
DELTA 9 CANNABIS INC.
CONSOLIDATED INTERIM
FINANCIAL STATEMENTS
(UNAUDITED)

JUNE 30, 2018

(EXPRESSED IN CANADIAN DOLLARS)

DELTA 9 CANNABIS INC.

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(UNAUDITED)

JUNE 30, 2018

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INDEPENDENT PRACTITIONER'S REVIEW ENGAGEMENT REPORT

To the Shareholders
Delta 9 Cannabis Inc.

We have reviewed the accompanying consolidated interim financial statements of Delta 9 Cannabis Inc., that comprise the consolidated interim statements of financial position as at June 30, 2018, and the consolidated interim statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated interim 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 interim financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying consolidated interim financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these consolidated interim financial statements do not present fairly, in all material respects, the financial position of Delta 9 Cannabis Inc. as at June 30, 2018, and the results of its operations and its cash flows for the six month period then ended in accordance with International Financial Reporting Standards.

Winnipeg, Manitoba
August 28, 2018

Collins Barrow HMA LLP
Chartered Professional Accountants

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

(CANADIAN DOLLARS)

As At

	June 30, 2 0 1 8	December 31, 2 0 1 7 (Restated)
A S S E T S		
CURRENT		
Cash	\$ 13,908,610	\$ 23,548,451
Trade and other receivables (Note 5)	789,980	258,544
Inventories (Note 6)	340,926	382,247
Biological assets (Note 7)	547,914	125,943
Prepayments and other current assets (Note 8)	1,019,218	479,484
Due from shareholders (Note 12)	53,779	51,507
	<u>16,660,427</u>	<u>24,846,176</u>
PROPERTY, PLANT AND EQUIPMENT (Note 9)	2,902,668	275,192
INVESTMENT (Note 10)	<u>3,000,000</u>	<u>-</u>
	<u>\$ 22,563,095</u>	<u>\$ 25,121,368</u>
L I A B I L I T I E S		
CURRENT		
Accounts payable and accrued liabilities (Note 11)	\$ 446,660	\$ 443,448
Due to shareholders (Note 12)	48,951	48,951
Due to related parties (Note 12)	-	72,571
	<u>495,611</u>	<u>564,970</u>
S H A R E H O L D E R S ' E Q U I T Y		
SHARE CAPITAL (Note 13)	36,888,571	36,223,754
WARRANTS (Note 13)	685,849	819,342
CONTRIBUTED SURPLUS	1,303,667	217,136
ACCUMULATED DEFICIT	(16,677,350)	(12,650,277)
NON-CONTROLLING INTEREST	(133,253)	(53,557)
TOTAL SHAREHOLDERS' EQUITY	<u>22,067,484</u>	<u>24,556,398</u>
	<u>\$ 22,563,095</u>	<u>\$ 25,121,368</u>
COMMITMENTS (Note 17)		

Approved on behalf of the Board:

(s) "John William (Bill) Arbuthnot III"
.....
Director

(s) "John William (John) Arbuthnot IV"
.....
Director

CONSOLIDATED INTERIM STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

(UNAUDITED)

(CANADIAN DOLLARS)

FOR THE THREE AND SIX MONTH PERIOD ENDED

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
REVENUE	\$ 715,746	\$ 190,099	\$ 1,047,853	\$ 337,953
COST OF SALES	<u>380,520</u>	<u>155,354</u>	<u>603,689</u>	<u>315,324</u>
GROSS PROFIT BEFORE UNREALIZED GAIN FROM CHANGES IN BIOLOGICAL ASSETS	335,226	34,745	444,164	22,629
Unrealized gain from changes in fair value of biological assets	<u>328,214</u>	<u>208,850</u>	<u>421,971</u>	<u>252,428</u>
GROSS PROFIT	<u>663,440</u>	<u>243,595</u>	<u>866,135</u>	<u>275,057</u>
EXPENSES				
General and administrative (Note 15)	2,064,333	1,207,954	3,452,646	1,593,179
Sales and marketing (Note 15)	265,332	108,797	388,978	180,595
Share based compensation (Note 13)	<u>521,598</u>	<u>-</u>	<u>1,142,788</u>	<u>-</u>
	<u>2,851,263</u>	<u>1,316,751</u>	<u>4,984,412</u>	<u>1,773,774</u>
LOSS FROM OPERATIONS	<u>(2,187,823)</u>	<u>(1,073,156)</u>	<u>(4,118,277)</u>	<u>(1,498,717)</u>
OTHER INCOME				
Other income	1,064	54	3,098	75
Rental Income	<u>3,750</u>	<u>721</u>	<u>8,410</u>	<u>3,450</u>
	<u>4,814</u>	<u>775</u>	<u>11,508</u>	<u>3,525</u>
NET LOSS AND COMPREHENSIVE LOSS	<u>\$(2,183,009)</u>	<u>\$(1,072,381)</u>	<u>\$(4,106,769)</u>	<u>\$(1,495,192)</u>
Net loss and comprehensive loss attributable to:				
Delta 9 Cannabis Inc.	<u>\$(2,135,447)</u>	<u>\$(986,629)</u>	<u>\$(4,027,073)</u>	<u>\$(1,351,623)</u>
Non-controlling interest	<u>(47,562)</u>	<u>(85,752)</u>	<u>(79,696)</u>	<u>(143,569)</u>
	<u>\$(2,183,009)</u>	<u>\$(1,072,381)</u>	<u>\$(4,106,769)</u>	<u>\$(1,495,192)</u>
Loss per share - basic (Note 16)	<u>\$(0.03)</u>	<u>\$(0.02)</u>	<u>\$(0.05)</u>	<u>\$(0.03)</u>
Loss per share - diluted (Note 16)	<u>\$(0.03)</u>	<u>\$(0.02)</u>	<u>\$(0.05)</u>	<u>\$(0.03)</u>

See accompanying notes to consolidated interim financial statements

DELTA 9 CANNABIS INC.

