Condensed Consolidated Interim Financial Statements of

Harvest One Cannabis Inc.

For the three months ended September 30, 2018 and 2017

Harvest One Cannabis Inc.

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Harvest One Cannabis Inc.

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

	Note	**September 30 2018**	June 30 2018
		$	$
Assets			
Current assets			
Cash		**48,321,139**	56,845,541
Accounts receivable	4	**1,378,849**	989,817
Inventories	5	**5,497,032**	4,743,966
Biological assets	6	**976,924**	904,017
Prepaid expenses and deposits		**2,080,913**	1,681,369
		58,254,587	65,164,710
Non-current assets			
Property, plant and equipment	7	**10,893,552**	10,540,200
Intangible assets	8	**5,703,265**	5,759,187
Investment and warrants in associate	9	**1,765,000**	–
Goodwill		**27,557,000**	27,557,000
		45,918,817	43,856,387
Total assets		**104,173,674**	109,021,097
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**3,510,368**	4,109,365
Total liabilities		**3,510,368**	4,109,365
Equity			
Share capital		**117,736,375**	117,736,375
Other reserves	10	**15,431,232**	13,856,419
Accumulated other comprehensive loss		**(110,514)**	(82,749)
Accumulated deficit		**(32,393,787)**	(26,598,313)
Total equity		**100,663,306**	104,911,732
Total liabilities and equity		**104,173,164**	109,021,097

"Jason Bednar"
Jason Bednar, Director

"Grant Froese"
Grant Froese, Director

HARVEST ONE

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

Harvest One Cannabis Inc.

Condensed consolidated interim statements of loss and comprehensive loss
For the three months ended September 30, 2018 and 2017
(Expressed in Canadian dollars)
(Unaudited)

		For the three months ended September 30	
	Note	**2018**	2017
			Restated – See Note 2(c)
		$	$
Revenue	13	**1,679,291**	174,544
Cost of sales			
Production costs		**(647,777)**	(558,523)
Inventory expensed to cost of sales		**(1,159,710)**	(152,316)
Gross loss before fair value adjustments		**(128,196)**	(536,295)
Realized fair value amounts included in inventory sold	5	**(503,446)**	–
Change in fair value of biological assets	6	**1,209,739**	530,127
Gross profit (loss)		**578,097**	(6,168)
Operating expenses			
Brand development and marketing		**594,506**	51,891
Depreciation and amortization		**78,449**	47,620
General and administration		**202,738**	135,134
Insurance		**103,450**	26,364
Investor relations		**58,547**	60,820
Professional and consulting services		**594,385**	113,593
Regulatory		**734**	15,250
Rent		**81,557**	45,815
Salaries, bonus and benefits	11	**1,417,998**	530,636
Severance and reorganization costs	11	**1,115,374**	–
Share-based compensation	10	**1,574,813**	718,986
Terminated projects	7	**332,106**	–
Travel		**240,748**	59,633
		6,395,405	1,805,742
Loss from operations		**(5,817,308)**	(1,811,910)
Net finance costs		**(7,300)**	(1,941)
Foreign exchange		**29,134**	(74,333)
Net loss		**(5,795,474)**	(1,888,184)
Item that may be reclassified subsequently to net loss:			
Foreign currency translation		**(27,765)**	(2,990)
Comprehensive loss		**(5,823,239)**	(1,891,174)
Net loss per share – basic and diluted		**(0.03)**	(0.02)
Weighted average number of outstanding common shares		**173,621,452**	89,177,458

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

Harvest One Cannabis Inc.

