
DELTA 9 CANNABIS INC.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2017 AND DECEMBER 31, 2016
(EXPRESSED IN CANADIAN DOLLARS)

DELTA 9 CANNABIS INC.

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DECEMBER 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders
Delta 9 Cannabis Inc.

We have audited the accompanying consolidated financial statements of Delta 9 Cannabis Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Delta 9 Cannabis Inc. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Winnipeg, Manitoba
April 30, 2018

Collins Barrow HMA LLP
Chartered Professional Accountants



DELTA 9 CANNABIS INC.

STATEMENT 1

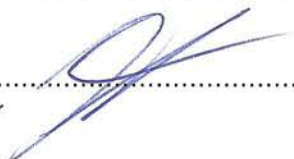
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(CANADIAN DOLLARS)

AS AT DECEMBER 31

	2017	2016
A S S E T S		
CURRENT		
Cash and cash equivalents	\$ 23,548,451	\$ 115,312
Trade and other receivables (Note 6)	172,978	10,899
Inventories (Note 7)	382,247	55,276
Biological assets (Note 8)	125,943	98,039
Prepayments and other current assets (Note 9)	479,484	4,496
Due from shareholders (Note 12)	51,507	-
	<u>24,760,610</u>	<u>284,022</u>
PROPERTY, PLANT AND EQUIPMENT (Note 10)	<u>275,192</u>	<u>124,698</u>
	<u>\$ 25,035,802</u>	<u>\$ 408,720</u>
L I A B I L I T I E S		
CURRENT		
Accounts payable and accrued liabilities (Note 11)	\$ 357,882	\$ 687,127
Share deposits		226,649
Due to shareholders (Note 12)	48,951	
Due to related parties (Note 12)	<u>72,571</u>	<u>891,997</u>
	<u>479,404</u>	<u>1,805,773</u>
S H A R E H O L D E R S ' E Q U I T Y (D E F I C I E N C Y)		
SHARE CAPITAL (Note 13)	36,901,920	940,100
WARRANTS (Note 13)	141,176	
CONTRIBUTED SURPLUS	217,136	
ACCUMULATED DEFICIT	(12,650,277)	(2,957,550)
NON-CONTROLLING INTEREST	(53,557)	620,397
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)	<u>24,556,398</u>	<u>(1,397,053)</u>
	<u>\$ 25,035,802</u>	<u>\$ 408,720</u>
COMMITMENTS (Note 17)		

Approved on behalf of the Board:



 Director



 Director

See accompanying notes to consolidated financial statements

DELTA 9 CANNABIS INC.

STATEMENT 2

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

(CANADIAN DOLLARS)

YEAR ENDED DECEMBER 31

	2 0 1 7	2 0 1 6
REVENUE	\$ 944,114	\$ 498,334
COST OF SALES	(627,376)	(496,316)
GROSS PROFIT BEFORE UNREALIZED GAIN FROM CHANGES IN BIOLOGICAL ASSETS	316,738	2,018
Unrealized gain from changes in fair value of biological assets	125,943	98,039
GROSS PROFIT	442,681	100,057
EXPENSES		
General and administrative (Note 15)	2,514,621	1,447,712
Sales and Marketing (Note 15)	383,797	172,260
Share based compensation (Note 13)	257,189	-
	3,155,607	1,619,972
LOSS FROM OPERATIONS	(2,712,926)	(1,519,915)
OTHER INCOME/EXPENSES		
Other income	642	525
Rental income	7,109	10,006
Gain on disposal of property, plant and equipment		26,824
Public listing costs (Note 5)	(5,219,055)	-
	(5,211,304)	37,355
NET LOSS AND COMPREHENSIVE LOSS	(7,924,230)	(1,482,560)
Net loss and comprehensive loss attributable to:		
Delta 9 Cannabis Inc.	(7,870,624)	(1,352,668)
Non-controlling interest (Note 14)	(53,606)	(129,892)
	(7,924,230)	(1,482,560)
Loss per share - basic (Note 16)	\$ (0.16)	\$ (0.04)
Loss per share - diluted (Note 16)	\$ (0.14)	\$ (0.04)

See accompanying notes to consolidated financial statements

DELTA 9 CANNABIS INC.