STATEMENT 3

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)

(CANADIAN DOLLARS)

FOR THE SIX MONTH PERIOD Ended

	Number of shares	Share Capital	Warrants	Contributed Surplus	Accumulated Deficit	Non-Controlling Interest	Total Equity
BALANCE, December 31, 2016	37,350,000	\$ 940,100	\$	\$	\$(2,957,550)	\$ 620,397	\$(1,397,053)
Net loss and comprehensive loss					(1,351,623)	(143,569)	(1,495,192)
Shares issued by Delta 9 Bio-Tech Inc.	5,036,000	1,259,000					1,259,000
Minority portion of Class A Common shares in Delta 9 Lifestyle Cannabis Clinic	-	-	-	-	-	49	49
BALANCE, June 30, 2017	<u>42,386,000</u>	<u>\$ 2,199,100</u>	<u>\$</u>	<u>\$</u>	<u>\$(4,309,173)</u>	<u>\$ 476,877</u>	<u>\$(1,633,196)</u>
BALANCE, December 31, 2017	78,819,412	\$ 36,901,920	\$ 141,176	\$ 217,136	\$(12,650,277)	\$(53,557)	\$ 24,556,398
Agents' warrants relating to bought deal (Note 13)	-	(678,166)	678,166	-	-	-	-
BALANCE, December 31, 2017 - Restated	78,819,412	36,223,754	819,342	217,136	(12,650,277)	(53,557)	24,556,398
Net loss and comprehensive loss					(4,027,073)	(79,696)	(4,106,769)
Exercise of agents' warrants (Note 13)	529,522	477,682	(133,493)				344,189
Exercise of employee stock options (Note 13)	201,350	187,135		(56,257)			130,878
Share based compensation (Note 13)	-	-	-	1,142,788	-	-	1,142,788
BALANCE, June 30, 2018	<u>79,550,284</u>	<u>\$ 36,888,571</u>	<u>\$ 685,849</u>	<u>\$ 1,303,667</u>	<u>\$(16,677,350)</u>	<u>\$(133,253)</u>	<u>\$ 22,067,484</u>

See accompanying notes to consolidated interim financial statements

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(UNAUDITED)

(CANADIAN DOLLARS)

FOR THE SIX MONTH PERIOD Ended

	June 30, 2 0 1 8	June 30, 2 0 1 7
CASH FLOW FROM		
<i>OPERATING ACTIVITIES</i>		
Net loss for period	\$(4,106,769)	\$(1,495,192)
Items not affecting cash:		
Amortization of property, plant and equipment <i>(Note 9)</i>	147,678	23,425
Unrealized gain from changes in fair value of biological assets	(421,971)	(252,428)
Share based compensation <i>(Note 13)</i>	<u>1,142,788</u>	<u>-</u>
	<u>(3,238,274)</u>	<u>(1,724,195)</u>
Changes in non-cash working capital:		
Trade and other receivables	(531,436)	(144,962)
Inventories	41,321	(42,616)
Biological assets		98,039
Prepayments and other current assets	(539,734)	(3,500)
Accounts payable and accrued liabilities	<u>3,212</u>	<u>(459,758)</u>
	<u>(1,026,637)</u>	<u>(552,797)</u>
	<u>(4,264,911)</u>	<u>(2,276,992)</u>
<i>INVESTING ACTIVITIES</i>		
Acquisition of property, plant and equipment <i>(Note 9)</i>	(2,775,154)	(68,131)
Investment in limited partnership	<u>(3,000,000)</u>	<u>-</u>
	<u>(5,775,154)</u>	<u>(68,131)</u>
<i>FINANCING ACTIVITIES</i>		
Proceeds from share capital <i>(Note 13)</i>	475,067	1,259,049
Proceeds from privately placed debentures		3,000,000
Shareholder deposits		(226,649)
Shareholder advances		(842,377)
Repayment of amounts due to related parties	<u>(74,843)</u>	<u>-</u>
	<u>400,224</u>	<u>3,190,023</u>
NET INCREASE (DECREASE) IN CASH	(9,639,841)	844,900
CASH, <i>beginning of period</i>	<u>23,548,451</u>	<u>115,312</u>
CASH, <i>end of period</i>	<u>\$ 13,908,610</u>	<u>\$ 960,212</u>

See accompanying notes to consolidated interim financial statements

DELTA 9 CANNABIS INC.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018

1. NATURE OF BUSINESS

Delta 9 Cannabis Inc. (the "Corporation") is a Medical Cannabis Producer regulated by Health Canada under the Access to Cannabis for Medical Purposes Regulations. Delta 9 Cannabis Inc. is a publicly traded company on the TSX Venture Exchange under the symbol NINE. The Medical Cannabis license is in the name of Delta 9 Bio-Tech Inc., a wholly owned subsidiary of Delta 9 Cannabis Inc. On February 16, 2018, the Manitoba government announced that an opportunity to legally retail recreational cannabis in the province was conditionally awarded to a consortium consisting of Delta 9 Cannabis Inc. and Canopy Growth Corporation. The date when recreational cannabis can legally be sold has been announced as October 17, 2018.

On October 31, 2017, Delta 9 Bio-Tech Inc. completed a reverse acquisition transaction with SVT Capital Corp. ("SVT"). Upon completion of the transaction, SVT changed its name to Delta 9 Cannabis Inc.

The address of the registered office is Suite 1800, 355 Burrard Street, Vancouver, British Columbia, V6C 2G8.

On August 28, 2018, the Board of Directors authorized the Consolidated Interim Financial Statements for issue.

2. BASIS OF PRESENTATION

a) Statement of compliance

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard 34 Interim Financial Reporting ("IAS 34"). The consolidated interim financial statements should be read in conjunction with the annual financial statements of the Corporation for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by International Accounting Standards Board (IASB).

b) Basis of measurement

These consolidated interim financial statements have been prepared on a historical cost basis except for biological assets, warrants and options which are measured at fair value, as explained in the accounting policies below.

