DionyMed Brands Inc.

CONSOLIDATED FINANCIAL STATEMENTS

For the Periods Ended December 31, 2018 and February 28, 2018

(Expressed in U.S. Dollars)

Independent Auditor's Report

MNP LLP

To the Shareholders of DionyMed Brands Inc.:

Opinion

We have audited the consolidated financial statements of DionyMed Brands Inc. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the ten-month period then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the ten-month period then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $57,327,151 during the ten-month period ended December 31, 2018 and negative operating cash flows of $22,556,896 and, as of that date, the Company had an accumulated deficit of $57,779,953 and negative working capital of $11,077,500. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements of the Company for the year ended February 28, 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on May 31, 2019.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Marc Normand.

MNP LLP

Ottawa, Ontario — Chartered Professional Accountants

May 31, 2019 — Licensed Public Accountants

MNP LLP

DionyMed Brands Inc.
Consolidated Statement of Financial Position
As of December 31, 2018 and February 28, 2018
(Expressed in U.S. Dollars)

	Note	December 31, 2018	February 28, 2018
Assets			
Current Assets			
Cash		$ 8,814,561	$ 133,117
Accounts Receivable	6	4,082,211	165,313
Inventories	7	3,390,959	1,209,811
Prepaid Expenses		289,870	45,313
		16,577,601	1,553,554
Non-Current Assets			
Security Deposits		534,017	213,301
Property and Equipment	8	989,527	124,671
Intangible Assets	9	14,705,450	-
Goodwill	9	21,923,600	-
Total Assets		$ 54,730,195	$ 1,891,526
Liabilities and Deficit			
Current Liabilities			
Accounts Payable and Accrued Liabilities		$ 10,531,143	$ 2,115,128
Taxes Payable		6,425,700	59,086
Notes Payable	5	125,000	-
Inventory Finance Facility	10	766,258	-
Term Loans	11	3,860,000	-
Financial Liabilities	5	5,947,000	-
Due to Shareholders	14	-	874,372
		27,655,101	3,048,586
Non-Current Liabilities			
Convertible Debentures	12	29,814,543	3,206,348
Royalty Debt	13	1,716,189	-
Financial Liabilities	5	9,485,000	-
Deferred Tax Liabilities	5	3,086,448	-
Total Liabilities		$ 71,757,281	$ 6,254,934
Deficit			
Share Capital	15	$ 23,267,098	$ -
Warrants	15	19,916,643	-
Option Reserves	15	1,041,643	57,975
Accumulated Other Comprehensive Income		506,562	10,498
Other Reserves	5	(3,979,079)	(3,979,079)
Accumulated Deficit		(57,779,953)	(452,802)
Total Deficit		$ (17,027,086)	$ (4,363,408)
Total Liabilities and Shareholders' Deficit		$ 54,730,195	$ 1,891,526

Going Concern (Note 1)
Contingencies and Commitments (Note 19)
Subsequent Events (Note 24)

"Edward Fields"
Chief Executive Officer and Chairman

"Peter Kampian"
Chief Financial Officer

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

DionyMed Brands Inc.
Consolidated Statement of Loss and Comprehensive Loss
For the Period from March 1, 2018 to December 31, 2018
and the Period from March 1, 2017 to February 28, 2018
(Expressed in U.S. Dollars)

	Note	From March 1, 2018 to December 31, 2018	From March 1, 2017 to February 28, 2018
Revenue	22	$ 10,122,920	$ 53,050
Direct Costs		7,139,366	42,257
Gross Margin, Excluding Fair Value Items		2,983,554	10,793
Unrealized Fair Value Gain on Growth of Biological Assets	7	98,836	-
Gross Margin		3,082,390	10,793
Expenses			
Wages and Salaries		9,659,731	1,844,107
Administrative and Other		7,163,128	2,128,073
Listing Expense	2	4,428,623	-
Interest Expense	17	3,927,101	-
Legal and Professional Fees		2,405,107	1,173,333
Financing Costs		2,328,956	-
Sales and Marketing Expense		1,607,749	568,693
Impairment of Trade Receivables		1,124,342	-
Share-Based Compensation	15	998,858	83,369
Amortization and Depreciation Expense		902,974	-
Royalties Expense	13	859,724	-
Business Development Expense		668,775	521,846
Foreign Exchange Gain		(73,368)	(41,699)
Total Operating Expenses		36,001,700	6,277,722
Loss from Operations		(32,919,310)	(6,266,929)
Other Revenue and Expenses			
Fair Value Adjustment on Debt Carried at Fair Value	12	(23,951,083)	-
Fair Value Adjustment on Financial Liabilities	5	(623,000)	-
Net Loss before Income Taxes		(57,493,393)	(6,266,929)
Deferred Tax Recovery	18	(166,242)	-
Net Loss		$ (57,327,151)	$ (6,266,929)
Weighted average common shares outstanding – basic and diluted	16	40,737,145	33,106,666
Net loss per common share - basic & diluted	16	(1.41)	(0.19)
Other Comprehensive Income (Loss)			
Foreign Exchange Loss Translation of Financial Statement Balances		(760,004)	-
Foreign Exchange Gain on Translation of Intercompany Balances		1,256,068	10,498
Comprehensive Loss		$ (56,831,087)	$ (6,256,431)

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

DionyMed Brands Inc.
Consolidated Statement of Changes in Shareholders' Equity
For the Period from March 1, 2018 to December 31, 2018
and the Period from March 1, 2017 to February 28, 2018
(Expressed in U.S. Dollars)

	Note	Number of Shares (Common)	Number of Shares (Series A Convertible Preferred)	Number of Shares (Series F Convertible Preferred)	Share Capital	Warrants	Option Reserves	Accumulated Other Comprehensive Income (Loss)	Other Reserve	Accumulated Deficit	Shareholders' Equity
Balance - February 28, 2018		116,666	-	6,598	$ -	$ -	$ 57,975	$ 10,498	$ (3,979,079)	$ (452,802)	$ (4,363,408)
Series A Private Placement	12, 15	1,768,598	1,289	-	1,481,379	-	-	-	-	-	1,481,379
Convertible Promissory Note (Including Accrued Interest) Conversion	12, 15	1,114,446	30,064	-	3,217,149	-	-	-	-	-	3,217,149
Common Shares Issued on Conversion of Series A Shares	15	1,943,300	(19,433)	-	-	-	-	-	-	-	-
Common Shares Issued to Settle Shareholder Payable	15	560,000	-	-	439,513	-	-	-	-	-	439,513
Common Shares Issued for Hometown Heart Investment	15	410,000	-	-	659,498	-	-	-	-	-	659,498
Common Shares Absorbed upon Acquisition of Hometown Heart	15	(410,000)	-	-	(659,498)	-	-	-	-	-	(659,498)
Common Shares Issued on Term Loan Repayment	15	21,412	-	-	67,750	-	-	-	-	-	67,750
Common Shares and Warrants Issued to Sixonine for Reverse Takeover	2, 15	819,586	-	-	2,613,742	613,037	-	-	-	-	3,226,779
Common Shares and Warrants Issued on Inventory Finance Facility	15	27,795	-	-	88,641	1,442,738	-	-	-	-	1,531,379
Common Shares and Warrants Issued for Reverse Takeover Concurrent Financing	15	8,115,297	-	-	10,292,305	11,870,791	-	-	-	-	22,163,096
Common Shares and Warrants Issued on Debenture Conversion	15	2,402,910	-	-	5,000,300	2,519,528	-	-	-	-	7,519,828
Warrants Issued with Grenville Royalty Purchase Agreements	13, 15	-	-	-	-	67,399	-	-	-	-	67,399
Warrants Issued to Series B Debentures Financing Broker	15	-	-	-	-	1,813,083	-	-	-	-	1,813,083
Warrants Issued to Reverse Takeover Concurrent Financing Broker	15	-	-	-	-	1,590,067	-	-	-	-	1,590,067
Share-Based Compensation	15	-	-	-	-	-	998,858	-	-	-	998,858
Common Shares Issued on Exercise of Stock Options	15	700,875	-	-	66,319	-	(15,190)	-	-	-	51,129
AOCI: Translation of Financial Statement Balances		-	-	-	-	-	-	(760,004)	-	-	(760,004)
OCI: Gain on Translation of Intercompany Balances		-	-	-	-	-	-	1,256,068	-	-	1,256,068
Net Loss		-	-	-	-	-	-	-	-	(57,327,151)	(57,327,151)
Balance - December 31, 2018		17,590,885	11,920	6,598	$ 23,267,098	$ 19,916,643	$ 1,041,643	$ 506,562	$ (3,979,079)	$ (57,779,953)	$ (17,027,086)

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

DionyMed Brands Inc.
Consolidated Statement of Changes in Shareholders’ Equity
For the Period from March 1, 2018 to December 31, 2018
and the Period from March 1, 2017 to February 28, 2018
(Expressed in U.S. Dollars)

	Note	Number of Shares (Common)	Number of Shares (Series A Convertible Preferred)	Number of Shares (Series F Convertible Preferred)	Share Capital	Warrants	Option Reserves	Share Premium	Accumulated Other Comprehensive Income (Loss)	Other Reserve	Accumulated Deficit	Shareholders' Equity
Balance - March 1, 2017		3,000,000	-	-	$ 1,000,000	$ -	$ -	$ -	$ -	$ -	$ (745,865)	$ 254,135
DionyMed, Inc. Share Issuance - Common Shares	15	116,666	-	-	27,325	-	-	-	-	-	-	27,325
DionyMed, Inc. Share Issuance - Series F Convertible Preferred Shares	15	-	-	6,598	521,846	-	-	-	-	-	-	521,846
Herban, Inc. Share Split	15	27,000,000	-	-	-	-	-	-	-	-	-	-
Herban, Inc. Additional Capital Contribution	15	-	-	-	1,000,000	-	-	-	-	-	-	1,000,000
Share-Based Compensation	15	-	-	-	-	-	83,369	-	-	-	-	83,369
AOCI: Translation of Financial Statement Balances		-	-	-	-	-	-	-	16,846	-	-	16,846
Share Exchange and Contribution with DionyMed, Inc.	5	116,666	-	2	(549,171)	-	(1,938)	-	(6,348)	(457,875)	1,015,332	-
Share Exchange and Contribution with Herban, Inc.	5	-	-	6,596	(2,000,000)	-	(23,456)	-	-	(3,521,204)	5,544,660	-
Cancellation of DionyMed, Inc. Shares	5	(116,666)	-	(2)	-	-	-	-	-	-	-	-
Cancellation of Herban, Inc. Shares	5	(30,000,000)	-	(6,596)	-	-	-	-	-	-	-	-
Net Loss		-	-	-	-	-	-	-	-	-	(6,266,929)	(6,266,929)
Balance - February 28, 2018		116,666	-	6,598	$ -	$ -	$ 57,975	$ -	$ 10,498	$ (3,979,079)	$ (452,802)	$ (4,363,408)

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

DionyMed Brands Inc.
Consolidated Statement of Cash Flow
For the Period from March 1, 2018 to December 31, 2018
and the Period from March 1, 2017 to February 28, 2018
(Expressed in U.S. Dollars)

	From March 1, 2018 to December 31, 2018	From March 1, 2017 to February 28, 2018
Operating Activities		
Net Loss for the Period	$ (57,327,151)	$ (6,266,929)
Adjustment for Non-Cash Items:		
Inventory Fair Value Changes	(98,836)	-
Listing Fee	3,213,529	-
Amortization and Depreciation	902,974	2,503
Share-Based Compensation	998,858	83,369
Impairment of Trade Receivables	1,084,063	239,639
Unrealized Foreign Exchange Gain	(73,368)	(5,680)
Fair Value Adjustment on Debt Carried at Fair Value	23,951,083	-
Fair Value Adjustment on Financial Liabilities	623,000	-
Deferred Tax Recovery	(166,242)	-
Interest Expense	3,241,464	-
Legal and Professional Fees	152,322	-
Financing Fees	2,277,592	521,846
Accrued Royalty	424,747	-
Write-down of Inventory	871,594	646,421
Write-off of Unidentifiable Property and Equipment	56,962	-
R&D Prototyping Expense	-	263,875
Change in Non-Cash Working Capital Items:		
Accounts Receivables	(3,411,166)	(29,817)
Inventories	(871,688)	(832,355)
Prepaid Expenses	(201,125)	(27,126)
Security Deposits	(83,514)	(213,301)
Accounts Payable and Accrued Liabilities	(4,488,608)	1,927,829
Taxes Payable	6,366,614	-
Other Current Assets	-	(125,324)
Other Current Liabilities	-	68,544
Net cash used in operating activities	(22,556,896)	(3,746,506)
Investing Activities		
Purchase of Property and Equipment	(816,083)	(97,031)
Purchase of Intangible Assets	(8,405)	-
Advances to GreenRush	-	(1,202,940)
Acquisition of Rise Brands, Net of Cash Acquired	(6,465,000)	-
Acquisition of JDK Holdings (Winberry), Net of Cash Acquired	(3,541,637)	-
Acquisition of Hometown Heart, Net of Cash Acquired	(1,232,924)	-
Advance to Cascade Cannabis Distribution, Inc. before Acquisition	(112,627)	-
Net cash used in investing activities	(12,176,676)	(1,299,971)
Financing Activities		
Proceeds from Issuance of Share Capital	-	27,325
Proceeds from Issuance of Series A Convertible Promissory Notes	-	3,206,348
Proceeds from Additional Capital Contributions	-	1,000,000
Proceeds from Issuance of Shares as part of Series A Round of Financing	1,522,605	-
Proceeds from Issuance of Series B Convertible Debentures	11,165,412	-
Proceeds from Subscription Receipt Financing	23,753,163	-
Proceeds from Inventory Finance Facility (net of financing costs for December 31, 2018 – $25,000; February 28, 2018 – $nil)	2,122,350	-
Proceeds from Term Loan Financing	3,860,000	-
Proceeds from Grenville Royalty Financing (net of financing costs for December 31, 2018 – $20,468; February 28, 2018 – $nil)	1,464,042	-
Working Capital Note from Shareholders	-	874,373
Repayment of Working Capital Notes	(434,860)	-
Exercise of Stock Options	51,130	-
Net cash provided by financing activities	43,503,842	5,108,046
Net increase in cash	8,770,270	61,569
Cash, Beginning of Period	133,117	101,218
Effect of Foreign Exchange Rate Changes on Cash	(88,826)	(29,670)
Cash, End of Period	$ 8,814,561	$ 133,117

