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DELTA 9 CANNABIS INC.  
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
DECEMBER 31, 2018 AND DECEMBER 31, 2017  
(EXPRESSED IN CANADIAN DOLLARS)

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# DELTA 9 CANNABIS INC.

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DECEMBER 31, 2018

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## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of Delta 9 Cannabis Inc.

### **Opinion**

We have audited the consolidated financial statements of Delta 9 Cannabis Inc. and its subsidiaries, (the Company), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017 and the consolidated statements of net loss and comprehensive loss, changes in shareholders equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary or significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### **Basis for Opinion**

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

### **Other Information**

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Brent S. Morrish, CPA, CA, CFP.

*Baker Tilly HMA LLP*

Chartered Professional Accountants

Winnipeg, Manitoba  
April 22, 2019

# DELTA 9 CANNABIS INC.

STATEMENT 1

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(CANADIAN DOLLARS)

As AT DECEMBER 31

	2 0 1 8	2 0 1 7 (Restated)
<b>A S S E T S</b>		
CURRENT		
Cash	\$ 16,229,605	\$ 23,548,451
Trade and other receivables (Note 6)	1,972,676	258,544
Inventories (Note 7)	2,566,943	384,247
Biological assets (Note 8)	3,787,640	125,943
Prepayments and other current assets (Note 9)	1,765,920	477,484
Due from shareholders (Note 14)	<u>54,504</u>	<u>51,507</u>
	26,377,288	24,846,176
PROPERTY, PLANT AND EQUIPMENT (Note 10)	16,839,328	275,192
INVESTMENT (Note 11)	<u>2,759,000</u>	<u>-</u>
	<u>\$ 45,975,616</u>	<u>\$ 25,121,368</u>
<b>L I A B I L I T I E S</b>		
CURRENT		
Accounts payable and accrued liabilities (Note 12)	\$ 5,105,461	\$ 443,448
Customer deposits (Note 13)	122,102	
Due to shareholders (Note 14)	48,951	48,951
Due to related parties (Note 14)		72,571
Current portion of borrowings (Note 15)	<u>478,098</u>	<u>-</u>
	5,754,612	564,970
BORROWINGS (Note 15)	<u>4,915,835</u>	<u>-</u>
	<u>10,670,447</u>	<u>564,970</u>
<b>S H A R E H O L D E R S ' E Q U I T Y</b>		
SHARE CAPITAL (Note 16)	53,156,044	36,223,754
WARRANTS (Note 16)	685,849	819,342
CONTRIBUTED SURPLUS	2,751,641	217,136
ACCUMULATED DEFICIT	( 21,135,850)	(12,650,277)
NON-CONTROLLING INTEREST	<u>( 152,515)</u>	<u>( 53,557)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>35,305,169</u>	<u>24,556,398</u>
	<u>\$ 45,975,616</u>	<u>\$ 25,121,368</u>
COMMITMENTS (Note 22)		

Approved on behalf of the Board:

"John William Arbuthnot III"  
Signed: Director

"John William Arbuthnot IV"  
Signed: Director

See accompanying notes to consolidated financial statements

**CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS**
**(CANADIAN DOLLARS)**
**YEAR ENDED DECEMBER 31**

	2 0 1 8	2 0 1 7
REVENUE <i>(Note 18)</i>	\$ 7,569,283	\$ 944,114
COST OF SALES	<u>( 5,558,066)</u>	<u>( 627,376)</u>
GROSS PROFIT BEFORE UNREALIZED GAIN FROM CHANGES IN BIOLOGICAL ASSETS	2,011,217	316,738
Unrealized gain from changes in fair value of biological assets	4,330,749	125,943
Fair value of biological assets in inventory sold	<u>( 603,154)</u>	<u>-</u>
GROSS PROFIT	<u>5,738,812</u>	<u>442,681</u>
EXPENSES		
General and administrative <i>(Note 19)</i>	9,539,224	2,208,422
Sales and marketing <i>(Note 19)</i>	2,078,357	489,411
Share based compensation <i>(Note 16)</i>	<u>2,622,228</u>	<u>257,189</u>
	<u>14,239,809</u>	<u>2,955,022</u>
LOSS FROM OPERATIONS	<u>( 8,500,997)</u>	<u>( 2,512,341)</u>
OTHER INCOME/EXPENSES		
Finance income (cost) - net <i>(Note 20)</i>	119,651	( 200,070)
Rental and other income	37,815	7,236
Share of loss in Westleaf project <i>(Note 11)</i>	( 241,000)	
Public listing costs	<u>-</u>	<u>( 5,219,055)</u>
	<u>( 83,534)</u>	<u>( 5,411,889)</u>
NET LOSS AND COMPREHENSIVE LOSS	<u>( 8,584,531)</u>	<u>( 7,924,230)</u>
Net loss and comprehensive loss attributable to:		
Delta 9 Cannabis Inc.	( 8,485,573)	( 7,870,624)
Non-controlling interest <i>(Note 17)</i>	<u>( 98,958)</u>	<u>( 53,606)</u>
	<u>( 8,584,531)</u>	<u>( 7,924,230)</u>
Loss per share - basic and diluted <i>(Note 21)</i>	\$( <u>0.10</u> )	\$( <u>0.16</u> )