STATEMENT 3

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(CANADIAN DOLLARS)

YEAR ENDED DECEMBER 31

	Number of shares	Share Capital	Warrants	Contributed Surplus	Accumulated Deficit	Non-Controlling Interest	Total Equity
BALANCE, December 31, 2015	1,175,100	\$ 940,100	\$ -	\$ -	\$(1,604,882)	\$ 750,289	\$ 85,507
Net loss and comprehensive loss					(1,352,668)	(129,892)	(1,482,560)
Shares issued on stock split	<u>36,174,900</u>	-	-	-	-	-	-
BALANCE, December 31, 2016	<u>37,350,000</u>	<u>\$ 940,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(2,957,550)</u>	<u>\$ 620,397</u>	<u>\$ 1,397,053</u>
BALANCE, December 31, 2016	37,350,000	\$ 940,100	\$ -	\$ -	\$(2,957,550)	\$ 620,397	\$(1,397,053)
Net loss and comprehensive loss					(7,870,624)	(53,606)	(7,924,230)
Shares issued by Delta 9 Bio-Tech Inc. (Note 13)	5,036,000	1,259,000					1,259,000
Shares issued on acquiring minority interest in Delta 9 Bio-Tech Limited Partnership (Note 5)	2,000,000	1,300,000					1,300,000
Loss of Delta 9 Bio-Tech Limited Partnership until October 18, 2017					203,039	(203,039)	
Acquisition of minority interest in Delta 9 Bio-Tech Limited Partnership (Note 5)					(2,132,642)	(417,358)	(2,550,000)
Conversion of debentures - net of share issue costs (Note 13)	6,947,945	2,803,753					2,803,753
Agents' warrants relating to debentures (Note 13)		(211,360)	211,360				
Exercise of agents' warrants	533,333	451,359	(211,360)				239,999
Reverse acquisition of SVT Capital Corp. (Note 5)	5,470,480	3,555,812					3,555,812
Shares issued on brokered private placement - net of share issue costs (Note 13)	8,000,000	4,571,138					4,571,138
Shares issued for commission and fees on private placement (Note 13)	610,154	396,600					396,600
SVT warrants (Note 5)			215,370				215,370
Exercise of SVT warrants	4,350,000	905,173	(215,370)	2,447			692,250
Private placement bought deal - net of share issue costs (Note 13)	8,521,500	21,071,521					21,071,521
Agents' warrants relating to bought deal (Note 13)		(141,176)	141,176				
Minority portion of common shares (Note 14)						49	49
Share based compensation (Note 13)				214,689			214,689
Forgiveness of debt (Note 5)	-	-	-	-	107,500	-	107,500
BALANCE, December 31, 2017	<u>78,819,412</u>	<u>\$ 36,901,920</u>	<u>\$ 141,176</u>	<u>\$ 217,136</u>	<u>\$(12,650,277)</u>	<u>\$(53,557)</u>	<u>\$ 24,556,398</u>

See accompanying notes to consolidated financial statements

DELTA 9 CANNABIS INC.

STATEMENT 4

CONSOLIDATED STATEMENTS OF CASH FLOWS

(CANADIAN DOLLARS)

YEAR ENDED DECEMBER 31

	2017	2016
CASH FLOW FROM		
<i>OPERATING ACTIVITIES</i>		
Net loss for year	\$(7,924,230)	\$(1,482,560)
Items not affecting cash:		
Amortization of property, plant and equipment (Note 10)	73,923	46,370
Unrealized gain from changes in fair value of biological assets	(125,943)	(98,039)
Gain on disposal of property, plant and equipment		(26,824)
Construction cost written off (Note 10)		11,354
Non-cash component of public listing costs	4,250,467	
Value of shares issued to employees (Note 13)	42,500	
Share based compensation (Note 13)	214,689	
Net assets acquired on reverse acquisition of SVT - net of forgiveness of debt (Note 5)	(146,785)	-
	(3,615,379)	(1,549,699)
Changes in non-cash working capital:		
Trade and other receivables	(4,776)	127,188
Inventories	(326,971)	(23,033)
Biological assets	98,039	203,869
Prepayments and other current assets	(474,988)	(17)
Accounts payable and accrued liabilities	(329,245)	331,427
	(1,037,941)	639,434
	(4,653,320)	(910,265)
<i>INVESTING ACTIVITIES</i>		
Acquisition of minority interest in Delta 9 Bio-Tech Limited Partnership (Note 5)	(1,250,000)	
Acquisition of property, plant and equipment (Note 10)	(224,417)	(6,602)
Disposal of property, plant and equipment	-	67,029
	(1,474,417)	60,427
<i>FINANCING ACTIVITIES</i>		
Proceeds from issuance of share capital - net of share issue costs (Note 13)	30,382,809	
Proceeds from minority interest in Delta 9 Lifestyle Cannabis Clinic Inc.	49	116,649
Shareholder deposits		733,340
Shareholder advances (Note 12)	48,951	
Repayment of amounts due to related parties	(870,933)	-
	29,560,876	849,989
NET INCREASE IN CASH DURING YEAR	23,433,139	151
CASH, beginning of year	115,312	115,161
CASH, end of year	\$ 23,548,451	\$ 115,312