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

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1. Going Concern and Nature of Operations

Going Concern

These consolidated financial statements have been prepared on a going concern basis under the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. The Company's ability to continue in the normal course of operations as a going concern is dependent on its ability to raise financing sufficient to maintain operations and there are no assurances that the Company will be successful in achieving this goal. For the ten-month period ended December 31, 2018 (twelve-month period ended February 28, 2018), the Company reported a net loss of $57,327,151 (February 28, 2018 – $6,266,929), operating cash outflows of $22,556,896 (February 28, 2018 – $3,746,506) and, as of that date, an accumulated deficit amounting to $57,779,953 (February 28, 2018 – $452,802), and a negative working capital of $11,077,500 (February 28, 2018 – $1,495,032). These circumstances indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and ultimately on the appropriateness of the use of accounting principles applicable to a going concern. These consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

To date, the Company has been successful in gaining access to equity and debt financing from private and public markets, however there are no guarantees that additional financing will be available in the future.

Nature of Operations

DionyMed Brands Inc. ("DionyMed Brands" or the "Company") was originally incorporated under the Canada Business Corporations Act on October 12, 2006, and on March 22, 2017 was continued into British Columbia under the British Columbia Business Corporations Act, and changed its name from Homeland Energy Group Ltd. to Sixonine Ventures Corp. The Company was a public company and its common shares were listed for trading on the NEX board of the TSX Venture Exchange under the symbol "SNX.H".

On November 28, 2018, DionyMed Brands closed its qualifying transaction (the "Transaction") with DionyMed Holdings Inc. ("DionyMed Holdings"), a multi-state, vertically integrated operating platform that designs, develops, markets and sells a portfolio of branded cannabis products in the United States.

Prior to the completion of the Transaction, on November 1, 2018, DionyMed Holdings completed a brokered private placement by issuing 8,115,297 Subscriptions Receipts at a price of CAD$4.25 each for aggregate gross proceeds of approximately CAD$34,490,000, after giving effect to the full exercise of the over-allotment option granted to the agents in connection with the private placement. On closing of the Transaction, each Subscription Receipt was exchanged, without payment of any additional consideration, for one unit ("Unit") of DionyMed Holdings, comprising of one subordinate voting share ("common share") of DionyMed Holdings and one warrant exercisable to purchase one common share of DionyMed Holdings at an exercise price of CAD$6.37 per share at any time on or before the date that is 24 months after the listing of the resulting issuer shares on the Exchange.

In connection with the Transaction, the Company changed its name from "Sixonine Ventures Corp." to "DionyMed Brands Inc." and consolidated its common shares on an 8.43295184 to 1 basis. Following these changes, DionyMed Holdings amalgamated with 1180820 B.C. LTD, a wholly-owned subsidiary of the Company formed solely for the purpose of facilitating the Transaction. Pursuant to the amalgamation, the shareholders of DionyMed Holdings received one common share, series A share, and series F share of the Company for each respective common share, series A share and series F share of DionyMed Holdings registered in the names of such shareholders. Holders of DionyMed Holdings' options and warrants (including all holders of Units) outstanding at the time of closing of the Transaction also received equivalent instruments of the Company exercisable for or convertible into the Company's common shares.

Following closing of the Transaction, the Company had 12,932,388 common shares, 31,353 series A shares, and 6,598 series F shares issued and outstanding. In addition, an aggregate 19,159,030 common shares of the Company were reserved for options, warrants and broker warrants outstanding. Effective upon the closing of the Transaction, as a result of the reverse takeover of the Company by the shareholders of DionyMed Holdings and to align the fiscal years of DionyMed Holdings to that of the Company, the fiscal year of DionyMed Holdings has been changed from February 28 of each year to December 31 of each year.

Upon issuance of the final exchange bulletin of the CSE Exchange providing final acceptance of the Transaction on November 28, 2018, the Company ceased to be trading on the TSX Venture Exchange and commenced trading on the CSE Exchange on November 28, 2018 under the symbol “DYME”.

DionyMed Holdings was incorporated on January 11, 2018 under the Ontario Business Corporations Act. Herban Industries, Inc (“Herban”) was incorporated in Delaware, USA, on March 1, 2016. DionyMed, Inc (“DionyMed”) was incorporated in Ontario, Canada, on October 19, 2017. DionyMed Holdings, Herban and DionyMed were commonly-controlled companies amalgamated on February 28, 2018 (Note 5). DionyMed Holdings’ principal activity is to brand, manufacture and distribute cannabis products within the State of California and Oregon. DionyMed Holdings is currently licensed under the laws of the State of California and Oregon to produce and sell medicinal and adult-use cannabis products within such states.

In addition to the states listed above, DionyMed Holdings also conducts pre-licensing activities in other markets including Massachusetts, New Jersey, Nevada, Colorado and Illinois. In these markets, DionyMed Holdings has either applied for licenses, or plans on applying for licenses, but does not currently own any cultivation, production or retail licenses.

The Company’s registered head office is 40 King Street West, Suite #2100, Toronto, ON M5H 3C2.

2. Reverse Takeover Transaction

The Transaction mentioned above constitutes a reverse asset acquisition by DionyMed Holdings of the Company. The Company did not meet the definition of a business before acquisition under International Financial Reporting Standards (“IFRS”) 3 – Business Combinations and therefore this is not a business combination as defined. Although legally, the Company is regarded as the parent or continuing company, DionyMed Holdings, whose shareholders held approximately 99% of the voting shares of the Company immediately after the Transaction, is treated as the acquirer for accounting purposes following the principles in IFRS 3. Consequently, the Transaction is accounted for as a continuation of the financial statements of DionyMed Holdings, together with a deemed issuance of shares equivalent to the shares held by the former shareholders of the Company, and a recapitalization of the equity of DionyMed Holdings.

These consolidated financial statements include the completion of the reverse asset acquisition transaction recorded on November 28, 2018. DionyMed Holdings, the continuing entity for accounting purposes, is considered to have acquired the assets and liabilities of the Company in a capital transaction on November 28, 2018. The comparative figures that are presented in the consolidated financial statements are those of DionyMed Holdings with the exception that the presentation of share capital has been adjusted retroactively to that of the Company, the legal acquirer. The consolidated statements of comprehensive loss include the full results of DionyMed Holdings for the ten months ended December 31, 2018. As the acquirer for accounting purposes, the net assets of DionyMed Holdings were included in the consolidated statements of financial position at their carrying amounts at the date of the Transaction.

Fair value of 819,586 post-consolidated DionyMed Brands Inc. common shares	$	2,613,742
Fair value of 201,590 post-consolidated DionyMed Brands Inc. warrants		613,037
Legal and professional fees incurred as listing expenses		1,221,071
Total		4,447,850
Net assets acquired		
Cash	$	(27,029)
Other receivable		(17,125)
Accounts payable and accrued liabilities		24,927
Net assets acquired		(19,227)
Total listing costs expensed	$	4,428,623

The fair value of the post-consolidated DionyMed Brands Inc. shares and warrants was determined by reference to the consideration negotiated with the former shareholders of DionyMed Brands Inc. following the principles of IFRS 2. The fair value component relating to the aforementioned warrants was determined using the Black-Scholes pricing model.

3. Basis of Preparation

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee, effective for the Company's reporting for the period ended December 31, 2018.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 31, 2019.

Basis of Measurement

These consolidated financial statements have been prepared on the going concern basis, under the historical cost basis except for certain financial instruments, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets. The expenses within the consolidated statements of loss and comprehensive loss are presented by nature and function.

Functional and Presentation Currency

The functional currency of the Company, DionyMed Brands and DionyMed Inc is the Canadian dollar and the functional currency of Herban, Herban CA, Herban OR, Herban NJ and Hometown Heart is the United States (U.S.) dollar. These consolidated financial statements are presented in U.S. dollars.

Basis of Consolidation

These consolidated financial statements include the financial information of the Company, its subsidiaries and entities controlled through management services agreements and options. The accounts of subsidiaries are prepared for the same reporting period using consistent accounting policies. Intercompany transactions, balances and unrealized gains or losses on transactions are eliminated. The Company's subsidiaries and controlled entities, and its interests in each, are presented below:

Subsidiaries	Jurisdictions	Interest
DionyMed, Inc ("DionyMed")	Ontario, Canada	100%
Herban Industries, Inc ("Herban")	Delaware, USA	100%
Herban Industries CA LLC ("Herban CA")	California, USA	100%
Herban Industries OR LLC ("Herban OR")	Oregon, USA	100%
Herban Industries NJ LLC ("Herban NJ")	New Jersey, USA	100%

Controlled entities	Jurisdictions	Interest
Hometown Heart	California, USA	Controlled through management services agreement and option

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, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets and liabilities assumed, all measured as of the acquisition date. Any excess of the fair value of the net assets acquired over the assumed consideration paid is a gain on business acquisition and is recognized as a gain in the consolidated statements of loss and comprehensive loss.

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.

4. Significant Accounting Policies

Critical Accounting Estimates and Judgements

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. Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below:

<u>Impairment of property and equipment and intangible assets and goodwill</u>

Management is required to use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing for impairment. Judgment is further required to determine appropriate groupings of CGUs for the level at which goodwill and any other assets requiring testing for impairment are tested for impairment. For the purpose of goodwill impairment testing, CGUs are grouped at the lowest level at which goodwill and any other assets requiring testing for impairment are monitored for internal management purposes. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

In determining the recoverable amount of a CGU or a group of CGUs, various estimates are used. The Company determines the recoverable amount by using estimates such as projected future revenues, earnings, and capital investment consistent with strategic plans presented to the Board of Directors. Discount rates are consistent with external industry information reflecting the risk associated with the specific cash flows.

Management assesses property and equipment, as well as in use intangible assets with finite lives for any indicators of impairment at least annually taking into account factors such as economic and market conditions, as well as the useful lives of assets. If there are one or more indicators of impairment, management will estimate the recoverable amounts to assess whether there is an impairment.

Impairment of internally generated assets not yet in use, intangible assets with indefinite lives, and goodwill are assessed for impairment at least annually. This assessment takes into account factors such as economic and market conditions as well as any changes in the expected use of the asset.

Recoverability of accounts receivable

Accounts receivable include trade and other receivables that are collectable within the short-term.

These balances are presented net of allowances for non-recoverability. In establishing our allowances for non-recoverability balances, significant judgment is exercised by management in determining the amount of outstanding accounts receivable that is expected to be recovered from the debtors adopting the expected credit loss methodology.

Although the accounts receivable balances are derived from determination of contractual provisions and trade transactions, the recoverability of such amounts may ultimately differ due to the potential for a debtor to become financially impaired or insolvent or for a contractual dispute over contract language or terms. Consequently, reviews of accounts receivable balances are done on a regular basis to determine if there is a need to establish an allowance for non-recoverability, the amount of expected credit loss provision to make and recoverability of slow-moving accounts. In performing this review, the Company uses judgment in assessing the credit worthiness of debtors and the expected probability of settlement.

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

Depreciation and amortization of property and equipment and intangible assets are dependent upon estimates of useful lives, 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.

Warrants

The warrants are valued using the Black-Scholes Model. Key estimates such as the expected life of the warrants, the volatility of the Company's stock price and the risk-free interest rate are used.

Share-based compensation

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

Fair value measurements

The Company's convertible debentures (Note 12) are measured at fair value. In estimating fair value, the Company uses market-observable data to the extent it is available. In certain cases where Level 1 inputs are not available, the Company will engage third party qualified valuators to perform the valuation.

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as a liability is remeasured at subsequent reporting dates, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for a maximum of one year from the acquisition date.

Information about the valuation techniques and inputs used in determining the fair value of financial assets and liabilities are disclosed in Note 20.