Condensed consolidated interim statements of changes in equity
For the three months ended September 30, 2018 and 2017
(Expressed in Canadian dollars)
(Unaudited)

	Note	Number of shares	Share capital	Other reserves	Accumulated other comprehensive loss	Accumulated deficit	Total
		#	$	$	$	$	$
Balance, July 1, 2017		89,177,458	33,843,668	3,397,775	(89,019)	(14,030,673)	23,121,751
Share-based compensation	10	–	–	718,986	–	–	718,986
Foreign currency translation		–	–	–	(2,990)	–	(2,990)
Net loss		–	–	–	–	(1,888,184)	(1,888,184)
Balance, September 30, 2017		89,177,458	33,843,668	4,116,761	(92,009)	(15,918,857)	21,949,563
Balance, July 1, 2018		173,621,452	117,736,375	13,856,419	(82,749)	(26,598,313)	104,911,732
Share-based compensation	10	–	–	1,574,813	–	–	1,574,813
Foreign currency translation		–	–	–	(27,765)	–	(27,765)
Net loss		–	–	–	–	(5,795,474)	(5,795,474)
Balance, September 30, 2018		**173,621,452**	**117,736,375**	**15,431,232**	**(110,514)**	**(32,393,787)**	**100,663,306**

HARVEST ONE

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

Harvest One Cannabis Inc.

Condensed consolidated interim statements of cash flows
For the three months ended September 30, 2018 and 2017
(Expressed in Canadian dollars)
(Unaudited)

		For the three months ended September 30	
	Note	**2018**	2017
			Restated – See Note 2(c)
		$	$
Operating activities			
Net loss		**(5,795,474)**	(1,888,184)
Adjustments to reconcile non-cash items			
Depreciation and amortization	7, 8	**160,464**	250,286
Loss on disposal of property, plant and equipment	7	**4,364**	–
Share-based compensation	10	**1,574,813**	718,986
Terminated projects	7	**332,106**	–
Change in fair value of biological assets	6	**(1,209,739)**	(530,127)
Realized fair value amounts included in inventory sold	5	**503,446**	–
Fair value adjustment included in inventory expensed to cost of sales		**451,431**	–
Changes in non-cash working capital			
Accounts receivable		**(397,710)**	(180,681)
Inventories		**(587,542)**	166,967
Prepaid expenses and deposits		**(541,044)**	(52,980)
Accounts payable and accrued liabilities		**(572,086)**	(131,316)
Net cash used in operating activities		**(6,076,971)**	(1,647,049)
Investing activities			
Acquisition of property, plant and equipment	7	**(655,391)**	(418,698)
Acquisition of intangible assets	8	**(2,100)**	(8,825)
Investment and warrants in associate	9	**(1,765,000)**	–
Net cash used in investing activities		**(2,422,491)**	(427,523)
Financing activity			
Repayment to related party		**–**	(5,892)
Net cash used in financing activity		**–**	(5,892)
Effect of foreign exchange on cash		**(24,940)**	(2,990)
Decrease in cash during the period		**(8,524,402)**	(2,083,454)
Cash, beginning of the period		**56,845,541**	14,246,320
Cash, end of the period		**48,321,139**	12,162,866

1. Nature of operations

Harvest One Cannabis Inc. ("Harvest One") is a publicly traded corporation, incorporated in Canada, with its head office located at 2650 – 1066 West Hastings Street, Vancouver, BC, V6E 3X1. Harvest One's common shares are listed on the TSX Venture Exchange under the symbol "HVT".

The condensed consolidated interim financial statements as at and for the three months ended September 30, 2018 and 2017 include Harvest One and its subsidiaries (together referred to as "the Company") and the Company's interest in an affiliated company.

The principal activities of the Company are to provide lifestyle and wellness products to consumers and patients in regulated markets around the world through its three wholly-owned subsidiaries: United Greeneries Ltd. ("United Greeneries"), a Licensed Producer of cannabis; Satipharm Limited ("Satipharm"), the Company's medical and nutraceutical arm; and Dream Water Global ("Dream Water"), the Company's consumer arm. The Company also has exposure to the retail vertical through its investment in Burb Cannabis Corp. ("Burb").

2. Basis of presentation and significant accounting policies

a) *Statement of compliance*

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 - *Interim Financial Reporting*, following the same accounting policies and methods of application as those disclosed in the annual audited consolidated financial statements for the year ended June 30, 2018 other than those disclosed in note 3. These condensed consolidated interim financial statements should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended June 30, 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on November 26, 2018.

b) *Basis of measurement*

These condensed consolidated interim 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether the price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date in accordance with IFRS 13 – *Fair Value Measurement*.

