



**TERRASCEND CORP.**

**Condensed Interim Consolidated Financial Statements (Unaudited)**

**For the three and six months ended June 30, 2018  
(In Canadian Dollars)**

TerrAscend Corp.

**Condensed Interim Consolidated Statements of Financial Position**

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

	Notes	As at June 30, 2018 Unaudited	As at December 31, 2017 Audited
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		\$ 26,120	\$ 51,817
Receivables	4	3,831	412
Note receivable	5	1,516	—
Investments	6	2,500	—
Biological assets	9	327	—
Inventory	10	12,520	1,364
Prepaid expenses		643	100
		47,457	53,693
<b>Non-current assets</b>			
Property, plant and equipment	11	19,907	15,036
Intangible assets	12	857	333
<b>Total Assets</b>		<b>\$ 68,221</b>	<b>\$ 69,062</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 3,921	\$ 1,693
<b>Total Liabilities</b>		<b>3,921</b>	<b>1,693</b>
<b>Shareholders' Equity</b>			
Share capital	13	53,056	50,344
Warrants reserve	13	23,261	23,460
Share-based payments reserve	13	3,816	2,336
Deficit		(16,250)	(8,771)
Non-controlling interest	8	417	—
<b>Total Shareholders' Equity</b>		<b>64,300</b>	<b>67,369</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 68,221</b>	<b>\$ 69,062</b>
<b>Total number of commons shares outstanding</b>		<b>95,763,970</b>	<b>94,351,198</b>

Subsequent events (note 20)

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

On behalf of the Board

"Michael Nashat"

President & Chief Executive Officer

"Jason Wild"

Chairman of the Board

TerrAscend Corp.

**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

(Unaudited)

	Notes	For the three months ended		For the six months ended	
		June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
<b>Sales</b>		\$ 9	\$ —	\$ 9	\$ —
<b>Cost of Sales:</b>					
Cost of goods sold		7	—	7	—
Impairment of inventory	10	623	—	623	—
Production salaries and wage		224	—	450	—
Production amortization and depreciation	11	96	—	177	—
Production supplies and expenses		84	—	189	—
Gross loss before gain on fair value of biological assets		(1,025)	—	(1,437)	—
Unrealized gain (loss) on changes in fair value of biological assets	9	99	—	676	—
<b>Gross margin</b>		<b>(926)</b>	<b>—</b>	<b>(761)</b>	<b>—</b>
<b>Expenses:</b>					
Share-based payments	13	978	2,705	1,976	2,705
General and administrative		2,047	305	2,987	151
Consulting & professional fees		776	104	1,170	655
Research & development		31	—	31	—
Selling expenses		547	—	718	—
Amortization and depreciation	11, 12	107	—	195	—
Shareholder relations		54	36	126	36
Finance (income) expense		(234)	406	(335)	728
Other income		(34)	(8)	(84)	(8)
<b>Total operating expenses</b>		<b>4,272</b>	<b>3,548</b>	<b>6,784</b>	<b>4,267</b>
<b>Net loss and comprehensive loss</b>		<b>\$ (5,198)</b>	<b>\$ (3,548)</b>	<b>\$ (7,545)</b>	<b>\$ (4,267)</b>
<b>Net loss per share, basic and diluted</b>					
Net loss per share – basic and diluted		\$ (0.05)	\$ (0.12)	\$ (0.08)	\$ (0.15)
Weighted average shares outstanding		94,864,365	29,212,515	94,616,530	27,789,926

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

TerrAscend Corp.

**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity**

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

(Unaudited)

Six months ended June 30, 2018	Share Capital	Contributed Surplus	Warrants Reserve	Share-based Payments Reserve	Deficit	Non-controlling Interest	Total
Balance at January 1, 2018	\$ 50,344	—	\$ 23,460	\$ 2,336	\$ (8,771)	\$ —	\$ 67,369
Shares issued - warrant exercises	1,299	—	(213)	—	—	—	1,086
Shares issued - stock option exercises	1,413	—	—	(727)	—	—	686
Warrants issued for services	—	—	14	—	—	—	14
Share-based compensation expense	—	—	—	2,273	—	—	2,273
Options expired	—	—	—	(66)	66	—	—
Net loss for the year	—	—	—	—	(7,545)	—	(7,545)
Non-controlling interest (Note 8)	—	—	—	—	—	417	417
Balance at June 30, 2018	\$ 53,056	\$ —	\$ 23,261	\$ 3,816	\$ (16,250)	\$ 417	\$ 64,300

Six months ended June 30, 2017	Share Capital	Contributed Surplus	Warrants Reserve	Share-based Payments Reserve	Deficit	Non-controlling Interest	Total
Balance at January 1, 2017	\$ 4,047	\$ —	\$ —	\$ —	\$ (1,966)	\$ —	\$ 2,081
Shares issued for cash	1,584	—	—	—	—	—	1,584
Issuance of convertible debenture	—	955	—	—	—	—	955
Warrants issued for services	—	—	339	—	—	—	339
Share-based compensation expense	—	—	—	2,705	—	—	2,705
Net loss for the year	—	—	—	—	(4,267)	—	(4,267)
Balance at June 30, 2017	\$ 5,631	\$ 955	\$ 339	\$ 2,705	\$ (6,233)	\$ —	\$ 3,397

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

TerrAscend Corp.