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, 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)
Issuance of Class B Common shares	5,036,000	1,259,000					1,259,000
Shares issued on acquiring minority interest in Delta 9 Bio-Tech Limited Partnership	2,000,000	1,300,000					1,300,000
Loss of Delta 9 Bio-tech Limited Partnership					203,039	( 203,039)	
Acquisition of minority interest in Delta 9 Bio-Tech Limited Partnership					( 2,132,642)	( 417,358)	( 2,550,000)
Conversion of debentures - net of share issue costs	6,947,945	2,803,753					2,803,753
Agents' warrants relating to debentures		( 211,360)	211,360				
Exercise of agents' warrants	533,333	451,359	( 211,360)				239,999
Reverse acquisition of SVT Capital Corp.	5,470,480	3,555,812					3,555,812
Shares issued on private placement - net of share issue costs	8,000,000	4,571,138					4,571,138
Shares issued for commission and fees on private placement	610,154	396,600					396,600
SVT Warrants			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	8,521,500	21,071,521					21,071,521
Agents' warrants relating to private placement		( 141,176)	141,176				
Minority portion of Class A Common shares in Delta 9 Lifestyle Cannabis Clinic Inc.						49	49
Share based compensation				214,689			214,689
Forgiveness of debt	-	-	-	-	107,500	-	107,500
BALANCE, December 31, 2017	78,819,412	\$ 36,901,920	\$ 141,176	\$ 217,136	\$( 12,650,277)	\$( 53,557)	\$ 24,556,398
Agents' warrants relating to bought deal (Note 16)	-	( 678,166)	678,166	-	-	-	-
BALANCE, December 31, 2017 - Restated	<u>78,819,412</u>	<u>36,223,754</u>	<u>819,342</u>	<u>217,136</u>	<u>12,650,277</u>	<u>53,557</u>	<u>24,556,398</u>
BALANCE, December 31, 2017	78,819,412	36,223,754	819,342	217,136	( 12,650,277)	( 53,557)	24,556,398
Net loss and comprehensive loss					( 8,485,573)	( 98,958)	( 8,584,531)
Exercise of agents' warrants (Note 16)	529,522	477,681	( 133,493)				344,188
Exercise of employee stock options (Note 16)	313,969	291,803		( 87,723)			204,080
Private placement of shares - net of share issue costs (Note 16)	5,909,090	16,162,806					16,162,806
Share based compensation (Note 16)	-	-	-	2,622,228	-	-	2,622,228
BALANCE, December 31, 2018	<u>85,571,993</u>	<u>\$ 53,156,044</u>	<u>\$ 685,849</u>	<u>\$ 2,751,641</u>	<u>\$( 21,135,850)</u>	<u>\$( 152,515)</u>	<u>\$ 35,305,169</u>

See accompanying notes to consolidated financial statements



**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(CANADIAN DOLLARS)**
**YEAR ENDED DECEMBER 31**

	2018	2017
<b>CASH FLOW FROM</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for year	\$( 8,584,531)	\$( 7,924,230)
Items not affecting cash:		
Amortization of property, plant and equipment (Note 10)	956,685	73,923
Unrealized gain from changes in fair value of biological assets - net	( 3,727,595)	( 125,943)
Share of loss from limited partnership (Note 11)	241,000	
Non-cash component of public listing costs		4,250,467
Share based compensation (Note 16)	2,622,228	257,189
Net assets acquired on reverse acquisition of SVT - net of forgiveness of debt	-	( 146,785)
	<u>( 8,492,213)</u>	<u>( 3,615,379)</u>
Trade and other receivables	( 1,714,132)	( 4,776)
Inventories	( 2,116,799)	( 326,971)
Biological assets		98,039
Prepayments and other current assets	( 1,288,436)	( 474,988)
Accounts payable and accrued liabilities	4,662,013	( 329,245)
Customer deposits	<u>122,102</u>	<u>-</u>
Changes in non-cash working capital	<u>( 335,252)</u>	<u>( 1,037,941)</u>
	<u>( 8,827,465)</u>	<u>( 4,653,320)</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of minority interest in Delta 9 Bio-Tech Limited Partnership		( 1,250,000)
Acquisition of property, plant and equipment (Note 10)	( 17,520,821)	( 224,417)
Investment in limited partnership (Note 11)	<u>( 3,000,000)</u>	<u>-</u>
	<u>( 20,520,821)</u>	<u>( 1,474,417)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from share capital - net of share issue costs (Note 16)	16,711,074	30,382,809
Proceeds from minority interest in Delta 9 Lifestyle Cannabis Clinic Inc.		49
Borrowings - net of transaction costs (Note 15)	5,475,000	
Repayment of borrowings	( 81,067)	
Shareholder advances		48,951
Repayment of amounts due to related parties	<u>( 75,567)</u>	<u>( 870,933)</u>
	<u>22,029,440</u>	<u>29,560,876</u>
NET INCREASE (DECREASE) IN CASH	( 7,318,846)	23,433,139
CASH, beginning of year	<u>23,548,451</u>	<u>115,312</u>
CASH, end of year	<u>\$ 16,229,605</u>	<u>\$ 23,548,451</u>

See accompanying notes to consolidated financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(CANADIAN DOLLARS)

YEAR ENDED DECEMBER 31

	2018	2017
CASH COMPRISED OF		
Cash	\$ 15,579,605	\$ 23,548,451
Restricted cash <i>(Note 5)</i>	<u>650,000</u>	<u>-</u>
	<u>\$ 16,229,605</u>	<u>\$ 23,548,451</u>

# DELTA 9 CANNABIS INC.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

### 1. NATURE OF BUSINESS

Delta 9 Cannabis Inc. (the "Company") is a licensed Cannabis Producer regulated by Health Canada under The Cannabis Act. The Company is a publicly traded company on the TSX Venture Exchange under the symbol NINE. The Cannabis license is in the name of Delta 9 Bio-Tech Inc., a wholly owned subsidiary of the Company. On February 16, 2018, the Manitoba government had awarded a license to legally retail recreational cannabis in the province to a consortium consisting of Delta 9 Cannabis Inc. and Canopy Growth Corporation. Recreational cannabis was legalized on October 17, 2018.

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

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

On April 22, 2019 the Board of Directors authorized the Consolidated Financial Statements for issue.

### 2. BASIS OF PRESENTATION

#### a) Statement of compliance

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

#### b) Basis of measurement

These consolidated 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 Company's functional and presentation currency.