Business Combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. Judgment is also required to assess whether the amounts paid on achievement of milestones represents contingent consideration or compensation for post-acquisition services. Judgment is also required to assess whether contingent consideration should be classified as equity or a liability. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Because the application of fair value methodology would not be appropriate in circumstances where the parties involved were commonly controlled, the “pooling of interests” or “predecessor value” method of accounting must be used, whereby the acquired assets and liabilities are recorded at their existing carrying values rather than at fair value and no goodwill is recorded in connection with the common control transactions discussed in Note 5.

Valuation of Biological Assets

Determination of the fair values of the biological assets requires the Company to make assumptions about how market participants assign fair value to these assets. These assumptions primarily relate to the market wholesale price and expected efficiency in cannabis oil processing.

The fair value of biological assets categorized within Level 3 on the fair value hierarchy. The inputs and assumptions used in determining the fair value of biological assets include:

(a) Wholesale price per pound	Level 3 input	$353
(b) Cannabis oil processing efficiency	Level 3 input	80%
(c) Cannabis potency level	Level 3 Input	15%

The Company’s estimates are, by their nature, subject to change.

Recognition of Deferred Income Tax Assets

Management continually evaluates the likelihood that its deferred tax assets could be realized. This requires management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, its assessment requires significant judgment.

Determination of Functional Currency

An area of judgment that has a significant impact on the amounts recognized in these consolidated financial statements is the determination of functional currency. The determination of the Company and its subsidiaries’ functional currency often requires significant judgment where the primary economic environment in which they operate may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation methods used.

Going Concern Risk Assessment

The assessment of the Company's ability to continue as a going concern, raising additional debt or equity financing, attaining commercial operations, generating sufficient revenue to achieve and sustain profitability for the ensuing year, and to fund planned research and development activities, involves significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

Contingencies

Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one ore more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events.

When contingencies exist, Management estimates the related financial impact to the Company based on the possible outcomes of one or more future events.

Determination of Cash Generating Units

CGUs are determined based on the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or group of assets. Management has exercised judgment in this assessment and determined the Company's CGUs to be the California Product Sales and Distribution; Oregon Product Sales; California Logistics and Services; California Delivery and Direct to Consumers.

Accounting Policies

Cash

Cash includes cash deposits in financial institutions and cash held at distribution locations.

Inventories

Inventories purchased from third parties, which include work in process, finished goods, and packaging and supplies, are valued at the lower of cost and net realizable value. Cost is determined using the weighted average costing method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell. The Company reviews inventories for obsolete, redundant and slow-moving goods and any such inventories identified are written down to net realizable value. The direct and indirect costs of inventory initially include the fair value of the biological asset at the time of harvest. They also include subsequent costs such as materials, labour and depreciation expense on equipment involved in packaging, labeling and inspection. All direct and indirect costs related to inventory are capitalized as they are incurred and they are subsequently recorded within 'direct costs' on the consolidated statements of loss and comprehensive loss at the time that the related product is sold, except for realized fair value amounts included in inventory sold which are recorded as a separate line on the face of the consolidated statements of loss and comprehensive loss.

Biological assets and agricultural produce

Biological assets, consisting of cannabis plants, are valued at fair value less costs to sell at each period-end date and upon harvest. The valuation of biological assets is considered a Level 3 fair value estimate. The Company capitalizes all direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest, including labour-related costs, grow consumables, materials, utilities, facilities costs, quality, and testing costs. Upon harvest, the fair value of biological assets recorded as unrealized fair value gains on growth of biological assets on the consolidated statements of loss and comprehensive loss is capitalized to inventory as agricultural produce. Upon sale of the goods arising from the agricultural produce, the unrealized fair value gains on growth of biological assets are realized and presented on a separate line on the consolidated statements of loss and comprehensive loss.

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and impairment losses, if any. Expenditures that materially increase the life of the assets are capitalized. Ordinary repairs and maintenance are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset using the following terms and methods:

Vehicles	5 Years
Furniture and Fixtures	5 – 7 Years
Computer Equipment and Software	5 Years
Leasehold Improvements	Shorter of estimated useful life or length of lease
Assets Under Construction	Not depreciated

The assets' residual values, useful lives and methods of depreciation are reviewed at each fiscal year and adjusted prospectively if appropriate. An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the consolidated statements of loss and comprehensive loss in the year the asset is derecognized.

Leased assets

A lease of property and equipment is classified as an operating lease whenever the terms of the lease do not transfer substantially all of the risks and rewards of ownership to the lessee. Lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits are consumed.

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash-generating unit ("CGU") or CGUs which are expected to benefit from the synergies of the combination.

Goodwill that has an indefinite useful life is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU.

Any goodwill impairment loss is recognized in the consolidated statements of loss and comprehensive loss in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

Finite-lived and indefinite-lived intangible assets

Finite-lived intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Amortization is provided on a straight-line basis over the following terms:

Customer Relationship	7 Years
Market Related Intangible Assets	10 Years
California Cannabis Licenses	0.3 Years
Oregon Cannabis Licenses	1 Year
Software	5 Years
Recipes and Formulas	5 Years

The estimated useful life and amortization method are reviewed at the end of each reporting period, 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 product rights and brand name which are carried at cost less accumulated impairment losses. Intangible assets with indefinite useful lives are not subject to amortization. Such assets are tested annually for impairment, or more frequently, if events or changes in circumstances indicate that they might be impaired. At December 31, 2018, the Company did not recognize any impairment losses.

Impairment of long-lived assets

Long-lived assets, including property and equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "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 profit or loss equal to the amount by which the carrying amount 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.

Revenue recognition

In accordance with IFRS 15, Revenue from Contracts with Customers, this standard introduces 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 five-step contract-based analysis of transactions to determine whether, how much and when revenue is recognized:

Step 1: Identify the contract(s) with a customer;
Step 2: Identify the performance obligation(s) in the contract;
Step 3: Determine the transaction price;
Step 4: Allocate the transaction price to the performance obligation(s) in the contract; and
Step 5: Recognize revenue when or as the entity satisfies the performance obligation(s).

The Company recognizes revenue from logistics services, sales of cannabis products, wholesale distribution, and direct delivery to consumers. Revenue is measured based on the consideration specified in contracts with customers. In accordance with IFRS 15, revenue from the sale of cannabis, wholesale distribution, and direct delivery to consumers is generally recognized when control over the goods has been transferred to the customer. Payment is typically due upon delivery and the company satisfies its performance obligation and transfers control to the customer upon delivery. In accordance with IFRS 15, revenue from logistics services is generally recognized when the goods from the third-party vendors have been delivered to the third-party customers. The Company recognizes only the logistics service fees charged to the third-party vendors as revenue.

Effective January 1, 2018, the California Department of Tax and Fee Administration (CDTFA) began levying an excise tax on the sale of medical and adult-use cannabis products. The Company becomes liable for these excise duties when cannabis products are received from cultivators and delivered to retailers. Net revenue from sale of goods, as presented on the consolidated statements of loss and comprehensive loss, represents revenue from the sale of goods less applicable excise taxes. Given that the excise tax payable/paid to the CDTFA cannot be reclaimed and is not always billed to customers, the Company recognizes that the excise tax is an operating cost that affects gross margin to the extent that it is not recovered from its customers.

Share-based payments

The stock option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in option reserves. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from reserves to share capital.

In situations where equity instruments are issued to non-employees and some or all of the services received by the entity as consideration cannot be specifically identified, they are all measured at the fair value of the share-based payment; otherwise, share-based payment is measured at the fair value of the services received.

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment reserve transactions.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Income taxes

The Company uses the liability method to account for 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 or other changes is recognized in profit or loss in the year of change unless the underlying item is recognized in other comprehensive income (loss), in which case the related tax effect is also recognized in other comprehensive income (loss). Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

Net income (loss) per share

Basic net income or loss per share is calculated by dividing the net income or loss by the weighted average number of shares outstanding during the period. Diluted net income or loss per share is calculated by dividing the applicable net income or loss by the sum of the weighted average number of shares outstanding and all additional shares that would have been outstanding if potentially dilutive shares had been issued during the period.

Financial Instruments

IFRS 9 replaces the classification and measurement models in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), with a single model under which financial assets and liabilities are classified and measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). This classification is based on the business model in which a financial asset is managed, as well as its contractual cash flow characteristics, and eliminates the IAS 39 categories of held-to-maturity, loans and receivables, and available-for-sale.

The Company designates the convertible debentures payable (Note 12) and financial liabilities (Note 5) as financial instruments measured at FVTPL.

All financial instruments are required to be measured at fair value on initial recognition on the date at which the Company becomes a party to the contractual provisions of the instrument, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. 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 derecognizes a financial liability when the obligation specified in the contract is either discharged or cancelled or expires.

The Company recognizes loss allowances for Expected Credit Losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

New Accounting Pronouncements Adopted in 2018

The following recently issued IFRS standards were adopted by the Company during the ten-month period ended December 31, 2018:

IFRS 15, Revenue from Contracts with Customers

IFRS 15 is required for reporting periods beginning on or after January 1, 2018. This new standard supersedes existing standards and interpretations, including IAS 18, Revenue IAS 11, Construction Contracts, and several revenue-related Interpretations. The Company adopted this new standard effective March 1, 2018 and has applied the standard retrospectively to prior periods.

This standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

More prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. The application of IFRS 15 has not had a significant impact on the financial position and financial performance of the Company considering there was no change in the manner in which revenue was recognized under the new standard for revenue streams which existed prior to March 1, 2018.

(Expressed in U.S. Dollars, unless stated otherwise)

The Company recognizes revenue from the delivery of products and rendering of services. Revenue is measured based on the consideration specified in contracts with customers and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control of a product or service to a customer.

IFRS 9, Financial Instruments

IFRS 9 is required for reporting periods beginning on or after January 1, 2018. The Company applied IFRS 9 retrospectively effective March 1, 2018 in accordance with the transition requirements. The adoption of IFRS 9 did not have any significant impact on the carrying amounts of financial instruments as at March 1, 2018 or December 31, 2018.

IFRS 9 replaces the classification and measurement models in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), with a single model under which financial assets are classified and measured at amortized cost, FVOCI or FVTPL. This classification is based on the business model in which a financial asset is managed, as well as its contractual cash flow characteristics, and eliminates the IAS 39 categories of held-to-maturity, loans and receivables, and available-for-sale.

All other financial assets and financial liabilities will continue to be measured on the same basis as is currently adopted under IAS 39.

The Company has assessed the classification and measurement of its financial instruments under IFRS 9, with reference to the former classification under IAS 39, as follows:

Financial Assets	**IFRS 9**	**IAS 39**
Cash and cash equivalents	FVTPL	FVTPL
Accounts receivable	Amortized cost	Loans and receivables
Financial Liabilities		
Accounts payable and accrued liabilities	Amortized cost	Other financial liabilities
Convertible debentures	FVTPL	FVTPL
Financial liabilities	FVTPL	Other financial liabilities
Term loans	Amortized cost	Other financial liabilities
Note payable	Amortized cost	Other financial liabilities
Royalty debt	Amortized cost	Other financial liabilities
Inventory finance facility	Amortized cost	Other financial liabilities

Impairment

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Company has applied the simplified approach to recognize lifetime expected credit losses for its trade receivables and has adjusted for credit losses under IFRS 9.

In general, the Company anticipates that the application of the expected credit loss model of IFRS 9 results in earlier recognition of credit losses for trade accounts receivable.

No significant impact on the Company's consolidated financial statements resulted from the adoption of this new standard.

IFRS 7, Financial instruments: Disclosure

IFRS 7, Financial instruments: Disclosure, was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. No significant impact on the Company's consolidated financial statements resulted from the adoption of this new standard.

New Accounting Pronouncements Issued but Not Yet Effective

IFRS 16, Leases

Effective January 1, 2019, the Company will adopt IFRS 16, which is based on a single lessee accounting model to determine how to recognize, measure, and present leases. A summary of the Company's structure and status of the implementation of IFRS 16 is described below.

Starting January 1, 2019, the Company's accounting policy under IFRS 16 will be as follows: Upon entering a lease arrangement, the Company will determine whether the agreement transfers the right to control the use of an identified asset within the context of the agreement, in exchange for regular payments.

The Company has elected to use the modified retrospective approach under IFRS 16. Under this approach, the Company may be required to record an opening balance adjustment for leases previously recognized under IAS 17, Leases ("IAS 17") and IFRIC 4, Determining Whether an Arrangement Contains a Lease (IFRIC 4).

The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously identified under IAS 17 and IFRIC 4. The Company has also elected to use the practical expedient to not include initial direct costs associated with the lease in calculating the opening right-of-use asset value. The Company has also elected to use the low dollar value practical expedient, which unlike the short-term recognition exemption, is applied on an asset-by-asset basis. The Company has also elected to use the practical expedient to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. The Company has also elected to use the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. This practical expedient is independent of the Company's accounting policy for the short-term lease recognition exemption.

In adopting IFRS 16, the Company has elected to use the short-term lease recognition exemption which is applied by class of assets.

The Company leases office space in Ontario, Oregon and California. The Company also leases cultivation, manufacturing, and distribution space in Oregon and California.

In using the modified retrospective approach, the Company has elected to record the right-of-use asset for any identified leases under IFRS 16 at the present value of their future lease payments on January 1, 2019. On initial transition the Company's incremental borrowing rate will be used as the discount rate in determining this value.