See accompanying notes to consolidated financial statements

DELTA 9 CANNABIS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

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 (ACMPR). 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.

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

On October 31, 2017, Delta 9 Bio-Tech Inc. completed a reverse acquisition transaction with SVT Capital Corp. ("SVT") as more fully explained in note 5.

Upon completion of the transaction, SVT changed its name to Delta 9 Cannabis Inc.

Delta 9 Cannabis Inc. has changed its financial year end from March 31 to December 31 to conform with Delta 9 Bio-Tech Inc. which has a December 31 year end. As a result, the Corporation's December 31, 2017 year end consolidated financial statements include two months operations of Delta 9 Cannabis Inc. and 12 months of operations of Delta 9 Bio-Tech Inc.

Delta 9 Lifestyle Cannabis Clinic Inc. was incorporated on February 9, 2017 pursuant to the laws of the Province of Manitoba and started its operations in July 2017. It is engaged in providing medical and health consultations.

On April 30, 2018, the Board of Directors authorized the Consolidated Financial Statements for issue.

2. BASIS OF PRESENTATION

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

b) Basis of measurement

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

d) Basis of consolidation

These Consolidated 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 have 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.

These consolidated 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2017

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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%
Leasehold improvements	20%
Production equipment	20%
Security 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2017

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2017

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2017

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, 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 year in which the estimates are revised and in any future years 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2017**

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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2017. These are the changes that the Corporation reasonably expects will have an impact on its disclosures, financial position or performance when applied at a future date. The Corporation is assessing the potential impact of these standards to adopt if applicable, when they become effective.

IFRS 9, Financial Instruments - replaces the guidance in IAS 39 Financial Instruments; Recognition and Measurement, on the classification and measurement of financial assets. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition, financial assets measured at amortized cost or financial assets measured at fair value. Gains and loss, except that for an investment in an equity instrument which is not held-for-trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income. The standard also provides a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to additional disclosure. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation has preliminarily determined that there will be no significant changes to the financial position and financial performance when this standard is applied, but is in the process of finalizing their analysis.

IFRS 15, Revenue from Contracts with Customers - clarifies the principles for recognizing revenue from contracts with customers. IFRS 15 will also result in enhanced disclosure about revenue, provide guidance for transactions that were not previously addressed comprehensively (i.e. service revenue and contract modifications) and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation has preliminarily determined that there will be no significant changes to the financial position and financial performance when this standard is applied other than additional disclosure, but is in the process of finalizing their analysis.

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 FINANCIAL STATEMENTS

DECEMBER 31, 2017

5. REVERSE ACQUISITION

Effective May 30, 2017, SVT entered into a definitive amalgamation agreement with Delta 9 Bio-Tech Inc. pursuant to which SVT agreed to acquire all of the securities of Delta 9 Bio-Tech Inc. by way of a three-cornered amalgamation among SVT, Delta 9 Bio-Tech Inc. and a wholly-owned subsidiary of SVT formed for the purpose of completing the amalgamation. The amalgamation transaction was completed on October 31, 2017. The transaction was considered a reverse acquisition of SVT by Delta 9 Bio-Tech Inc. as defined in the policies of the TSX Venture Exchange. Accordingly, for accounting purposes, Delta 9 Bio-Tech Inc. was deemed to be the acquirer and SVT was deemed to be the acquiree under the transaction. Under this basis of accounting, the consolidated entity is considered to be a continuation of SVT, with the net identifiable assets of SVT deemed to have been acquired by Delta 9 Bio-Tech Inc. Hence, Delta 9 Bio-Tech Inc.'s balances were accounted for at cost and SVT was accounted for at fair value. The book value of SVT's assets and liabilities as at October 31, 2017 approximated their fair values as at that date. Since SVT does not meet the definition of a business, the transaction was accounted for under the provisions of IFRS 2 Share-based payment.