#### d) Basis of consolidation

These consolidated financial statements consolidate the accounts of the Company and its subsidiaries. Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Company 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 Company 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 the Company and its wholly owned subsidiary, Delta 9 Bio-Tech Inc. and the Company's interest in Delta 9 Lifestyle Cannabis Inc. Comparative numbers in statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows include Delta 9 Bio-Tech Inc. and its former subsidiary, Delta 9 Bio-Tech Limited Partnership and its current subsidiary, Delta 9 Lifestyle Cannabis Clinic Inc.

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS****DECEMBER 31, 2018**

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**2. BASIS OF PRESENTATION** *(continued)*

In addition to Delta 9 Bio-Tech Inc. (and its subsidiary, Delta 9 Lifestyle Cannabis Clinic Inc.), the Company has one other subsidiary, 10007705 Manitoba Ltd. which was incorporated under The Corporations Act (Manitoba) on December 14, 2017. Delta 9 Bio-Tech Inc. owns 50% of the issued and outstanding shares of 10007705 Manitoba Ltd. The remaining 50% of the issued and outstanding shares are owned by Canopy Growth Corporation, an arm's length third party. The retail license was issued to 10007705 Manitoba Ltd. The retail license allows each of Delta 9 Bio-Tech Inc. and Canopy Growth Corporation to license individual retail store locations to sell recreational cannabis, which are independently owned, operated, and branded by subsidiaries of Delta 9 Bio-Tech Inc. and Canopy Growth Corporation, respectively. Delta 9 Lifestyle Cannabis Clinic Inc. was awarded its first four retail location licenses for stores in Winnipeg, Brandon and Thompson, Manitoba on September 17, 2018.

No financial transactions were incurred by 10007705 Manitoba Ltd. as of December 31, 2018.

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

As of January 1, 2018, the Company has adopted IFRS 15 and has concluded that the adoption had no significant impact on the Company's consolidated financial statements.

The Company's policy for the timing and amount of revenue to be recognized is based on the following 5-step process:

- Identifying the contract with a customer
- Identifying the performance obligations
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognizing revenue when or as performance obligation(s) are satisfied

Revenue from the sale of cannabis and related merchandise and devices is recognized when the Company 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 Company will receive the previously agreed upon payment. Significant risks and rewards are generally considered to be transferred when the product leaves the Company's premises. Revenue is recognized at the fair value of the consideration received or receivable. Interest and sundry income is recognized at the time the amount is earned, determinable and collectibility 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.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

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

Trade receivables are stated at the amounts billed to customers under normal trade, and are recognized initially at fair value and subsequently measured at amortized cost less an allowance for impairment.

Other receivables include amounts owed to the Company for share subscription and goods and services tax recoverable.

*INVENTORIES*

Inventories of raw materials, merchandise and devices and finished goods are valued at the lower of cost and net realizable value. Harvested cannabis 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 Company'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 Company 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.

*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.

*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:

Building	5%
Leasehold improvements	20%
Containers	10%
Production equipment	20%
Security equipment	20%
Computer equipment	55%
Computer software	33%
Office furniture and equipment	20%

In the year of acquisition, amortization is taken at one-half of the estimated useful life.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)**IMPAIRMENT OF LONG-LIVED ASSETS*

Long lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds 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.

*INVESTMENT IN LIMITED PARTNERSHIP*

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

*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 to 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.

*BORROWINGS*

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in earnings over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. If so, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

*LEASES*

Leases in which a significant portion of the risks and rewards of ownership are transferred to the Company are classified as finance leases. All other leases are classified as operating leases. The Company conducts its retail operations from leased stores. Payments made under operating leases are charged to net income (loss) on a straight-line basis over the term of the lease. Income from operating leases is recognized on a straight-line basis over the term of the lease. The lease term includes renewals where management is reasonably certain the renewal option will be exercised.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)**SHARE-BASED COMPENSATION*

The Company 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 Company 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 Company'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 Company uses the liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which 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*

As of January 1, 2018, the Company has adopted IFRS 9 and has concluded that the adoption had no significant impact on the Company's consolidated financial statements. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39. The assessment of the Company's business models for managing the financial assets was made as of the date of initial application of January 1, 2018 or on initial recognition.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

	IAS 39 Classification	IFRS 9 Classification
Financial Assets		
Cash and cash equivalents	FVTPL	FVTPL
Accounts receivable	Loans and Receivables	Amortized cost
Due from related parties	Loans and Receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other liabilities	Other liabilities
Customer deposits	Other liabilities	Other liabilities
Loans and borrowings	Other liabilities	Other liabilities
Due to related parties	Other liabilities	Other liabilities

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 Company has become party to the contractual provisions of the instruments. The accounting policies for financial instruments are described below and the composition of the Company's financial instruments and related risks are disclosed in Notes 24 and 25.

## 1) Financial Assets

The Company classifies each financial asset into one of following categories depending on the purpose for which the asset was acquired. The classification of its instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics.

## 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 Company has cash and cash equivalents which are classified as FVTPL.

## b) Amortized Cost

Assets in this category are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less impairment. The Company has accounts receivable and amounts due from related parties which are classified as financial assets at amortized cost.



## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

## 2) Financial Liabilities

The Company classifies each financial liability into one of following 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 Company 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 Company has accounts payable and accrued liabilities, customer deposits, borrowings 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.

## 4) Impairment of Financial Assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk on financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. The Company recognizes in the statements of net income (loss), as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

## 5) Fair value measurement

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

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

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

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

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

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

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)**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 period in which the estimates are revised and in any future periods affected.

## 1) Biological Assets and Inventory

Determination of the fair value of biological assets requires the Company 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 Company estimates spoiled or expired inventory in determining net realizable value.

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

## 2) Estimated Useful Lives of Property, Plant and Equipment

Amortization of property, plant and equipment requires estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

## 3) Share Based Compensation

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

## 4) Warrants

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

## 4. ACCOUNTING STANDARDS

The following accounting pronouncements issued by the IASB were not effective as of December 31, 2018.

