DionyMed Brands Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 2019
and three and four months ended June 30, 2018

(Expressed in U.S. Dollars)

DionyMed Brands Inc.
Condensed Interim Consolidated Statement of Financial Position
As of June 30, 2019 and December 31, 2018
(Unaudited – Expressed in U.S. Dollars)

	Note		June 30, 2019		December 31, 2018
			(Unaudited)		(Audited)
Assets					
Current Assets					
Cash		$	1,579,410	$	8,814,561
Accounts Receivable	5		4,356,527		4,082,211
Inventories	6		5,575,876		3,390,959
Biological Assets	6		34,560		-
Prepaid Expenses	8		767,620		289,870
			12,313,993		16,577,601
Non-Current Assets					
Security Deposits			610,225		534,017
Property and Equipment	7		2,501,773		989,527
Right-of-use Assets	3, 13		6,142,824		-
Investments	8		600,000		-
Intangible Assets	9		13,246,643		14,705,450
Goodwill	9		20,050,789		21,923,600
Total Assets		$	55,466,247	$	54,730,195
Liabilities and Equity					
Current Liabilities					
Accounts Payable and Accrued Liabilities		$	12,646,779	$	10,531,143
Taxes Payable			7,339,464		6,425,700
Notes Payable			-		125,000
Inventory Finance Facility	10		7,770,306		766,258
Term Loans			-		3,860,000
Lease Liabilities	3, 13		1,171,501		-
Financial Liabilities	12		7,421,000		5,947,000
			36,349,050		27,655,101
Non-Current Liabilities					
Convertible Debentures	12		9,150,301		29,814,543
Royalty Debt			2,272,912		1,716,189
Lease Liabilities	3, 13		5,472,755		-
Financial Liabilities	12		6,133,000		9,485,000
Deferred Tax Liabilities	17		2,772,045		3,086,448
Total Liabilities		$	62,150,063	$	71,757,281
Shareholders' Deficit					
Share Capital	14	$	33,273,855	$	23,267,098
Warrants	14		29,309,049		19,916,643
Option Reserves	14		2,026,472		1,041,643
Accumulated Other Comprehensive Income			(655,393)		506,562
Other Reserves			(3,979,079)		(3,979,079)
Accumulated Deficit			(66,658,720)		(57,779,953)
Total Shareholders' Deficit		$	(6,683,816)	$	(17,027,086)
Total Liabilities and Shareholders' Deficit		$	55,466,247	$	54,730,195

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

"Edward Fields"
Chief Executive Officer and Chairman

"Peter Kampian"
Chief Financial Officer

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

DionyMed Brands Inc.
Condensed Interim Consolidated Statement of Loss and Comprehensive Loss
For the Three and Six Months Ended June 30, 2019
and Three and Four Months Ended June 30, 2018
(Unaudited – Expressed in U.S. Dollars)

