimates, including estimating the stage of growth of the cannabis plants up to the point of harvest, harvesting costs, selling costs, average or expected selling prices, wastage and expected yields for the cannabis plants. In calculating final inventory values, management compares the inventory cost to estimated net realizable value.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

q) *Critical accounting estimates and judgments (continued)*

Estimated useful lives and depreciation and amortization of property, plant and equipment and intangible assets

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives and when the asset is available for use, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

Share-based compensation

In calculating the share-based compensation expense, the Company includes key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's share price, and the risk-free interest rate.

Warrants

In calculating the value of the warrants, the Company includes key estimates such as the expected life of the warrants, the volatility of the Company's share price, and the risk-free interest rate.

Business combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. The Company must determine whether it is the acquirer or acquiree in each acquisition. Under IFRS 3 – *Business Combinations*, the acquirer is the entity that obtains control of the acquiree in the acquisition. If it is not clear which company is the acquirer, additional information must be considered, such as the combined entity's relative voting rights, existence of a large minority voting interest, composition of the governing body and senior management, and the terms behind the exchange of equity interest.

Goodwill and intangibles impairment

The Company performs an annual test for goodwill impairment in the fourth quarter for the CGU with goodwill, and whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit.

Determining whether an impairment has occurred requires valuation of the respective CGU, which we estimate using a discounted cash flow method. When available and as appropriate, we use comparative market multiples to corroborate discounted cash flow results. In applying this methodology, we rely on a number of factors, including actual operating results, future business plans, economic projections and market data.

The Company tests intangible assets with indefinite lives annually for impairment using a fair value method such as discounted cash flows.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

q) *Critical accounting estimates and judgments (continued)*

Income taxes

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

r) *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. The Company will adopt IFRS 15 effective July 1, 2018. The Company is currently completing its assessment of the impact of this new standard.

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. Financial liabilities are classified in a similar manner as under IAS 39. The Company will adopt IFRS 9 effective July 1, 2018. The Company is currently completing its assessment of the impact of this new 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. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less and the underlying asset has a low value. IFRS 16 is effective for the Company for its year ending June 30, 2020, and a lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. The Company is continuing to assess the impact of this new standard.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

4. 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 PhytoTech Limited ("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;
- 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 \$25,000,000 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 ("RTO Warrants"). Each whole RTO 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" and was later changed to "HVT" on February 2, 2018.

The transaction 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 2,286,660 post-consolidation Harvest shares	\$	1,143,330
Fair value of 223,465 post-consolidation Harvest options		148,224
		1,291,554

Net assets acquired:

Cash	200,615
Accounts payable and accrued liabilities	(218,668)
	(18,053)

Excess attributed to cost of listing **\$ 1,273,501**

Listing costs:

Legal	497,366
Professional, consulting and other fees	326,642
	2,097,509

For accounting purposes, the consolidated financial statements for the year ended June 30, 2017 reflect a continuation of the financial position, operating results and cash flows from the Company's legal subsidiaries, United Greeneries and Satipharm.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

5. Acquisition of Dream Water

On May 29, 2018, the Company completed the acquisition of all of the outstanding shares of Dream Water Canada and Dream Water USA for a total consideration of \$33,482,613. Dream Water delivers a ready-made consumer goods marketing, distribution, and production development division to the Company. The transaction was accounted for as a business combination in accordance with IFRS 3.

Consideration transferred:

Cash paid at closing	\$	16,275,000
18,488,954 common shares issued		15,900,499
Settlement of intercompany balances		1,307,114
		33,482,613

The common shares were issued to the former shareholders of Dream Water Canada. The fair value of the common shares was based on the closing market price of the Company's common shares on May 24, 2018, which is the closing date of the Dream Water Canada acquisition.

The preliminary purchase price was allocated below and is subject to change as it is not finalized.

Net assets acquired	\$	195,613
Intangible assets		
Customer relationships		1,540,000
Brand names		4,190,000
Goodwill		27,557,000
		33,482,613

Goodwill arose from the acquisition as the consideration paid reflected the benefit of the acquired workforce, expected revenue growth, and future product and market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The amount of goodwill that is expected to be deductible for tax purposes is approximately \$10,483,000.