**Condensed Interim Consolidated Statements of Cash Flow**

*(Amounts expressed in thousands of Canadian dollars, except for per share amounts)*

*(Unaudited)*

	<b>For the six months ended</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>
<b>Operating activities</b>		
Net loss and comprehensive loss	\$ (7,545)	\$ (4,267)
Add (deduct) items not involving cash		
Gain from changes in fair value of biological assets	(676)	—
Impairment of inventory	623	—
Accretion and accrued interest	—	725
Depreciation of property, plant and equipment	333	—
Amortization of intangible assets	39	—
Share-based payments	2,287	3,044
Change in working capital		
Receivables	(3,419)	(768)
Biological assets	(202)	—
Inventory	(11,228)	—
Prepaid expense	(543)	(96)
Accounts payable and accrued liabilities	2,228	1,523
<b>Cash inflow (outflow) from operating activities</b>	<b>(18,103)</b>	<b>161</b>
<b>Financing activities</b>		
Private placements of shares, net of issuance costs	—	1,584
Proceeds from warrants exercised	1,086	—
Proceeds from options exercised	686	—
Proceeds from convertible debentures	—	8,986
Advances to related parties	—	1
<b>Cash inflow from financing activities</b>	<b>1,772</b>	<b>10,571</b>
<b>Investing activities</b>		
Investment in property, plant and equipment	(5,204)	(12,533)
Investment in intangible assets	(146)	—
Issuance of note receivable	(1,516)	—
Purchase of investments	(2,500)	—
<b>Cash outflow from investing activities</b>	<b>(9,366)</b>	<b>(12,533)</b>
<b>Decrease in cash and cash equivalents during the period</b>	<b>(25,697)</b>	<b>(1,801)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>51,817</b>	<b>3,333</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 26,120</b>	<b>\$ 1,532</b>

Supplemental cash flow information (note 15)

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

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## Notes to the Condensed Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2018 and 2017*

*(Amounts expressed in thousands of Canadian dollars, except for per share amounts)*

*Unaudited*

### 1. Nature of operations

TerrAscend Corp. (“**TerrAscend**” or the “**Company**”) was incorporated under the Ontario Business Corporations Act. on March 7, 2017 and has three wholly-owned subsidiaries: Solace Health Inc. (“**Solace**”), Solace Health Network Inc. (“**SHN**”, formerly “Terra Health Network Inc.”) and 2627685 Ontario Inc. The Company also has a 50% interest in SolaceRx Inc. (“**SolaceRx**”) and 60% interest in Ascendant Laboratories Inc. (“**Ascendant Lab**”). SolaceRx and Ascendant Lab have not commenced business activities as the facilities for both entities are under construction.

The Company is a Licensed Producer (as such term is defined in the *Access to Cannabis for Medical Purposes Regulations* (Canada) (the “**ACMPR**”)) of medical cannabis and its current principal business activities are in development and include cultivation and sale of medical cannabis through Solace. Additional activities include physician and patient education and support programs offered through SHN. Solace applied to Health Canada to become a Licensed Producer under the ACMPR and on July 10, 2017, was granted that license (the “**License**”) for its 67,300 square foot Mississauga facility (the “**Facility**”). On February 5, 2018, Solace was granted an amendment to the License by Health Canada to allow for cannabis oil production pursuant to the ACMPR. A further amendment to the License was granted on March 9, 2018 to allow for sales of dried cannabis. The License expires on July 10, 2020.

The Company is listed on the Canadian Stock Exchange, having the ticker symbol TER and its registered office is located at PO Box 43125, Mississauga, Ontario, L5C 1W2.

### 2. Basis of presentation

#### (a) Statement of compliance

These interim condensed consolidated financial statements for the six months ended June 30, 2018 of the Company were prepared in accordance with International Accounting Standard 34, Interim Financial Reporting [“IAS 34”] as issued by the International Accounting Standards Board [“IASB”]

The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the annual consolidated financial statements for the year ended December 31, 2017 prepared in accordance with International Financial Reporting Standards [“IFRS”] as issued by the IASB.

Certain comparative figures have been reclassified to conform to the current period’s presentation.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Accordingly, these interim condensed consolidated financial statements for the six months ended June 30, 2018 should be read together with the annual consolidated financial statements for the year ended December 31, 2017, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2017. These interim condensed consolidated financial statements were authorized for issue by the Board of the Directors on August 24, 2018.

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## Notes to the Condensed Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2018 and 2017*

*(Amounts expressed in thousands of Canadian dollars, except for per share amounts)*

*Unaudited*

### 2. Basis of presentation (Continued)

#### (b) Basis of measurement

These condensed consolidated financial statements have been prepared on the going concern basis which assumes that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. In accordance with the going concern bases these condensed consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments that are measured at fair value and biological assets that are measured at fair value less costs to sell, as detailed in the Company's accounting policies.

#### (c) Functional and presentation currency

The Company's functional currency, as determined by management, is the Canadian dollar. These condensed consolidated financial statements are presented in Canadian dollars unless otherwise specified.

#### (d) Principles of consolidation

TerrAscend has three wholly-owned subsidiaries: Solace, SHN and 2627685 Ontario Inc. TerrAscend also has a 50% interest in SolaceRx and 60% interest in Ascendant Lab. The Company consolidates its interest in entities which it controls. Control is defined by the power to govern an entity's financial and operating policies so as to be able to obtain benefits from its activities. Management has assessed that the Company controls Solace, SHN, 2627685 Ontario Inc., and Ascendant Lab and therefore has consolidated the Company's interest in these entities in these condensed interim consolidated financial statements. Management has assessed that the Company jointly controls SolaceRx as a joint operator and therefore in accordance with *IFRS 11 Joint Arrangements*, these condensed interim consolidated financial statements include the Company's interest in the assets and liabilities held by SolaceRx and the Company's share of revenue generated by the joint operation and expenses incurred jointly. All intercompany balances and transactions have been eliminated.

#### (e) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Management has applied significant estimates, judgements and assumptions related to the following:

##### i) *Biological assets and inventory*

Management is required to make a number of estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stage of growth of the cannabis, harvesting costs, sales price and expected yields.