	Note	April 1, 2019 to June 30, 2019	April 1, 2018 to June 30, 2018	January 1, 2019 to June 30, 2019	March 1, 2018 to June 30, 2018
Gross Revenue	22	$ 10,309,718	$ 1,360,660	$ 27,028,359	$ 2,399,876
Discounts on Sales	22	(1,028,311)	-	(1,096,494)	-
Taxes on Sales	22	(330,457)	-	(2,563,579)	-
Net Revenue		8,950,950	1,360,660	23,368,286	2,399,876
Direct Costs		7,366,431	1,128,334	15,276,657	1,948,633
Gross Margin, Excluding Fair Value Items		1,584,519	232,326	8,091,629	451,243
Realized Fair Value Amounts of Inventory Sold		(170,406)	-	(170,406)	-
Unrealized Fair Value Gain on Growth of Biological Assets		34,560	-	34,560	-
Gross Margin		1,448,673	232,326	7,955,783	451,243
Expenses					
Wages and Salaries		6,481,450	1,428,315	12,361,522	1,819,938
Sales and Marketing Expense		1,614,308	328,721	3,655,427	468,350
Administrative and Other		3,711,519	827,950	7,485,302	1,290,518
Professional Fees		670,334	487,426	1,660,662	709,547
Impairment of Trade Receivables	5	340,136	-	365,403	-
Legal Fees		359,859	195,231	663,669	204,043
Interest Expense	17	1,155,438	49,575	1,951,366	66,836
Amortization and Depreciation Expense		900,356	48,025	1,821,215	50,480
Financing Costs		695,154	-	1,608,456	-
Share-Based Compensation	15	484,972	194,389	1,098,333	215,156
Royalties Expense		464,023	92,944	766,155	92,944
Business Development Expense		45,371	-	553,342	-
Foreign Exchange Loss		6,418	48,545	89,469	13,428
Impairment of Intangible Assets	9	-	-	539,575	-
Total Operating Expenses		16,929,338	3,701,121	34,619,896	4,931,240
Loss from Operations		(15,480,665)	(3,468,795)	(26,664,113)	(4,479,997)
Other Revenue and Expenses					
Fair Value Adjustment on Debt Carried at Fair Value	12	7,081,863	-	20,018,339	-
Fair Value Adjustment on Financial Liabilities	12	(355,498)	-	(1,156,498)	-
Fair Value Loss on Foreign Exchange on Convertible Debentures	12	(540,107)	-	(1,233,817)	-
Net Loss before Income Taxes		$ (9,294,407)	$ (3,468,795)	$ (9,036,089)	$ (4,479,997)
Deferred Tax Recovery	18	(226,958)	(8,539)	(314,403)	(8,539)
Net Loss		$ (9,067,449)	$ (3,460,256)	$ (8,721,686)	$ (4,471,458)
Weighted average common shares outstanding – basic & diluted	16	56,255,412	39,598,856	54,356,382	39,429,122
Net loss per common share - basic & diluted	16	$ (0.16)	$ (0.09)	$ (0.16)	$ (0.11)
Other Comprehensive Income (Loss)					
Gain (Loss) on Translation of Financial Statement Balances		(197,018)	(86,116)	(496,005)	(120,847)
Gain (Loss) on Translation of Intercompany Balances		(1,340,927)	175,313	(665,950)	230,726
Comprehensive Loss		$ (10,605,394)	$ (3,371,059)	$ (9,883,641)	$ (4,361,579)

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

DionyMed Brands Inc.
Condensed Interim Consolidated Statement of Changes in Shareholders’ Equity
For the Six Months Ended June 30, 2019 and Four Months Ended June 30, 2018
(Unaudited – Expressed in U.S. Dollars)

	Note	Number of Shares (Common)	Number of Shares (Series A Convertible Preferred)	Number of Shares (Series F Convertible Preferred)	Share Capital	Warrants	Option Reserves	Accumulated Other Comprehensive Income (Loss)	Other Reserves	Accumulated Deficit	Shareholders' Equity
Balance - January 1, 2019		17,590,885	11,920	6,598	$ 23,267,098	$ 19,916,643	$ 1,041,643	$ 506,562	$ (3,979,079)	$ (57,779,953)	$ (17,027,086)
Adjustments on Initial Application of IFRS 16		-	-	-	-	-	-	-	-	(157,081)	(157,081)
Common Shares Issued on Term Loan Repayment	15	590,353	-	-	1,884,058	-	-	-	-	-	1,884,058
Common Shares Issued for Acquisition of Cascade	15	18,960	-	-	50,000	-	-	-	-	-	50,000
Common Shares Released for Acquisition of Hometown Heart	15	100,000	-	-	159,498	-	-	-	-	-	159,498
Common Shares Issued on Acquisition Finder's Fees	15	8,088	-	-	21,494	-	-	-	-	-	21,494
Common Shares and Warrants Issued on Equity Bought Deal Financing	15	3,822,055	-	-	2,538,178	4,610,646	-	-	-	-	7,148,824
Common Shares Issued for Payment of Financial Liabilities for Rise	12, 15	1,486,418	-	-	2,375,000	-	-	-	-	-	2,375,000
Common Shares Issued on Alumina Financing	11, 15	662,252	-	-	491,339	262,411	-	-	-	-	753,750
Common Shares and Warrants Issued on Debenture Conversion	15	1,140,771	728	-	2,125,847	798,151	-	-	-	-	2,923,998
Common Shares Issued on Warrant Exercise	15	33,664	-	-	124,239	(49,888)	-	-	-	-	74,351
Warrants Issued on Inventory Finance Facility Initial Draw	15	-	-	-	-	5,213,824	-	-	-	-	5,213,824
Warrants Cancelled on Inventory Finance Facility Early Draw	15	-	-	-	-	(1,442,738)	-	-	-	-	(1,442,738)
Common Share Issued on Conversion of Series A Shares	15	201,400	(2,014)	-	-	-	-	-	-	-	-
Common Share Issued on Conversion of Series F Shares	15	5,375,000	-	(1,075)	-	-	-	-	-	-	-
Share-Based Compensation	15	-	-	-	-	-	1,098,333	-	-	-	1,098,333
Common Shares Issued on Exercise of Stock Options	15	173,333	-	-	237,104	-	(113,504)	-	-	-	123,600
OCI: Loss on translation of Financial Statement Balances		-	-	-	-	-	-	(496,005)	-	-	(496,005)
OCI: Loss on Translation of Intercompany Balances		-	-	-	-	-	-	(665,950)	-	-	(665,950)
Net Loss		-	-	-	-	-	-	-	-	(8,721,686)	(8,721,686)
Balance - June 30, 2019		31,203,179	10,634	5,523	$ 33,273,855	$ 29,309,049	$ 2,026,472	$ (655,393)	$ (3,979,079)	$ (66,658,720)	$ (6,683,816)