The difference between the fair value of the consideration and SVT's net assets has been recognized as a public listing expense in the statement of net loss and comprehensive loss for the year ended December 31, 2017.

The following represents management's estimate of the fair value of the net assets of SVT acquired at October 31, 2017 as a result of the reverse acquisition.

Fair value of share consideration paid (a)	\$ 3,555,812
Transaction costs (b)	1,193,587
Adjustment to fair value of SVT Warrants (c)	<u>215,370</u>
Total cost of acquisition	<u>4,964,769</u>
Allocated as follows:	
Cash	82
Trade and other receivables	4,973
Prepayments	27,950
Accounts payable and accrued liabilities	(187,272)
Loans payable	(100,019)
Net assets of SVT acquired	<u>(254,286)</u>
Public listing costs	<u>\$ 5,219,055</u>

(a) The purchase consideration above was estimated based on the fair value attributed to the common shares that SVT would have had to issue to shareholders of Delta 9 Bio-Tech Inc. to acquire the same percentage equity interest in the combined entity that results from the reverse acquisition.

(b) Transaction cost include finder's fees, corporate finance fees, legal and other professional fees incurred in connection with reverse acquisition transaction between SVT and Delta 9 Bio-Tech Inc.

(c) Prior to the reverse acquisition, SVT Capital Corp. had 4,400,000 outstanding warrants. An adjustment of \$215,370 was made on October 31, 2017, the reverse acquisition transaction date, to revalue these warrants using the Black-Scholes option pricing model with the following assumptions:

Exercise price	\$ 0.65
Share price	\$ 0.65
Risk free interest rate	1.09%
Expected life	0.44 - 0.52 years
Volatility	100%
Dividend yield	Nil

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

5. REVERSE ACQUISITION *(continued)*

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.

4,350,000 warrants were exercised in November and December 2017 at an average price of \$0.16. The remaining 50,000 warrants expired.

As part of the reverse acquisition transaction, a company controlled by a director of SVT had forgiven outstanding debt amounting to \$107,500, consisting of \$97,300 in accounts payable and \$10,200 in loans payable.

In connection with the completion of the reverse acquisition transaction, the shareholders of Delta 9 Bio-Tech Inc. exchanged their shares for common shares of SVT on a one for one basis, and the Delta 9 Bio-Tech Inc. shares were cancelled. The transaction, in substance, results in Delta 9 Bio-Tech Inc. being listed as a public entity and its shareholders acquiring the net assets of SVT. All equity of SVT is eliminated pursuant to the transaction.

Immediately before the reverse acquisition transaction, on October 18, 2017, Delta 9 Bio-Tech Inc. entered into an agreement to purchase the issued and outstanding partnership units of Delta 9 Bio-Tech Limited Partnership, representing a 9.1% interest in Delta 9 Bio-Tech Limited Partnership. The consideration paid consisted of \$1,250,000 in cash and the issuance of an aggregate of 2,000,000 Delta 9 Bio-Tech Inc. class B shares valued at \$0.65 per share. As a result, \$417,358 was reversed out of non-controlling interest to reflect Delta 9 Bio-Tech Inc.'s 100% interest in Delta 9 Bio-Tech Limited Partnership. The difference amounting to \$2,132,642 between the value of the shares issued and cash consideration paid was included in equity.