The Company's incremental borrowing rate will continue to be used for any leases entered into after initial transition, unless the discount rate implicit in the lease is known, in which case it will be used to determine the present value of the future lease payments.

Subsequent to initial recognition, the lease liability will be measured at amortized cost using the effective interest method. The liability can be remeasured throughout the term of the lease if any of the following would cause a significant change in the present value of the future lease payments:

- change in an index or discount rate;
- change in the Company's estimate of the amount expected to be payable under a residual value guarantee;
- changes in the Company's assessment of whether it will exercise a purchase, extension or termination option.

As for the right-of-use asset, it will subsequently be measured at its net book value. The deemed cost of the asset will be amortized over the shorter of its expected useful life and the term of the lease on a straight-line basis. These assets will be treated as property and equipment in line with the accounting policy in Note 4.

(Expressed in U.S. Dollars, unless stated otherwise)

The Company has elected to use the modified retrospective approach. Under this approach, the Company has elected to measure the right-of-use asset as if IFRS 16 had always been applied but using the Company's incremental borrowing rate on initial transition.

The Company has estimated the impact from the adoption of IFRS 16 on January 1, 2019 below:

	January 1, 2019
Right-of-use asset	$ 6,836,440
Lease liability	7,150,203
Accumulated deficit	(313,764)

IFRIC 23, Uncertainty over Income Tax Treatments

This standard clarifies the application of recognition and measurement requirements in IAS 12, Income Taxes when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers uncertain tax treatments separately or as a group, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted. The extent of the impact of adoption of the standard has not yet been determined.

5. Acquisitions and Business Combinations

The following table summarizes the final purchase price allocation and the total fair value of consideration for the acquisition of Rise Logistics, Winberry, and Hometown Heart:

	Rise Logistics	Winberry Farms	Hometown Heart
Cash	$ -	$ 108,363	$ 945,776
Accounts Receivable	-	179,915	1,655,005
Inventory	-	1,006,721	1,003,927
Biological Assets	-	71,570	-
Prepaid Expenses	-	-	280,634
Property and Equipment	-	160,121	56,962
Marketable Securities	-	-	543,525
Customer Relationships	4,640,000	3,635,000	573,000
Market Related Intangible Assets	2,318,000	1,819,000	80,000
Software	125,000	-	-
Recipes and Formulas		2,299,000	-
Goodwill	3,181,022	3,903,502	14,839,076
Total Assets Acquired	10,264,022	13,183,192	19,977,905
Assumed Tax Liability	-	-	(5,728,421)
Assumed Debt	(632,467)	(291,957)	(3,556,129)
Deferred Tax Liabilities	(1,487,430)	(1,628,130)	(137,130)
Fair value of net assets acquired	**$ 8,144,125**	**$ 11,263,105**	**$ 10,556,225**
Cash Consideration	$ 3,215,000	$ 1,347,105	$ 560,470
100,000 Common Share Issued	-	-	161,755
Series B Convertible Debentures Issued	-	2,100,000	
Financial Liability	4,684,000	7,816,000	9,834,000
Accounts Receivable Forgiven	245,125	-	-
Fair value of consideration	**$ 8,144,125**	**$ 11,263,105**	**$ 10,556,225**

Acquisition of Assets from Rise Brands, Inc.

On June 14, 2018, the Company through its subsidiary, Herban CA, acquired certain assets from Rise Brands, Inc ("Rise" or "Rise Logistics"), a privately-owned U.S. company. Rise is a logistics management, co-packaging, and other service provider to cannabis cultivators, manufacturers, and retailers in California. The acquisition consideration and related expenses were financed with cash on hand and proceeds from Series B convertible debentures financing.

The acquisition of assets from Rise by the Company was accounted for using the acquisition method of accounting, whereby assets and liabilities acquired were revalued to their fair value and any excess of the purchase price was recognized as goodwill.

Cash consideration consisted of $215,000 cash advances to Rise prior to the acquisition and $3,000,000 paid immediately on acquisition date.

Additional consideration of $5,150,000, of which the fair value of $4,684,000 was included above in the Financial Liability, was contemplated to be paid in three parts: 1) $250,000 was paid in August 2018; 2) $2,525,000 was paid in December 2018; 3) the remaining $2,375,000 was paid in May 2019.

4,000,000 may be paid to Rise's owners as earn-out payment, based on the achievement of six independent revenue milestones established for certain distinct periods through June 2020. The earn-out payment is accounted for as separate compensation arrangement outside the business combination in accordance with IFRS 3.

The Company has recorded a deferred tax liability of $1,487,430 related to the temporary differences on the intangible assets. This liability was based on the U.S. federal corporate tax rates in Rise's tax jurisdiction.

The goodwill balance reflects the benefits of assembled workforce, operational know-how, expected earnings, and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill will not be amortized and will be reviewed for impairment on an annual basis.

Acquisition of Assets from JDK Holdings, LLC (Winberry)

On August 31, 2018, the Company through its subsidiary, Herban OR, acquired certain assets from JDK Holdings, LLC ("Winberry" or "Winberry Farms"), a privately-owned U.S. company. Winberry Farms is an award-winning concentrate and vape cartridge brand.

The acquisition of assets from Winberry by the Company was accounted for using the acquisition method of accounting, whereby assets and liabilities acquired were revalued to their fair value and any excess of the purchase price was recognized as goodwill.

Cash consideration consisted of $900,000 paid immediately on acquisition date and working capital adjustment of $447,105.

The Company issued 2,730 Series A Convertible Debentures at a price of CAD$1,000 per Convertible Debenture for the gross amount of $2,100,000 to JDK Holdings LLC's owners at the acquisition date. These Series A Convertible Debentures are convertible at the conversion price of CAD$2.06, bear interest at 14% per annum and have maturity date of June 30, 2020.

Additional consideration of $8,500,000, of which the fair value of $7,816,000 was included above in the Financial Liability, was contemplated to be paid in three parts: 1) $2,250,000, part of the second tranche payment, was paid in December 2018; 2) $2,250,000, the remaining part of the second tranche payment, is expected to be paid in late 2019; 3) $4,000,000 may be paid to JDK Holdings LLC's owners as earn-out payments, based on the achievement of eight independent revenue milestones established for certain distinct periods through December 2020.

The earn-out payment is accounted for as part of the business combination in accordance with IFRS 3. The acquisition consideration and related expenses were financed with cash on hand and proceeds from financing.

The Company's earn-out payment is measured at fair value based on unobservable inputs and is considered a level 3 measurement. The fair value was primarily driven by the Company's discount rate at the acquisition date and expectations of the acquiree's achievement of milestones.

The Company has recorded a deferred tax liability of $1,628,130 related to the temporary differences on the intangible assets. This liability was based on the U.S. federal corporate tax rates in Winberry's tax jurisdiction.

The goodwill balance reflects the benefits of assembled workforce, operational know-how, expected earnings, and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill will not be amortized and will be reviewed for impairment on an annual basis.

Acquisition of Hometown Heart

On October 1, 2018, the Company through its subsidiary, Herban CA, purchased an Unsecured Preferred Convertible Note from Hometown Heart by investing $1,500,000 cash in Hometown Heart, issuing 310,000 common shares of the Company at CAD$2.06 per share to Hometown Heart, and issuing 100,000 common shares of the Company at CAD$2.06 per share to the shareholders of Hometown Heart. Hometown Heart is a California corporation that engages in the business of direct-to-consumer cannabis sales and delivery. The Unsecured Preferred Convertible Note included the right, but not the obligation, to purchase the outstanding shares of Hometown Heart for $6,000,0000 with a $12,000,000 earn-out subject to certain performance obligations.

On December 5, 2018, the Company exercised its options to purchase the outstanding shares of Hometown Heart. Effective the same day, to meet the requirements of the Office of Cannabis for the city and county of San Francisco, the Company transferred Hometown Heart to an existing member of Hometown Heart under an assignment and option agreement and a master services agreement, which provides the Company direct economic interest in Hometown Heart.

The acquisition of Hometown Heart by the Company was accounted for using the acquisition method of accounting, whereby assets and liabilities acquired were revalued to their fair value and any excess of the purchase price was recognized as goodwill. Upon acquisition, the 310,000 common shares of the Company issued to Hometown Heart were re-assumed by the Company as part of the net assets acquired.

The Company issued 100,000 common shares on October 1, 2018 to Hometown Heart's owners at CAD$2.06 per share resulting in the consideration of $161,755.

Additional consideration of $12,000,000, of the which the fair value of $9,834,000 was included above in the Financial Liability, may be paid to Hometown Heart's previous shareholders as earn-out payment, based on the achievement of three independent revenue milestones established for certain distinct periods through December 2021. The Unsecured Preferred Convertible Note is used to offset $2,000,000 of the $12,000,000 earn-out payments.

The earn-out payment is accounted for as part of the business combination in accordance with IFRS 3. The acquisition consideration and related expenses were financed with cash on hand, proceeds from Series B convertible debentures financing, and RTO Subscription Receipt Private Placement.

The Company's earn-out payment is measured at fair value based on unobservable inputs and is considered a level 3 measurement. The fair value was primarily driven by the Company's discount rate at the acquisition date and expectations of the acquiree's achievement of milestones.

The Company has recorded a deferred tax liability of $137,130 related to the temporary differences on the intangible assets. This liability was based on the U.S. federal corporate tax rates in Hometown Heart's tax jurisdiction.

The goodwill balance reflects the benefits of assembled workforce, operational know-how, expected earnings, and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill will not be amortized and will be reviewed for impairment on an annual basis.

(Expressed in U.S. Dollars, unless stated otherwise)

Below is a summary of the financial liabilities for the above acquisitions:

	Rise Logistics	Winberry Farms	Hometown Heart	Total
Total financial liabilities upon acquisitions	$ 4,684,000	$ 7,816,000	$ 9,834,000	$ 22,334,000
Payments made during the period	(2,775,000)	(2,750,000)	-	(5,525,000)
Unsecured Convertible Note offset from the earn-out payments	-	-	(2,000,000)	(2,000,000)
Fair value adjustment	426,000	87,000	110,000	623,000
Total financial liabilities as of December 31, 2018	$ 2,335,000	$ 5,153,000	$ 7,944,000	$ 15,432,000
Current Liabilities	$ 2,335,000	$ 3,612,000	$ -	$ 5,947,000
Non-Current Liabilities	-	1,541,000	7,944,000	9,485,000
Total financial liabilities as of December 31, 2018	**$ 2,335,000**	**$ 5,153,000**	**$ 7,944,000**	**$ 15,432,000**

Acquisition of Common Controlled Entities

Acquisition of DionyMed

Effective February 28, 2018, the Company acquired a 100% controlling interest in DionyMed. This acquisition was completed in exchange for the Company's shares. 116,666 common shares and 2 series F convertible preferred shares were issued by DionyMed Holdings to DionyMed's shareholders in exchange for DionyMed's 116,666 common shares and 6,598 series F convertible preferred shares. These common shares and series F convertible preferred shares were valued at $nil in applying the predecessor value method in recognizing this acquisition.

Acquisition of Herban

Effective February 28, 2018, the Company acquired a 100% controlling interest in Herban. This acquisition was completed in exchange for the Company's shares. 6,596 series F convertible preferred shares were issued by DionyMed Holdings to Herban's shareholders in exchange for Herban's 30,000,000 common shares. These common shares and series F convertible preferred shares were valued at $nil in applying the predecessor value method in recognizing this acquisition.

The following table summarizes the acquisition of DionyMed and Herban:

	Herban	DionyMed	Total
Cash	$ 128,111	$ 5,006	$ 133,117
Accounts Receivable	47,326	119,111	166,437
Inventory	1,209,813	-	1,209,813
Prepaid Expenses	258,614	-	258,614
Property and Equipment	124,671	-	124,671
Other Assets	7,563	-	7,563
Total Assets Acquired	1,776,098	124,117	1,900,215
Less: Accounts Payable and Accrued Liabilities	(1,953,836)	(197,838)	(2,151,674)
Due from (to) DionyMed Holdings Inc.	(2,488,611)	2,841,712	353,101
Convertible Promissory Notes assumed by DionyMed Holdings Inc.	-	(3,206,348)	(3,206,348)
Other Liabilities	(854,855)	(19,518)	(874,373)
Shareholders' Equity – Other Reserve	3,521,204	457,875	3,979,079
Predecessor value of net assets acquired	**$ -**	**$ -**	**$ -**

Number of Common Shares Issued		-		116,666		116,666
Carrying Value of Common Shares Issued	$	-	$	-	$	-
Number of Series F Convertible Preferred Shares Issued		6,596		2		6,598
Carrying Value of Series F Convertible Preferred Shares Issued	$	-	$	-	$	-
Value of consideration	**$**	**-**	**$**	**-**	**$**	**-**

6. Accounts Receivable

Accounts receivable was comprised of the following:

		December 31, 2018		February 28, 2018
Trade accounts receivable	$	3,610,543	$	67,593
Trade accounts receivable - Excise taxes		629,701		-
Trade accounts receivable - Unbilled revenue		176,257		-
Total trade accounts receivable		4,416,501		67,593
Allowance for doubtful trade receivables		(1,060,258)		-
Subscriptions receivable		-		97,720
Other receivables		725,968		-
Total accounts receivable	**$**	**4,082,211**	**$**	**165,313**

These amounts are collectable within a short-term period and the net carrying value reasonably approximates the fair value of the receivables.