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

DionyMed Brands Inc.
Condensed Interim Consolidated Statement of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2019 and Four Months Ended June 30, 2018
(Unaudited – Expressed in U.S. Dollars)

	Note	Number of Shares (Common)	Number of Shares (Series A Convertible Preferred)	Number of Shares (Series F Convertible Preferred)	Share Capital	Warrants	Option Reserves	Accumulated Other Comprehensive Income (Loss)	Other Reserve	Accumulated Deficit	Shareholders' Equity
Balance - March 1, 2018		116,666	-	6,598	$ -	$ -	$ 57,975	$ 10,498	$ (3,979,079)	$ (452,802)	$ (4,363,408)
Series A Private Placement		1,768,598	1,289	-	1,481,379	-	-	-	-	-	1,481,379
Convertible Promissory Note (Including Accrued Interest) Conversion		1,114,446	30,064	-	3,217,149	-	-	-	-	-	3,217,149
Common Shares Issued to Settle Shareholder Payable		560,000	-	-	439,513	-	-	-	-	-	439,513
Warrants Issued with Grenville Royalty Purchase Agreements		-	-	-	-	67,399	-	-	-	-	67,399
Share-Based Compensation		-	-	-	-	-	215,156	-	-	-	215,156
OCI: Loss on translation of Financial Statement Balances		-	-	-	-	-	-	(120,847)	-	-	(120,847)
OCI: Gain on Translation of Intercompany Balances		-	-	-	-	-	-	230,726	-	-	230,726
Net Loss		-	-	-	-	-	-	-	-	(4,471,458)	(4,471,458)
Balance - June 30, 2018		3,559,710	31,353	6,598	$ 5,138,041	$ 67,399	$ 273,131	$ 120,377	$ (3,979,079)	$ (4,924,260)	$ (3,304,391)

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

DionyMed Brands Inc.
Condensed Interim Consolidated Statement of Cash Flow
For the Three and Six Months Ended June 30, 2019
and Three and Four Months Ended June 30, 2018
(Unaudited – Expressed in U.S. Dollars)