6. TRADE AND OTHER RECEIVABLES

	2 0 1 7	2 0 1 6
Trade	\$ 15,675	\$ 10,899
Other	<u>157,303</u>	<u>-</u>
	<u>\$ 172,978</u>	<u>\$ 10,899</u>

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

	2 0 1 7	2 0 1 6
0 - 30 days	\$ 4,546	\$ 5,744
31 - 60 days	42,063	5,155
Greater than 90 days	<u>126,369</u>	<u>-</u>
	<u>\$ 172,978</u>	<u>\$ 10,899</u>

Included within the other receivables is \$157,303 due from the shareholders of the Corporation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

7. INVENTORIES

	2017	2016
Finished goods	\$ 43,820	\$ 6,992
Raw materials	27,283	21,492
Products for re-sale	<u>311,144</u>	<u>26,792</u>
	<u>\$ 382,247</u>	<u>\$ 55,276</u>

The amount of inventories recognized as an expense was \$242,734 for the year-ended December 31, 2017 (\$234,274 - 2016)

8. BIOLOGICAL ASSETS

Biological assets consist of medical cannabis plants.

	2017	2016
Biological assets, beginning of year	\$ 98,039	\$ 203,869
Net increase in fair value less cost to sell due to biological transformation	645,345	241,551
Transferred to inventory upon harvest	<u>(617,441)</u>	<u>(347,381)</u>
Biological assets, end of year	<u>\$ 125,943</u>	<u>\$ 98,039</u>

9. PREPAYMENTS AND OTHER CURRENT ASSETS

	2017	2016
Advertising and promotions	\$ 124,250	\$
Deposits for purchase of containers	254,550	
Insurance	96,184	
Other	<u>4,500</u>	<u>4,496</u>
	<u>\$ 479,484</u>	<u>\$ 4,496</u>

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment relate to the infrastructure for cannabis growing production and operations. Construction in progress is for production equipment under construction at year end. A cost continuity of the accounts for the year ended December 31, 2017 is as follows:

	Balance at January 1, 2017	Additions	Disposals	Balance at December 31, 2017
Computer equipment	\$ 2,112	\$ 41,451	\$	\$ 43,563
Containers		26,495		26,495
Office furniture equipment	1,832	11,176		13,008
Leasehold improvements	54,133	32,613		86,746
Production equipment	150,137	77,675		227,812
Security equipment	<u>24,102</u>	<u>35,007</u>	<u>-</u>	<u>59,109</u>
	<u>232,316</u>	<u>224,417</u>	<u>-</u>	<u>456,733</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

10. PROPERTY, PLANT AND EQUIPMENT (continued)

The accumulated amortization continuity for property, plant and equipment for the year ended December 31, 2017 is as follows:

	Balance at January 1, 2017	Additions	Disposals	Balance at December 31, 2017
Computer equipment	2,104	11,406		13,510
Containers		1,324		1,324
Office furniture equipment	549	1,484		2,033
Leasehold improvements	25,151	13,872		39,023
Production equipment	64,412	37,609		102,021
Security equipment	<u>15,402</u>	<u>8,228</u>	<u>-</u>	<u>23,630</u>
	<u>107,618</u>	<u>73,923</u>	<u>-</u>	<u>181,541</u>
Net book value	<u>124,698</u>			<u>275,192</u>

A cost continuity of the accounts for the year ended December 31, 2016 is as follows:

	Balance at January 1, 2016	Additions	Disposals	Balance at December 31, 2016
Computer equipment	\$ 2,112	\$	\$	\$ 2,112
Office furniture equipment	1,832			1,832
Leasehold improvements	54,133			54,133
Production equipment	210,564	6,602	(67,029)	150,137
Security equipment	24,102			24,102
Construction-in-progress	<u>11,354</u>	<u>-</u>	<u>(11,354)</u>	<u>-</u>
	<u>304,097</u>	<u>6,602</u>	<u>(78,383)</u>	<u>232,316</u>

The accumulated amortization continuity for property, plant and equipment for the year ended December 31, 2016 is as follows:

Computer equipment	1,154	950		2,104
Office furniture equipment	183	366		549
Leasehold improvements	14,323	10,828		25,151
Production equipment	61,830	29,406	(26,824)	64,412
Security equipment	10,582	4,820		15,402
Construction-in-progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>88,072</u>	<u>46,370</u>	<u>(26,824)</u>	<u>107,618</u>
Net book value	<u>\$ 216,025</u>			<u>\$ 124,698</u>

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
Trade payables	\$ 300,907	\$ 625,272
Accrued liabilities	<u>56,975</u>	<u>61,855</u>
	<u>\$ 357,882</u>	<u>\$ 687,127</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

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 corporate director's credit cards to cover expenses of the Corporation. As of December 31, 2017 \$51,507 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 December 31, 2017, \$48,951 was outstanding to 7217804 Manitoba Ltd.