Allowance for expected credit losses

Expected credit loss allowances at December 31, 2018 are as follows:

		December 31, 2018		February 28, 2018
Loss allowance as at February 28, 2018	$	-	$	-
Loss allowance recognized during the year		1,269,529		-
Receivables written off during the year		(114,577)		-
Loss allowance unused and reversed during the year		(94,694)		-
Loss allowance as at December 31, 2018	**$**	**1,060,258**	**$**	**-**

The 2018 credit loss provision was determined using the IFRS 9 expected loss model. Trade receivables are derecognized when there is no reasonable expectation of recovery.

Aging of trade accounts receivable

Age of receivables and the credit loss assessed and provided for are as shown below:

	0 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
Expected credit loss %	3%	37%	59%	92%	24%
Gross carrying amount	$ 3,107,065	$ 299,223	$ 184,427	$ 825,786	$ 4,416,501
Lifetime expected credit loss	(79,187)	(109,453)	(109,403)	(762,215)	(1,060,258)
Net trade accounts receivable	**$ 3,027,878**	**$ 189,770**	**$ 75,024**	**$ 63,571**	**$ 3,356,243**

As at December 31, 2018, no customer accounted for more than 10% of total trade receivables.

(Expressed in U.S. Dollars, unless stated otherwise)

7. Inventories and Biological Assets

The Company's inventories included the following:

	December 31, 2018	February 28, 2018
Finished goods	$ 2,874,876	$ 609,440
Inventories in process	299,653	595,645
Harvested biological assets	170,406	-
Raw materials	43,087	-
Other inventories	2,937	4,726
Total inventory	**$ 3,390,959**	**$ 1,209,811**

During the period ended December 31, 2018, the Company had inventory write-downs and write-offs of $871,594 (February 28, 2018 – 646,421). The amount of inventory that was included in cost of sales was $6,363,797 (February 28, 2018 – $34,588).

The Company's biological assets consist of cannabis plants from inception to the point of harvest. The changes in the carrying value of the biological assets are as follows:

	From March 1, 2018 to December 31, 2018	From March 1, 2017 to February 28, 2018
Opening balance	$ -	$ -
Biological assets acquired through business combinations (Note 5)	71,570	-
Changes in fair value less cost to sell due to biological transformation	98,836	-
Transferred to inventory upon harvest	(170,406)	-
Total biological assets	**$ -**	**$ -**

The significant estimates used in determining the fair value of cannabis plants are as follows:

(a) Wholesale price per pound

(b) Cannabis oil processing efficiency

(c) Cannabis potency level

(d) Yield per plant

(e) Stage of growth

The Company's estimates are, by their nature, subject to change, and will be reflected in future changes in the fair values of biological assets. An increase or decrease of 5% applied to management's identified significant unobservable inputs would not result in a significant change in valuation.

(Expressed in U.S. Dollars, unless stated otherwise)

8. Property and Equipment

A continuity of property and equipment for the periods ended is as follows:

	Leasehold Improvements	Furniture and Fixtures	Vehicles	Total
Cost				
As at March 1, 2018	$ 16,952	$ 22,527	$ 87,695	$ 127,174
Additions from Acquisitions	-	217,083	-	217,083
Additions	750,770	46,573	18,740	816,083
Write-off of Unidentifiable Property and Equipment	-	(56,962)	-	(56,962)
As at December 31, 2018	**$ 767,722**	**$ 229,221**	**$ 106,435**	**$ 1,103,378**
Accumulated depreciation				
As at March 1, 2018	$ 596	$ 447	$ 1,460	$ 2,503
Depreciation	33,029	30,996	47,323	111,348
As at December 31, 2018	**$ 33,625**	**$ 31,443**	**$ 48,783**	**$ 113,851**
Net book value				
As at March 1, 2018	$ 16,356	$ 22,080	$ 86,235	$ 124,671
As at December 31, 2018	**$ 734,097**	**$ 197,778**	**$ 57,652**	**$ 989,527**

	Leasehold Improvements	Furniture and Fixtures	Vehicles	Total
Cost				
As at March 1, 2017	$ -	$ -	$ -	$ -
Additions from Acquisitions	16,952	22,527	87,695	127,174
As at February 28, 2018	**$ 16,952**	**$ 22,527**	**$ 87,695**	**$ 127,174**
Accumulated depreciation				
As at March 1, 2017	$ -	$ -	$ -	$ -
Depreciation	596	447	1,460	2,503
As at February 28, 2018	**$ 596**	**$ 447**	**$ 1,460**	**$ 2,503**
Net book value				
As at March 1, 2017	$ -	$ -	$ -	$ -
As at February 28, 2018	**$ 16,356**	**$ 22,080**	**$ 86,235**	**$ 124,671**

(Expressed in U.S. Dollars, unless stated otherwise)

9. Intangible Assets and Goodwill

A continuity of intangible assets other than goodwill for the periods ended is as follows:

	Customer Relationships	Market Related Intangible Assets	Recipes and Formulas	Software	Total
Cost					
As at March 1, 2018	$ -	$ -	$ -	$ -	$ -
Additions	-	-	-	8,076	8,076
Additions from Acquisitions	8,848,000	4,217,000	2,299,000	125,000	15,489,000
As at December 31, 2018	**$ 8,848,000**	**$ 4,217,000**	**$ 2,299,000**	**$ 133,076**	**$ 15,497,076**
Accumulated Amortization and Impairment Losses					
As at March 1, 2018	$ -	$ -	$ -	$ -	$ -
Amortization	536,917	87,901	153,266	13,542	791,626
As at December 31, 2018	**$ 536,917**	**$ 87,901**	**$ 153,266**	**$ 13,542**	**$ 791,626**
Net Carrying Amount					
As at March 1, 2018	$ -	$ -	$ -	$ -	$ -
As at December 31, 2018	**$ 8,311,083**	**$ 4,129,099**	**$ 2,145,734**	**$ 119,534**	**$ 14,705,450**

An independent valuation specialist has been used to value the intangible assets acquired. For intangible assets subject to amortization, assessments of whether significant indicators of impairment existed were completed and it was concluded that no significant indicators of impairment were identified for the ten-month period ended December 31, 2018.

A continuity of goodwill for the periods ended is as follows:

Balance as at March 1, 2018	$ -
Goodwill acquired in acquisition of assets from Rise Brands, Inc	3,181,022
Goodwill acquired in acquisition of assets from JDK Holdings, LLC (Winberry)	3,903,502
Goodwill acquired in acquisition of Hometown Heart	14,839,076
Balance as at December 31, 2018	**$ 21,923,600**

Refer to Note 5 for a discussion of the goodwill acquired from acquisition of assets from Rise and Winberry and the acquisition of Hometown Heart. For goodwill and intangible assets not subject to amortization, impairment tests were completed and it was concluded that no impairments had occurred for the ten-month period ended December 31, 2018.

10. Inventory Finance Facility

	Principal Balance	Capitalized Financing Costs	Currency Translation	Total
As at March 1, 2018	$ -	$ -	$ -	$ -
Early draw	3,000,000	(2,211,180)	-	788,820
Foreign currency translation impact	-	-	(22,562)	(22,562)
As at December 31, 2018	**$ 3,000,000**	**$ (2,211,180)**	**$ (22,562)**	**$ 766,258**

On November 12, 2018, the Company entered into a mandate letter (the "Mandate Letter") with an international debt fund as the Arranger to arrange for a group of lender(s) to provide a hybrid asset-based facility (the "Inventory Finance Facility") of up to $40,000,000 to provide working capital funding for the Company, including a $3,000,000 early draw facility (the "Early Draw Facility"). On closing of the Transaction (Note 1), the Mandate Letter and the Early Draw Facility became binding on the Company.

(Expressed in U.S. Dollars, unless stated otherwise)

The Mandate Letter does not constitute a committed offer of finance, but rather a best-effort offer to arrange the Inventory Finance Facility. The provision by the lender(s) of the Inventory Finance Facility is subject to receipt of results satisfactory to the Arranger following completion of technical and legal due diligence, negotiation and execution of definitive agreements for the Inventory Finance Facility and satisfaction of the conditions precedent to be set out in those definitive agreements.

The Early Draw Facility is secured by a general security agreement over the assets of the Company in favour of certain credit funds managed by the Arranger. The Inventory Finance Facility is closed subsequent to December 31, 2018 on February 6, 2019 and it bears interest at a rate of LIBOR +8% per annum plus an anniversary fee of 2.5% in the first year and 3.75% in the second year, and matures on February 6, 2021.

Under the Early Draw Facility, DionyMed made one drawdown under the Inventory Finance Facility on November 13, 2018 for gross proceeds of $3,000,000. The transaction fees of $877,650 were withheld from the gross proceeds for various fees including mandate fee, due diligence fee and legal fee resulting in net proceeds of $2,122,350. Neither the Company nor its subsidiaries may dispose of any asset, incur any indebtedness or create or permit any security over its assets other than as permitted by the Early Draw Facility.

On November 28, 2018, as part of the consideration to the lenders, the Company issued 27,795 common shares at CAD$4.25 and 744,000 warrants with an exercise price of CAD$5.31 expiring three years from the date of issue for the fair value of $1,333,530. The fair value component relating to the aforementioned warrants was determined using the Black-Scholes pricing model.

The transaction fees in total of $2,211,180 are considered debt issuance costs and netted against the Inventory Finance Facility under IFRS 9. The capitalized financing costs are to be amortized over the term of the Inventory Finance Facility beginning on February 6, 2019.

Interest expense of $42,314 has been accrued and included as part of Accounts Payable and Accrued Liabilities in the Consolidated Statement of Financial Position.

11. Term Loans

As at March 1, 2018	$	-
Issuances		4,000,000
Repayments		(140,000)
As at December 31, 2018	**$**	**3,860,000**

On September 24, 2018, the Company entered into a term loan agreement with certain lenders in the aggregate principal amount of $4,000,000 (the "Term Loan"). The Term Loan matures on the first to occur of: (i) an event of default which has not been cured or waived, (ii) thirty (30) business days after the Company is publicly listed and tradable on a recognized securities exchange and (iii) September 24, 2019, when the principal amount of the Term Loan, and all other obligations relating to the Term Loan and the loan documents shall be immediately due and payable. $140,000 of the Term Loan was repaid in the ten-month period ended December 31, 2018 ($nil repaid in the twelve-month period ended February 28, 2018). The Term Loans are non-interest bearing.

The Term Loan includes a repayment premium equal to $2,000,000 payable in the Company's Common Shares (or the Resulting Issuer Subordinate Voting Shares after the Listing Event) with the number of Common Shares calculated as $2,000,000 divided by the price per share at the listing event (CAD$4.25 per share). The repayment premium was recorded at issuance of these Term Loans as accrued interest expense included as part of Accounts Payable and Accrued Liabilities in the Consolidated Statement of Financial Position.

The term loan balance outstanding at December 31, 2018 was fully repaid during the first quarter of 2019 (Note 24).

(Expressed in U.S. Dollars, unless stated otherwise)

12. Long Term Debt

	Convertible Promissory Notes	Convertible Debentures	Total
As at March 1, 2018	$ 3,206,348	$ -	$ 3,206,348
Fair value of financial liability at issuance	-	13,875,611	13,875,611
Conversion to equity	(3,206,348)	(7,519,805)	(10,726,153)
Fair value adjustment	-	23,951,083	23,951,083
Foreign currency translation impact	-	(492,346)	(492,346)
As at December 31, 2018	**$ -**	**$ 29,814,543**	**$ 29,814,543**

	Convertible Promissory Notes	Convertible Debentures	Total
As at March 1, 2017	$ -	$ -	$ -
Fair value of financial liability at issuance	3,206,348	-	3,206,348
As at February 28, 2018	**$ 3,206,348**	**$ -**	**$ 3,206,348**

Series A Convertible Promissory Notes

In February 2018, DionyMed issued Series A Convertible Promissory Notes (the "Notes") for a total principal amount of $3,206,348. The Notes, which are convertible at the conversion price to be determined by the next financing, bear interest at 1.75% per annum and have maturity date of December 31, 2020. On February 28, 2018, as part of the share exchange transaction to acquired DionyMed by the Company, the Company assumed the Notes.

On March 2, 2018, the Company issued 29,965 Series A Convertible Preferred Shares and 1,110,514 Common Shares for equity conversions relating to the Notes. In addition, the Company issued 99 Series A Convertible Preferred Shares and 3,932 Common Shares in satisfaction of $10,801 of accrued interest on the convertible promissory notes. In total, the Notes are converted into 30,064 Series A Convertible Preferred Shares and 1,114,446 Common Shares.