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. Further information on fair value measurements is available in note 6.

(Expressed in Canadian dollars)

2. Basis of presentation and significant accounting policies (continued)

c) Classification of expenses

For the period ended September 30, 2017, $172,715 of production costs were disclosed as part of change in fair value of biological assets on the condensed consolidated interim statement of loss and comprehensive loss. The Company has reclassified an additional $385,808 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 three months ended September 30, 2017	As reported	Adjustments	**As restated**
	$	$	**$**
Production costs	–	558,523	**558,523**
Change in fair value of biological assets	357,412	172,715	**530,127**
Operating expenses			
Depreciation and amortization	250,286	(202,666)	**47,620**
General and administration	252,124	(116,990)	**135,134**
Regulatory	44,517	(29,267)	**15,250**
Salaries, bonus and benefits	567,521	(36,885)	**530,636**

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 condensed consolidated interim financial statements.

d) Significant accounting policy

As a result of the investment in Burb as described in note 9, the Company has included a new significant accounting policy in addition to those disclosed in the annual audited consolidated financial statements for the year ended June 30, 2018:

Investment and warrants in associate

As associate is an entity over which the Company has significant influence and is neither a subsidiary nor a joint arrangement. The Company has significant influence when it has the power to participate in the financial and operating policy decisions of the associate but does not have control or joint control over those policies. The Company accounts for its investment in associate using the equity method.

Under the equity method, the Company's investment in associate is initially recognized at cost, including transaction costs, and subsequently increased or decreased to recognize the Company's share of net earnings or losses of the associate after any adjustments necessary to give effect to uniform accounting policies and for impairment losses after the initial recognition date. The Company's share of earnings or losses of the associate are recognized in net loss during the period. Unrealized gains and losses on transactions between the Company and its associate are eliminated to the extent of the Company's interest in the associate.

At the end of each reporting period, the entire carrying amount of the investment is assessed for indicators of impairment. An impairment test is performed when there is objective evidence of impairment, such as significant adverse changes in the external environment in which the associate operates or a significant or prolonged decline in the fair value of the investment below its carrying amount. An impairment loss is recorded when the recoverable amount becomes lower than the carrying amount.

3. New accounting standards and interpretations

a) New or amended standards effective July 1, 2018

The Company has adopted the following new or amended IFRS standards for the period beginning July 1, 2018.

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

IFRS 15 was issued by the International Accounting Standards Board ("IASB") replacing IAS 18 – *Revenue* ("IAS 18"). The Company adopted IFRS 15 using the modified retrospective approach and determined that there is no impact of adoption in the comparative periods or in accumulated deficit.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue, at a point in time or over time, the assessment of which requires judgment. The model features the following contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized:

1. Identifying the contract with a customer;
2. Identifying the performance obligation(s) in the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligation(s) in the contract; and
5. Recognizing revenue when or as the Company satisfies the performance obligation(s).

Under IFRS 15, revenue from the sale of cannabis under the Company's Cultivation segment is recognized at a point in time when control over the goods have been transferred to the customer. Payment is typically due prior to shipment for medical cannabis sales and subsequent to shipment for recreational cannabis sales and is recognized upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control upon delivery to the customer, the timing of which is consistent with the Company's previous revenue recognition policy under IAS 18.

Revenue from the sale of liquid sleep shots and sleep powder packets under the Company's Consumer segment is recognized at a point in time when control over the goods have been transferred to the customer. Payment is typically due up to 45 days subsequent to the shipment of the goods and is recognized upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control upon delivery to the customer. As part of the transaction price, the Company records a sales allowance to account for the potential return of goods from customers. The Company's previous revenue recognition policy under IAS 18 was to recognize revenue at the time the goods were shipped and the adoption of IFRS 15 had no material impact on the revenue recognized.

Based on the Company's assessment, the adoption of this new standard had no material impact on the amounts recognized in its condensed consolidated interim financial statements.

3. New accounting standards and interpretations (continued)

a) *New or amended standards effective July 1, 2018 (continued)*

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

IFRS 9 replaced IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39") and all previous versions of IFRS 9. The Company adopted IFRS 9 using the modified retrospective approach and determined that there is no impact of adoption in the comparative periods or in accumulated deficit.