**IFRS 16 - Leases** - In January 2016, the IASB issued IFRS 16. The new standard requires that for most leases, lessees must initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset for the right to use the underlying asset for the lease term. This standard will be effective for annual periods beginning on or after January 1, 2019.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

4. ACCOUNTING STANDARDS *(continued)*

At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right-of-use to use the underlying asset during the lease term. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense or fair value gain (loss) on the right-of-use asset, depending on the balance sheet classification of the asset.

The Company is continuing to assess the impact of this new standard on its financial position and financial performance and the required disclosures will be made in the interim financial statements for the three months period ending March 31, 2019.

## 5. RESTRICTED CASH

	2018	2017
Assignment of deposit instrument with Canadian Western Bank against bank borrowings for a minimum period of one year	\$ 500,000	\$
Security deposits as required by Manitoba Liquor and Lotteries (MBLL) in relation to retail stores	<u>150,000</u>	<u>-</u>
	<u>\$ 650,000</u>	<u>\$ -</u>

## 6. TRADE AND OTHER RECEIVABLES

	2018	2017
Trade	\$ 920,217	\$ 7,860
Due from shareholders	118,553	157,303
Goods and services tax receivable	<u>933,906</u>	<u>93,381</u>
	<u>\$ 1,972,676</u>	<u>\$ 258,544</u>

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

	2018	2017
0 - 30 days	\$ 774,970	\$ 4,547
31 - 60 days	98,327	3,313
Greater than 60 days	<u>46,920</u>	<u>-</u>
	<u>\$ 920,217</u>	<u>\$ 7,860</u>

## 7. INVENTORIES

	2018	2017
Raw materials	\$ 165,825	\$ 27,283
Packaging materials	181,999	2,000
Finished goods	1,835,824	339,633
Merchandise and devices	<u>383,295</u>	<u>15,331</u>
	<u>\$ 2,566,943</u>	<u>\$ 384,247</u>

The amount of inventories recognized as an expense was \$4,922,224 (\$444,841 - December 31, 2017)

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

## 8. BIOLOGICAL ASSETS

Biological assets consist of cannabis plants.

	2 0 1 8	2 0 1 7
Biological assets, beginning of year	\$ 125,943	\$ 98,039
Net increase in fair value less cost to sell due to biological transformation	4,330,749	645,345
Transferred to inventory upon harvest	( 669,052)	( 617,441)
Biological assets, end of year	\$ <u>3,787,640</u>	\$ <u>125,943</u>

Biological assets are valued in accordance with IAS 41 and are presented at their fair values less costs to sell up to the point of harvest. The Company's biological assets are primarily cannabis clones, mother plants and flowering plants, and because there is no actively traded commodity market for plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data (Level 3).

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

- Average selling price less cost to sell of \$7.86
- Estimated yield of 30 grams per cannabis flowering plant
- Average 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 marketing and inventory personnel

Effective October 17, 2018, Canada Revenue Agency ("CRA") began levying an excise tax on the sale of medical and consumer cannabis products. The Company becomes liable for these excise duties when cannabis products are delivered to the customer.

The excise tax payable is the higher of (i) a flat-rate duty which is imposed when a cannabis product is packaged, and (ii) an advalorem duty that is imposed when a cannabis product is delivered to the customer. Where the excise tax has been billed to customers, the Company has reflected the excise tax as part of revenue in accordance with IFRS 15. Net revenue as presented on the Consolidated Statements of Net Loss and Comprehensive Loss, represents revenue from the sale of goods less applicable excise taxes. Given that the excise tax payable/paid to CRA cannot be reclaimed and is not always billed to customers, the Company recognizes that the excise tax is an operating cost that affects gross margin to the extent that it is not recovered from its customers.

Effective January 1, 2019, Manitoba government began collecting a social responsibility levy at 6% on all retail cannabis sales.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

## 9. PREPAYMENTS AND OTHER CURRENT ASSETS

	2018	2017
Advertising and promotion	\$ 15,835	\$ 124,250
Deposit for purchase of containers		254,550
Deposit for purchase of products	732,229	
Deposit for purchase of building	350,000	
Excise tax deposit - Canada Revenue Agency	208,000	
Prepaid rent	157,580	
Insurance	258,123	96,184
Other	44,153	2,500
	<u>\$ 1,765,920</u>	<u>\$ 477,484</u>

## 10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment relate to the infrastructure for cannabis growing production and operations. A cost continuity of the accounts for the year ended December 31, 2018 is as follows:

	Balance at January 1, 2018	Additions	Disposals	Balance at December 31, 2018
Land	\$	\$ 647,650	\$	\$ 647,650
Building		5,725,000		5,725,000
Leasehold improvements	86,746	681,154		767,900
Containers	26,495	4,863,013		4,889,508
Production equipment	227,812	2,932,965		3,160,777
Security equipment	59,109	393,911		453,020
Computer equipment	43,563	152,473		196,036
Computer software		80,172		80,172
Office furniture and equipment	13,008	199,997		213,005
Construction in progress	-	1,844,486	-	1,844,486
	<u>\$ 456,733</u>	<u>\$17,520,821</u>	<u>\$ -</u>	<u>\$17,977,554</u>

The accumulated amortization continuity for property, plant and equipment for the year ended December 31, 2018 is as follows:

	Balance at January 1, 2018	Additions	Disposals	Balance at December 31, 2018
Building	\$	\$ 143,125	\$	\$ 143,125
Leasehold improvements	39,023	82,880		121,903
Containers	1,324	245,800		247,124
Production equipment	102,021	335,340		437,361
Security equipment	23,630	48,983		72,613
Computer equipment	13,510	64,728		78,238
Computer software		13,228		13,228
Office furniture and equipment	2,033	22,601	-	24,634
	<u>181,541</u>	<u>956,685</u>	<u>-</u>	<u>1,138,226</u>
Net book value	<u>\$ 275,192</u>			<u>\$16,839,328</u>