Historical cost is the fair value of the consideration given in exchange for goods and services based on the fair value at the time of the transaction of the consideration given in exchange for assets.

c) Functional and presentation currency

These consolidated interim financial statements are presented in Canadian dollars, which is the Corporation's functional and presentation currency.

d) Basis of consolidation

These consolidated interim financial statements consolidate the accounts of the Corporation and its subsidiaries. Subsidiaries are all entities over which the Corporation has control. The Corporation controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Corporation has power over an entity where it has existing rights that give the current ability to direct the activities that most significantly affect the entity's returns (relevant activities). Power may be determined on the basis of voting rights or, in the case of structured entities, other contractual arrangements. The Corporation consolidates all subsidiaries from the date it obtains control and ceases consolidation when an entity is no longer controlled by it. All transactions and balances from subsidiaries have been eliminated upon consolidation.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018

2. BASIS OF PRESENTATION *(continued)*

These consolidated interim financial statements include Delta 9 Cannabis Inc. and its wholly owned subsidiary, Delta 9 Bio-Tech Inc. and the Corporation's interest in Delta 9 Lifestyle Cannabis Inc. Comparative numbers in statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows include Delta 9 Bio-Tech Inc. and its former subsidiary, Delta 9 Bio-Tech Limited Partnership and its current subsidiary, Delta 9 Lifestyle Cannabis Clinic Inc.

3. SIGNIFICANT ACCOUNTING POLICIES***REVENUE RECOGNITION***

Revenue from the sale of medical cannabis is recognized when the Corporation has transferred the significant risks and rewards of ownership to the customer, the amount of the revenue can be reliably measured and it is probable that the Corporation will receive the previously agreed upon payment. Significant risks and rewards are generally considered to be transferred when the product leaves the Corporation's premises. Revenue is recognized at the fair value of the consideration received or receivable. Finance, interest and sundry income is recognized at the time the amount is earned, determinable and collectability is reasonably assured.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, balances with banks net of bank overdrafts and term deposits having maturity of three months or less at acquisition, which are held for the purpose of meeting short-term cash commitments.

PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets include short-term prepaid expenses and prepayments related to materials and other deposits required in the normal course of business, which are less than one year.

TRADE AND OTHER RECEIVABLES

Trade receivables are stated at the amounts billed to customers under normal trade, less an allowance for doubtful accounts. At each reporting date, management adjusts the allowance for doubtful accounts based upon a review of the aging of outstanding customer balances, historical default rates, customer credit worthiness and changes in customer payment performance to evaluate collectability.

Other receivables include amounts owed to the corporation for share deposits and goods and services tax recoverable.

INVENTORIES

Inventories of materials and supplies are valued at the lower of cost and net realizable value. Harvested plants are transferred from biological assets into inventory at their fair value at harvest less costs to sell which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs to sell. Packaging, supplies and seeds are initially valued at cost.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)**BIOLOGICAL ASSETS*

The Corporation's biological assets consist of cannabis clones, mother plants and flowering plants. All the biological assets are presented as current assets on the statement of financial position. The Corporation measures biological assets at fair value less cost to sell up to the point of harvest which becomes the basis for the cost of finished goods inventories after harvest. Gains or losses arising from changes in fair value less cost to sell are included in the results of operations of the related period.

The significant assumptions used in determining the fair value of biological assets include:

- Actual selling prices for crops sold less costs to sell
- Actual selling price pro-rated based on the stage of growth of the biological assets at the reporting period, less wastage
- Selling costs are estimated based on the salaries paid to customer service representatives with higher percentages allocated after the initial release of a crop

INVESTMENT IN JOINT VENTURES

The Corporation has interests in joint ventures where the Corporation exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee. The Corporation accounts for joint ventures using the equity method of accounting whereby investments are initially recognized at cost. Subsequently the carrying value of the Corporation's interest is adjusted for the Corporation's share of comprehensive income and distributions of the investee. The carrying value of joint ventures is assessed for impairment at each balance sheet date.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at cost less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis using the following rates:

Containers	10%
Computer equipment	55%
Computer software	33%
Leasehold improvements	20%
Production equipment	20%
Security equipment	20%
Office furniture and equipment	20%

IMPAIRMENT OF LONG-LIVED ASSETS

Long lived assets, including 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 the recoverable amount. For the purposes of impairment-testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash flows from continuing use that are largely independent of cash flows of other assets or groups of the 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 by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of the recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)**TRADE AND OTHER PAYABLES*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other payables include amounts due from shareholders, corporate director's credit cards and goods and services tax payable. Trade and other payables are classified as current liabilities if payments are due within one year or less. If not, they are presented as non-current liabilities.

SHARE-BASED COMPENSATION

The Corporation has a stock option plan for directors, officers, employees, and consultants. Grants are subject to a service condition by the option holder.

All option grants are initially measured at fair value at the grant date using the Black-Scholes option pricing model. The fair value of the options is amortized over the vesting period and is included in operating expenses with a corresponding increase in contributed surplus, net of an estimated forfeiture credit. Management reassesses the estimated forfeiture credit at each reporting period. Where the terms and conditions of the initial option grant are modified before they vest, the options are remeasured at fair value at the modification date and any increase in fair value is charged to earnings.

When options are exercised, common shares are issued from treasury and the proceeds are credited to share capital in the Consolidated Statements of Financial Position.

WARRANTS

The Corporation uses the residual value approach in respect of unit offerings whereby the amount assigned to the warrant is the excess of the unit price over the trading price of the Corporation's shares at the date of issuance, if any, to a maximum fair value of the warrant determined by using the Black-Scholes option pricing model.

INCOME TAXES

The Corporation 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 temporary differences are expected to be reversed or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

FINANCIAL INSTRUMENTS

Financial instruments consist of financial assets and liabilities and are initially measured at fair value, and are recognized in the consolidated statements of financial position when the Corporation has become party to the contractual provisions of the instruments. The accounting policies for financial instruments are described below and the composition of the Corporation's financial instruments and related risks are disclosed in Notes 19 and 20.