##### ii) *Stock 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, the vesting period of the option and the risk-free interest rate are used.

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## Notes to the Condensed Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2018 and 2017*

*(Amounts expressed in thousands of Canadian dollars, except for per share amounts)*

*Unaudited*

### 2. Basis of presentation (Continued)

iii) *Warrants*

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

iv) *Depreciation and amortization of property, plant and equipment and intangible assets*

Depreciation and amortization rates 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.

v) *Going concern*

The assumption that the Company will be able to continue as a going concern is subject to critical judgements of management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investment and financing activities and management's strategic planning. Should those judgements prove to be inaccurate, management's continued use of the going concern assumptions would be inappropriate.

vi) *Impairment of intangible assets*

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value in use and fair value less costs to sell. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. For the six months ended June 30, 2018, management has determined that there were no indicators of impairment for its intangible assets.

vii) *Joint operations*

Judgement was required in determining whether the Company's investment in SolaceRx is a joint operation. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, related to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require unanimous consent of parties sharing control. The Company recognizes only its assets, liabilities and share of the results of operations of the joint operation. The assets, liabilities and results of joint operations are included within the respective line items of the Consolidated Statements of Financial Position, Consolidated Statements of Loss, Consolidated Statements of Comprehensive Loss, Consolidated Statements of Changes in Shareholders Equity and Consolidated Statements of Cash Flows.

Management has assessed that its investment in SolaceRx is a joint operation. Refer to Note 7 for additional information on the Company's joint operation.

viii) *Asset acquisition*

In the acquisition of Ascendant Lab in June 8, 2018 judgement was required to determine if the acquisition represented either a business combination or an asset purchase. More specifically, management concluded that Ascendant Lab did not represent a business as the assets acquired were not an integrated set of activities with inputs, processes and outputs.



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## Notes to the Condensed Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2018 and 2017*

*(Amounts expressed in thousands of Canadian dollars, except for per share amounts)*

*Unaudited*

### 2. Basis of presentation (Continued)

Since it was concluded that the acquisition represented the purchase of assets, there was no goodwill recognized on the transaction and acquisition costs were capitalized to the assets purchased rather than expensed. The fair values of the net assets acquired were determined using estimates and judgements. Refer to Note 8 for additional information on the Company's asset acquisition.

### 3. Significant accounting policies

#### Inventory

Inventories of harvested finished goods and packing materials are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost method. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value.

#### Biological assets

The Company measures biological assets consisting of medical cannabis plants 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. Unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the results of operations of the related period.

The Company does not recognize the mother plants used for cloning the production medical cannabis plants on the consolidated statement of financial position, since such plants are in the scope of IAS 16 – Bearer plants, but only have a useful life of less than one year.

Any costs related to the production of biological assets are treated as periodic expense and are included in the consolidated statement of income (loss) for the related period.

#### Revenue Recognition

The Company has adopted IFRS 15 – Revenue from Contracts with Customers for the six months ended June 30, 2018.

IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps: i) identify the contract with a customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations in the contract; and v) recognize revenue when (or as) the entity satisfies a performance obligation/

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**Notes to the Condensed Interim Consolidated Financial Statements**

*For the three and six months ended June 30, 2018 and 2017*

*(Amounts expressed in thousands of Canadian dollars, except for per share amounts)*

*Unaudited*

**3. Significant accounting policies (Continued)**

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the following terms:

Building and Improvements	30	years
Irrigation & Lighting System	20	years
Security System	5	years
Office Furniture & Equipment	3-5	years

As asset's residual value, useful life and depreciation method are reviewed at each reporting period and adjusted if appropriate.

Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the items and are recognized in the statement of loss and comprehensive loss.

Assets in process are transferred to building and improvements when available for use and depreciation of the assets commences at that point.

Intangible assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets are acquired at fair value at the acquisition date. Amortization is provided on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values and amortization methods are reviewed at each period end and any changes in estimates are accounted for prospectively.

Patient lists and intellectual property are measured at fair value at the time of acquisition and amortized on a straight-line basis over a period of 5 years.

Software is measured at fair value at the time of acquisition and is amortized on a straight-line basis over a period of 3 years.

IFRS 9 - Financial instruments

Effective January 1, 2018, the Company adopted IFRS 9.

IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also amends the requirements around hedge accounting, and introduces a single, forward-looking expected loss impairment model.

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## Notes to the Condensed Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2018 and 2017*

*(Amounts expressed in thousands of Canadian dollars, except for per share amounts)*

*Unaudited*

### 3. Significant accounting policies (Continued)

The Company has elected to apply the limited exemption in IFRS 9 paragraph 7.2.15 relating to transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. The adoption of IFRS 9 had no impact on the Company's consolidated financial statements on the date of initial application. There was no change in the carrying amounts on the basis of allocation from original measurement categories under IAS 39 Financial Instruments: Recognition and Measurement to the new measurement categories under IFRS 9.

#### *Classification*

The Company classifies its financial assets and financial liabilities in the following measurement categories i) those to be measured subsequently at fair value through profit or loss (FVTPL); ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI); and iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

#### *Financial assets at fair value through comprehensive income*

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

#### *Measurement*

All financial instruments are required to be measured at fair value on initial recognition, 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. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

**Notes to the Condensed Interim Consolidated Financial Statements***For the three and six months ended June 30, 2018 and 2017**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)**Unaudited***3. Significant accounting policies (Continued)***Impairment*

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

**Summary of the Company's classification and measurements of financial assets and liabilities**

	IFRS 9		IAS 39	
	Classification	Measurement	Classification	Measurement
Cash and cash equivalents	FVTPL	Fair value	Loans and receivables	Fair Value
Receivables	Amortized cost	Amortized cost	Loans and receivables	Amortized cost
Note receivable	FVTPL	Fair value	Loans and receivables	Amortized cost
Investments	FVTPL	Fair value	Held for trading	Fair value
Accounts payable and accrued liabilities	Amortized cost	Amortized cost	Other liabilities	Amortized cost

Share capital*Common shares*

Common shares are classified as equity. Transaction costs directly attributable to the issuance of common shares and share options are recognized as a deduction from equity.