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

10. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

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
Leasehold improvements	\$ 25,151	\$ 13,872	\$	\$ 39,023
Containers		1,324		1,324
Production equipment	64,412	37,609		102,021
Security equipment	15,402	8,228		23,630
Computer equipment	2,104	11,406		13,510
Office furniture equipment	<u>549</u>	<u>1,484</u>	<u>-</u>	<u>2,033</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>

## 11. INVESTMENT

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

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

As at December 31, 2018, the Company's investment was adjusted by \$241,000 being its share of loss from the limited partnership.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

11. INVESTMENT *(continued)*

Subsequent to the year end, the Company sold its 50% interest in the limited partnership to Westleaf. Under the agreement for sale, Westleaf issued an aggregate of 5,600,000 common shares in the capital of Westleaf in consideration for the acquisition of Delta 9's 50% interest in the limited partnership. The purchase price was based on the closing price of the Westleaf shares on the TSX Venture Exchange of \$2.67 per Westleaf share on January 25, 2019, which represents approximately \$14.95 million. On closing, the Company entered into a voluntary escrow agreement that in addition to the four month restricted period required by law, restricts the transfer of the Westleaf shares issuable under the agreement as to: (i) 1,000,000 Westleaf shares for a four month period following closing; and (ii) 4,600,000 Westleaf shares for an eight month hold period following closing.

The transaction was completed on January 31, 2019.

## 12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
Trade payables	\$ 4,767,676	\$ 379,472
Accrued liabilities	247,842	56,975
Excise tax payable	41,006	
Government remittances payable	<u>48,937</u>	<u>7,001</u>
	<u>\$ 5,105,461</u>	<u>\$ 443,448</u>

## 13. CUSTOMER DEPOSITS

	2018	2017
Customer deposits	\$ <u>122,102</u>	\$ <u>-</u>

This represents initial deposit by a customer for business to business purchases.

## 14. DUE FROM/TO RELATED PARTIES AND SHAREHOLDERS

Related entities have advanced funds to the Company 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 year, the Chairman and Chief Executive Officer of the Company were using their personal credit cards to pay expenses of the Company. As of December 31, 2018 \$54,504 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, 2018, \$48,951 was outstanding to 7217804 Manitoba Ltd.



## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

14. DUE FROM/TO RELATED PARTIES AND SHAREHOLDERS *(continued)*

On September 30, 2018, an unsecured loan amounting to \$3,000,000 was provided by Delta 9 Bio-Tech Inc. to Delta 9 Lifestyle Cannabis Clinic Inc. to finance its ongoing business operations. The loan carried interest at a rate of 5.95% per annum, compounded and accrued monthly, repayable upon demand. Subsequent to the year end, the loan was converted into a new loan of \$3,060,000 at an interest rate of 3% per annum for the first six months and will increase to 6% thereafter.

Subsequent to the year end, the minority shareholder in Delta 9 Lifestyle Cannabis Clinic Inc. provided an unsecured loan amounting to \$2,500,000 to Delta 9 Lifestyle Cannabis Clinic Inc. The loan carries interest at a rate of 3% per annum for the first six months and will increase to 6% thereafter, compounded and accrued monthly, repayable upon demand.

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

Lease Agreements with 6599362 Canada Ltd.

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

On March 19, 2018, the Company signed a renewal of the lease increasing the basic rent to \$531,366 per year until March 31, 2018 and further increasing it to \$636,570 from April 1, 2018. The operating recoveries amount increased to \$138,207 until March 31, 2018 and further increased to \$151,756 from April 1, 2018. Concurrently, a Letter of Intent was signed whereby the Company had the option to purchase the land and building for a cash purchase price of \$6,250,000. The Company purchased the property pursuant to its option on October 11, 2018.

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

On May 19, 2017, Delta 9 Bio-Tech Inc. entered into a ten year lease contract with 6599362 Canada Ltd. for 15 containers at a monthly rent of \$6,000. On January 17, 2018, Delta 9 Bio-Tech Inc. entered into a ten year lease contract with 6599362 Canada Ltd. for 12 containers at a monthly rent of \$3,538. An amount of \$99,692 was paid to 6599362 Canada Ltd. during the year ended December 31, 2018. The Company had the right to purchase the containers during the lease term, either individually or for all of the containers, at a price of \$35,258 per container. The Company purchased the containers pursuant to its option on October 11, 2018.

Key management compensation

For the year ended December 31, 2018, John William Arbuthnot III and John William Arbuthnot IV, the chairman and president and chief executive officer of the Company received total compensation of \$112,308 each. The chief financial officer received total compensation of \$77,692, the vice-president of marketing and sales earned total compensation of \$79,227 and the chief technology officer received total compensation of \$73,076.



## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

14. DUE FROM/TO RELATED PARTIES AND SHAREHOLDERS *(continued)*

In addition to the amounts outlined above, share based compensation of \$1,004,050 was recorded in these consolidated financial statements for the board members and \$680,886 was recorded for key management personnel. Further, the independent directors were paid a total fee of \$103,977 for attending board meetings.

## 15. BORROWINGS

	2 0 1 8	2 0 1 7
Proceeds (net of transaction costs) from demand revolving loan for purchase of production facility	\$ 4,475,000	\$
Proceeds from non-revolving loan for purchase of equipment	<u>1,000,000</u>	<u>-</u>
	5,475,000	
Less: Repayments made	81,067	
Less: Current portion of borrowings	<u>478,098</u>	<u>-</u>
	<u>\$ 4,915,835</u>	<u>\$ -</u>

On October 5, 2018, Delta 9 Bio-Tech Inc. (the "Borrower") entered into loan agreement with Canadian Western Bank (the "Bank"). Under the terms agreed to between the Borrower and the Bank, there will be five separate loan segments, each of which is allocated for a different purpose, and each with its own terms. All amounts outstanding under all segments shall be repaid on demand. Unless demanded, the Bank will accept payment as mentioned below under each loan segment. Prepayment is permitted without charges with the exception of fixed rate option loans.

1) A demand operating loan of \$2,000,000 to be used to finance day-to-day operations. Interest will float at a rate of 1.00% per annum above the Bank's prime lending rate. The loan is repayable on demand. No amount was used as of December 31, 2018.