1) Financial Assets

The Corporation classifies each financial asset into one of four categories depending on the purpose for which the asset was acquired.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***a) At Fair Value Through Profit or Loss ("FVTPL").**

Assets in this category are derivatives or other assets classified as held-for-trading (i.e. acquired or incurred principally for the purpose of selling or repurchasing in the near term) or designated as FVTPL upon initial recognition subject to meeting certain conditions. After initial recognition, such assets are measured at fair value with changes therein being recognized in profit or loss. The Corporation has cash and cash equivalents which are classified as FVTPL.

b) Available for Sale

Assets in this category are non-derivative financial assets that are either designated as available-for-sale or do not fit into one of the other categories. After initial recognition, available-for-sale assets are measured at fair value with changes therein (excluding those attributable to impairment) being recognized directly in other comprehensive income (loss). The Corporation has no financial assets that are classified as available-for-sale.

c) Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses. The carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance are recognized in profit or loss. The Corporation has accounts receivable and due from related parties which are classified as loans and receivables.

d) Held-to-Maturity

Assets in this category are financial assets with known payments and a fixed maturity date. In addition, the Corporation has positive intention and ability to hold the financial asset to maturity, other than those initially designated as held-for-trading, available-for-sale, or loans and receivables as explained above. After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method. The Corporation has no financial assets that are classified as held-to-maturity financial assets.

2) Financial Liabilities

The Corporation classifies each financial liability into one of two categories depending on the purpose for which the liability was incurred.

a) At FVTPL

Financial liabilities in this category are derivatives or liabilities classified as held-for-trading or designated as FVTPL, upon initial recognition subject to meeting certain conditions. After initial recognition, such liabilities are measured at fair value with changes in fair value being recognized in profit or loss. The Corporation has no financial liabilities at FVTPL.

(b) Other Financial Liabilities

Liabilities in this category are non-derivative financial liabilities that are not classified as FVTPL. After initial recognition, such liabilities are measured at amortized cost using the effective interest rate method. The Corporation has accounts payable and accrued liabilities and due to related parties which are classified as other financial liabilities.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***3) Transaction Costs**

For FVTPL financial assets and liabilities, transaction costs on initial recognition, and thereafter, are included directly in profit or loss. For other categories of financial assets and liabilities, transaction costs are capitalized and included in the calculation of the effective interest rate i.e. amortized through profit or loss over the terms of the related instrument.

4) Impairment of Financial Assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after initially recognizing the financial asset, the present value of estimated future cash flows determined based on the instrument's original effective interest rate are lower than the asset's carrying amount. The financial asset's carrying amount is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are adjusted against the allowance account. Changes in the carrying amount of the allowance account are recognized in earnings or loss.

5) Fair value measurement

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. Management uses a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is broken down into the following three levels:

Level 1: Fair value based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Fair value based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, etc.) or can be corroborated by observable market data.

Level 3: Fair value based on inputs that are unobservable and reflecting significant management judgments about assumptions that market participants might use.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Cash and cash equivalents are classified as Level 2 financial instruments.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)**CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS*

The preparation of the consolidated interim 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, revenue 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.

1) Biological Assets and Inventory

Determination of the fair value of biological assets requires the Corporation to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales prices, wastage and expected yields of the cannabis plant. In determining final inventory values, the Corporation estimates spoiled or expired inventory in determining net realizable value.

The Corporation's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

2) Estimated Useful Lives of Property, Plant and Equipment

Amortization of property, plant and equipment requires 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 take into account factors such as economic and market conditions and the useful lives of assets.

3) Share Based Compensation

The fair value of share-based compensation expenses are estimated using the Black-Scholes option pricing model and relies on a number of estimated inputs, such as the expected life of the option, the volatility of the underlying share price, the risk free rate of return and the estimated rate of forfeiture of options granted. Changes in the underlying estimated inputs may result in materially different results.

4) Warrants

In calculating the fair value of warrants, management relies on estimated inputs, such as the volatility of the Corporation's stock price and the risk-free rate of return.

4. ACCOUNTING STANDARDS

The following accounting pronouncements issued by the IASB were not effective as of June 30, 2018.

IFRS 16, Leases - replaces the guidance in IAS 17 Leases and establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 applies to annual reporting periods beginning on or after January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018
5. TRADE AND OTHER RECEIVABLES

	June 30, 2018	December 31, 2017
Trade	\$ 295,593	\$ 7,860
Due from shareholders	118,553	157,303
Sales tax receivable	<u>375,834</u>	<u>93,381</u>
	<u>\$ 789,980</u>	<u>\$ 258,544</u>

The following table provides details on the age of trade receivables:

	June 30, 2018	December 31, 2017
0 - 30 days	\$ 284,861	\$ 4,547
31 - 60 days	4,582	3,313
61 - 90 days	1,950	
Greater than 90 days	<u>4,200</u>	<u>-</u>
	<u>\$ 295,593</u>	<u>\$ 7,860</u>

6. INVENTORIES

	June 30, 2018	December 31, 2017
Finished goods	\$ 8,240	\$ 43,820
Raw materials	63,604	27,283
Products for re-sale	<u>269,082</u>	<u>311,144</u>
	<u>\$ 340,926</u>	<u>\$ 382,247</u>

The amount of inventories recognized as an expense was \$316,815 (\$242,734 - December 31, 2017)

7. BIOLOGICAL ASSETS

Biological assets consist of medical cannabis plants.