The fair values of the net assets acquired are as follows:

Cash	\$	759,996
Accounts receivable		150,234
Prepaid expenses and deposits		198,107
Inventories		1,552,462
Property, plant, and equipment		31,567
Assets acquired		2,692,366
Accounts payable and accrued liabilities		(1,724,791)
Shareholder loan		(400,000)
Security deposits		(117,017)
Loan payable		(254,945)
Net assets acquired		195,613

Net cash outflow on acquisition is as follows:

Cash consideration	\$	17,582,115
Less: cash acquired		(759,996)
		16,822,119

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

5. Acquisition of Dream Water (continued)

In connection with the acquisition, the Company expensed \$1,508,558 of acquisition-related costs under professional and consulting services for the year ended June 30, 2018, including 517,000 warrants with a value of \$224,528 issued to the broker on May 29, 2018 (note 16(b)).

For the year ended June 30, 2018, Dream Water contributed revenue of \$441,866 and a net loss of \$531,190 (note 19).

6. Accounts receivable

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

	June 30 2018	June 30 2017
	\$	\$
Taxes receivable from governments	529,962	138,422
Trade and other receivables	459,855	41,619
	989,817	180,041

At the reporting date, the Company assessed the collectability of the balance and concluded that none of the receivables were uncollectible.

7. Inventories

The summary of the Company's inventories is as follows:

	June 30 2018	June 30 2017
	\$	\$
Raw materials	399,483	–
Finished goods		
Dry cannabis ^(a)	3,083,977	571,919
CBD capsules ^(b)	–	608,708
Dream Water liquid sleep shots and sleep powder packets	1,006,180	–
Supplies and post-harvest production costs	254,326	33,057
	4,743,966	1,213,684

As at June 30, 2018, the Company held 562,300 grams of dry cannabis (June 30, 2017 – 124,790 grams).

- a) The Company regularly reviews its dry cannabis inventory for quality and freshness. During the year ended June 30, 2018, 69,270 grams of cannabis inventory did not meet the quality standards for dry flower sale and therefore, was 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.
- b) During the year ended June 30, 2018, the Company also assessed the net realizable value of its CBD capsules. At June 30, 2018, the CBD capsules on hand had a limited remaining shelf life and sales were significantly reduced. As a result, the Company impaired approximately \$464,000 of CBD capsules to reduce the carrying amount to its estimated net realizable value.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

7. Inventories (continued)

During the year ended June 30, 2017, an inventory impairment provision of approximately \$103,000 on the CBD capsules previously held was reversed after re-evaluating the factors which caused the initial provision to be recorded.

8. Biological assets

The Company's biological assets consist of seeds and cannabis plants. The continuity of biological assets for the years ended June 30, 2018 and 2017 is as follows:

	June 30 2018	June 30 2017
	\$	\$
Balance, beginning of year	110,489	–
Purchase of seeds	–	20,914
Change in fair value of biological assets	3,595,541	670,368
Transferred to inventory upon harvest	(2,802,013)	(580,793)
Balance, end of year	904,017	110,489

As at June 30, 2018, included in the carrying amount of biological assets was \$20,914 in seeds and \$883,103 in cannabis plants (June 30, 2017 – \$20,914 in seeds and \$87,575 in cannabis plants).

The fair value measurements for biological assets have been categorized as Level 3 of the fair value hierarchy based on the inputs to the valuation technique used, as there is no actively traded commodity market for plants. The fair value was determined using a valuation model to estimate the expected harvest yield per plant applied to the estimated fair value less costs to sell per gram.

The significant assumptions applied in determining the fair value of biological assets are as follows:

- a) wastage of plants based on their various stages;
- b) expected yield by strain of plant of approximately 20 grams per plant based on a trailing 12 month average of historical growing results (June 30, 2017 – approximately 20 grams per plant);
- c) percentage of costs incurred to date compared to the estimated total costs to be incurred (“stage of plant growth”);
- d) percentage of costs incurred for each stage of plant growth; and
- e) average fair value of whole flower less costs to sell of \$6.45 per gram (June 30, 2017 – \$5.00 per gram).