*Equity units*

Proceeds received on the issuance of units, comprised of common shares and warrants are allocated to common shares and warrants based on the relative fair value method.

**Notes to the Condensed Interim Consolidated Financial Statements***For the three and six months ended June 30, 2018 and 2017**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)**Unaudited***3. Significant accounting policies (Continued)**Share-based compensation

The Company has a stock option plan in place. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Fair value is measured using the Black-Scholes option pricing model. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. Any revisions are recognized in the consolidated statements of loss and comprehensive loss such that the cumulative expense reflects the revised estimate.

Upon exercise of stock options and warrants any historical fair value in the warrants and share-based payment reserve are allocated to share capital. Upon cancellation or forfeitures of stock options and warrants any historical fair value in the warrants and share-based payment reserve are adjusted to the consolidated statements of loss and comprehensive loss. Upon expiry of stock options and warrants, any historical fair value in the warrants and share-based payment reserve are allocated to deficit.

New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations have been issued but have not been adopted in preparing these financial statements, as set out below:

- In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low value assets; however, this exemption can only be applied by lessees. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application if IFRS 15 is also applied. The Company is currently assessing the impact from this standard.

**4. Receivables**

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	\$	\$
Interest receivable	31	55
Sales tax receivable	2,470	357
Other	1,330	—
	<b>3,831</b>	<b>412</b>

Sales tax receivable represents input tax credits arising from sales tax levied on the supply of goods purchased or services received in Canada.

Other receivables are related to amounts receivable from SolaceRx joint arrangement partner.

**Notes to the Condensed Interim Consolidated Financial Statements***For the three and six months ended June 30, 2018 and 2017**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)**Unaudited***5. Note receivable**

On April 28, 2018, the Company issued \$1,500 in convertible note to Think AHLOT Corporation (“AHLOT”), a cannabis innovation company that creates cannabis products and accessories. The proceeds of the convertible note will be utilized by AHLOT towards increasing sales & marketing, product development, operations and general corporate purposes. Additionally, the Company, through its wholly-owned affiliate, Solace, will provide fulfillment and distribution services on behalf of AHLOT that will enable AHLOT to commence the development and sale of licensed cannabis products for AHLOT’s product portfolio.

The convertible note will accrue interest at 6% per annum compounded annually and will mature on the earlier of:

- (i) 9 months following the date that recreational cannabis sales commence in Ontario
- (ii) May 1, 2020 (“Maturity Date”)

Upon the maturity date, the principal and accrued interest will be automatically converted into Class A common shares based on a conversion price that will vary depending on the total revenue earned by AHLOT as of the maturity date.

As at June 30, 2018, the note receivable has been recorded at its fair value of \$1,516 (December 31, 2017- \$nil). The fair value of the note receivable approximates its carrying value due to the short terms to maturity.

**6. Investments**

On April 20, 2018, the Company purchased 3,125,000 units of Fire & Flower (“F&F”), a proposed private retailer for adult use cannabis sales in select provinces for an aggregate of \$2,500 or \$0.80 per unit, amounting to approximately 5% of the outstanding F&F shares. Each unit is comprised of one common share and one common share purchase warrant in F&F. Each common share purchase warrant entitles the Company to purchase one additional common share of F&F at a price of \$1.05 within twenty-four months. As at June 30, 2018, the investment has been recorded at its fair value of \$2,500, determined based on recent financings of F&F (December 31, 2017 - \$nil).

	Number of Units	\$
Carrying amount, December 31, 2017	—	—
Units purchased	3,125,000	2,500
Units sold	—	—
Unrealized gain/ (loss)	—	—
<b>Carrying amount, June 30, 2018</b>	<b>3,125,000</b>	<b>2,500</b>

**Notes to the Condensed Interim Consolidated Financial Statements**

*For the three and six months ended June 30, 2018 and 2017*

*(Amounts expressed in thousands of Canadian dollars, except for per share amounts)*

*Unaudited*

**7. SolaceRx joint arrangement**

On July 18, 2017, the Company entered into a Unanimous Shareholder agreement with Theomar Ltd. (“Theomar”) and incorporated SolaceRx, a jointly operated entity. The Company and Theomar each own 50% of SolaceRx and both parties in various capacities will assist in the development and construction of a Drug Preparation Premise (“DPP”) for SolaceRx. Until SolaceRx achieves a break-even point, expenses incurred will be funded by the Company and Theomar on a pro-rata ownership basis as shareholder loans.

Management has assessed that the Company’s investment in SolaceRx is a joint operation in accordance with *IFRS 11 Joint Arrangements*. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, related to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require unanimous consent of parties sharing control. The Company recognizes only its assets, liabilities and share of the results of operations of the joint operation.

As at June 30, 2018, 50% of the total assets, liabilities and results of joint operations of SolaceRx are included within the following respective line items of these condensed interim consolidated financial statements:

	<b>June 30, 2018</b>
	<b>\$</b>
Other receivable	1
Property plant and equipment	1,327
Net income (loss) from joint operation	—

As at June 30, 2018 the Company has a receivable of \$1,330 (December 31, 2017 - \$nil) from Theomar for its portion of contributions to SolaceRx.