IFRS 9 introduces new requirements for classification and measurement, impairment, and hedge accounting. The standard 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. Under IFRS 9, financial assets are initially measured at fair value. In the case of a financial asset not at fair value through profit or loss, financial assets are initially measured at fair value plus transaction costs. Financial assets are subsequently measured at:

- Amortized cost;
- Fair value through other comprehensive income ("FVOCI"); or
- Fair value through profit or loss ("FVTPL").

The classification is based on whether the contractual cash flow characteristics represent "solely payment of principal and interest" as well as the business model under which the financial assets are managed. Financial assets are required to be reclassified only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

Consistent with IAS 39, all financial liabilities held by the Company under IFRS 9 are initially measured at fair value and subsequently measured at amortized cost.

The following table summarizes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities:

	IAS 39 Classification	IFRS 9 Classification
Cash	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Other liabilities
Warrants in associate	Not applicable	FVOCI

Impairment of financial assets

Under IFRS 9, the Company is required to apply an expected credit loss ("ECL") model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the balance sheet date. For trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected losses taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions. The Company has assessed the impairment of its accounts receivable using the ECL model and no material difference was noted based on a collectability assessment of the outstanding receivables. As a result, no impairment loss has been recognized upon transition.

(Expressed in Canadian dollars)

3. New accounting standards and interpretations (continued)

b) Recent accounting pronouncements

The following IFRS standard has been recently issued by the IASB. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

IFRS 16 – Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which will replace IAS 17 – *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The Company intends to adopt IFRS 16 on July 1, 2019 and is currently assessing the impact of this new standard on its consolidated financial statements.

4. Accounts receivable

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

	September 30 2018	June 30 2018
	$	$
Taxes receivable from governments	**645,841**	529,962
Trade receivables	**684,496**	459,746
Other receivables	**48,512**	98
	1,378,849	989,817

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

5. Inventories

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

	September 30 2018	June 30 2018
	$	$
Raw materials	**500,432**	399,483
Finished goods		
Dried cannabis	**3,791,503**	3,083,977
Liquid sleep shots and sleep powder packets	**786,208**	1,006,180
Supplies and consumables	**418,889**	254,326
	5,497,032	4,743,966

As at September 30, 2018, the Company held 589,012 grams of dried cannabis (June 30, 2018 – 562,300 grams).

For the three months ended September 30, 2018, cannabis inventory expensed to cost of sales was $536,678, of which $503,446 relates to realized fair value changes and $33,232 relates to costs incurred to sell cannabis inventory.

(Expressed in Canadian dollars)

6. Biological assets

The continuity of biological assets, which consists of seeds and cannabis plants, is as follows:

	September 30 2018	June 30 2018
	$	$
Balance, beginning of period	**904,017**	110,489
Change in fair value of biological assets	**1,209,739**	3,595,541
Transferred to inventory upon harvest	**(1,136,832)**	(2,802,013)
Balance, end of period	**976,924**	904,017

As at September 30, 2018, included in the carrying amount of biological assets was $20,914 in seeds and $956,010 in cannabis plants (June 30, 2018 – $20,914 in seeds and $883,103 in cannabis plants).

Biological assets are valued in accordance with IAS 41 – *Agriculture* and are presented at their fair value less costs to sell up to the point of harvest. 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, 2018 – 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, 2018 – $6.45 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 $112,000 in biological assets at September 30, 2018 (June 30, 2018 – $126,000).

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 September 30, 2018, on average, the biological assets were 48% complete as to the next expected harvest date (June 30, 2018 – 64%).