These estimates are subject to volatility and a number of uncontrollable factors which could significantly affect the fair value of biological assets in future periods. A 10% increase or decrease in the fair value less costs to sell or in the expected yield would result in an increase or decrease of approximately \$126,000 in biological assets at June 30, 2018 (June 30, 2017 – \$20,593).

On average, the growth cycle is 13 weeks and for in-process biological assets, the fair value at point of harvest is adjusted based on the stage of plant growth. As at June 30, 2018, on average, the biological assets were 64% complete as to the next expected harvest date (June 30, 2017 – 37%).

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

9. Prepaid expenses and deposits

The summary of the Company's prepaid expenses and deposits is as follows:

	June 30 2018	June 30 2017
	\$	\$
Prepayments	997,254	73,537
Deposits	684,115	42,339
	1,681,369	115,876

10. Property, plant and equipment

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

	Plant and equipment	Office equipment	Building and leasehold improvements	Land	Construction in progress	Total
	\$	\$	\$	\$	\$	\$
Cost						
July 1, 2016	1,963,838	88,705	3,558,594	–	856,976	6,468,113
Additions	219,806	122,034	2,463,999	431,000	50,581	3,287,420
Disposals	(2,308)	–	–	–	–	(2,308)
June 30, 2017	2,181,336	210,739	6,022,593	431,000	907,557	9,753,225
Accumulated depreciation						
July 1, 2016	48,521	16,635	370,281	–	–	435,437
Depreciation	259,317	27,680	807,867	–	–	1,094,864
Disposals	(2,590)	–	–	–	–	(2,590)
Adjustment (note 3(c))	139,178	1,184	(179,455)	–	–	(39,093)
June 30, 2017	444,426	45,499	998,693	–	–	1,488,618
Net book value						
June 30, 2017	1,736,910	165,240	5,023,900	431,000	907,577	8,264,607
Cost						
July 1, 2017	2,181,336	210,739	6,022,593	431,000	907,557	9,753,225
Additions	491,873	148,275	255,769	963,980	901,725	2,761,622
Disposals	(57,503)	–	–	–	–	(57,503)
June 30, 2018	2,615,706	359,014	6,278,362	1,394,980	1,809,282	12,457,344
Accumulated depreciation						
July 1, 2017	444,426	45,499	998,693	–	–	1,488,618
Depreciation	222,668	59,204	146,654	–	–	428,526
June 30, 2018	667,094	104,703	1,145,347	–	–	1,917,144
Net book value						
June 30, 2018	1,948,612	254,311	5,133,015	1,394,980	1,809,282	10,540,200

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

10. Property, plant and equipment (continued)

On May 18, 2017, the Company purchased the land and building it previously leased and in which its current operations reside for cash consideration of \$2,862,000. The consideration was allocated between land and building as \$431,000 and \$2,431,000 respectively, with the amount allocated to the land being based on comparable transactions in the Duncan area.

On February 1, 2018, the Company purchased 398 acres of agricultural land in British Columbia for cash consideration of approximately \$964,000.

11. Intangible assets

The summary of the Company's intangible assets is as follows:

	Brand names	Customer relationships	Website	Total
	\$	\$	\$	\$
Cost				
July 1, 2016	–	–	–	–
Additions	–	–	32,055	32,055
June 30, 2017	–	–	32,055	32,055
Accumulated amortization				
July 1, 2016	–	–	–	–
Amortization	–	–	890	890
June 30, 2017	–	–	890	890
Net book value				
June 30, 2017	–	–	31,165	31,165
Cost				
July 1, 2017	–	–	32,055	32,055
Additions	–	–	26,285	26,285
Additions from acquisition (note 5)	4,190,000	1,540,000	–	5,730,000
June 30, 2018	4,190,000	1,540,000	58,340	5,788,340
Accumulated amortization				
July 1, 2017	–	–	890	890
Amortization	–	19,288	8,975	28,263
June 30, 2018	–	19,288	9,865	29,153
Net book value				
June 30, 2018	4,190,000	1,520,712	48,475	5,759,187

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

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(Expressed in Canadian dollars)

12. Accounts payable and accrued liabilities

The summary of the Company's accounts payable and accrued liabilities is as follows:

	June 30 2018	June 30 2017
	\$	\$
Trade payables	1,243,729	495,932
Accrued liabilities	2,279,303	143,412
Payroll liabilities	313,907	120,439
Other payables	272,426	7,165
	4,109,365	766,948

Trade payables and accrued liabilities are non-interest bearing. Trade payables 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 12 months.