	April 1, 2019 to June 30, 2019	April 1, 2018 to June 30, 2018	January 1, 2019 to June 30, 2019	March 1, 2018 to June 30, 2018
Operating Activities				
Net Loss for the Period	$ (9,067,449)	$ (3,460,256)	$ (8,721,686)	$ (4,471,458)
Adjustment for Non-Cash Items:				
Realized Fair Value Amounts of Inventory Sold	170,406	-	170,406	-
Unrealized Fair Value Gain on Growth of Biological Assets	(34,560)	-	(34,560)	-
Amortization and Depreciation	900,353	48,025	1,821,212	50,480
Share-Based Compensation	484,972	194,389	1,098,333	215,156
Impairment of Intangible Assets	-	-	539,575	-
Impairment of Trade Receivables	340,136	-	365,403	-
Unrealized Foreign Exchange (Gain) Loss	(551,741)	13,428	89,469	13,428
Fair Value Adjustment on Debt Carried at Fair Value	(7,081,863)	-	(20,018,339)	-
Fair Value Adjustment on Financial Liabilities	355,498	-	1,156,498	-
Fair Value Loss on Foreign Exchange	540,107	-	1,233,817	-
Deferred Tax Recovery	(226,958)	(8,539)	(314,403)	(8,539)
Interest Expense	74,533	-	74,533	-
Legal and Professional Fees	-	-	21,494	-
Financing Fees	660,953	-	1,384,037	-
Accrued Royalty	296,737	-	475,383	-
Change in Non-Cash Working Capital Items:				
Accounts Receivables	78,229	91,434	(821,472)	(839,685)
Inventories	(1,626,810)	35,085	(2,355,323)	(17,146)
Prepaid Expenses	(347,965)	65,832	(477,750)	10,268
Security Deposits	(40,785)	(25,575)	(76,208)	(25,575)
Accounts Payable and Accrued Liabilities	3,737,829	(164,176)	4,273,399	251,238
Taxes Payable	1,302,960	273,780	2,962,897	512,290
Net cash (used in) operating activities	(10,035,418)	(2,936,573)	(17,153,285)	(4,309,543)
Investing Activities				
Purchase of Property and Equipment	(1,209,947)	(587,281)	(1,635,007)	(607,484)
Acquisition of Rise Brands, Net of Cash Acquired	-	(3,215,000)	-	(3,215,000)
Payment of Winberry Earnout	-	-	(500,000)	-
Purchase of Assets from Cascade, Net of Cash Acquired	-	-	(99,591)	-
Investment in Waterside Warehousing	(350,000)	-	(600,000)	-
Net cash (used in) investing activities	(1,559,947)	(3,802,281)	(2,834,598)	(3,822,484)
Financing Activities				
Proceeds from Issuance of Shares as part of Series A Round of Financing	-	30,496	-	1,522,676
Proceeds from Issuance of Series B Convertible Debentures	-	6,287,005	-	6,287,005
Proceeds from Inventory Finance Facility	-	-	9,148,193	-
Repayment of Term Loan Financing	-	-	(3,860,000)	-
Repayment of Note Payable	-	-	(125,000)	-
Proceeds from Grenville Royalty Financing	-	1,464,032	-	1,464,032
Repayment of Working Capital Notes	-	-	-	(19,517)
Proceeds from Equity Bought Deal Financing	7,148,824	-	7,148,824	-
Proceeds from Financing from Alumina	753,750	-	753,750	-
Exercise of Warrants and Stock Options	117,932	-	213,299	-
Repayment of Lease Liabilities	(276,601)	-	(553,212)	-
Net cash provided by financing activities	7,743,905	7,781,533	12,725,854	9,254,196
Net increase (decrease) in cash	(3,851,460)	1,042,679	(7,262,029)	1,122,169
Cash, Beginning of Period	5,086,272	233,289	8,814,561	133,117
Effect of Foreign Exchange Translation on Cash	344,598	(12,763)	26,878	7,919
Cash, End of Period	$ 1,579,410	$ 1,263,205	$ 1,579,410	$ 1,263,205

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

Table of Contents

1. Nature of Operations and Going Concern

Nature of Operations

DionyMed Brands Inc. ("DionyMed Brands" or the "Company") is a corporation under the *Business Corporations Act* (British Columbia) Together with its subsidiaries, the Company is a vertically integrated operator of licensed cannabis branding, cultivation, manufacturing and distribution of cannabis products in the United States and is currently licensed to produce and sell medicinal and adult-use cannabis products under the laws of the State of California and Oregon.

The Company's registered head office is 2200, 885 West Georgia Street, Vancouver, British Columbia V6C 2G2 Canada.

The Company's subordinate voting shares are listed under the symbol "DYME" on the Canadian Securities Exchange ("CSE") and under the symbol "DYMEF" on the OTCQX, part of the OTC Markets Group.