	June 30, 2018	December 31, 2017
Biological assets, beginning of period/year	\$ 125,943	\$ 98,039
Net increase in fair value less cost to sell due to biological transformation	421,971	645,345
Transferred to inventory upon harvest	<u>-</u>	<u>(617,441)</u>
Biological assets, end of period/year	<u>\$ 547,914</u>	<u>\$ 125,943</u>

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018
8. PREPAYMENTS AND OTHER CURRENT ASSETS

	June 30, 2018	December 31, 2017
Advertising and promotion	\$ 43,333	\$ 124,250
Deposit for purchase of containers		254,550
Deposit for purchase of products	710,226	
Deposit for purchase of building	200,000	
Insurance	42,442	96,184
Other	<u>23,217</u>	<u>4,500</u>
	<u>\$ 1,019,218</u>	<u>\$ 479,484</u>

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment relate to the infrastructure for cannabis growing production and operations. A cost continuity of the accounts for the six month period ended June 30, 2018 is as follows:

	Balance at January 1, 2018	Additions	Disposals	Balance at June 30, 2018
Computer equipment	\$ 43,563	\$ 56,027	\$	\$ 99,590
Containers	26,495	1,685,644		1,712,139
Office furniture and equipment	13,008	52,331		65,339
Leasehold improvements	86,746	110,424		197,170
Production equipment	227,812	599,848		827,660
Security equipment	59,109	117,224		176,333
Computer software		80,172		80,172
Construction in progress	<u>-</u>	<u>73,484</u>	<u>-</u>	<u>73,484</u>
	<u>\$ 456,733</u>	<u>\$ 2,775,154</u>	<u>\$ -</u>	<u>\$ 3,231,887</u>

The accumulated amortization continuity for property, plant and equipment for the six month period ended June 30, 2018 is as follows:

	Balance at January 1, 2018	Additions	Disposals	Balance at June 30, 2018
Computer equipment	\$ 13,510	\$ 19,103	\$	\$ 32,613
Containers	1,324	43,467		44,791
Office furniture and equipment	2,033	3,918		5,951
Leasehold improvements	39,023	12,902		51,925
Production equipment	102,021	51,014		153,035
Security equipment	23,630	10,658		34,288
Computer software	<u>-</u>	<u>6,616</u>	<u>-</u>	<u>6,616</u>
	<u>181,541</u>	<u>147,678</u>	<u>-</u>	<u>329,219</u>
Net book value	<u>\$ 275,192</u>			<u>\$ 2,902,668</u>

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018

10. INVESTMENT

The Corporation entered into a limited partnership agreement with Westleaf Cannabis Inc. on April 18, 2018 to create a strategic partnership for the joint development of a large-scale cannabis production facility located in Southern Alberta (the "Westleaf Project"). Pursuant to the terms of the agreement, the Corporation and Westleaf will each own a 50% equity interest in the Westleaf Project, which will include the retrofit of an existing building that is intended to be equipped to produce approximately 4,000 kilograms of dried cannabis flower per annum and include an extraction lab for the production of cannabis oil and derivative products. The Westleaf Project is expected to be operational as early as the third quarter of 2018 and is intended to supply cannabis products to Alberta medical and recreational markets.

The Corporation and Westleaf have each advanced \$3,000,000 for their 50% equity interest in the Westleaf Project. Certain cannabis genetics products will be provided to the Westleaf Project by the Corporation. Westleaf Cultivation Management II Inc., a wholly owned subsidiary of Westleaf, will act as manager of the Westleaf Project.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2018	December 31, 2017
Trade payables	\$ 323,379	\$ 386,473
Accrued liabilities	<u>123,281</u>	<u>56,975</u>
	<u>\$ 446,660</u>	<u>\$ 443,448</u>

12. DUE FROM/TO RELATED PARTIES AND SHAREHOLDERS

Related entities have advanced funds to the Corporation through various loans, some of which were secured by a promissory note and other amounts which were unsecured with no specified terms of repayment. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Unsecured advances/loans from (to) related entities

1) During the period, the Chairman and Chief Executive Officer of the Corporation were using their personal credit cards to pay expenses of the Corporation. As of June 30, 2018 \$53,779 was advanced to prepay expenditures subsequent to the balance sheet date.

2) On April 1, 2017, a Unanimous Shareholders' Agreement was signed by the Shareholders of Delta 9 Lifestyle Cannabis Clinic Inc. It was agreed that the initial fixturing of the leased premises by the Clinic shall be financed by shareholder loans amounting to \$51,000 (received in July 2017) from Delta 9 Bio-Tech Inc. and \$49,000 from 7217804 Manitoba Ltd. These loans are unsecured, non-interest bearing and with no specific date of repayment. As of June 30, 2018, \$48,951 was outstanding to 7217804 Manitoba Ltd.

3) A loan agreement between Oceanside Strategies Inc. (whose Chief Executive Officer is a director of the Corporation) and SVT Capital Corp. (now the Corporation) was signed for a total amount of \$72,571 on September 20, 2017. The loan was settled during the period.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018

12. DUE FROM/TO RELATED PARTIES AND SHAREHOLDERS *(continued)**RELATED PARTY TRANSACTIONS*Lease Agreements with 6599362 Canada Ltd.

In February 2015, the Corporation signed a three year lease agreement with 6599362 Canada Ltd. (a company in which a director of the Corporation owns a 20% interest). As at December 31, 2017, the Corporation was paying a basic annual rent of \$483,060 plus \$121,062 per year for operating recoveries.

On March 19, 2018, the Corporation signed a renewal of the lease increasing the basic rent to \$531,366 per year until March 31, 2018 and further increasing it to \$636,570 from April 1, 2018. The operating recoveries amount increased to \$138,207 until March 31, 2018 and further increased to \$151,756 from April 1, 2018. The Corporation shall also have the right to renew the lease for two additional five year terms. Concurrently, a Letter of Intent (LOI) was signed whereby the Corporation shall have the option to purchase the land and building for a cash purchase price of \$6,250,000. The Corporation is in the process of negotiating to acquire the property and until that time continues to make lease payments as per agreement on a monthly basis.