13. Due to related party

The summary of the Company's due to related party is as follows:

	June 30 2018	June 30 2017
	\$	\$
Due to related party	-	234,390

Prior to the RTO, the operational and funding requirements of the Company were supported by MMJ. As part of the RTO, the Company repaid a portion of the amount owed through the issuance of common shares (note 4). As at June 30, 2017, the remaining balance was payable to MMJ and was unsecured, interest free, with no fixed term of repayment.

As of June 30, 2018, MMJ owned 53,333,333 common shares of the Company representing 30.7% ownership interest (June 30, 2017 – 53,333,333 common shares and 59.8%, respectively).

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

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14. Convertible debenture units

The continuity of the Company's convertible debenture units for the years ended June 30, 2018 and 2017 is as follows:

	June 30 2018	June 30 2017
	\$	\$
Balance, beginning of year	-	-
Issued	20,729,000	-
Equity portion	(7,603,657)	-
Conversion	(13,304,437)	-
Accretion	179,094	-
Balance, end of year	-	-

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 consisted 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.

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

The Convertible Debentures bore interest at 8.0% per annum, payable semi-annually on June 30 and December 31 of each year and would mature on December 14, 2022. The Convertible Debentures were 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 equaled or exceeded \$1.40 per share for 30 consecutive trading 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 were 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 was to be accreted to face 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.

On February 23, 2018, the Company exercised its option to convert the remaining principal amount of the 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 conversion was completed on March 28, 2018.

During the year ended June 30, 2018, the Company recorded \$1,511,102 of deferred financing fee amortization and \$179,094 of accretion expense which are both included in finance costs. In addition, the Company paid interest of \$87,422 and issued 24,773,056 common shares on conversion of \$20,729,000 Convertible Debentures, including \$80,381 in interest.

Harvest One Cannabis Inc.

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15. Share capital

a) Authorized

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

b) Issued capital

- (i) On May 24, 2018, the Company issued 18,488,954 common shares as part of the Dream Water Canada acquisition (note 5).
- (ii) On January 31, 2018, the Company completed a bought deal financing ("Units Offering") 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 ("Units Offering Warrants"). Each Units Offering Warrant entitles the holder to purchase one common share at an exercise price of \$2.30 per Units Offering Warrant until January 31, 2020 (note 16(b)).

The Company paid the underwriters a cash commission of 6.0% of the aggregate principal amount of the Units issued. In addition, the Company issued the underwriters 663,461 brokers' compensation units warrants ("Brokers' Units Offering Warrants").
- (iii) During the year ended June 30, 2018, 24,773,056 common shares were issued upon conversion of \$20,729,000 Convertible Debentures (note 14).
- (iv) During the year ended June 30, 2018, 18,183,138 common shares were issued for gross proceeds of \$18,206,471 upon exercise of warrants (note 16(b)).
- (v) Upon completion of the RTO transaction, the Company issued a total of 41,574,662 common shares to the previous shareholders of United Greeneries and Satipharm (note 4).

Concurrently with the completion of the RTO, 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 the private placement. 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 4).

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16. Other reserves

Other reserves activity during the years ended June 30, 2018 and 2017 is summarized as follows:

	Stock options	Warrants	Convertible debenture units	Other	Total
	\$	\$	\$	\$	\$
July 1, 2016	–	–	–	197,143	197,143
Share-based compensation	1,453,991	–	–	–	1,453,991
Share-based compensation (options issued by MMJ)	–	–	–	440,365	440,365
Fair value of warrants issued	–	1,306,276	–	–	1,306,276
June 30, 2017	1,453,991	1,306,276	–	637,508	3,397,775
Share-based compensation	2,133,771	–	–	–	2,133,771
Stock options exercised	(122,672)	–	–	–	(122,672)
Share-based compensation (options issued by MMJ)	–	–	–	106,705	106,705
Fair value of warrants issued	–	10,025,621	–	–	10,025,621
Warrants exercised	–	(2,400,423)	–	–	(2,400,423)
Convertible debenture units issued	–	–	3,331,410	–	3,331,410
Issuance costs on warrants issued	–	715,642	–	–	715,642
Convertible debentures converted	–	–	(3,331,410)	–	(3,331,410)
June 30, 2018	3,465,090	9,647,116	–	744,213	13,856,419