Series B Convertible Debentures

On June 14, 2018, the Company closed the first tranche of a non-brokered private placement of 3,040 Common Share Convertible Debentures and 350 Series A Convertible Debentures at a price of CAD$1,000 per Convertible Debenture, for gross proceeds of $2,604,287. On June 15, 2018, the Company closed the second tranche of the non-brokered private placement by issuing 5,600 Common Share Convertible Debentures at a price of CAD$1,000 per Common Share Convertible Debenture for gross proceeds of $4,302,066.

On July 10, 2018, the Company closed the third tranche of the non-brokered private placement by issuing 2,920 Common Share Convertible Debentures and 660 Series A Convertible Debentures at a price of CAD$1,000 per Convertible Debenture for gross proceeds of $2,750,250.

On August 28, 2018, the Company closed the fourth tranche of the non-brokered private placement by issuing 1,680 Common Share Convertible Debentures and 3,930 Series A Convertible Debentures at a price of CAD$1,000 per Convertible Debenture for gross proceeds of $4,269,096. The combined gross proceeds of the four tranches of the financing was approximately $13,925,699.

The Debentures, which are convertible at the conversion price of CAD$2.06, bear interest at 14% per annum and have maturity date of June 30, 2020.

The Company elected to measure debt and equity components at FVTPL as a combined instrument. Both the debt host liability and derivative liability are revalued at each reporting date.

(Expressed in U.S. Dollars, unless stated otherwise)

During the ten-month period ended December 31, 2018 (twelve-month period ended February 28, 2018), the transaction costs directly attributed to issuing the Debentures amount to $2,328,956 (February 28, 2018 – $nil) and were expensed. In addition, interest expense of $881,701 (February 28, 2018 – $nil) was expensed and $735,526 (February 28, 2018 - $nil) was paid.

At issuance, the fair value for the Series B Convertible Debentures was estimated to be $13,875,611. During the ten-month period ended December 31, 2018, there were conversions of the Series B Convertible Debentures of $7,519,805. On December 31, 2018, the fair value for the Series B Convertible Debentures was estimated to be $ $29,814,543, resulting in a fair value adjustment of $23,951,083.

13. Royalty Debt

	Principal Balance	Capitalized Financing Costs	Accrued Buyout Loss	Currency Translation	Total
As at March 1, 2018	$ -	$ -	$ -	$ -	$ -
Funding	1,484,510	(87,940)	-	-	1,396,570
Accrued buyout loss	-	-	421,762	-	421,762
Foreign currency translation impact	-	-	-	(102,143)	(102,143)
As at December 31, 2018	**$ 1,484,510**	**$ (87,940)**	**$ 421,762**	**$ (102,143)**	**$ 1,716,189**

In April and May, 2018, the Company received two installment of financing from Grenville Strategic Royalty Corp. ("Grenville") in the form of unsecured royalty agreement in the amount of $1,484,510 in exchange for a royalty on gross sales in perpetuity (the "Royalty Agreement"). In addition, the Company issued 190,000 warrants, exercisable at CAD$1.50 and expiring in 5 years from the date of issuance on May 25, 2018, as part of the consideration for the royalty agreement. The agreement requires the Company to pay the minimum monthly royalty payment of no less than $29,016 per month or a monthly royalty payment equal to 3.8% of system wide sales. The Combined Entity has a buy-out option that can extinguish all amounts owing without any penalties. The buyout payment requires at least two times of the initial investment from Grenville, which will be in total of $2,785,515.

The Company used the Black-Scholes option pricing model to calculate the fair value of the warrants granted. The model requires management to make estimates, which are subjective and may not be representative of actual results.

For the ten-month period ended December 31, 2018 (twelve-month period ended February 28, 2018), the Company recorded total royalty expense of $859,724 (February 28, 2018 – $nil) respectively.

During the ten-month period ended December 31, 2018, the transaction costs directly attributed to the royalty debt amount to $87,940 and are capitalized to the royalty debt.

14. Working Capital Loans from Shareholders

On February 28, 2018, the Company assumed working capital loans as part of consideration for the acquisition of Herban Industries, Inc. These working capital loans are from two shareholders, who loaned funds to the Company to finance its working capital needs. The loans are due on demand.

As of December 31, 2018, the working capital loan has been fully repaid (Note 15).

Management determined that the imputation of interest on these below market-interest rate loans payable to related parties is not required due to the due-on-demand nature of the loans.

15. Share Capital

Share Capital

The Company has authorized unlimited common shares, Series F Convertible Preferred Shares, and Series A Convertible Preferred Shares.

The Company's common shares are voting and dividend-paying. The Company's Series F Convertible Preferred Shares and Series A Convertible Preferred Shares are also voting and dividend-paying. The holders of Series F Convertible Preferred Shares (each convertible to 5,000 common shares) and Series A Convertible Preferred Shares (each convertible to 100 common shares) have the right to convert into common share of the Company.

Issued share capital of Herban and DionyMed before the common control acquisition on February 28, 2018

During the period ended February 28, 2018, Herban was authorized to issue 30,000,000 common shares following a share split in August 2017. Herban's common shares were voting and dividend-paying. Herban raised additional capital yielding proceeds of $1,000,000.

During the period ended February 28, 2018, DionyMed had authorized unlimited common shares, Series F Convertible Preferred Shares, and Series A Convertible Preferred Shares. DionyMed's common shares were voting and dividend-paying. DionyMed's Series F Convertible Preferred Shares and Series A Convertible Preferred Shares were also voting and dividend-paying. The holders of Series F Convertible Preferred Shares (each convertible to 5,000 common shares) and Series A Convertible Preferred Shares (each convertible to 100 common shares) had the right to convert into common shares of DionyMed. DionyMed raised additional capital through the issuance of 116,666 common shares yielding proceeds amounting to $27,325 (CAD$35,000). DionyMed further issued 6,598 Series F Convertible Preferred Shares to Edward Fields and Daniel Fields at value of CAD$100 per share for services related to creating DionyMed's business plan. The value of the shares was determined by board resolution. The $521,846 (CAD$659,800) is expensed in the consolidated statement of loss and comprehensive loss.

Issued share capital of DionyMed Holdings before the reverse takeover on November 28, 2018

In March 2018, the Company raised additional $1,481,379 through the issuance of 1,768,598 common shares and 1,289 series A preferred shares as part of Series A round of financing.

On March 2, 2018, the Company issued 29,965 Series A Convertible Preferred Shares and 1,110,514 Common Shares for equity conversions relating to the Convertible Preferred Notes (Note 12). In addition, the Company issued 99 Series A Convertible Preferred Shares and 3,932 Common Shares in satisfaction of $10,801 of accrued interest on the Convertible Preferred Notes. In total, the Convertible Preferred Notes are converted into 30,064 Series A Convertible Preferred Shares and 1,114,446 Common Shares.

In April 2018, the Company issued 560,000 common shares at CAD$1 per share, aggregate of $439,513, to settle part of the working capital loan (Note 14).

In October 2018, the Company issued 310,000 common shares to Hometown Heart to promote their growth and 100,000 common shares to Hometown Heart shareholders at CAD$2.06 per share, aggregate of $659,498, as part of the consideration for the acquisition of Hometown Heart (Note 5). These shares have been returned to treasury subsequent to the Company exercising the option to purchase the shares of Hometown Heart.

Issued share capital of DionyMed Brands after the reverse takeover on November 28, 2018

In connection with the RTO Subscription Receipt Private Placement prior to the completion of the Transaction (Note 1), the Company issued 8,115,297 common shares and 8,115,297 warrants with an exercise price of CAD$6.37 expiring two years from the date of issue for gross proceeds of approximately CAD$34,490,000. Transaction fee of CAD$2,835,003 including agents' commissions and fees was netted against share capital resulting in net proceeds of CAD$31,654,997.

On November 28, 2018, the Company issued 819,586 common shares to Sixonine at CAD$4.25 in exchange for Sixonine's shares (Note 2).

In connection with the Inventory Finance Facility, on November 28, 2018 the Company issued 27,795 common shares at CAD$4.25 and 744,000 warrants with an exercise price of CAD$5.31 expiring three years from the date of issue.

(Expressed in U.S. Dollars, unless stated otherwise)

On November 28, 2018, the Company also issued 427,913 warrants expiring two years from the date of issue to the brokers in connection with the Series B Convertible Debentures Financing (Note 12). These warrants allow the brokers to purchase the Company's units at CAD$2.06 that include a share and a warrant with an exercise price of CAD$3.09. These 427,913 warrants were valued by the Company at $1,813,083 and were expensed in the current period.

On November 28, 2018, the Company also issued 493,188 warrants expiring two years from the date of issue to the brokers in connection with the Subscription Receipt Private Placement. These warrants allow the brokers to purchase the Company's units at CAD$4.25 that include a share and a warrant with an exercise price of CAD$6.37. These 493,188 warrants were valued by the Company at $1,590,067 and were applied in reduction of share capital in the current period as share issuance costs.

In December 2018, in connection with the repayment of Term Loan balances, the Company issued 21,412 common shares at CAD$4.25.

In December 2018, in connection with the Series B Convertible Debentures (Note 12), $3,672,875 (CAD$4,950,000) of the Convertible Debentures were converted to 2,402,910 common shares at CAD$2.06.

Warrants

	Issue Date	Number of Warrants	Exercise Price (CAD)	Expiry Date	Value
(1). Warrants Issued to Grenville for Royalty Debt	Apr 4, 2018	100,000	1.50	Apr 4, 2023	35,473
(2). Warrants Issued to Grenville for Royalty Debt	May 25, 2018	90,000	1.50	Apr 4, 2023	31,926
(3). Warrants Issued to Sixonine for Reverse Takeover	Nov 28, 2018	201,590	0.20	Jul 11, 2019	613,037
(4). Broker Warrants Issued for Series B Convertible Debentures Financing	Nov 28, 2018	427,913	2.06	Nov 29, 2020	1,813,083
(5). Broker Warrants Issued for Subscription Receipt Financing	Nov 28, 2018	493,188	4.25	Nov 29, 2020	1,590,067
(6). Warrants Issued for Inventory Finance Facility	Nov 28, 2018	744,000	5.31	Dec 5, 2021	1,442,738
(7). Warrants for Subscription Receipt Financing	Nov 28, 2018	8,115,297	6.37	Nov 29, 2020	11,870,791
(8). Warrants Issued on Debentures Conversion in 2018	Dec 31, 2018	2,402,910	3.09	Nov 29, 2020	2,519,528
Total and Weighted Average Exercise Price		**12,574,898**	**5.28**		**19,916,643**

The fair value of the warrants issued was determined using the Black-Scholes options pricing model, using the following assumptions:

Input Data	Stock price at issuance (CAD)	Exercise price (CAD)	Number of periods to exercise (years)	Risk-free interest rate	Share volatility (annualized σ)
Warrants (1)	$ 1.00	$ 1.50	2.0	1.92%	1.05
Warrants (2)	$ 1.00	$ 1.50	2.0	1.92%	1.05
Warrants (3)	$ 4.25	$ 0.20	0.6	2.21%	1.05
Warrants (4)	$ 4.25	$ 2.06	2.0	2.21%	1.05
Warrants (5)	$ 4.25	$ 4.25	2.0	2.21%	1.05
Warrants (6)	$ 4.25	$ 5.31	3.0	2.22%	1.05
Warrants (7)	$ 4.25	$ 6.37	2.0	2.22%	1.05
Warrants (8)	$ 2.71	$ 3.09	2.0	1.91%	1.05

Stock Options

In August 2017, Herban established the Herban 2017 Stock Plan (the "Plan"). The Plan authorized the issuance of up to 22% of common shares outstanding. Options granted generally vest over 1 to 5 years, and typically have a life of 10 years.

(Expressed in U.S. Dollars, unless stated otherwise)

The option price under the Plan is determined at the sole discretion of the Company, but in no case, will it be less than 100% of the fair market value of a share on the date prior to the grant date.

On August 3, 2017, Herban granted stock options to employees and consultants of Herban, exercisable at $0.08 on the grant date, to purchase up to an aggregate of 5,017,500 shares of Herban. The option exercise price can in no circumstances be greater than the fair value of the shares.

In November 2017, DionyMed established 2017 Stock Plan (the “Plan”). The Plan authorized the issuance of up to 660,000 common shares. Options granted generally vest over 2 to 5 years, and typically have a life of 10 years.

The option price under the Plan is determined at the sole discretion of the Company, but in no case, will it be less than 100% of the fair market value of a share on the date prior to the grant date.

On November 16, 2017, DionyMed granted stock options to employees and consultants of DionyMed, exercisable at CAD$0.15 on the grant date, to purchase up to an aggregate of 600,000 shares of DionyMed.

Upon the share exchange transaction on February 28, 2018, the Company approved to establish the 2018 Stock Plan (the “New Plan”) to assume the awards granted by each of DionyMed and Herban as of the date of the share exchange and contribution. The New Plan authorized the issuance of up to 20% common shares or Series A Convertible Preferred Shares on a fully diluted basis.

5,017,500 options issued by Herban under the Herban Plan were assumed by the New Plan. The assumed options were cancelled and new options were issued.

600,000 options issued by DionyMed under the DionyMed Old Plan were assumed by the New Plan. The assumed options were cancelled and new options were issued.