**8. Ascendant Lab acquisition**

On June 8, 2018, the Company signed a Unanimous Shareholder Agreement with and Cistrion Corp. (“Cistrion”) and incorporated Ascendant Lab, a science and innovation company dedicated to the advancement of cannabinoid expressing plant biology. The Company received 375 preferred shares and one share purchase warrant of Ascendant Lab in exchange for advancing \$625 to Ascendant Lab. The share purchase warrant entitles the Company to purchase an additional 375 preferred shares at an aggregate price of \$625. Each preferred share of Ascendant of Lab held by the Company is convertible to one common share of Ascendant Lab at the option of the Company or the earlier of:

- i) Ascendant Lab IPO date and
- ii) 2nd anniversary of preferred share issuance date (June 8, 2020)

Cistrion received 250 common shares of Ascendant Lab in exchange for providing Ascendant Lab the rights and access to its intellectual property (Note 12).

Upon the completion of this transaction, Management has assessed that the Company is deemed to have 60% interest and control of Ascendant Lab. As a result, these condensed interim consolidated financial statements have been consolidated with Ascendant Lab and as at June 30, 2018 there is a non-controlling interest of \$417 related to the fair value of intellectual property acquired from Cistrion. Management concluded that Ascendant Lab did not represent a business as the assets acquired were not an integrated set of activities with inputs, processes and outputs.

**Notes to the Condensed Interim Consolidated Financial Statements***For the three and six months ended June 30, 2018 and 2017**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)**Unaudited***9. Biological assets**

The Company's biological assets consist of 2,052 cannabis plants as at June 30, 2018. The continuity of biological assets is as follows:

	\$
Carrying amount, December 31, 2017	—
Increase in fair value less costs to sell due to biological transformation	676
Transferred to inventories upon harvest	(551)
Cannabis seeds	202
<b>Carrying amount, June 30, 2018</b>	<b>327</b>

The Company's estimates, by their nature, are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets.

These estimates include the following assumptions:

- (a) Selling prices are determined by estimating the Company's expected average selling price and mix of product strains;
- (b) Costs incurred and remaining costs to complete were estimated by calculating the average production costs up to the point of harvest over the total production period;
- (c) The percentage of costs incurred for each stage of plant growth;
- (d) The stage of plant growth at which point of harvest is determined;
- (e) Costs to sell and other fulfillment costs were determined by estimating the Company's average cost per gram; and
- (f) Expected yields of harvested plants are estimated and risk adjusted at each stage of growth.

The Company did not record the fair value of its cannabis trim biological assets, as it did not yet have a license to sell cannabis oil.

The Company expects that a one dollar increase or decrease in the market price per gram of dried cannabis would increase or decrease the fair value of biological assets by \$84. A 5% increase or decrease in the estimated yield per cannabis plant would result in an increase or decrease in the fair value of biological assets of \$6. Additionally, an increase or decrease of 10% in the costs of production would decrease or increase the fair value of biological assets by \$63.



**Notes to the Condensed Interim Consolidated Financial Statements**

*For the three and six months ended June 30, 2018 and 2017*

*(Amounts expressed in thousands of Canadian dollars, except for per share amounts)*

*Unaudited*

**10. Inventory**

The Company's inventory of dry cannabis includes both purchased and internally produced inventory. The oil inventory recorded was externally purchased. The Company's purchased inventory is comprised of the following items:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	<b>\$</b>	<b>\$</b>
Dry cannabis		
Packaged goods	432	96
Dry bud	7,973	1,226
Oil inventory	4,001	—
Extract material to be processed	—	—
Supplies and consumables	114	42
	<b>12,520</b>	<b>1,364</b>

During the six months ended June 30, 2018, there was an \$623 impairment of inventory (June 30, 2017- \$nil). For the six months ended June 30, 2018, the fair value change in biological assets remains unrealized as all the products sold during the period were externally purchased.

**Notes to the Condensed Interim Consolidated Financial Statements***For the three and six months ended June 30, 2018 and 2017**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)**Unaudited***11. Property, plant and equipment**

	Land	Assets in Process	Building and Improvements	Irrigation & Lighting Systems	Security System	Office Furniture & Equipment	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
Balance at December 31, 2017	994	371	12,774	707	152	260	15,258
Additions	—	3,818	448	—	536	402	5,204
<b>Balance at June 30, 2018</b>	<b>994</b>	<b>4,189</b>	<b>13,222</b>	<b>707</b>	<b>688</b>	<b>662</b>	<b>20,462</b>
<b>Accumulated Depreciation</b>							
Balance at December 31, 2017	—	—	191	11	1	19	222
Depreciation	—	—	218	18	34	63	333
<b>Balance at June 30, 2018</b>	<b>—</b>	<b>—</b>	<b>409</b>	<b>29</b>	<b>35</b>	<b>82</b>	<b>555</b>
<b>Net book value at June 30, 2018</b>	<b>994</b>	<b>4,189</b>	<b>12,813</b>	<b>678</b>	<b>653</b>	<b>580</b>	<b>19,907</b>
<b>Cost</b>							
Balance at December 31, 2016	—	401	—	—	—	—	401
Additions	994	371	6,629	—	—	260	8,254
Completion of construction	—	(401)	6,369	707	152	—	6,827
Disposals	—	—	(224)	—	—	—	(224)
<b>Balance at December 31, 2017</b>	<b>994</b>	<b>371</b>	<b>12,774</b>	<b>707</b>	<b>152</b>	<b>260</b>	<b>15,258</b>
<b>Accumulated Depreciation</b>							
Balance at December 31, 2016	—	—	—	—	—	—	—
Depreciation	—	—	193	11	1	19	224
Disposals	—	—	(2)	—	—	—	(2)
<b>Balance at December 31, 2017</b>	<b>—</b>	<b>—</b>	<b>191</b>	<b>11</b>	<b>1</b>	<b>19</b>	<b>222</b>
<b>Net book value at December 31, 2017</b>	<b>994</b>	<b>371</b>	<b>12,583</b>	<b>696</b>	<b>151</b>	<b>241</b>	<b>15,036</b>

As at June 30, 2018, assets in process of \$4,189 (December 31, 2017 – \$371) are not being depreciated. Depreciation will commence when the construction of the second phase of the Mississauga facility is complete.