On March 19, 2018, the Corporation entered into a letter of intent and a lease agreement for an expansion facility with 6599362 Manitoba Ltd. Pursuant to the terms and conditions of the letter of intent, it is anticipated that the Corporation or its nominee(s) will purchase from 6599362 Manitoba Ltd. certain expansion properties consisting of three warehouse buildings having a total floor area of approximately 100,000 square feet and the approximately 40 acres of additional land located adjacent to its current production facility. Pending completion of the purchase and sale of these properties, the Corporation has entered into the lease agreement in respect of the expansion facility with 6599362 Manitoba Ltd. at a basic rent of \$6.60 per square foot per year (\$350,875 per year) and additional rent of \$4,440 per month. The Corporation is in the process of negotiating to acquire the property and until that time continues to make lease payments as per its lease agreement on a monthly basis.

On May 19, 2017, Delta 9 Bio-Tech Inc. entered into a ten year lease contract with 6599362 Canada Ltd. for 15 containers at a monthly rent of \$6,000. On January 17, 2018, Delta 9 Bio-Tech Inc. entered into a ten year lease contract with 6599362 Canada Ltd. for 12 containers at a monthly rent of \$3,538. An amount of \$34,723 was paid to 6599362 Canada Ltd. during the period ended June 30, 2018. The Corporation has the right to purchase the containers during the lease term, either individually or for all of the containers, at a price of \$35,258 per container.

Key management compensation

For the six month period ended June 30, 2018, John William Arbuthnot III and John William Arbuthnot IV, the chairman and chief executive officer of the corporation received total compensation of \$72,308 each. The chief financial officer received total compensation of \$66,154 and the vice-president of marketing and sales earned total compensation of \$36,152.

In addition to the amounts outlined above, share based compensation of \$545,564 was recorded in these consolidated interim financial statements for the board members and \$125,728 was recorded for key management personnel.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018

13. SHARE CAPITAL

Authorized:

The authorized share capital of the Corporation consists of an unlimited number of common shares without par value.

	June 30, 2018	December 31, 2017 (Restated)
Issued share capital		
79,550,284 (December 31, 2017 - 78,819,412,) Common Shares	<u>\$ 36,888,571</u>	<u>\$36,223,754</u>

The increase of \$665,461 in the value of common shares during the six month period ended June 30, 2018 is represented by the following:

Cash subscription	\$ 475,067
Transfer from warrants	<u>189,750</u>
	<u>\$ 664,817</u>

Surplus Escrow Agreement

On October 31, 2017, the effective date of closing of the reverse acquisition transaction, the Corporation entered into a Surplus Security Escrow Agreement pursuant to TSXV Policy 5.4 Escrow, Vendor Consideration and Resale Restrictions. Approximately 57% of the Common Shares issued and outstanding on October 31, 2017 were initially subject to the Surplus Security Escrow Agreement. 3,713,098 shares were released before the period end, and 33,417,873 shares were subject to Surplus Security Escrow Agreement as at June 30, 2018.

Warrants

This represents 560,000 agent's warrants in connection with a brokered private placement of \$5,200,000, pursuant to reverse acquisition transaction between SVT and Delta 9. Each warrant entitles the holder to acquire one share at the issue price of \$0.65 until October 31, 2019. 529,522 warrants were exercised during the period.

On December 28, 2017, the Corporation completed a bought deal financing of 8,521,500 units at an offering price of \$2.70 per unit. Each unit consisted of one common share of the Corporation and one common share purchase warrant. Each warrant is exercisable to acquire one common share at an exercise price of \$3.25 per warrant for a period of thirty months from the date of closing of the offering. The Corporation applied to list the warrants for trading on the TSX Venture Exchange. The application was approved and the warrants began trading on the TSX Venture Exchange on January 17, 2018. No warrants were exercised as of June 30, 2018. The gross proceeds from the bought deal transaction were considered to be the fair value of shares at the time of issuance, therefore, no amount was allocated to the warrants.

Restatement of prior period

596,505 agent's warrants were issued in connection with bought deal financing. Each warrant entitles the holder to acquire one share at the issue price of \$2.70 until December 28, 2019. None of these warrants were exercised as of June 30, 2018.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018

13. SHARE CAPITAL *(continued)*

The warrants were valued on the issuance date using the Black-Scholes option pricing model with the following assumptions:

Exercise price	\$2.70
Share price	\$2.82
Risk free interest rate	1.64%
Expected life	2 years
Volatility	70%
Dividend yield	Nil

Volatility was estimated by using the historical volatility of other companies that the Corporation considers comparable that have similar trading and volatility history. The expected life in years represents the period of time that warrants granted are expected to be outstanding. The risk-free rate is based on Canada government bonds with a remaining term equal to the expected life of the warrants.

Option plan

On May 2, 2017, the Board of Directors approved the 2017 Stock Option Plan ("2017 Plan") to retain and attract directors, officers and key employees. This replaces and terminates the former option plan, which had no outstanding options.

On October 31, 2017, the effective date of closing of the reverse acquisition transaction, the Board of Directors approved the grant of 5,116,258 stock options to directors, officers, employees, and consultants, exercisable at \$0.65 each. The first vesting date for options was April 30, 2018. As of June 30, 2018, 200,000 options were exercised by the Chairman of the Corporation and 1,350 by an employee, and 379,000 stock options were forfeited during the period due to certain employees who left the service of the Corporation prior to the first vesting date. An amount of \$562,638 was recorded in share based compensation on outstanding stock options, for the six month period ended June 30, 2018.

On January 22 and February 20, 2018, the Board of Directors approved further grants of 671,700 and 376,500 stock options respectively, to directors, officers, employees, and consultants, exercisable at \$2.77 and \$2.30 respectively, subject to the following vesting provision:

Stock options granted on January 22, 2018:

- One third immediately on grant date;
- One third on July 22, 2018; and
- One third on January 22, 2019.

Stock options granted on February 20, 2018:

- One third on June 20, 2018;
- One third on October 20, 2018; and
- One third on February 20, 2019.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018

13. SHARE CAPITAL *(continued)*

36,000 stock options were forfeited during the period due to certain employees who left the service of the Corporation prior to the first vesting date.

All options granted during 2017 and 2018 will expire five years from the grant date.