3) A loan agreement between Oceanside Strategies Inc. (the 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 is unsecured and carries interest at an annual rate of 1% per month compounded monthly and payable upon repayment of the loan. The loan is to be repaid ten days following a written demand for repayment by the lender to the Corporation, provided that in any event, all amounts owing under the loan shall be repaid on or before the first anniversary of the loan agreement.

*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 the renewal of 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 will increase to \$138,207 until March 31, 2018 and further increasing 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 payment as per 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. effective April 1, 2017, for 15 containers at a monthly rent of \$6,000. An amount of \$38,880 was paid to 6599362 Canada Ltd. during the year ended December 31, 2017. 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 \$39,868 per container. The Corporation has placed an order for an additional 27 containers for a total cost of \$700,000 for which a prepayment of \$245,000 was made.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

12. DUE FROM/TO RELATED PARTIES AND SHAREHOLDERS *(continued)*Key management compensation

For the year ended December 31, 2017, John William Arbuthnot III and John William Arbuthnot IV, the Chairman and Chief Executive Officer of the Corporation received total compensation of \$97,702 each. The Chief Financial Officer received total compensation of \$40,000 and the Vice-President of Marketing and Sales earned total compensation of \$60,182.

In addition to the amounts outlined above, share based compensation of \$87,352 was recorded in these financial statements for the board members and \$27,839 was recorded for key management personnel.

13. SHARE CAPITAL

Authorized:

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

Issued share capital	2 0 1 7	2 0 1 6
78,819,412 (2016 - 35,000,000 Class A) Common Shares	\$ 36,901,920	\$ 100
Nil (2016 - 2,350,000) Class B Common Shares	-	940,000
	<u>\$ 36,901,920</u>	<u>\$ 940,100</u>

Prior to reverse acquisition

Delta 9 Bio-Tech Inc. issued 5,036,000 Class B common shares to the following at a price of \$0.25 per share:

Shares issued - private placement	3,466,000
Shares issued - directors	1,400,000
Shares issued - employees (a)	<u>170,000</u>
	<u>5,036,000</u>

(a) These shares were issued to four employees of Delta 9 Bio-Tech Inc. as part of compensation for their services at a price of \$0.25 per share, which was deemed to be the fair value of these shares at the time of issuance. The corresponding expense amounting to \$42,500 was included in share based compensation.

On and after reverse acquisition

On October 31, 2017, 51,333,945 common shares of Delta 9 Bio-Tech Inc. were exchanged for common shares of Delta 9 Cannabis Inc. pursuant to a reverse acquisition transaction between SVT and Delta 9 Bio-Tech Inc., on a one to one basis. This includes 6,947,945 shares issued on conversion of debentures of Delta 9 Bio-Tech Inc. in the aggregate principal amount of \$3,000,000 and accrued interest thereon of \$125,753. Transaction costs of \$322,000 were paid relating to this share issuance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

13. SHARE CAPITAL *(continued)*

On May 30, 2017, 533,333 agents' warrants with the value of \$211,360 were issued in relation to debenture financing. The warrants provided the right to purchase one common share of Delta 9 Bio-Tech Inc. at \$0.45 each for a period of twenty four months from the date of closing of the transaction. The warrants were valued on the issuance date using the Black-Scholes option pricing model with the following assumptions:

Exercise price	\$0.45
Share price	\$0.65
Risk free interest rate	0.69%
Expected life	2 years
Volatility	100%
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.

The warrants were exercised in November and December 2017 at a price of \$0.45.

On October 31, 2017, 8,000,000 common shares were issued on a brokered private placement of \$5,200,000, completed concurrently with the reverse acquisition transaction between SVT and Delta 9 Bio-Tech Inc. Transaction costs of \$628,862 were paid relating to this share issuance.

In relation to the above brokered private placement, 560,000 agents' warrants with the value of \$141,176 were issued. The warrants provided the right to purchase one common share at \$0.65 each for a period of twenty four months from the date of closing of the transaction. The warrants were valued on the issuance date using the Black-Scholes option pricing model with the following assumptions:

Exercise price	\$0.65
Share price	\$0.65
Risk free interest rate	1.37%
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.