a) Stock options and share-based compensation

The Company has established a share purchase option plan whereby the Company's Board of Directors may from time to time grant stock 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 and outstanding common shares of the Company. Vesting is determined by the Board of Directors.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

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16. Other reserves (continued)

a) Stock options and share-based compensation (continued)

The continuity of the Company's stock options at June 30, 2018 and 2017 is as follows:

	Number outstanding	Weighted average exercise price
	#	\$
Outstanding at June 30, 2016	–	–
Granted	8,273,465	0.73
Exercised	(223,465)	0.18
Outstanding at June 30, 2017	8,050,000	0.75
Granted	2,275,000	1.01
Exercised	(220,000)	0.75
Forfeited	(1,080,000)	0.75
Outstanding at June 30, 2018	9,025,000	0.82

The following table discloses the number of options outstanding and number of options exercisable at June 30, 2018:

Number of options outstanding	Exercise price	Number of options exercisable	Expiry date
#	\$	#	
6,750,000	0.75	4,309,167	April 27, 2022
400,000	1.77	–	January 25, 2023
1,875,000	0.84	–	May 28, 2023
9,025,000		4,309,167	

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, 2018 and 2017 by applying the following assumptions:

	June 30, 2018	June 30, 2017
Risk-free interest rate	1.77% – 2.12%	0.80%
Expected life of options (years)	3.59	3.59
Expected annualized volatility	89.50% – 94.76%	128.23%
Expected dividend yield	Nil	Nil

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

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(Expressed in Canadian dollars)

16. Other reserves (continued)

a) Stock options and share-based compensation (continued)

For the year ended June 30, 2018, volatility was estimated by using the historical share prices of the Company. For the year ended June 30, 2017, volatility was estimated using the historical volatility of peer companies as the Company had limited trading history. 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.

b) Warrants

The continuity of the Company's warrants at June 30, 2018 is as follows:

	RTO Warrants	Brokers' RTO Warrants and Secondary Warrants	Debenture Warrants	Units Offering Warrants	Brokers' Units Offering Warrants	Dream Water Warrants	Total number outstanding #	Weighted average exercise price \$
Outstanding at June 30, 2017	16,667,000	2,000,040	–	–	–	–	18,667,040	0.97
Issued	–	600,002	9,493,882	22,115,385	663,461	517,000	33,389,730	1.91
Exercised	(13,290,532)	(1,300,006)	(3,592,600)	–	–	–	(18,183,138)	1.00
Outstanding at June 30, 2018	3,376,468	1,300,036	5,901,282	22,115,385	663,461	517,000	33,873,632	1.88

(i) RTO Warrants

In connection with the private placement on April 26, 2017, the Company issued 16,667,000 RTO Warrants (note 15(b)).

During the year ended June 30, 2018, 13,290,532 RTO Warrants were exercised for proceeds of \$13,290,532 and exchanged for 13,290,532 common shares.

(ii) Brokers' RTO Warrants and Secondary Warrants

In connection with the private placement on April 26, 2017, the Company also issued 2,000,040 warrants to the Brokers ("Brokers' RTO 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' RTO 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.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

16. Other reserves (continued)

b) Warrants (continued)

(ii) Brokers' RTO Warrants and Secondary Warrants (continued)

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

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

Volatility was estimated using the historical volatility of peer companies as the Company had limited trading history. The expected life in years represents the period of time that the warrants 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.

During the year ended June 30, 2018, 1,200,004 Brokers' RTO Warrants were exercised for proceeds of \$900,003 and exchanged for 1,200,004 common shares. In addition, 100,002 Secondary Warrants were exercised for proceeds of \$100,002 and exchanged for 100,002 common shares.