2) A demand revolving loan of \$4,500,000 which is intended to assist in financing the purchase of the Company's current production facility. Interest will initially float at 1% above prime. The loan is repayable in blended monthly principal and interest payments over 180 months. The drawdown of loan was made on October 9, 2018 to acquire Company's current production facility. The current applicable variable interest rate is 4.95% per annum.

The variable interest rate was negotiated at arm's length (prime + 1%) and the loan is secured by a first line on Delta 9 Cannabis Inc.'s assets, the financing cost reflects the market rate. However, factoring in the loan fees, the effective interest rate on the loan is 5.08%. The carrying value of the loan is calculated based on this effective rate.

3) A demand non-revolving loan of \$4,500,000 to assist in the purchase of land and building. Interest will float at a rate of 1.00% per annum above prime. The loan is repayable in blended monthly principal and interest payments over 180 months. No amount was used as of December 31, 2018.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

## 15. BORROWINGS (continued)

4) A non-revolving credit facility of \$1,000,000 for the purchase or lease of equipment required for the operation of the Company's business. Interest will float at a rate of 1.75% above prime. The loan is repayable in blended monthly principal and interest payments over 60 months. The drawdown of loan was made on October 9, 2018 to acquire the containers. The current applicable fixed interest rate for five years is 6.02% per annum.

As the fixed interest rate was negotiated at arm's length and the loan is secured by a first line on Delta 9 Cannabis Inc.'s assets, the financing cost reflects market rate and therefore the estimated fair value of this loan fairly approximates its carrying value.

5) A business visa facility of \$50,000 to provide a corporate expense account.  
The loans are secured by:

(a) A general security agreement providing a first security interest in all present and future property to be registered in all appropriate jurisdictions over Delta 9 Bio-Tech Inc., Delta 9 Cannabis Inc. and Delta 9 Lifestyle Cannabis Clinic Inc. The agreement shall exclude cannabis products and other inventory that the Bank is not allowed to possess at law under the current legislative and regulatory scheme.

(b) General assignment of accounts receivable by the Borrower to be registered in all appropriate jurisdictions.

(c) Demand collateral mortgage in the principal amount of \$6,500,000 and conveying a first fixed charge over property to be held for all indebtedness of the Borrower.

(d) Full liability guarantee from Delta 9 Cannabis Inc. and Delta 9 Lifestyle Cannabis Clinic Inc. in favour of the Bank guaranteeing all indebtedness of the Borrower to the Bank.

(e) Assignment of bank deposit instrument in the amount of \$500,000 to be registered at the Personal Property Registry. The deposit shall remain in place and hypothecated to the Bank for a minimum period of one year.

## 16. SHARE CAPITAL

Authorized:

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

	2018	2017 (Restated)
Issued share capital		
85,571,993 (December 31, 2017 - 78,819,412) Common Shares	\$ <u>53,156,044</u>	\$ <u>36,223,754</u>

The increase of \$16,932,290 in the value of common shares during the year ended December 31, 2018 is represented by the following:

Cash subscription - net of share issue costs	\$ 16,711,074
Transfer from warrants and contributed surplus	<u>221,216</u>
	\$ <u>16,932,290</u>

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS****DECEMBER 31, 2018**

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16. SHARE CAPITAL *(continued)*Equity raise

On September 5, 2018, the Company completed a private placement financing with Auxly Cannabis Group Inc. ("Auxly") of 5,909,090 common shares for aggregate gross proceeds of \$16,250,000 at an offering price of \$2.75 per share. Transaction costs of \$87,194 were paid relating to this share issuance.

The Company also entered into a definitive agreement whereby Auxly has the right to purchase a fixed amount of dried cannabis and cannabis trim from the Company for a period of 10 years. Effective January 1, 2019 and until January 1, 2029, Auxly will have the right to purchase 1,000 kilograms of dried cannabis per annum as well as 100 kilograms of cannabis trim. In addition, effective July 1, 2020 and until July 1, 2030, Auxly will have the right to purchase an additional 4,000 kilograms per annum as well as 400 kilograms of cannabis trim.

Surplus Escrow Agreement

On October 31, 2017, the effective date of closing of the reverse acquisition transaction, the Company 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. 7,426,195 shares were released before the year end, and 29,704,776 shares remained subject to the Surplus Security Escrow Agreement as at December 31, 2018.

Warrants

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

On December 28, 2017, the Company 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 Company 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 Company 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, 2018.

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.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

## 16. SHARE CAPITAL (continued)

Restatement of prior period

596,505 agent's warrants were issued in connection with a bought deal financing. Each warrant entitles the holder to acquire one share at the issue price of \$2.70 until December 28, 2019. None of these warrants were exercised as of December 31, 2018.

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

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

Volatility was estimated by using the historical volatility of other companies that the Company 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 above restatement has been applied retrospectively and the financial statement impact on amounts previously presented for the year ended December 31, 2017 is as follows:

	As previously reported	Increase (Decrease)	Restated
Consolidated Statements of Financial Position and Changes in Shareholders' Equity:			
Share Capital	\$ 36,901,920	\$ ( 678,166)	\$ 36,223,754
Warrants	141,176	678,166	819,342

The following table provides a summary of warrants activity for 2018:

	Number of warrants	Weighted Average Exercise Price
Outstanding, beginning of year	9,678,005	\$ 3.07
Issued		
Exercised	529,522	\$ 0.65
Outstanding, end of year	9,148,483	\$ 3.21

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

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16. SHARE CAPITAL *(continued)*Option plan

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

On October 31, 2017, the effective date of closing of the reverse acquisition transaction, the Board of Directors approved the grant of 5,116,258 stock options to directors, officers, employees, and consultants, exercisable at \$0.65 each. The first vesting date for options was April 30, 2018. As of December 31, 2018, 200,000 options were exercised by the chairman of the Company and 113,969 by the employees, and 399,475 stock options were forfeited during the year due to certain employees who left the service of the Company prior to respective vesting dates. An amount of \$900,896 was recorded in share based compensation on these stock options, for the year ended December 31, 2018.