Going Concern

These condensed interim consolidated financial statements have been prepared on a going concern basis under the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. The Company's ability to continue in the normal course of operations as a going concern is dependent on its ability to raise financing sufficient to maintain operations and there are no assurances that the Company will be successful in achieving this goal. For the three and six months ended June 30, 2019 (three and four months ended June 30, 2018), the Company reported a net loss of $9,067,449 and $8,721,686 (2018 – $3,460,256 and $4,471,458); negative operating cash flows of $10,035,418 and $17,153,285 (2018 – $2,936,573 and $4,309,543); and, as of June 30, 2019 and December 31, 2018, an accumulated deficit amounting to $66,658,720 (2018 – $57,779,953) and a negative working capital of $24,035,057 (2018 – $11,077,500). These circumstances indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and ultimately on the appropriateness of the use of accounting principles applicable to a going concern. These condensed interim consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

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

2. Basis of Preparation

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in compliance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34"). The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and therefore should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 29, 2019.

Basis of Measurement

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

Functional and Presentation Currency

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

Basis of Consolidation

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

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

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

Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The Company measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets and liabilities assumed, all measured as of the acquisition date. Any excess of the fair value of the net assets acquired over the assumed consideration paid is a gain on business acquisition and is recognized as a gain in the consolidated statements of income (loss) and comprehensive income (loss).

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination, are expensed as incurred.

3. Critical Accounting Estimates and Judgments and Changes in Accounting Policies

Critical Accounting Estimates and Judgments

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements are described below:

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

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

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

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

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

Recoverability of accounts receivable

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

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

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

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

Depreciation and amortization of property and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

Warrants

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

Share-based compensation

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

Fair value measurements

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

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

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

Business combinations

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

Recognition of deferred income tax assets

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

Determination of functional currency

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

Going concern risk assessment

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

Contingencies

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

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

Changes in Accounting Policies

These condensed interim consolidated financial statements have been prepared following the same accounting policies used in preparation of the audited consolidated financial statements for the year ended December 31, 2018, except for the changes outlined below.

IFRS 16, Leases

Effective January 1, 2019, the Company adopted IFRS 16, which is based on a single lessee accounting model to determine how to recognize, measure, and present leases.

Upon entering a lease arrangement, the Company will determine whether the agreement transfers the right to control the use of an identified asset within the context of the agreement, in exchange for regular payments.

The Company has elected to use the Modified Retrospective Approach under IFRS 16. Under this approach, the Company may be required to record an opening balance adjustment for leases previously recognized under IAS 17, Leases ("IAS 17") and IFRIC 4, Determining Whether an Arrangement Contains a Lease ("IFRIC 4"). The Company has also elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously identified under IAS 17 and IFRIC 4. Finally, on transition, the Company has elected to use the practical expedient to not include initial direct costs associated with the lease in calculating the opening right-of-use asset value.

The Company leases office space in Ontario, Oregon and California. The Company also leases cultivation, manufacturing, and distribution space in Oregon and California. In adopting IFRS 16, the Company has elected to use the short-term lease recognition exemption which is applied by class of assets. The Company has also elected to use the low dollar value practical expedient, which unlike the short-term recognition exemption, is applied on an asset-by-asset basis.

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

The Company's then-current incremental borrowing rate will continue to be used for any leases entered into after initial transition, unless the discount rate implicit in the lease is known, in which case it will be used to determine the present value of the future lease payments. The Company has also elected to use the following practical expedients in transitioning to IFRS 16:

- Discount rates: The Company will apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Leases with a short remaining term: The Company will account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. This practical expedient is independent of the Company's accounting policy for the short-term lease recognition exemption.

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

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

As for the right-of-use asset, it will subsequently be measured at its net book value. The deemed cost of the asset will be amortized over the shorter of its expected useful life and the term of the lease on a straight-line basis. The average amortization period of the leases as at June 30, 2019 is 4 years. These right-of-use assets will be included with property and equipment in line with the Company's accounting policy for assessment for impairment.