(iii) Debenture Warrants

In connection with the Offering on December 14, 2017, the Company issued 9,493,882 Debenture Warrants (note 14). Upon exercise of the Debenture Warrants, the Company will issue one common share.

During the year ended June 30, 2018, 3,592,600 Debenture Warrants were exercised for proceeds of \$3,915,934 and exchanged for 3,592,600 common shares.

(iv) Units Offering Warrants

In connection with the Units Offering, the Company issued 22,115,385 Units Offering Warrants (note 15(b)). Upon exercise of the Units Offering Warrants, the Company will issue one common share.

The Units Offering Warrants were valued based on the quoted price in active markets.

(v) Brokers' Units Offering Warrants

In connection with the Units Offering on January 31, 2018, the Company also issued 663,461 Broker's Units Offering Warrants to the Brokers with an exercise price of \$2.30 per warrant and which expire 24 months from the date of issue. Upon exercise of the Brokers' Units Offering Warrants, the Company will issue one common share.

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Notes to the consolidated financial statements

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16. Other reserves (continued)

b) Warrants (continued)

(vi) Dream Water Warrants

In connection with the Dream Water acquisition on May 29, 2018, the Company issued 517,000 warrants to the broker with an exercise price of \$1.00 per warrant and which expire 36 months from the date of issue ("Dream Water Warrants"). Upon exercise of the Dream Water Warrants, the Company will issue one common share.

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

Risk-free interest rate	1.88%
Expected life of warrants (years)	3.00
Expected annualized volatility	89.35%
Expected dividend yield	Nil

Volatility was estimated by using the historical volatility of the Company. The expected life in years represents the period of time that the warrants 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.

c) Other

During the year ended June 30, 2018, the Company recorded \$106,705 (2017 – \$440,365) in share-based compensation expense as a result of vesting of stock options from MMJ, issued to employees of Harvest One, United Greeneries, and Satipharm in previous years, whereby the Company incurred the expense as it is the primary recipient of the services provided.

17. Related parties

In addition to related party transactions described elsewhere in the notes to the consolidated 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:

	June 30 2018	June 30 2017
	\$	\$
Salaries and benefits	744,658	163,404
Consulting fees	265,000	105,422
Directors' fees	126,000	34,000
Share-based compensation	1,499,197	1,226,761
Total	2,634,855	1,529,587

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

17. Related parties (continued)

b) Fees to related parties

At June 30, 2018, there was \$27,000 directors' fees owing (June 30, 2017 – \$22,000) included in accounts payable and accrued liabilities.

During the year ended June 30, 2018, the Company paid \$41,298 (2017 – \$28,581) in legal fees to a law firm owned by a director of the Company and consulting fees of \$61,556 (2017 – \$nil) to individuals related to a director and an officer of the Company.

c) Loans to/from related parties

As part of the acquisition of Dream Water Canada, the Company assumed a \$400,000 shareholder loan. The former shareholder of Dream Water Canada was subsequently appointed as an officer of the Company. During the year ended June 30, 2018, the Company repaid the shareholder loan in full.

During the year ended June 30, 2017, a loan was repaid in full by a director of the Company for \$100,357, which included \$5,810 of interest receivable.

18. Income taxes

Income tax recovery differs from expected income tax recovery if the Canadian federal and provincial statutory income tax rates were applied to loss before taxes. The principal factors causing these differences are shown below:

	June 30 2018	June 30 2017
	\$	\$
Loss before income taxes	(12,606,733)	(8,438,225)
Statutory tax rates	26.5%	26.0%
Expected income tax recovery	(3,341,000)	(2,194,000)
Difference in foreign tax rates	245,000	174,000
Effect of change in tax rates	(163,000)	–
Non-deductible expenses	1,021,000	822,000
Financing costs	(1,477,000)	(839,000)
Foreign currency translation	(2,000)	32,000
Change in unrecognized deferred tax assets	3,639,000	2,005,000
Other	78,000	–
Income tax recovery	–	–

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

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18. Income taxes (continued)

The nature and tax effect of the taxable temporary differences giving rise to deferred tax assets are summarized as follows:

	June 30 2017	Deferred tax assets (liabilities) assumed from acquisition	Recovered through (charged to) earnings	Recovered through (charged to) equity	June 30 2018
	\$	\$	\$	\$	\$
Deferred tax assets					
Non-capital losses	2,131	550	2,894	–	5,575
Finance costs	717	–	(138)	1,477	2,056
Property, plant and equipment	526	–	43	–	569
Other	56	–	32	–	88
Total deferred tax assets	3,430	550	2,831	1,477	8,288
Deferred tax liabilities					
Inventories	–	(32)	(111)	–	(143)
Biological assets	–	–	(557)	–	(557)
Total deferred tax liabilities	–	(32)	(668)	–	(700)
Net deferred tax assets	3,430	518	2,163	1,477	7,588
Deferred tax assets not recognized	(3,430)	(518)	(2,163)	(1,477)	(7,588)
Deferred tax liabilities	–	–	–	–	–

The Company has accumulated non-capital losses from various jurisdictions for the year ended June 30, 2018 for income tax purposes, which may be deducted in the calculation of taxable income in future years. The Canadian non-capital losses will be expiring between 2032 and 2038.

	June 30 2018	June 30 2017
	\$	\$
Canada	19,570,000	8,152,000
Australia	40,000	39,000
USA	369,000	–
Switzerland	1,531,000	–
Ireland	86,000	–
UK	27,000	–
Total	21,623,000	8,191,000

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

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19. Segmented information

The Company operates in three reportable segments: Cultivation, Medical and Nutraceutical, and Consumer, which is the way the Company reports information to its chief operating decision maker.

The Cultivation segment includes the legal cultivation and distribution of cannabis under the federally regulated ACMPR license issued by Health Canada.

The Medical and Nutraceutical segment includes the processing, manufacturing and distribution of cannabis-based food supplement products throughout Europe and Australia.

The Consumer segment includes the marketing, distribution, and product development of liquid sleep shots and sleep powder packets through Canada and the United States of America ("USA").

The Company generates revenue in three geographical locations and has the following non-current assets in the respective locations:

	Revenues		Non-Current Assets	
	2018	2017	2018	2017
	\$	\$	\$	\$
Canada	216,384	–	27,662,576	8,256,679
USA	402,718	–	16,193,811	–
Switzerland	106,873	75,950	–	–
Total	725,975	75,950	43,856,387	8,256,679

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

19. Segmented information (continued)

The segments for the years ended June 30, 2018 and 2017 are as follows:

	Year ended June 30, 2018					Year ended June 30, 2017				
	Cultivation	Medical and Nutraceutical	Consumer	Corporate	Total	Cultivation	Medical and Nutraceutical	Consumer	Corporate	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	177,236	106,873	441,866	–	725,975	–	75,950	–	–	75,950
Production costs	(2,020,603)	–	–	–	(2,020,603)	(1,822,844)	–	–	–	(1,822,844)
Inventory expensed to cost of sales	–	(156,724)	(409,215)	–	(565,939)	–	(102,180)	–	–	(102,180)
(Loss) gain relating to inventory impairment	(210,000)	(463,743)	–	–	(673,743)	–	103,417	–	–	103,417
Gross profit (loss) before fair value adjustment	(2,053,367)	(513,594)	32,651	–	(2,534,310)	(1,822,844)	77,187	–	–	(1,745,657)
Realized fair value amounts included in inventory sold	(137,413)	–	–	–	(137,413)	–	–	–	–	–
Change in fair value of biological assets	3,595,541	–	–	–	3,595,541	670,366	–	–	–	670,366
Gross profit (loss)	1,404,761	(513,594)	32,651	–	923,818	(1,152,478)	77,187	–	–	(1,075,291)
Other operating expenses	(1,357,996)	(1,002,710)	(538,366)	(8,623,032)	(11,522,104)	(1,770,989)	(955,885)	–	(2,344,837)	(5,071,711)
Profit (loss) from operations	46,765	(1,516,304)	(505,715)	(8,623,032)	(10,598,286)	(2,923,467)	(878,698)	–	(2,344,837)	(6,147,002)
Net finance costs	(15,469)	(1,287)	(23,254)	(1,846,532)	(1,886,542)	(138,407)	(1,472)	–	15,462	(124,417)
Foreign exchange	–	(103,394)	(2,221)	(16,290)	(121,905)	–	(69,297)	–	–	(69,297)
Listing fee	–	–	–	–	–	–	–	–	(2,097,509)	(2,097,509)
Net profit (loss)	31,296	(1,620,985)	(531,190)	(10,485,854)	(12,606,733)	(3,061,874)	(949,467)	–	(4,426,884)	(8,438,225)
Total Assets	18,829,620	1,058,115	35,548,475	53,584,887	109,021,097	23,021,539	839,094	–	301,549	24,162,182
Total Liabilities	599,855	250,679	1,274,062	1,984,769	4,109,365	778,261	66,465	–	156,612	1,001,338