None of these warrants were exercised as of December 31, 2017.

Subsequent to the year end, 529,502 warrants were exercised at a price of \$0.65.

On October 31, 2017, 379,385 common shares were issued as part of agent's commission and corporate finance fees in connection with brokered private placement, pursuant to reverse acquisition transaction between SVT and Delta 9 Bio-Tech Inc.

On October 31, 2017, 230,769 common shares were issued as part of finder's fees in connection with brokered private placement, pursuant to reverse acquisition transaction between SVT and Delta 9 Bio-Tech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

13. SHARE CAPITAL (continued)

On November 15, 2017, 1,439,611 common shares were issued which include 1,403,500 common shares on exercise of warrants issued by former SVT, and 36,111 common shares on exercise of agent's warrants in connection with brokered private placement of debentures which closed on May 30, 2017.

On November 15, 2017, 1,709,429 common shares were issued which include 1,248,318 common shares on exercise of warrants issued by former SVT, and 461,111 common shares on exercise of agent's warrants in connection with brokered private placement of debentures which closed on May 30, 2017.

On December 1, 2017, 1,734,293 common shares were issued which include 1,698,182 common shares on exercise of warrants issued by former SVT, and 36,111 common shares on exercise of agent's warrants in connection with brokered private placement of debentures which closed on May 30, 2017.

Equity raise

On December 28, 2017, the corporation completed a bought deal financing of 8,521,500 units which included an over-allotment of 1,111,500 units for aggregate gross proceeds of \$23,008,050 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 warrants began trading on the TSX Venture Exchange on January 17, 2018. No warrants were exercised as of December 31, 2017. Transaction costs of \$1,936,529 were paid relating to this share issuance.

The gross proceeds from the transaction were considered to be the fair value of shares at the time of issuance, therefore, no amount was allocated to the warrants.

The increase of \$35,961,820 in the value of common shares during the year ended December 31, 2017 is represented by the following:

Cash subscription	\$ 30,382,809
Transfer from share deposits	226,649
Shares issued to employees	42,500
Receivable from shareholders	157,303
Shares issued on acquiring minority interest in Delta 9 Bio-Tech Limited partnership	1,300,000
Reverse acquisition of SVT Capital Corp.	3,555,812
Shares issued for fees on concurrent financing	225,000
Exercise of SVT warrants	212,923
Agents' warrants relating to bought deal	(141,176)
	<u>\$ 35,961,820</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

13. SHARE CAPITAL (continued)

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. 1,856,549 shares were released before the year end, and 35,274,422 shares were subject to Surplus Security Escrow Agreement as at December 31, 2017.

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.

Additionally, the board of directors has the discretion to amend general vesting provisions and the term of any award under the 2017 Plan, subject to the restrictions defined in the 2017 Plan.

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 under the terms of the 2017 Plan, exercisable at \$0.65 each and subject to the following vesting provision:

For directors:

- 50% on October 31, 2018; and
- 50% on October 31, 2019.

For employees and consultants:

- 25% on April 30, 2018;
- 25% on October 31, 2018;
- 25% on April 30, 2019; and
- 25% on October 31, 2019.

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

The options were valued at \$214,689 on the grant date using the Black-Scholes option pricing model with the following assumptions:

Exercise price	\$0.65
Share price	\$0.65
Risk free interest rate	1.37%
Expected life	2.5 years
Volatility	70%
Dividend yield	Nil

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

13. SHARE CAPITAL *(continued)*

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.

The first vesting date for options is April 30, 2018, no options were exercised as of December 31, 2017.

14. NON-CONTROLLING INTEREST

At December 31, 2017, 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.