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

The impact of the adoption of IFRS 16 on January 1, 2019 is as follows:

	January 1, 2019
Right-of-use asset	$ 6,836,440
Lease liability	(7,150,203)
Accumulated deficit	157,081
Extinguishment of accounts payable – Reversal of deferred rent liability as at December 31, 2018	156,682

<u>IFRIC 23, Uncertainty over Income Tax Treatments</u>

IFRIC 23 'Uncertainty over Income Tax Treatments' was issued by the IASB in June 2017 and specifies the interpretation to be applied to the determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. The Company has adopted IFRIC 23 on January 1, 2019 and had no significant impact.

4. Acquisitions

Acquisition of Assets from Cascade

On February 28, 2019, the Company through its subsidiary, Herban OR, acquired certain assets of Cascade Cannabis Distribution, Inc. ("Cascade") for a total purchase price of about $149,591. Cascade holds a cannabis wholesale license in the State of Oregon for the distribution of cannabis. The primary purpose of this acquisition was to expand the Company's distribution business in the State of Oregon. The acquisition of assets from Cascade by the Company was accounted for using the acquisition method of accounting, whereby assets and liabilities acquired were revalued to their fair value and any excess of the purchase price was recognized as goodwill.

The following table summarizes the preliminary purchase price allocation and the total fair value of consideration:

Accounts Receivable	$	91,785
Market-related Intangible Assets – License		38,000
Goodwill		293,344
Total Assets Acquired		423,129
Accounts Receivable Forgiven		(273,538)
Fair Value of Net Assets Acquired		**149,591**
Cash Consideration		99,591
18,960 Subordinate Voting Shares Issued (1)		50,000
Fair Value of Consideration	**$**	**149,591**

(1). 18,960 subordinate voting shares were issued at the acquisition date with a closing share price of CAD$3.50;

The Company recognized Cascade's cannabis wholesaler license in the State of Oregon as an intangible asset.

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

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

Acquisition of Assets from Rise Brands, Inc.

For the period ended June 30, 2019, the Company paid $666,667 related to post-transaction renumeration, included in wages and salaries expense.

5. Accounts Receivable

Accounts receivable was comprised of the following:

		June 30, 2019
Trade accounts receivable	$	2,758,436
Trade accounts receivable - Excise taxes		695,281
Total trade accounts receivable		3,453,717
Allowance for doubtful trade receivables		(558,577)
Other receivables		1,461,387
Total accounts receivable	**$**	**4,356,527**

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

Allowance for expected credit losses

A continuity of expected credit loss allowance is as follows:

		April 1, 2019 to June 30, 2019		April 1, 2018 to June 30, 2018		January 1, 2019 to June 30, 2019		March 1, 2018 to June 30, 2018
Loss allowance, beginning of period	$	950,010	$	-	$	1,060,258	$	-
Loss allowance recognized during the period		380,514		-		405,781		-
Receivables written off during the period		(731,573)		-		(867,088)		-
Loss allowance unused and reversed during the period		(40,374)		-		(40,374)		-
Loss allowance, end of period	**$**	**558,577**	**$**	**-**	**$**	**558,577**	**$**	**-**

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

Aging of trade accounts receivable

Aging of receivables and the credit loss assessed and provided for are as follows:

June 30, 2019	**0 - 30 days**	**31 - 60 days**	**61 - 90 days**	**> 90 days**	**Total**
Expected credit loss %	2%	5%	25%	61%	16%
Gross carrying amount	$ 2,124,450	$ 343,347	$ 262,012	$ 723,908	$ 3,453,717
Lifetime expected credit loss	(34,599)	(17,167)	(65,504)	(441,307)	(558,577)
Net trade accounts receivable	**$ 2,089,851**	**$ 326,180**	**$ 196,508**	**$ 282,601**	**$ 2,895,140**

As at June 30, 2019, no customer accounted for more than 10% of total trade receivables.

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

6. Inventories and Biological Assets

The Company's inventories included the following:

		June 30, 2019
Finished goods	$	4,915,318
Inventories in process		607,307
Raw materials		53,251
Total gross inventory	**$**	**5,767,302**
Inventory write-offs		191,426
Total inventory	**$**	**5,575,876**

During the three and six months ended June 30, 2019 (three and four months ended June 30, 2018), the Company had inventory write-downs and write-offs of $191,426 and $191,426, respectively (2018 – $nil and $70,000, respectively). The amount of inventory that was included in cost of sales was $5,822,620 and $13,028,282, respectively (2018 – $994,863 and $1,844,830, respectively).