(Expressed in Canadian dollars)

7. 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, 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
Cost						
July 1, 2018	2,615,706	359,014	6,278,362	1,394,980	1,809,282	12,457,344
Additions	98,417	22,028	4,094	–	530,852	655,391
Disposals	(4,364)	–	–	–	(195,233)	(199,597)
September 30, 2018	2,709,759	381,042	6,282,456	1,394,980	2,144,901	12,913,138
Accumulated depreciation						
July 1, 2018	667,094	104,703	1,145,347	–	–	1,917,144
Depreciation	65,138	24,072	13,232	–	–	102,442
September 30, 2018	732,232	128,775	1,158,579	–	–	2,019,586
Net book value						
September 30, 2018	**1,977,527**	**252,268**	**5,123,877**	**1,394,980**	**2,144,901**	**10,893,552**

On August 10, 2018, the Company terminated a five year lease agreement for a site located in Aldergove, BC for the construction of a 59,000 square foot facility. The Company completed a feasibility audit and, in light of the results and regulatory changes, decided not to proceed with this facility. Therefore, $185,000 related to the Aldergrove site was written-off during the period ended September 30, 2018, which consisted of amounts capitalized in construction in progress and prepaid expenses and deposits.

During the period ended September 30, 2018, the Company commenced a modular expansion that will increase the annual production capacity of dried cannabis on the land adjacent to the Duncan facility which United Greeneries has under lease. As a result, the amounts capitalized in construction in progress of approximately $147,000 related to other planned projects for the previously vacant land were written-off.

(Expressed in Canadian dollars)

8. Intangible assets

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

	Brand names	Customer relationships	Website	Total
	$	$	$	$
Cost				
July 1, 2017	–	–	32,055	32,055
Additions	–	–	26,285	26,285
Additions from Dream Water acquisition	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
Cost				
July 1, 2018	4,190,000	1,540,000	58,340	5,788,340
Additions	–	–	2,100	2,100
September 30, 2018	4,190,000	1,540,000	60,440	5,790,440
Accumulated amortization				
July 1, 2018	–	19,288	9,865	29,153
Amortization	–	55,000	3,022	58,022
September 30, 2018	–	74,288	12,887	87,175
Net book value				
September 30, 2018	**4,190,000**	**1,465,712**	**47,553**	**5,703,265**

9. Investment and warrants in associate

On September 28, 2018, the Company invested $1,750,000 ($1,765,000 including legal fees) to acquire 5,042,000 Class E common shares in Burb. In addition, the Company received 3,268,870 common share purchase warrants at an exercise price of $0.5354 per warrant expiring on September 28, 2023. Burb is a BC-based retailer of cannabis and cannabis-related products. The shares currently provide the Company with a 19.99% ownership interest in Burb, which is the maximum investment permitted by a Licensed Producer in a retail cannabis business under applicable BC law and regulation.

Management has determined that the ownership interest in addition to board representation provides the Company with significant influence over Burb. Therefore, the Company has accounted for the investment under the equity method.

The consideration paid has been allocated between the value of the Class E common shares and the warrants at the date of acquisition. The warrants will be fair valued at the end of each reporting period with changes in fair value being recognized in other comprehensive loss in the period. There were no changes to the investment in associate or the fair value of the warrants from the acquisition date to September 30, 2018

(Expressed in Canadian dollars)

10. Other reserves

a) Stock options and performance appreciation rights

The Company has established a share purchase option plan ("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.

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

	Number outstanding	Weighted average exercise price
	#	$
Outstanding at July 1, 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
Granted	9,250,000	0.79
Expired	(150,000)	0.75
Forfeited	(1,216,667)	0.98
Outstanding at September 30, 2018	**16,908,333**	**0.79**

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

Number of options outstanding	Exercise price	Number of options exercisable	Expiry date
#	$	#	
6,433,333	0.75	5,119,166	April 27, 2022
200,000	1.77	–	January 25, 2023
1,025,000	0.84	–	May 28, 2023
8,000,000	0.77	1,200,000	July 3, 2023
1,250,000	0.91	–	September 18, 2023
16,908,333		**6,319,166**	

On July 3, 2018, 2,500,000 performance appreciation rights ("PAR") were granted to certain Executives of the Company. Each 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 375,000 PARs vested immediately and the remaining 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.