The following is a summary of stock options for the respective years ended December 31, 2018 and February 28, 2018:

	December 31, 2018			**February 28, 2018**		
	Number of Options		**Weighted Average Exercise Price**	**Number of Options**		**Weighted Average Exercise Price**
Outstanding, beginning of year	**7,154,500**	**$**	**0.30**	-	$	-
Granted	**3,833,001**		**2.27**	7,154,500		0.30
Forfeitures	**(1,311,591)**		**0.52**	-		-
Exercised	**(700,875)**		**0.11**	-		-
Outstanding, end of year	**8,975,035**	**$**	**1.13**	7,154,500	$	0.30
Exercisable, end of year	**2,516,396**	**$**	**0.28**	-	$	-

(Expressed in U.S. Dollars, unless stated otherwise)

The following table summarizes the Company's share options by exercise price:

Range of Exercise Prices	Number of Options Outstanding	Number of Options Vested	Weighted Average Remaining Life (Years)
0.10	3,505,000	2,013,125	8.60
0.15	600,000	162,500	8.90
1.00	1,097,875	222,438	9.20
2.09	3,010,160	38,333	9.60
2.36	334,000	80,000	10.00
3.30	78,000	-	9.90
3.50	350,000	-	10.00
	8,975,035	2,516,396	9.15

The Company used the Black-Scholes option pricing model to estimate the fair value of the options at the grant date using the following ranges of assumptions:

	December 31, 2018	February 28, 2018
Risk free interest rate	1.91% - 2.25%	2.07% - 2.65%
Expected dividend yield	0%	0%
Underlying share price	CAD $2.06 - CAD$3.50 per share	CAD$1.00 per share
Expected volatility based on comparable companies	92% - 105%	110%
Expected term	7 years	7 years
Black-Scholes value of each option	$0.83 - $2.30	$0.42 - $0.80

Volatility was estimated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history. The expected term 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 options.

For the ten-month period ended December 31, 2018 (twelve-month period ended February 28, 2018), the Company recorded $998,858 (February 28, 2018 – $83,369) in share-based compensation expense related to options issued to employees and consultants.

16. Net Loss per Share

Net loss per share is calculated based upon the weighted average common shares outstanding as follows:

	From March 1, 2018 to December 31, 2018	From March 1, 2017 to February 28, 2018
Net loss attributable to common shareholders – basic and diluted	$ (57,327,151)	$ (6,266,929)
Weighted average common shares outstanding – basic and diluted	40,737,145	33,106,666
Net loss per common share – basic and diluted	**$ (1.41)**	**$ (0.19)**

Excluded from the calculation of diluted net loss per share for the ten-month period ended December 31, 2018 (twelve-month period ended February 28, 2018) were convertible debentures (Note 12), exercisable in-the-money warrants (Note 15) of 3,222,413 (February 28, 2018 – nil), and share options (Note 15) of 8,975,035 (February 28, 2018 – 7,154,500) as their inclusion would be anti-dilutive.

(Expressed in U.S. Dollars, unless stated otherwise)

Included in the calculation of diluted net loss per share for the ten-month period ended December 31, 2018 and twelve-month period ended February 28, 2018 are the common shares and the equivalent number of common shares represented by the Series A Convertible Preferred Shares and Series F Convertible Preferred Shares.

17. Interest Expense

Interest expenses were comprised of the following:

	December 31, 2018	February 28, 2018
Interest expense from Term Loans	$ 1,992,800	$ -
Interest expense from Convertible Debentures	881,701	-
Interest expense on Excise Taxes	872,009	-
Interest expense on loans from Shareholders	121,777	-
Interest expense from Inventory Finance Facility	42,314	-
Other interest expense	16,500	-
Total	**$ 3,927,101**	**$ -**

18. Income Taxes

The Company's expected tax rate is different from the combined federal and provincial income tax rate in Canada. These differences result from the following elements:

	December 31, 2018		February 28, 2018	
Net loss before income taxes		**$ (57,493,393)**		**$ (6,266,929)**
Statutory Rate Reconciliation				
Expected tax recovery calculated using the combined federal and provincial tax rate in Canada (26.5% at December 31, 2018)	26.50%	(15,235,749)	26.50%	(1,660,736)
Tax rate differences	-1.84%	1,055,318	-4.21%	263,934
Share based compensation	-0.46%	264,697	-0.22%	13,712
Fair value adjustment on debt carried at fair value	-11.04%	6,347,037	0.00%	-
Listing expense on RTO for Sixonine shares	-1.48%	851,586	0.00%	-
State Deferred Tax Assets (California and Oregon)	2.77%	(1,590,072)	5.32%	(333,516)
Disallowed items under IRC 280E	-1.58%	909,835	-3.34%	209,206
Other permanent differences	-0.57%	327,103	-0.03%	2,165
Change in temporary differences for which no tax assets are recorded	-12.01%	6,904,003	-24.02%	1,505,235
Total income tax recovery	**0.29%**	**$ (166,242)**	**0.00%**	**$ -**

The effective Canadian Federal and Ontario Provincial corporate tax rate is 15.00% and 11.50%, respectively. Therefore, the combined expected tax rate is 26.50%.

Certain subsidiaries operate in California and Oregon. The U.S. federal tax rate is 21.00%.

(Expressed in U.S. Dollars, unless stated otherwise)

As at December 31, 2018, the Company has the following non-capital losses in Canada and net operating losses the U.S., which are available to reduce income tax payable in future periods, for which no deferred tax asset has been recognized in the consolidated statement of financial position. The non-capital losses and net operating losses can be carried to the following years:

	Non-Capital Losses	Net Operating Losses
December 31, 2039	$ 7,933,443	$ 33,558,500
December 31, 2038	1,819,876	1,688,312
December 31, 2037	-	6,217,467
December 31, 2036	-	355,522
Total losses carryforward	**$ 9,753,319**	**$ 41,819,801**

The following is a reconciliation of the deferred tax assets and liabilities recognized by the Company:

	Opening February 28, 2018	Established on business combinations	Recognized in income (loss)	Ending December 31, 2018
Canadian non-capital loss carryforward	$ 376,506	$ -	$ -	$ 2,478,869
U.S net operating loss carryforward	1,232,604	-	-	6,015,429
Depreciable assets	700	-	-	(185,405)
Share issuance costs	-	-	-	365,893
Intangible assets - U.S. States	-	-	-	29,492
Other items	192,688	-	-	-
Tax benefits not recognized	(1,802,498)	-	-	(8,704,278)
Net deferred tax assets	$ -	$ -	$ -	$ -
Intangible assets - U.S. Federal	-	(3,252,690)	166,242	(3,086,448)
Deferred tax liabilities	**$ -**	**$ (3,252,690)**	**$ 166,242**	**$ (3,086,448)**

The deferred tax assets related to the temporary differences were not recognizable, as their recoverability is not considered probable.

For U.S. federal income tax purposes, following the common control business combination on February 28, 2018 (Note 5), the Company will be treated both as a Canadian resident corporation and as a U.S. domestic corporation pursuant to Section 7874(b) of the Internal Revenue Code. As a result, the Company will be subject to taxation both in Canada and the United States, which could have a material adverse effect on its financial condition and results of operations.

As the Company operates in the cannabis industry, it is subject to the limits of U.S. IRC Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under U.S. IRC Section 280E.

Federal and California tax laws impose significant restrictions on the utilization of NOL carryforwards in the event of a change in ownership of the Company, as defined by U.S. IRC Section 382. The Company does not believe a change in ownership, as defined by U.S. IRC Section 382, has occurred but a formal study has not been completed.

(Expressed in U.S. Dollars, unless stated otherwise)

19. Contingencies and Commitments

Contingencies

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is compliant with applicable local and state regulation at December 31, 2018, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Commitments

The Company has contractual obligations to make the following payments:

	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
USD-denominated						
Operating leases	$ 2,092,824	$ 2,109,153	$ 1,998,844	$ 1,450,709	$ 1,040,929	$ 2,585,613
Consultants and advisors	216,000	216,000	216,000	-	-	-
Total USD-denominated	**$ 2,308,824**	**$ 2,325,153**	**$ 2,214,844**	**$ 1,450,709**	**$ 1,040,929**	**$ 2,585,613**
CAD-denominated (in USD)						
Operating leases	$ 77,402	$ -	$ -	$ -	$ -	$ -
Royalties	183,299	-	-	-	-	-
Total CAD-denominated	**$ 260,701**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

The Company leases certain business facilities from third parties under operating lease agreements that specify minimum rentals. The leases expire through 2028 and contain renewal provisions. The Company’s net rent expense for the ten-month period ended December 31, 2018 (twelve-month period ended February 28, 2018) was $1,345,458 (February 28, 2018 – $133,189).

As part of acquisition of assets from Rise Brands, Inc (Note 5), the Company is obligated for certain earn-out payments with aggregate maximum value of up to $4,000,000.

20. Financial Instruments and Financial Risk Management

Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, notes payable, inventory finance facility, term loans, financial liabilities, royalty debt, and convertible debentures. Financial liabilities and convertible debentures are carried at fair value. The carrying value of cash, accounts receivable, accounts payable and accrued liabilities, notes payable, inventory finance facility, and term loans equates to their fair value due to their short-term nature.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of 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 for the asset or liability that are not based on observable market data.

There have been no transfers between fair value levels during the ten-month period ended December 31, 2018 and twelve-month period ended February 28, 2018.

(Expressed in U.S. Dollars, unless stated otherwise)

The following table summarizes the Company's financial instruments:

As at December 31, 2018

	Financial Instruments Measured at Fair Value	Financial Instruments Measured at Amortized Cost		Carrying Value	Fair Value
Financial Assets					
Cash	-	8,814,561	$	8,814,561	8,814,561
Accounts Receivables	-	4,082,211	$	4,082,211	4,082,211
Financial Liabilities					
Accounts Payable and Accrued Liabilities	-	10,531,143	$	10,531,143	10,531,143
Notes Payable	-	125,000	$	125,000	125,000
Inventory Finance Facility	-	766,258	$	766,258	766,258
Term Loans	-	3,860,000	$	3,860,000	3,860,000
Financial Liabilities (Level 3)	15,432,000	-	$	15,432,000	15,432,000
Convertible Debentures (Level 3)	29,814,543	-	$	29,814,543	29,814,543
Royalty Debt	-	1,716,189	$	1,716,189	2,677,461

As at February 28, 2018

	Financial Instruments Measured at Fair Value	Financial Instruments Measured at Amortized Cost		Carrying Value	Fair Value
Financial Assets					
Cash	-	133,117	$	133,117	133,117
Accounts Receivables	-	165,313	$	165,313	165,313
Financial Liabilities					
Accounts Payable and Accrued Liabilities	-	2,115,128	$	2,115,128	2,115,128
Taxes Payable	-	59,086	$	59,086	59,086
Convertible Promissory Notes (Level 3)	3,206,348	-	$	3,206,348	3,206,348
Due to Shareholders	-	874,372	$	874,372	874,372

Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

Banking Risk

Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the marijuana industry.

Consequently, businesses involved in the marijuana industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the businesses of the Company, its subsidiaries and investee companies, and leaves their cash holdings vulnerable. The Company has banking relationships in all jurisdictions in which it operates.

In addition, the Company maintains cash with various U.S. banks and credit unions with balances in excess of the Federal Deposit Insurance Corporation and National Credit Union Share Insurance Fund limits, respectively. The failure of a bank or credit union where the Company has significant deposits could result in a loss of a portion of such cash balances in excess of the insured limit, which could materially and adversely affect the Company’s business, financial condition, results of operations and the market price of the Company’s share capital.

Credit Risk

Credit risk arises from the risk that a customer or counterparty will fail to meet its obligations. The Company is exposed to credit risk from cash and equivalents and accounts receivable.

The Company minimizes credit risk associated with its accounts receivable by performing credit evaluation, approval, and monitoring processes. The Company applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all accounts receivables as these items do not have a significant financing component. Accounts receivable is written off when there is no reasonable expectation of recovery.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

In addition to the commitments outlined in Note 19, the Company has the following contractual obligations:

As at December 31, 2018

	< 1 year	1 to 3 years	Total
Accounts Payable and Accrued Liabilities	10,531,143	-	$ 10,531,143
Notes Payable	125,000	-	$ 125,000
Inventory Finance Facility	766,258	-	$ 766,258
Terms Loans	3,860,000	-	$ 3,860,000
Financial Liabilities	5,947,000	9,485,000	$ 15,432,000
Convertible Debentures	-	29,814,543	$ 29,814,543
Royalty Debt	-	1,716,189	$ 1,716,189

As at February 28, 2018

	< 1 year	1 to 3 years	Total
Accounts Payable and Accrued Liabilities	2,115,128	-	$ 2,115,128
Due to Shareholders	874,372	-	$ 874,372
Convertible Promissory Notes	-	3,206,348	$ 3,206,348

Market Risk

- Interest Rate Risk

  Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company's financial debts have fixed rates of interest and therefore expose the Company to interest rate fair value risk.

  As at December 31, 2018, if the Canadian dollar had strengthened or weakened by 5% in relation to the U.S. Dollar, with all variables held constant, the net loss of the Company could possibly have increased or decreased by approximately $600,000 (February 28, 2018 – $nil).

- Currency Risk

  As the Company’s operations are located in Canada and the United States, the Company is subject to currency transaction and translation risks.