The options granted during the six month period were valued at \$580,150 on the respective grant date using the Black-Scholes option pricing model with the following assumptions:

Exercise price	\$2.77 and \$2.30
Share price	\$2.74 and \$2.64
Risk free interest rate	1.79%
Expected life	1 year
Volatility	70%
Dividend yield	Nil

Volatility was estimated by using the historical volatility of other companies that the Corporation considers comparable that have similar trading and volatility history. The expected life in years represents the period of time that warrants granted are expected to be outstanding. The risk-free rate is based on Canada government bonds with a remaining term equal to the expected life of the warrants.

14. NON-CONTROLLING INTEREST

At June 30, 2018, the non-controlling interest represented a 49% interest in Delta 9 Lifestyle Cannabis Clinic Inc.

15. EXPENSES

The Corporation presents its Consolidated Statements of Net Loss and Comprehensive Loss on a functional basis in which expenditures are aggregated to the function to which they relate. The corporation has identified the major functions as general and administrative and sales and marketing.

Three month period ended June 30, 2018	General and administrative	Sales and marketing	Total
Amortization	\$ 108,705	\$	\$ 108,705
Insurance	26,872		26,872
Interest and loan fees	8,236		8,236
Legal, professional and investor relations	593,097		593,097
Other operating expenses	60,660	150,956	211,616
Personnel expenditures	550,374	114,376	664,750
Rent and utilities	508,313		508,313
Site renovation	145,773		145,773
Supplies and materials	62,303	-	62,303
	<u>\$ 2,064,333</u>	<u>\$ 265,332</u>	<u>\$ 2,329,665</u>

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018

15. EXPENSES (continued)

Three month period ended June 30, 2017

	General and administrative	Sales and marketing	Total
Amortization	\$ 12,463	\$	\$ 12,463
Insurance	5,627		5,627
Interest and loan fees	80,358		80,358
Operating lease	19,440		19,440
Other operating expenditures	73,932	49,745	123,677
Personnel expenditures	190,110	59,052	249,162
Rent and utilities	164,043		164,043
Reverse take-over transaction costs	578,822		578,822
Site renovation	48,323		48,323
Supplies and materials	34,836	-	34,836
	<u>\$ 1,207,954</u>	<u>\$ 108,797</u>	<u>\$ 1,316,751</u>

Six month period ended June 30, 2018

	General and administrative	Sales and marketing	Total
Amortization	\$ 147,678	\$	\$ 147,678
Insurance	53,746		53,746
Interest and loan fees	15,427		15,427
Legal, professional and investor relations	983,010		983,010
Other operating expenses	260,245	217,123	477,368
Personnel expenditures	931,882	171,855	1,103,737
Rent and utilities	721,473		721,473
Site renovation	240,909		240,909
Supplies and materials	98,276	-	98,276
	<u>\$ 3,452,646</u>	<u>\$ 388,978</u>	<u>\$ 3,841,624</u>

Six month period ended June 30, 2017

	General and administrative	Sales and marketing	Total
Amortization	\$ 23,425	\$	\$ 23,425
Insurance	17,077		17,077
Interest and loan fees	80,544		80,544
Other operating expenditures	77,025	66,622	143,647
Personnel expenditures	357,227	113,973	471,200
Rent and utilities	334,651		334,651
Reverse take-over transaction costs	578,822		578,822
Site renovation	76,025		76,025
Supplies and materials	48,383	-	48,383
	<u>\$ 1,593,179</u>	<u>\$ 180,595</u>	<u>\$ 1,773,774</u>

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018

16. LOSS PER SHARE (LPS)

Basic Loss per Share

Basic LPS is calculated by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during the period.

	June 30, 2018	June 30, 2017
Net loss and comprehensive loss attributable to common shareholders	\$ (4,027,073)	\$ (1,351,623)
Weighted average number of common shares	<u>79,115,652</u>	<u>40,747,945</u>
Basic loss per share	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>

Diluted Loss per share

Diluted LPS was calculated by dividing the applicable net loss by the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise warrants and share options issued. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options or warrants that would be anti-dilutive.

	June 30, 2018	June 30, 2017
Net loss and comprehensive loss attributable to common shareholders	\$ (4,027,073)	\$ (1,351,623)
Weighted average number of common shares	79,115,652	40,747,945
"In the money" stock options outstanding	4,535,908	
"In the money" warrants outstanding	<u>30,478</u>	-
Weighted average number of common shares for diluted LPS	<u>83,682,038</u>	<u>40,747,945</u>
Diluted loss per share	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>

17. COMMITMENTS

On February 1, 2015, the Corporation, entered into a three year tenant lease with 6599362 Manitoba Ltd. Lease terms are \$483,060 per year for basic rent plus \$121,062 per year for operating recoveries. On March 19, 2018, the Corporation signed a renewal of the lease increasing the basic rent to \$531,366 per year until March 31, 2018 and further increasing it to \$636,570 from April 1, 2018. The operating recoveries amount increased to \$138,207 until March 31, 2018 and further increased to \$151,756 from April 1, 2018. The Corporation shall also have the right to renew the lease for two additional five year terms. Simultaneously, a Letter of Intent (LOI) was signed whereby the Corporation shall have the option to purchase the land and building for a cash purchase price of \$6,250,000. The Corporation is in the process of negotiating to acquire the property and as such continue to make lease payments as per the agreement on a monthly basis. The future minimum payments required for the lease are estimated to be as follows:

Next 12 months

\$788,506

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018

 17. COMMITMENTS *(continued)*

On March 19, 2018, the Corporation entered into a letter of intent and a lease agreement for an expansion facility with 6599362 Manitoba Ltd. Pursuant to the terms and conditions of the letter of intent, it is anticipated that the Corporation or its nominee(s) will purchase from 6599362 Manitoba Ltd. certain expansion properties consisting of three warehouse buildings having a total floor area of approximately 100,000 square feet and the approximately 40 acres of additional land located adjacent to its current production facility. Pending completion of the purchase and sale of these properties, the Corporation has entered into the lease agreement in respect of the expansion facility with 6599362 Manitoba Ltd. at a basic rent of \$6.60 per square foot per year (\$350,875 per year) and additional rent of \$4,440 per month. The Corporation is in the process of negotiating to acquire the property and until that time continues to make lease payments as per its lease agreement on a monthly basis. The future minimum payments required for the lease are estimated to be as follows:

Next 12 months	\$404,155
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On May 19, 2017, Delta 9 Bio-Tech Inc. entered into a ten year lease contract with 6599362 Canada Ltd. for 15 containers at a monthly rent of \$6,000. On January 17, 2018, Delta 9 Bio-Tech Inc. entered into a ten year lease contract with 6599362 Canada Ltd. for 12 containers at a monthly rent of \$3,538. The future minimum payments required for the leases are estimated to be as follows:

Next 12 months	\$114,456
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18. INCOME TAXES

There are no current income taxes payable for the six month period ended June 30, 2018. The deferred income tax recovery for the period ended June 30, 2018 and year ended December 31, 2017 consists of the following:

	June 30, 2018	December 31, 2017
Net loss before income taxes	\$ (4,106,769)	\$ 7,924,230
Statutory rates:	27%	27%
Income tax recovery based on statutory rate	(1,108,828)	2,139,542
Deferred income tax not recognized	1,108,828	(2,139,542)
Income tax expense per financial statements	\$ -	\$ -

As at June 30, 2018, the Corporation has \$3,906,759 of non-capital losses that expire as follows:

2033	\$ 587
2034	73,021
2035	643,155
2036	1,004,283
2037	1,305,720
2038	879,993
	<u>\$ 3,906,759</u>

Deferred tax assets are not recognized in these consolidated interim financial statements because the Corporation is in its start-up phase and realization of these deferred tax assets is contingent on future profits.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018

19. FINANCIAL INSTRUMENTS

As at June 30, 2018, the Corporation's financial instruments consist of cash and cash equivalents totalling \$13,908,610, trade and other receivables totalling \$789,980, net amount due from related parties totalling \$4,828 and accounts payable and accrued liabilities totalling \$446,660.

As at June 30, 2018, there were no significant differences between the carrying values of these items and their estimated fair values, because of the short-term nature of these instruments.

20. FINANCIAL RISK AND CAPITAL MANAGEMENT

In the normal course of business, the Corporation is exposed to a variety of financial risk: market risk, credit risk, and liquidity risk.

Financial Risk Factors*Market Risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: currency risk and interest rate risk.

1. Currency risk is the risk to the Corporation's earnings that arise from fluctuations of foreign exchange rates. The Company is not exposed to foreign currency exchange risk as it has no financial instruments denominated in a foreign currency.

2. 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. The Corporation is not exposed to interest rate risk as any borrowings are at a fixed rate of interest.

Credit Risk

Credit risk arises from deposits with banks, short-term investments and outstanding receivables. For trade receivables, the Corporation does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and accordingly does not anticipate significant loss from non-performance. The exposure on trade receivables is minimal since the amount due is from a government agency. There is no material exposure to credit risk on cash and cash equivalents and accounts receivable on the statement of financial position.

Liquidity Risk

The Corporation's liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation controls liquidity risk by management of working capital, cash flows and the issuance of share capital.

The following table analyses the Corporation's financial liabilities, including commitments, based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Payment due:	Total	Within 1 year
Trade payables and other payables	\$ <u>446,660</u>	\$ <u>446,660</u>

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2018

20. FINANCIAL RISK AND CAPITAL MANAGEMENT *(continued)*

At June 30, 2018, the Corporation's financial assets of \$14,703,418 were sufficient to meet all contractual obligations due within the next twelve months.

Capital Management

The Corporation's key objectives when managing capital are to maintain a strong capital base in order to:

- maintain investor, creditor and market confidence
- advance Delta 9 Cannabis Inc.'s corporate strategies to generate attractive risk-adjusted return over the long-term for the shareholders
- sustain Delta 9 Cannabis Inc.'s operations and growth through all cycles; and
- ensure compliance with the covenants of any applicable credit facility and other financing facilities.

Management monitors Delta 9 Cannabis Inc.'s capital and capital structure on an ongoing basis to ensure it is sufficient to achieve Delta 9 Cannabis Inc.'s short-term and long-term objectives.

21. SEGMENTED INFORMATION

The Corporation and its subsidiary operate in one segment, the production and sale of medical cannabis and related medical services and equipment. All property, plant and equipment are located in Canada. All revenues were principally generated in Canada. The chief operating decision maker (the Corporation's chief executive officer) evaluates the Corporation's operating performance and allocates resources based on information provided at a consolidated level.

22. SUBSEQUENT EVENTS

On July 31, 2018 the Corporation entered into a memorandum of understanding (an "MOU") with Nanosphere Health Sciences Inc (CSE:NSHS)("Nanosphere"). The MOU provides that Delta 9 and Nanosphere intend to negotiate and enter into a master agreement (the "Agreement") pursuant to which Nanosphere will grant a master license for Nanosphere's patented technology to Delta 9 for all of Canada. Delta 9 may also sub-license the technology to other licensed producers of cannabis under the Access to Cannabis for Medical Purposes Regulations (the "ACMPR").

The MOU provides that Delta 9 and Nanosphere will each receive 50 per cent of the net revenue from sales of Nanosphere products in Canada if the Agreement is entered into. Delta 9 will have the right to sub-contract distribution to third-party license holders in Canada where the opportunity exists. Under those circumstances, Delta 9 would receive a portion of that sub-licensee's net profit, and remit 50 per cent of the net revenue to Nanosphere.

The initial term of the Agreement is intended to be 36 months following the date of the first commercial sale of licensed products pursuant to the Agreement. The Agreement is intended to be renewed by mutual agreement of the parties. Also, if the Agreement is entered into, Delta 9 is bound to apply to Health Canada for authorization to distribute Nanosphere products. The parties intend that the MOU will be replaced by the Agreement within 60 days, upon completion of due diligence by both parties.

23. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current period's presentation.