In determining the amount of share-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of options and PARs granted during the period ended September 30, 2018 by applying the following assumptions:

	September 30 2018
Risk-free interest rate	**2.07% – 2.20%**
Expected life of options (years)	**3.59**
Expected annualized volatility	**86.47% – 87.04%**
Expected dividend yield	**Nil**

(Expressed in Canadian dollars)

10. Other reserves (continued)

a) *Stock options and performance appreciation rights (continued)*

Volatility was estimated by using the historical share prices of the Company. The expected life in years represents the period of time that the options and PARs 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 and PAR.

The Company intends to settle the PARs through equity instruments and therefore, used the Black-Scholes option pricing model to establish the fair value of the PARs to determine the amount of share-based compensation during the period ended September 30, 2018.

b) *Warrants*

The Company's outstanding warrants at September 30, 2018 is as follows:

	Issued	Exercised	Outstanding	Exercise price	Expiry date
	#	#	#	$	
Reverse Take-Over ("RTO") Warrants	16,667,000	13,290,532	3,376,468	1.00	April 27, 2020
Brokers' RTO warrants	2,000,040	1,200,004	800,036	0.75	April 27, 2020
Brokers' Secondary Warrants	600,002	100,002	500,000	1.00	January 4, 2021
Debenture Warrants	9,493,882	3,592,600	5,901,282	1.09	December 14, 2020
Units Offering Warrants	22,115,385	–	22,115,385	2.30	January 31, 2020
Brokers' Units Offering Warrants	663,461	–	663,461	2.30	January 31, 2020
Dream Water Warrants	517,000	–	517,000	1.00	May 29, 2021
	52,056,770	**18,183,138**	**33,873,632**		

c) *Other*

During the period ended September 30, 2018, the Company recorded $nil (September 30, 2017 – $68,633) in share-based compensation expense as a result of vesting of stock options from MMJ PhytoTech Limited ("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.

11. Related parties

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

	For the three months ended September 30	
	2018	2017
	$	$
Salaries, bonus and benefits	**1,256,368**	189,808
Severance costs	**786,969**	–
Consulting fees	**–**	69,562
Directors' fees	**24,000**	36,000
Share-based compensation	**1,486,854**	501,856
Total	**3,554,191**	797,226

(Expressed in Canadian dollars)

11. Related parties (continued)

b) *Payments to related parties*

As at September 30, 2018, there was $24,000 directors' fees owing (June 30, 2018 – $27,000) included in accounts payable and accrued liabilities.

During the period ended September 30, 2018, the Company paid $12,715 (September 30, 2017 – $13,977) in legal fees to a law firm owned by a director of the Company.

c) *Payment to MMJ*

Prior to the RTO, the operational and funding requirements of the Company were supported by MMJ. During the period ended September 30, 2017, the Company repaid $5,892 of the amount outstanding to MMJ.

d) *Severance payment*

On August 30, 2018, the Company was named defendant in a civil claim filed by the former Chief Executive Officer ("CEO") of the Company for breaching a mutual separation and settlement agreement between the Company and the former CEO. The Company settled the claim for approximately $750,000 which is included in severance and reorganization costs in the three months ended September 30, 2018.

12. Commitments

As at September 30, 2018, the Company's commitments that have not been disclosed elsewhere in the condensed consolidated interim financial statements is as follows:

	Less than 1 year	Between 2 to 5 years	Over 5 years	Total
	$	$	$	$
Operating lease commitments	271,897	1,512,072	776,615	2,560,584
Purchase commitments	675,495	2,255,716	–	2,931,211
	947,392	**3,767,788**	**776,615**	**5,491,795**

On August 29, 2018, the Company entered into a six-year lease agreement for office space in Vancouver, BC. Commencing on October 1, 2019, the Company will pay monthly rent at a rate of $23,333. The current office lease agreement was amended and will expire on April 29, 2019.

During the period ended September 30, 2018, the Company entered into two lease agreements for the Company's Dream Water operations: (1) a five-year lease agreement in Toronto, Ontario with monthly rent at a rate of $4,180 commencing on July 9, 2018; and (2) a three-year lease agreement in Miami, Florida with monthly rent a rate of US$3,500 ($4,531) commencing on October 1, 2018.