  The Company holds cash in Canadian dollars and U.S. dollars. The Company raises capital in Canadian capital markets and thus is exposed to fluctuations in the Canadian dollar relative to the U.S dollar, specifically in relation to USD denominated liabilities.

(Expressed in U.S. Dollars, unless stated otherwise)

As at December 31, 2018, if the Canadian dollar had strengthened or weakened by 5% in relation to the U.S. Dollar, with all variables held constant, the net loss of the Company could possibly have increased or decreased by approximately $600,000 (February 28, 2018 – $nil).

As at December 31, 2018, the Company had no hedging agreements in place with respect to foreign exchange rates, however management monitors the Canadian and U.S. currency markets closely and continuously assesses the need to enter into currency hedging arrangements. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Capital Management

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

The Company's capital is composed of equity and debt. The Company's primary uses of capital are future acquisitions and funding growth of existing operations. The Company also uses capital to finance operating losses, capital expenditures, and increases in non-cash working capital. The Company currently funds these requirements from cash raised through financings and may need to raise additional funds to reach its goals. The Company's objectives when managing capital are to ensure that the Company will continue to have enough liquidity to fund operations from which it will obtain returns on investment.

The Company monitors its capital based on the adequacy of its cash resources to fund its business plan. In order to maximize flexibility to finance growth, the Company does not currently pay a dividend to holders of its common shares. The Company did not institute any changes to its capital management strategy during the year.

21. Supplementary Cash Flow Information

For the ten-month period ended December 31, 2018 (twelve-month period ended February 28, 2018), the Company received $nil (February 28, 2018 – $nil) in interest and paid $959,641 (February 28, 2018 – $nil) in interest.

The Company's changes in liabilities arising from financing activities are as follows:

			Non-cash changes				
	March 1, 2018	**Cash flows**	**Acquisitions**	**Foreign exchange movements**	**Fair value changes**	**Other changes (1)**	**December 31, 2018**
Inventory Finance Facility	$ -	2,122,350	-	(22,607)	-	(1,333,485)	$ 766,258
Term Loans	$ -	3,860,000	-	-	-	-	$ 3,860,000
Due to Shareholders	$ 874,372	(434,859)	-	-	-	(439,512)	$ -
Financial Liabilities	$ -	(7,525,000)	22,334,000	-	623,000	-	$ 15,432,000
Convertible Debentures	$ 3,206,348	11,165,412	-	(522,774)	23,951,084	(7,985,527)	$ 29,814,543
Royalty Debt	$ -	1,464,042	-	(102,143)	-	354,290	$ 1,716,189
Total	$ 4,080,720	$ 10,472,294	$ 22,334,000	$ (647,524)	$ 24,574,084	$ (9,224,584)	$ 51,588,990

(1) Other changes include warrant expense, realized fair value adjustment on debt carried at fair value, debentures converted, and accrued buyout loss.

(Expressed in U.S. Dollars, unless stated otherwise)

			Non-cash changes				
	March 1, 2017	Cash flows	Acquisitions	Foreign exchange movements	Fair value changes	Other changes	February 28, 2018
Inventory Finance Facility	$ -	-	-	-	-	-	$ -
Term Loans	$ -	-	-	-	-	-	$ -
Due to Shareholders	$ -	-	874,372	-	-	-	$ 874,372
Convertible Debentures	$ -	-	3,206,348	-	-	-	$ 3,206,348
Royalty Debt	$ -	-	-	-	-	-	$ -
Total	$ -	$ -	$ 4,080,720	$ -	$ -	$ -	$ 4,080,720

22. Segmented Information

The Company operates under one reporting segment. The executive management group including CEO, CFO, COO, CMO of the Company collectively are the chief operating decision makers. These chief operating decision makers only review revenue by operating unit and review all other financial information on a consolidated basis.

During the period ended December 31, 2018 and February 28, 2018, the Company has generated the following types of revenues:

	For the ten months ended December 31, 2018	For the twelve months ended February 28, 2018
Revenue streams		
Distribution	$ 8,129,759	$ 53,050
Direct-to-consumer	1,993,161	-
Total	**$ 10,122,920**	**$ 53,050**

Geographic segments

The following table is a summary of revenues by geographic location of the customers for the periods ended December 31, 2018 and February 28, 2018:

	For the ten months ended December 31, 2018	For the twelve months ended February 28, 2018
Canada	$ -	$ -
United States of America	10,122,920	53,050
Total	**$ 10,122,920**	**$ 53,050**

The Company's corporate and administrative offices are in Canada. The following summarizes the location of the Company's noncurrent assets as at December 31, 2018 and February 28, 2018.

	December 31, 2018			February 28, 2018	
	Canada	United States of America	Total	Canada	United States of America
Security Deposits	$ 23,933	$ 510,084	$ 534,017	$ -	$ 213,301
Property and Equipment	12,370	977,157	989,527	-	124,671
Intangible Assets	8,075	14,697,375	14,705,450	-	-
Goodwill	-	21,923,600	21,923,600	-	-
Total	$ 44,378	$ 38,108,216	$ 38,152,594	$ -	$ 337,972

(Expressed in U.S. Dollars, unless stated otherwise)

23. Related Party Transactions

Related party transaction not described elsewhere in the financial statements are included herein.

Key Management Personnel Compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. 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:

	From March 1, 2018 to December 31, 2018	From March 1, 2017 to February 28, 2018
Salaries and bonuses	$ 1,548,799	$ 388,462
Share-based compensation	275,961	1,923
Total	**$ 1,824,760**	**$ 390,385**

Consulting Services from Daniel Fields

Daniel Fields, a shareholder of the Company, provided consulting services for the Company. During the ten-month period ended December 31, 2018 (twelve-month period ended February 28, 2018), the Company incurred consulting fees of $200,000 and chargeable expenses of $218,920 (February 28, 2018 – $80,000 and $50,075, respectively), included in Legal and Professional Fees on the consolidated statements of loss and comprehensive loss. As at December 31, 2018, $33,387 (February 28, 2018 – $110,877) remained payable by the Company, which is included in Accounts Payable and Accrued Liabilities on the consolidated statement of financial position.

Ambassador Technologies Inc Marketing Services

Ambassador Technologies Inc, over which the Company's Chief Executive Officer has significant influence, is a marketing agency company doing business in California as ByProxie. The entity is not consolidated with the Company because the Company is not entitled to its variable returns. Since August 2017, the Company engaged ByProxie to provide marketing services in California. During the ten-month period ended December 31, 2018, the Company incurred related expenses to ByProxie of $317,000 for ByProxie services in addition to $438,000 in reimbursements for payments made by ByProxie to third party vendors (February 28, 2018 – $82,000), included in Sales and Marketing Expenses on the consolidated statements of loss and comprehensive loss. As at December 31, 2018, $nil (February 28, 2018 – $11,000) remained payable by the Company, which is included in Accounts Payable and Accrued Liabilities on the consolidated statements of financial position.

WestField Partners, LLC and WestField Aviation Partners, LLC

The Company's Chief Executive Officer has control over WestField Partners, LLC, a management services company, and WestField Aviation Partners, LLC, an aviation services company. WestField Partners, LLC and WestField Aviation Partners, LLC are not consolidated with the Company because the Company is not entitled to their variable returns. WestField Partners, LLC entered into a management services agreement with the Company to provide rent and employee services on March 1, 2016, and WestField Aviation Partners, LLC is engaged as needed. During the ten-month period ended December 31, 2018 (twelve-month period ended February 28, 2018), the Company incurred rent and employee expenses of $100,000 (February 28, 2018 – $143,000) which are included in Administrative and Other Expenses and aviation expenses of $668,775 (February 28, 2018 – $nil) which are included in Business Development Expenses on the consolidated statements of loss and comprehensive loss. As at December 31, 2018, $28,000 (February 28, 2018 – $42,809) remained payable by the Company, which is included in Accounts Payable and Accrued Liabilities on the consolidated statements of financial position.

24. Subsequent Events

Acquisition of Assets from Cascade Distribution, Inc.

On September 27, 2018, the Company through its subsidiary, Herban OR, entered an agreement to acquire certain assets of Cascade Cannabis Distribution, Inc. ("Cascade"). Cascade holds a recreational wholesale license in the State of Oregon for the distribution of adult-use cannabis and provides product processing, packaging and distribution services in Oregon. The State of Oregon approved the transfer of the recreational wholesale license to Herban OR in February 2019.

The transaction closed on March 1, 2019, for a total purchase price of $150,000.

Strategic Partnership with Nevada-Based Retailer Acres Cannabis

On January 10, 2019, the Company signed a strategic partnership agreement with Acres Cannabis ("Acres"), a vertically integrated cannabis retailer based in Las Vegas, Nevada. The partnership grants the Company's brands and services access to the Nevada market. The Company's infused products and edible brands will be manufactured in Acres' facilities and sold state-wide under a royalty fee arrangement with Acres.

Repayment of Term Loans

Subsequent to December 31, 2018, the Company fully repaid the balance to the holders of these Term Loans.

Inventory Finance Facility

On January 17, 2019, the Company signed a definitive agreement (the "Agreement") for a two-year, up to $40 million senior secured credit facility from the Arranger. The credit facility consists of a $15 million term loan facility and a $25 million asset-backed loan facility. The Company drew $13 million of the credit facility following the completion of certain conditions to the satisfaction of the investors. $27 million of the credit facility remains undrawn.

Net proceeds in the amount of $9,148,143 were received by the Company, net of the repayment of the $3,000,000 early draw and $851,857 in capitalized transaction costs. This credit facility will be used for acquisitions, capital expenditures, refinancing existing debt, working capital and general corporate purposes.

Definitive Agreement to Acquire Pioneer Valley Extracts, LLC

On February 14, 2019, the Company signed a membership interest purchase agreement, subject to satisfaction of certain customary conditions to close, to acquire Pioneer Valley Extracts, LLC, a manufacturer and emerging cannabis brand in Massachusetts. At close, the total purchase price will be $550,000 consisting of $150,000 in cash and $400,000 in stock.

Binding Term Sheet to Acquire Certain Assets from MMAC

On March 20, 2019, the Company signed a binding term sheet, subject to satisfaction of due diligence performed by the Company, with MM Esperanza 2 LLC, doing business as "MMAC," to acquire select MMAC assets, including the 1.83 acre Los Angeles cannabis campus that includes a dispensary storefront, distribution facility, manufacturing hub and direct-to-consumer fulfillment center. The acquisition includes all property, land, leaseholds, equipment and licenses for a purchase price of $18,000,000 and enhances the Company's brands distribution and direct-to-consumer footprint in Southern California.

Termination of Relationship with Eaze

On March 29, 2019, Hometown Heart, which the Company operates through a Management Services Agreement, terminated its relationship with customer acquisition provider Eaze Technologies, Inc., formerly Eaze Solutions, Inc. ("Eaze"). Following a review of certain of Eaze's business practices, the Company was unable to confirm that Eaze's credit card payment processing methodology met regulatory compliance requirements.

On March 31, 2019, the Company recognized a full impairment loss of $568,000 on the Eaze Relationship intangible asset acquired from Hometown Heart.

Definitive Agreement with Premium Manufacturer and Indoor Craft Cultivator Waterside Warehousing

On March 15, 2019, the Company signed a definitive agreement with an irrevocable option to acquire Waterside Warehousing ("Waterside"), a premium manufacturer and indoor craft cultivator located in Oakland, California. The Company agreed to provide $1 million up front, which the Company can finance using its credit facility, with the option to acquire Waterside for an additional $5 million. If the Company exercises its option to acquire Waterside, the Company may draw upon its credit facility, issue stock or raise new equity to complete the acquisition.

Letter of Intent to Acquire Virginia's Kitchen, LLC dba Blue Kudu

On April 5, 2019, the Company signed a Letter of Intent with Virginia's Kitchen, LLC d/b/a Blue Kudu, an award-winning edibles brand and wholesale platform based in Denver, Colorado. The total consideration for the deal is expected to be US$5,500,000, consisting of US$5,000,000 at close comprised of $4,000,000 in cash and $1,000,000 in DionyMed subordinated voting shares and the remaining $500,000 subject to Colorado law allowing the Company to acquire Blue Kudu's cannabis business licenses.

Equity Bought Deal Financing

On April 15, 2019, the Company entered into an agreement with a syndicate of agents co-led by Canaccord Genuity Corp. and Cormark Securities Inc (collectively, the "Underwriters"), which have agreed to purchase on a bought deal private placement basis, 3,636,364 units of the Company at a price of C$2.75 per Unit for aggregate gross proceeds to DionyMed of C$10,000,001 with an option to purchase up to an additional 3,636,364 Units at the Issue Price for additional gross proceeds to DionyMed of up to C$10,000,001

Each unit is comprised of one subordinate voting share and one subordinate voting share purchase warrant exercisable into one Subordinate Voting Share at price of C$3.80 per Warrant Share for a period of 36 months following the closing of the offering. The net proceeds from the Offering will be used primarily towards the Company's strategic growth initiatives and for general working capital purposes.

Net proceeds in the amount of $9,633,746 were received by the Company, net of $366,255 in capitalized transaction costs.