On January 22, February 20 and September 12, 2018 the Board of Directors approved further grants of 671,700, 376,500 and 3,000,000 stock options respectively, to directors, officers, employees, and consultants, exercisable at \$2.77, \$2.30 and \$1.79 respectively, subject to the following vesting provision:

Stock options granted on January 22, 2018:

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

Stock options granted on February 20, 2018:

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

Stock options granted on September 12, 2018:

- 25% on March 12, 2019;
- 25% on September 12, 2019;
- 25% on March 12, 2020; and
- 25% on September 12, 2020.

42,000 stock options were forfeited during the year due to certain employees who left the service of the Company prior to respective vesting dates. No options were exercised as of December 31, 2018.

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

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

## 16. SHARE CAPITAL (continued)

The options granted during the year were valued at \$1,721,332 on the respective grant date using the Black-Scholes option pricing model with the following assumptions:

Exercise price	\$2.77, \$2.30 and \$1.79
Share price	\$2.74, \$2.64 and \$1.89
Risk free interest rate	1.79%, 1.79% and 2.44%
Expected life	1 year, 1 year and 2.5 years
Volatility	70%
Dividend yield	Nil

Volatility was estimated by using the historical volatility of other companies that the Company considers comparable that have similar trading and volatility history. The expected life in years represents the period of time that options 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 options.

The following table provides a summary of stock option activity for 2018:

	Number of options	Weighted Average Exercise Price
Outstanding, beginning of year	5,116,258	\$ 0.65
Granted	4,048,200	\$ 2.00
Exercised	313,969	\$ 0.65
Forfeited	441,475	\$ 0.85
Outstanding, end of year	8,409,014	\$ 1.29

The following table provides a summary of stock options outstanding as of December 31, 2018:

Grant date	Expiry date	Number of options outstanding	Exercise price
October 31, 2017	October 31, 2022	4,402,814	\$ 0.65
January 22, 2018	January 22, 2023	629,700	\$ 2.77
February 20, 2018	February 20, 2023	376,500	\$ 2.30
September 12, 2018	September 12, 2023	<u>3,000,000</u>	\$ 1.79
		<u>8,409,014</u>	

## 17. NON-CONTROLLING INTEREST

At December 31, 2018, the non-controlling interest represented a 49% interest in Delta 9 Lifestyle Cannabis Clinic Inc.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

## 18. REVENUE

	2018	2017
Revenue from sale of cannabis:		
Wholesale	\$ 2,187,043	\$
Retail	3,137,133	
Medicinal	767,990	746,379
Business to business	924,359	79,500
Merchandise and devices	426,739	49,380
Other	185,127	68,855
	<u>7,628,391</u>	<u>944,114</u>
Excise taxes	( 59,108)	-
Net Revenue	<u>7,569,283</u>	<u>944,114</u>

## 19. EXPENSES

The Company 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 Company has identified the major functions as general and administrative and sales and marketing.

2018	General and administrative	Sales and marketing	Total
Amortization	\$ 897,688	\$ 58,997	\$ 956,685
Insurance	120,868		120,868
Legal and professional, consulting and investor relations	2,263,873	345,701	2,609,574
Other operating expenses	524,253	666,243	1,190,496
Personnel expenditures	2,733,528	837,062	3,570,590
Rent and utilities	1,225,905	90,275	1,316,180
Site renovation	1,136,296		1,136,296
Supplies and materials	636,813	80,079	716,892
	<u>\$ 9,539,224</u>	<u>\$ 2,078,357</u>	<u>\$ 11,617,581</u>

2017	General and administrative	Sales and marketing	Total
Amortization	\$ 68,704	\$ 5,220	\$ 73,924
Insurance	34,364		34,364
Legal and professional, consulting and investor relations	199,465	31,843	231,308
Other operating expenditures	137,108	147,829	284,937
Personnel expenditures	754,475	281,474	1,035,949
Rent and utilities	710,888	18,672	729,560
Site renovation	208,642		208,642
Supplies and materials	94,776	4,373	99,149
	<u>\$ 2,208,422</u>	<u>\$ 489,411</u>	<u>\$ 2,697,833</u>

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**
**DECEMBER 31, 2018**
**20. FINANCE INCOME**

	2 0 1 8	2 0 1 7
Interest revenue	\$ 232,376	\$ 516
Interest expense:		
Interest and bank charges	( 44,486)	( 69,283)
Interest on loans	<u>( 68,239)</u>	<u>( 131,303)</u>
	<u>\$ 119,651</u>	<u>\$ ( 200,070)</u>

**21. 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 8	2 0 1 7
Net Loss and comprehensive loss attributable to common shareholders	\$( 8,485,573)	\$( 7,870,624)
Weighted average number of common shares	<u>81,277,702</u>	<u>48,732,913</u>
Basic and diluted loss per share	<u>\$ (0.10)</u>	<u>\$ (0.16)</u>

For the year ended December 31, 2018, the effect of 30,478 "in the money warrants" and 4,402,814 "in the money options" has been considered anti-dilutive for the purpose of weighted average number of diluted common shares.

**22. COMMITMENTS**

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

Next 12 months	\$404,155
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On June 27, 2018 the Company entered into a supply agreement with Manitoba Liquor & Lotteries Company (MBLL) to supply the Province of Manitoba with a minimum of 2,300,000 grams of recreational dried cannabis products over the one-year term of the agreement. Under the supply agreement, MBLL will supply Manitoba retailers with a range of Delta 9 products ranging from Delta 9's lower-end "House Blend" to a selection of Delta 9's premium cannabis products. Delta 9 achieved its first wholesale transaction of recreational cannabis products to MBLL during the year ended December 31, 2018.



## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

22. COMMITMENTS *(continued)*

To sell recreational cannabis, the Company is in the process of constructing and opening retail stores across Manitoba for which lease agreements have been executed. The future minimum payments required under the leases executed as of December 31, 2018 are estimated to be as follows:

2019	\$502,049
2020	488,304
2021	495,654
2022	495,654
2023	569,154

On September 30, 2018, the Company entered into a wholesale agreement with Canopy Growth Corporation whereby the Company agrees to sell packaged cannabis to the Alberta Gaming and Liquor Commission and to licensed cannabis retailers in Saskatchewan, which shall be distributed and sold through Canopy Growth Corporation, who shall be the exclusive agent of the product to all retail outlets in the province of Alberta and Saskatchewan, except for the Company's direct sale to Westleaf owned retail outlets. The first transfer of product had not occurred as of December 31, 2018.

## 23. INCOME TAXES

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

	2018	2017
Net loss before income taxes	\$ 8,584,531	\$ 7,924,230
Statutory rates:	27%	27%
Income tax recovery based on statutory rate	2,317,823	2,139,542
Deferred income tax not recognized	(2,317,823)	(2,139,542)
Income tax expense per financial statements	\$ -	\$ -

As at December 31, 2018, the Company has \$17,745,678 of non-capital losses that expire as follows:

2032	\$ 587
2033	73,021
2034	643,155
2035	1,004,283
2036	1,305,720
2037	4,657,473
2038	10,061,439
	<u>\$ 17,745,678</u>

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

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

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## 24. FINANCIAL INSTRUMENTS

As at December 31, 2018, the Company's financial instruments consist of cash and cash equivalents totaling \$16,229,605, trade and other receivables totaling \$1,972,676, net amount due from related parties totaling \$5,553, accounts payable and accrued liabilities totaling \$5,105,461, customer deposits totaling \$122,102 and bank borrowings totaling \$5,393,933.

As at December 31, 2018, there were no significant differences between the carrying values of these items and their estimated fair values.

## 25. FINANCIAL RISK AND CAPITAL MANAGEMENT

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

Financial Risk Factors*Market Risk*

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

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

2. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Borrowings issued at variable interest rates expose Company to cash flow interest rate risk. The remaining outstanding demand revolving loan is subject to variable interest rate. In 2018 the Company have not entered interest rate swap to mitigate this cash flow interest rate risk.

An increase of 1% in the floating interest rate with all other variables held constant, would result in an insignificant increase to interest expense for the year.

*Credit Risk*

Credit risk arises from deposits with banks, short-term investments and outstanding receivables. For trade receivables, the Company 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 90% of the amount due is from a provincial government and a government agency. There is no material exposure to credit risk on cash and cash equivalents as cash balances are held by highly reputable, large financial institutions.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018

25. FINANCIAL RISK AND CAPITAL MANAGEMENT *(continued)**Liquidity Risk*

The Company's liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company controls liquidity risk by management of working capital, cash flows and the issuance of share capital. The following table analyses the Company'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	1 - 3 years	3 - 5 years
Trade payables and other payables	\$ 5,105,461	\$ 5,105,461	\$	\$
Lease commitments	2,954,972	906,204	983,959	1,064,809
Borrowings	<u>5,393,933</u>	<u>\$ 478,098</u>	<u>989,806</u>	<u>1,001,029</u>
Total contractual obligations	<u>\$ 13,454,366</u>	<u>\$ 6,489,763</u>	<u>\$ 1,973,765</u>	<u>\$ 2,065,838</u>

At December 31, 2018, the Company's unrestricted financial assets of \$17,557,834 were sufficient to meet all contractual obligations due within the next twelve months.

Capital Management

The Company'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.

## 26. SEGMENTED INFORMATION

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

## 27. SUBSEQUENT EVENTS

## Nanosphere Master License Agreement:

On July 31, 2018, the Company entered into a memorandum of understanding (the "Nanosphere MOU") with Nanosphere Health Sciences Inc. ("Nanosphere") to negotiate and enter into a master agreement (the "Nanosphere Agreement") pursuant to which Nanosphere would grant a master license for Nanosphere's technology to the Company for all of Canada. Nanosphere's technology is a delivery system for cannabinoids that works by nano-encapsulating active ingredients in phospholipid membranes for transportation through the skin and mucosa into the bloodstream a person within minutes. The cannabis applications of the technology include transdermal viscous gels, intranasal products and intraoral products, all of which provide rapid results, precise dosages and high bioavailability. Nanosphere's delivery system can eliminate the need for inhalation or ingestion of cannabis offering users a potentially safer and more effective way of consumption.

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS****DECEMBER 31, 2018**

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**27. SUBSEQUENT EVENTS** *(continued)*

The Nanosphere MOU was replaced by the Nanosphere Agreement on January 23, 2019. The Nanosphere Agreement provides that the Company shall pay Nanosphere a licensing fee of \$500,000 while Nanosphere will equip the Company's production lab and train the Company's staff in the production of Nanosphere's technology. An amount of \$250,000 was paid by the Company after the year end.

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

The initial term of the Nanosphere Agreement is 36 months following the date Health Canada approves the licensed Nanosphere products for sale.

Saskatchewan Wholesale Listing:

On February 27, 2019, the Company announced that the Saskatchewan Liquor and Gaming Authority authorized the Company to supply cannabis directly to Saskatchewan's retail and wholesale markets. The Company plans to make its first shipment to retailers in Saskatchewan in the first quarter of 2019.

**28. COMPARATIVE FIGURES**

Some of the comparative figures have been reclassified to align with the Company's business model and to conform to the current year's presentation, as described below:

- Inventories have been re-categorized in current year as raw and packaging materials, finished goods and merchandise and devices as compared to raw materials, finished goods and products for re-sale.
- Net finance income is now presented in other income/expenses on the statements of net loss and comprehensive loss as compared to interest expense included in general and administrative expenses in 2017.
- Goods and services tax amounting to \$85,566 was previously presented under accounts payable and accrued liabilities, and is now included in trade and other receivables.