	General and administrative	Sales and marketing	Total
2017			
Amortization	\$ 73,924	\$	\$ 73,924
Insurance	34,364		34,364
Interest and loan fees	202,422		202,422
Other operating expenses	368,306	146,102	514,408
Personnel expenditures	798,254	237,695	1,035,949
Rent and utilities	729,560		729,560
Site renovation	208,642		208,642
Supplies and materials	99,149	-	99,149
	<u>\$ 2,514,621</u>	<u>\$ 383,797</u>	<u>\$ 2,898,418</u>
	General and administrative	Sales and marketing	Total
2016			
Amortization	\$ 46,370	\$	\$ 46,370
Insurance	19,877		19,877
Interest and loan fees	63,703		63,703
Other operating expenses	107,242	19,838	127,080
Personnel expenditures	457,022	152,422	609,444
Rent and utilities	658,275		658,275
Site renovation	31,985		31,985
Supplies and materials	<u>\$ 63,238</u>	<u>\$ -</u>	<u>\$ 63,238</u>
	<u>\$ 1,447,712</u>	<u>\$ 172,260</u>	<u>\$ 1,619,972</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

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 year.

	2 0 1 7	2 0 1 6
Net loss and comprehensive loss attributable to common shareholders	\$(7,870,624)	\$(1,352,668)
Weighted average number of common shares	<u>48,732,913</u>	<u>37,350,000</u>
Basic loss per share	<u>\$(0.16)</u>	<u>\$(0.04)</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.

	2 0 1 7	2 0 1 6
Net loss and comprehensive loss attributable to common shareholders	\$(7,870,624)	\$(1,352,668)
Weighted average number of common shares	48,732,913	37,350,000
"In the money" stock options outstanding	5,116,258	-
"In the money" warrants outstanding	<u>560,000</u>	<u>-</u>
Weighted average number of common shares for diluted LPS	<u>54,409,171</u>	<u>37,350,000</u>
Diluted loss per share	<u>\$(0.14)</u>	<u>\$(0.04)</u>

17. COMMITMENTS

On February 1, 2015, the Corporation, entered into a three year tenant lease. Lease terms are \$483,060 per year for basic rent plus \$121,062 per year for operating recoveries. The future minimum payments required for the lease are estimated to be as follows:

2018	\$50,343
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On March 19, 2018, the Corporation signed the renewal of 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 will increase to \$138,207 until March 31, 2018 and further increasing 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 payment as per 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. The future minimum payments required for the lease are estimated to be as follows:

2018	\$72,000
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The Corporation has placed an order for 27 containers for a total cost of \$700,000 for which a prepayment of \$245,000 was made before December 31, 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

18. INCOME TAXES

There are no current income taxes payable for the year ended December 31, 2017. The deferred income tax recovery for the years ending December 31, 2017 and December 31, 2016 consists of the following:

	2017	2016
Net loss before income taxes	\$ 7,924,230	\$ 1,482,560
Statutory rates:	27%	27%
Income tax recovery based on statutory rate	2,139,542	400,291
Deferred income tax not recognized	\$ (2,139,542)	(400,291)
Income tax expense per financial statements	-	-

As at December 31, 2017, the Company has \$3,026,766 of non-capital losses that expire as follows:

2033	\$ 587
2034	73,021
2035	643,155
2036	1,004,283
2037	1,305,720
	<u>\$ 3,026,766</u>

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

19. FINANCIAL INSTRUMENTS

As at December 31, 2017, the Corporation's financial instruments consist of cash and cash equivalents totaling \$23,548,451, trade and other receivables totaling \$172,978, accounts payable, accrued liabilities totaling \$357,882 and net amount due to related parties totaling \$70,015.

As at December 31, 2017, 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 FactorsMarket 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.

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

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	\$ 357,882	\$ 357,882
Due to related parties - net	<u>70,015</u>	<u>70,015</u>
Total contractual obligations	<u>\$ 427,897</u>	<u>\$ 427,897</u>

At December 31, 2017, the Corporation's financial assets of \$23,721,429 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 equipments. 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.

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22. SUBSEQUENT EVENTSLicense for retail distribution

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 is as yet to be determined.

Westleaf project

On January 29, 2018, the Corporation entered into a non-binding letter of intent with Westleaf Cannabis Inc. ("Westleaf") 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 letter of intent, 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 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.

On April 19, 2018 the Corporation entered into a definitive limited partnership agreement with Westleaf and Delta West Inc. On this date the Corporation and Westleaf confirmed that each party had funded \$3,000,000 for their 50% equity interests 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.

Property acquisitions

On March 19, 2018, the Corporation entered into a letter of intent and a new lease for its production facility with 6599362 Manitoba Ltd., a related party. 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 additional 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 a new lease of its production 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.

23. COMPARATIVE FIGURES

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