For the six months ended June 30, 2018, \$177 (June 30, 2017 – \$nil) of depreciation was allocated to production amortization and depreciation.

**Notes to the Condensed Interim Consolidated Financial Statements***For the three and six months ended June 30, 2018 and 2017**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)**Unaudited***12. Intangible Assets**

	Software \$	Patient List \$	Intellectual Property \$	Total \$
<b>Cost</b>				
Balance at December 31, 2017	103	250	—	353
Additions	146	—	—	146
Additions on Ascendant Lab asset acquisition (Note 8)	—	—	417	417
<b>Balance at June 30, 2018</b>	<b>249</b>	<b>250</b>	<b>417</b>	<b>916</b>
<b>Accumulated Depreciation</b>				
Balance at December 31, 2017	8	12	—	20
Amortization	14	25	—	39
<b>Balance at June 30, 2018</b>	<b>22</b>	<b>37</b>	<b>—</b>	<b>59</b>
<b>Net book value at June 30, 2018</b>	<b>227</b>	<b>213</b>	<b>417</b>	<b>857</b>

	Software \$	Patient List \$	Intellectual Property \$	Total \$
<b>Cost</b>				
Balance at December 31, 2016	—	—	—	—
Additions	103	250	—	353
<b>Balance at December 31, 2017</b>	<b>103</b>	<b>250</b>	<b>—</b>	<b>353</b>
<b>Accumulated Depreciation</b>				
Balance at December 31, 2016	—	—	—	—
Amortization	8	12	—	20
<b>Balance at December 31, 2017</b>	<b>8</b>	<b>12</b>	<b>—</b>	<b>20</b>
<b>Net book value at December 31, 2017</b>	<b>95</b>	<b>238</b>	<b>—</b>	<b>333</b>

During the six months ended June 30, 2018 the Company's subsidiary Ascendant Lab acquired intellectual property by issuing 250 common shares of Ascendant Lab. The intellectual property was recorded at a fair value of \$417, determined by the level 2 of the fair value hierarchy.

**Notes to the Condensed Interim Consolidated Financial Statements***For the three and six months ended June 30, 2018 and 2017**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)**Unaudited***13. Share Capital**Authorized share capital

The authorized share capital of the Company consists of an unlimited number of common shares.

Outstanding share capital

	Class A Shares	Class B Shares	Common Shares	Amount \$
Outstanding, December 31, 2016	300	25,672,352	—	4,047
Shares issued for cash	—	1,089,888	53,944,819	57,911
Shares issued for services	—	225,000	62,500	160
Shares issued – stock options	—	—	197,376	185
Shares issued – convertible debentures	—	—	13,159,263	9,913
Reallocation from share-based payments reserve	—	—	—	121
Reallocation to warrants reserve	—	—	—	(22,961)
Reallocation of related party debt	(300)	—	—	968
Exchange of shares	—	(26,987,240)	26,987,240	—
<b>Outstanding, December 31, 2017</b>	<b>—</b>	<b>—</b>	<b>94,351,198</b>	<b>50,344</b>
Shares issued – warrant exercises	—	—	620,756	1,086
Shares issued – stock option exercises	—	—	792,016	686
Reallocation from warrants reserve	—	—	—	213
Reallocation from share-based payment reserve	—	—	—	727
<b>Outstanding, June 30, 2018</b>	<b>—</b>	<b>—</b>	<b>95,763,970</b>	<b>53,056</b>

Warrants reserve

The fair value of warrants outstanding as at June 30, 2018 and December 31, 2017 was estimated on their respective grant dates using the Black-Scholes valuation model based on the following assumptions:

Issue date	January 31, 2017	July 31, 2017	August 16, 2017	December 8, 2017	June 6, 2018
Volatility	100%	100%	100%	100%	100%
Risk-free interest rate	0.76%	1.31%	1.23%	1.54%	2.00%
Expected life (years)	1.75	2.00	2.00	2.00	5.00
Dividend yield	Nil	Nil	Nil	Nil	Nil
Forfeiture rate	0%	0%	0%	0%	0%
Number of Warrants issued	2,173,913	1,518,988	464,785	47,727,273	320,000
Share price	\$ 0.45	\$ 1.09	\$ 0.80	\$ 2.10	\$ 4.59
Value per warrant	\$ 0.2298	\$ 0.4498	\$ 0.2718	\$ 1.5475	\$ 3.4967

On January 31, 2017, the Company issued 2,173,913 Common Share purchase warrants in payment for financial advisory services rendered. Each warrant is exercisable at \$0.46 per share and expires on January 31, 2019.

On July 31, 2017 and August 16, 2017, the Company issued 1,518,988 and 464,785 Common Share purchase warrants, respectively, as a part of a non-brokered private placement offering (see above, *Outstanding share capital*). Each warrant is exercisable at \$1.75 per share and expires at 24 months from the respective closing dates.

**Notes to the Condensed Interim Consolidated Financial Statements***For the three and six months ended June 30, 2018 and 2017**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)**Unaudited***13. Share Capital (Continued)**

On December 8, 2017, the Company issued 47,727,273 Common Share purchase warrants as a part of a non-brokered private placement offering (see above, Outstanding share capital). Each warrant is exercisable at \$1.10 per share and expires at 36 months from the respective closing date.

On June 6, 2018, the Company issued 320,000 Common Share purchase warrants as compensation for services. Each warrant is exercisable at \$4.16 per share and expires at 60 months from the respective closing date.