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

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(Expressed in Canadian dollars)

20. Commitments

As at June 30, 2018, the Company's commitments that have not been disclosed elsewhere in the consolidated financial statements were as follows:

	Less than 1 year	Between 2 to 5 years	Over 5 years	Total
	\$	\$	\$	\$
Operating lease commitments	814,820	3,626,030	246,936	4,687,786
Purchase commitments	667,167	2,227,907	–	2,895,074
	1,481,987	5,853,937	246,936	7,582,860

On April 28, 2018, the Company entered into a five year lease agreement for land and property in Aldergrove, British Columbia. The Company pays monthly rent at a rate of \$65,910. On August 10, 2018, the Company terminated the lease in accordance with its terms.

21. 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.

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 June 30, 2018, the Company is exposed to foreign currency risk through its bank accounts denominated in Swiss Francs ("CHF"), Euros ("Euros"), and United States Dollars ("USD"). A 10% appreciation (depreciation) of the CHF, Euro, or USD 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 year.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's trade accounts receivable. The Company's cash and accounts receivable are exposed to credit risk. The risk for cash is mitigated by holding these instruments with highly rated financial institutions. The Company provides credit to its customers in the normal course of business and has mitigated this risk by managing and monitoring the underlying business relationships. As at June 30, 2018, the Company is not exposed to any significant credit risk.

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Notes to the consolidated financial statements

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21. Financial instruments and risk (continued)

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 net loss for the year is interest expense on convertible debentures and interest income on Canadian dollar cash. As at June 30, 2018, the Company is not exposed to any significant interest rate 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. The Company has current assets of \$65,164,710 and current liabilities of \$4,109,365. The Company addresses its liquidity through debt or equity financing obtained through the sale of convertible debentures and common shares. 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 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 ended June 30, 2018, there were no transfers of amounts between fair value levels.

Cash is classified as Level 1 financial instruments.

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.

22. 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.

The Company manages its capital structure and adjusts 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.

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23. Subsequent events

a) Appointment of CEO and COO

On July 3, 2018, the Company appointed Mr. Grant Froese as the new Chief Executive Officer (“CEO”) of the Company and as a member of the Board of Directors. In addition, Mr. Andrew Kain was appointed as the new Chief Operating Officer (“COO”) and General Counsel of the Company.

b) Share-based compensation issuances

(i) On July 3, 2018, the Company granted 8,000,000 stock options under the Company’s incentive stock option plan and 2,500,000 performance appreciation rights (“PAR”) to certain of the Company’s directors and officers. Each stock option and PAR entitles the holder to purchase one common share at an exercise price of \$0.77 for a period of five years following the grant date, of which 1,200,000 options and 375,000 PARs vested immediately and the remaining options and PARs vest evenly over three years. The Company may, in its sole discretion, replace all or part of the outstanding PARs granted with stock options on a one for one exchange basis.

(ii) On September 18, 2018, the Company granted 1,250,000 stock options under the Company’s incentive stock option plan to certain of the Company’s employees, advisors, and directors. Each stock option entitles the holder to purchase one common share at an exercise price of \$0.91 for a period of five years following the grant date, which vests evenly over three years.

c) Investment in Burb Cannabis Corp.

On September 28, 2018, the Company acquired a 19.99% ownership interest in Burb Cannabis Corp. (“Burb”) on a non-diluted basis for a total investment of \$1,750,000 for 5,042,000 Units of Burb. Each Unit consists of one common share and one common share purchase warrant priced at \$0.5354 per common share.