13. Segmented information

The Company operates in three reportable segments: Cultivation (United Greeneries), Medical and Nutraceutical (Satipharm), and Consumer (Dream Water), which is the way the Company reports information regarding segment performance, including net profit (loss), to its chief operating decision maker.

The Cultivation segment includes the cultivation and distribution of cannabis under the federally regulated *Access to Cannabis for Medical Purposes Regulations* 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 US.

(Expressed in Canadian dollars)

13. Segmented information (continued)

The segments for the three months ended September 30, 2018 and 2017 are as follows:

	Three months ended September 30, 2018					Three months ended September 30, 2017				
	Cultivation	**Medical and Nutraceutical**	**Consumer**	**Corporate**	**Total**	Cultivation	Medical and Nutraceutical	Consumer	Corporate	Total
	$	**$**	**$**	**$**	**$**	$	$	$	$	$
Revenue	**607,750**	**–**	**1,071,541**	**–**	**1,679,291**	–	174,544	–	–	174,544
Production costs	**(647,777)**	**–**	**–**	**–**	**(647,777)**	(558,523)	–	–	–	(558,523)
Inventory expensed to cost of sales	**(33,232)**	**–**	**(1,126,478)**	**–**	**(1,159,710)**	–	(152,316)	–	–	(152,316)
Gross profit (loss) before fair value adjustments	**(73,259)**	**–**	**(54,937)**	**–**	**(128,196)**	(558,523)	22,228	–	–	(536,295)
Realized fair value amounts included in inventory sold	**(503,446)**	**–**	**–**	**–**	**(503,446)**	–	–	–	–	–
Change in fair value of biological assets	**1,209,739**	**–**	**–**	**–**	**1,209,739**	530,127	–	–	–	530,127
Gross profit (loss)	**633,034**	**–**	**(54,937)**	**–**	**578,097**	(28,396)	22,228	–	–	(6,168)
Other operating expenses	**(607,553)**	**(453,953)**	**(1,280,307)**	**(4,053,592)**	**(6,395,405)**	(256,687)	(191,672)	–	(1,357,383)	(1,805,742)
Profit (loss) from operations	**25,481**	**(453,953)**	**(1,335,244)**	**(4,053,592)**	**(5,817,308)**	(285,083)	(169,444)	–	(1,357,383)	(1,811,910)
Net finance costs	**(1,499)**	**(652)**	**(3,394)**	**(1,755)**	**(7,300)**	(1,526)	(442)	–	27	(1,941)
Foreign exchange	**–**	**34,790**	**64**	**(5,720)**	**29,134**	–	(74,333)	–	–	(74,333)
Net profit (loss)	**23,982**	**(419,815)**	**(1,338,574)**	**(4,061,067)**	**(5,795,474)**	(286,609)	(244,219)	–	(1,357,356)	(1,888,184)
Total assets	**18,710,894**	**1,236,078**	**35,598,926**	**48,627,776**	**104,173,674**	21,793,381	707,086	–	313,228	22,813,695
Total liabilities	**496,307**	**142,486**	**1,443,791**	**1,427,783**	**3,510,368**	620,558	79,381	–	164,191	864,130

(Expressed in Canadian dollars)

13. Segmented information (continued)

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

Revenue	For the three months ended September 30 2018	2017
	$	$
Canada	**724,163**	–
US	**955,128**	–
Switzerland	**–**	174,544
Total	**1,679,291**	174,544

Revenues in each geographical location relate to the sale of the following:

- Canada – dried cannabis and Dream Water liquid sleep shots
- US – Dream Water liquid sleep shots and sleep powder packets
- Switzerland – Gelpell Microgel cannabidiol ("CBD") capsules

Non-current assets	**September 30 2018**	September 30 2017
	$	$
Canada	**29,780,006**	8,433,916
US	**16,138,811**	–
Total	**45,918,817**	8,433,916

14. Subsequent event

Acquisition of PhytoTech Therapeutics

On November 20, 2018, the Company closed a binding Share Sale Agreement with MMJ for the purchase of 100% of Israeli-based PhytoTech Therapeutics Ltd. for total consideration of $8,000,000, consisting of $1,000,000 in cash and 8,326,695 of the Company's common shares.