During the six months ended June 30, 2018, 620,756 warrants were exercised for total gross proceeds of \$1,086.

The following is a summary of the outstanding warrants as at June 30, 2018.

<b>Number Outstanding as at June 30, 2018</b>	<b>Number of Warrants Outstanding</b>	<b>Number of Warrants Exercisable</b>	<b>Issue Date</b>	<b>Expiry Date</b>	<b>Weighted Average Exercise Price \$</b>	<b>Weighted Average Remaining Life (years)</b>
Issued in payment for financial advisory services	2,173,913	2,173,913	01/31/17	01/31/19	0.46	0.59
Issued during private placement	1,090,372	1,090,372	07/31/17	07/31/19	1.75	1.08
Issued during private placement	272,642	272,642	08/16/17	08/16/19	1.75	1.13
Issued during private placement	47,727,273	47,727,273	12/08/17	12/08/20	1.10	2.44
Issued in payment for services	320,000	—	06/06/18	06/06/23	4.16	4.94
	<b>51,584,200</b>	<b>51,264,200</b>			<b>1.11</b>	<b>2.35</b>

The following is a summary of the outstanding warrants as at December 31, 2017.

<b>Number Outstanding as at December 31, 2016</b>	<b>Number of Warrants Outstanding</b>	<b>Number of Warrants Exercisable</b>	<b>Issue Date</b>	<b>Expiry Date</b>	<b>Weighted Average Exercise Price \$</b>	<b>Weighted Average Remaining Life (years)</b>
Issued in payment for financial advisory services	2,173,913	2,173,913	01/31/17	01/31/19	0.46	10.80
Issued during private placement	1,518,988	1,518,988	07/31/17	07/31/19	1.75	1.58
Issued during private placement	464,785	464,785	08/16/17	08/16/19	1.75	1.62
Issued during private placement	47,727,273	47,727,273	12/08/17	12/08/20	1.10	2.94
<b>Outstanding, December 31, 2017</b>	<b>51,884,959</b>	<b>51,884,959</b>			<b>1.10</b>	<b>2.81</b>

Options

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, employees and consultants of the Company. Share options are granted for a term not to exceed ten years at an exercise price which is the greater of the closing market price of the shares on the CSE on the trading day immediately preceding the date the options are granted and on the same day of the option grant, in accordance with CSE policy. The options are not transferrable. The Plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual (not to exceed 5% of issued and outstanding shares to any one individual) and the vesting period. The maximum number of shares of the Company that are issuable pursuant to the Plan is limited to 10% of the issued and outstanding shares of the Company as at the date of the grant of options.

**Notes to the Condensed Interim Consolidated Financial Statements***For the three and six months ended June 30, 2018 and 2017**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)**Unaudited***13. Share Capital (Continued)**

The fair value of the various stock options granted during the six months ended June 30, 2018 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Stock price volatility – 100%; Risk-free interest rate – 1.94% to 2.04%; Dividend yield – 0%; and Expected lives – 5 years.

The following is a summary of the changes in the Company's options for the six months ended June 30, 2018.

	Number of Options	Average Exercise Price \$
Balance Outstanding at December 31, 2016	—	—
Options Granted	4,518,749	1.36
Options Exercised	(197,379)	0.94
Options Forfeited/Cancelled	(258,036)	0.95
Balance Outstanding at December 31, 2017	4,063,334	1.41
Options Granted	2,630,000	4.08
Options Exercised	(792,016)	0.89
Options Forfeited/Cancelled	(156,252)	3.55
<b>Balance Outstanding at June 30, 2018</b>	<b>5,745,066</b>	<b>2.60</b>

During the six months ended June 30, 2018, \$2,287 of share-based payment was recorded on the statement of loss and comprehensive loss (June 30, 2017 - \$2,705), of which \$311 (June 30, 2017 – \$nil) is included in production salaries and wages.

During the six months ended June 30, 2018, 792,016 options were exercised for total gross proceeds of \$686

**Notes to the Condensed Interim Consolidated Financial Statements***For the three and six months ended June 30, 2018 and 2017**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)**Unaudited***13. Share Capital (Continued)**

The following is a summary of the outstanding stock options as at June 30, 2018.

Number Outstanding at June 30, 2018	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable at June 30, 2018
1,000,000	\$ 0.60	7.29	1,000,000
25,000	0.81	4.24	8,333
178,504	0.85	4.16	11,833
41,668	0.89	4.34	14,167
291,251	0.90	4.35	54,996
425,000	1.21	2.78	143,333
185,000	1.40	1.46	35,000
16,668	1.95	4.43	1,666
110,000	2.95	4.59	-
1,000,000	3.05	9.47	300,000
295,000	3.14	4.67	-
121,975	3.20	4.54	17,801
10,000	3.43	4.84	-
65,000	3.45	4.84	-
55,000	3.49	4.88	-
135,000	3.60	4.86	-
195,000	3.85	9.64	-
125,000	3.86	9.79	-
25,000	3.90	4.91	-
65,000	4.00	4.93	-
1,000,000	4.20	4.97	-
25,000	4.30	4.95	-
335,000	4.35	4.78	-
20,000	4.59	9.92	-
5,745,066	\$ 2.60	6.05	1,587,129

The following is a summary of the outstanding stock options as at December 31, 2017.

Number Outstanding at December 31, 2017	Weighted Average Exercise Price \$	Weighted Average Remaining Contractual Life (years)	Number Exercisable at December 31, 2017
1,450,000	0.60	7.27	1,150,000
25,000	0.81	4.74	4,167
266,252	0.85	4.66	41,251
45,000	0.89	4.84	1,666
307,083	0.90	4.84	18,333
650,000	1.21	3.89	213,334
300,000	1.40	1.96	300,000
20,000	1.95	4.93	1,667
1,000,000	3.05	9.96	100,000
4,063,335	\$ 1.00	4.66	1,830,418

**Notes to the Condensed Interim Consolidated Financial Statements***For the three and six months ended June 30, 2018 and 2017**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)**Unaudited***13. Share Capital (Continued)**

At June 30, 2018, the weighted average exercise price of options outstanding and options exercisable was \$2.60 (December 31, 2017 –\$1.00) and \$1.18 (December 31, 2017 - \$0.95), respectively.

**14. Related party**

- (a) In January 2017, the Company purchased the property it was leasing from a corporation controlled by a director of the Company for \$6,900 in total consideration, plus \$191 of closing costs (Note 11). Terms were market value.
- (b) Key management includes directors and officers of the Company. Total compensation, comprised of salaries and share-based payments, awarded to key management for the six months ended June 30, 2018 and June 30, 2017 respectively were as follows:

	June 30, 2018 \$	June 30, 2017 \$
Salaries	133	216
Share-based payments	1,512	1,729
<b>Total</b>	<b>1,645</b>	<b>1,945</b>

- (c) During the three months ended June 30, 2018, the Company paid for licensing, development and maintenance fees in the amount of \$36 (June 30, 2017 - \$23,165) to RX Infinity Inc., a Corporation that Dr. Michael Nashat is a director and managing partner and, together with a family member, owns 33%. The total paid to this Company for the six months ended June 30, 2018 was \$59 (June 30, 2017 - \$69).
- (d) During the three months ended June 30, 2018, the Company purchased \$785 (June 30, 2017 - \$nil) of inventory from Canopy Growth Corp., a Corporation that is a shareholder of the Company.
- (e) During the three months ended June 30, 2018, shareholders of the Company advanced \$nil (June 30, 2017 - \$1) to the Company, interest free, with no fixed terms of repayment. As at June 30, 2018, the Company was indebted to the shareholders of the Company in the amount of \$nil (June 30, 2017 - \$968).

**15. Supplemental cash flow information**

Non-cash transactions during the six months ended June 30, 2018 and June 30, 2017 are as follows:

	For the six months ended	
	June 30, 2018 \$	June 30, 2017 \$
Intangibles acquired through issuance of Ascendant Lab common shares	417	—
Fair value of harvested plants transferred to inventory	551	—



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**Notes to the Condensed Interim Consolidated Financial Statements**

*For the three and six months ended June 30, 2018 and 2017*

*(Amounts expressed in thousands of Canadian dollars, except for per share amounts)*

*Unaudited*

**16. Capital management**

The Company's objective in managing capital is to ensure a sufficient liquidity position to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to achieve this objective, the Company prepares a capital budget to manage its capital structure. The Company defines capital as borrowings, equity comprised of issued share capital, share-based payments, accumulated deficit, as well as due to related parties.

Since inception, the Company has primarily financed its liquidity needs through the issuance of Common Shares.

There have been no changes to the Company's objectives and what it manages as capital as at June 30, 2018 or during the year ended December 31, 2017. The Company is not subject to externally-imposed capital requirements.

**17. Financial instruments and risk management**

Financial instruments

The Company has classified its cash and cash equivalents, investments and note receivable as fair value through profit and loss ("FVTPL"), other receivables as loans and receivables, and accounts payable and accrued liabilities as other financial liabilities.

Fair value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The hierarchy is summarized as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2 – inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data

Level 3 – inputs for assets and liabilities not based upon observable market data

The carrying values of cash and cash equivalents, note receivable, other receivables, and accounts payable and accrued liabilities approximate their fair values due to their short periods to maturity. The fair value of the investment has been determined based on Level 2 of the fair value hierarchy.

Financial risk factors

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, other receivables and note receivable. The Company's cash and cash equivalents is held at a major Canadian bank. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

**Notes to the Condensed Interim Consolidated Financial Statements**

*For the three and six months ended June 30, 2018 and 2017*

*(Amounts expressed in thousands of Canadian dollars, except for per share amounts)*

*Unaudited*

**17. Financial instruments and risk management (Continued)**

(b) Liquidity risk

The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The Company monitors and manages its cash flows to assess the liquidity necessary to fund operations. As at June 30, 2018, the Company had cash and cash equivalents and receivables balance of \$29,951 (December 31, 2017 - \$52,229) to settle current liabilities of \$3,921 (December 31, 2017 - \$1,693). As such, liquidity risk for the Company should be considered very low. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(c) Interest rate risk

The Company is not subject to any significant interest rate risk from its liabilities. All other financial liabilities are non-interest-bearing instruments.

**18. Consignment**

As at June 30, 2018, the Company holds dry bud at an average cost of \$1,575 (December 31, 2017 - \$nil) on behalf of another licensed producer, which is not included in the inventory of the Company.

**19. Commitment**

The Company has the following rental commitments for three premises:

	\$
2019	114
2020	85
2021	89
2022	32
2023	32
	352

**20. Subsequent events**

Subsequent to June 30, 2018, the Company granted 525,000 options to contractors and 395,000 options to employees of the Company. The options have a weighted average exercise price of \$4.23.

Subsequent to June 30, 2018, the Company granted 70,000 warrants to a contractor of the Company. The warrants have an exercise price of \$4.25.

Subsequent to June 30, 2018, 25,000 warrants were exercised at an exercise price of \$1.75 for gross proceeds of \$44 and 1,666 stock options were exercised at an exercise price of \$1.95 for gross proceeds of \$3.

Subsequent to June 30, 2018, 348,336 unvested options were forfeited.

On August 21, 2018, the Company signed supply agreements with the provinces of Ontario, British Columbia and Prince Edward Island to provide a variety of premium branded cannabis products for the adult-use cannabis market.