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

		January 1, 2019 to June 30, 2019
Opening balance	$	-
Changes in fair value less cost to sell due to biological transformation		34,560
Total biological assets	**$**	**34,560**

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

(a) Wholesale price per pound
(b) Cannabis oil processing efficiency
(c) Cannabis potency level
(d) Yield per plant
(e) Stage of growth

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

All biological assets are classified as current assets in the statement of financial position and are considered level 3 fair value estimates. As of June 30, 2019, it is expected that the Company's biological assets will yield approximately 4,000 lbs of cannabis biomass (December 31, 2018 – nil lbs of cannabis biomass).

The valuation of biological assets is based on an income approach in which the fair value at the point of harvesting is estimated based on selling prices less the costs to sell. For in-process biological assets, the fair value at point of harvest is adjusted based on the stage of growth at period-end. Stage of growth is determined by reference to the cost incurred as a percentage of total cost as applied to estimated total fair value per gram (less fulfillment costs) to arrive at an in-process fair value for estimated biological assets, which have not yet been harvested.

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

7. Property and Equipment

A continuity of property and equipment is as follows:

	Leasehold Improvements	Furniture and Fixtures	Vehicles	Total
Cost				
As at January 1, 2019	767,722	229,221	106,435	$ 1,103,378
Additions	1,577,192	40,147	17,668	1,635,007
As at June 30, 2019	**$ 2,344,914**	**$ 269,368**	**$ 124,103**	**$ 2,738,385**
Accumulated depreciation				
As at January 1, 2019	33,625	31,443	48,783	$ 113,851
Depreciation	56,700	43,279	22,782	122,761
As at June 30, 2019	**$ 90,325**	**$ 74,722**	**$ 71,565**	**$ 236,612**
Net book value				
As at January 1, 2019	$ 734,097	$ 197,778	$ 57,652	$ 989,527
As at June 30, 2019	**$ 2,254,589**	**$ 194,646**	**$ 52,538**	**$ 2,501,773**

8. Investments

Waterside Warehousing

On March 15, 2019, the Company signed a definitive agreement with an irrevocable option to acquire Waterside Warehousing ("Waterside"), a premium manufacturer and indoor craft cultivator located in Oakland, California. The agreement provides the Company with an option to acquire Waterside for an additional $5 million payment.

The Company agreed to provide $1,000,000 in cash by way of a secured convertible preferred note carrying a 6% interest rate per annum paid quarterly. During the six months ended June 30, 2019, $600,000 of the loan has been advanced to date and the balance is to be paid during the third quarter of 2019 (Note 24). The secured convertible preferred note matures on March 15, 2021. The loan is carried at amortized cost.

As of the date of these condensed interim consolidated financial statements, the Company has not exercised its option to acquire Waterside.

Strategic Partnership with Nevada-Based Retailer Acres Cannabis

On January 10, 2019, the Company signed a strategic partnership agreement with Acres Cannabis ("Acres"), a vertically integrated cannabis retailer based in Las Vegas, Nevada. The partnership grants the Company's brands and services access to the Nevada market. The Company's infused products and edible brands will be manufactured in Acres' facilities and sold state-wide under a royalty fee arrangement with Acres. During the six months ended June 30, 2019, the Company advanced $125,000 royalty fee to Acres.

During the quarter ended June 30, 2019, the Company has commenced operations in Nevada.

Virginia's Kitchen, LLC dba Blue Kudu

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

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

Completion of the acquisition is subject to several conditions, including, but not limited to, execution and delivery of definitive documentation mutually agreeable to the parties, and the Company's completion of due diligence on Blue Kudu.

As of the date of these condensed interim consolidated financial statements, this transaction has not yet closed.

Pioneer Valley Extracts, LLC

On February 14, 2019, the Company signed a binding term sheet, subject to satisfaction of certain customary conditions to close, to acquire Pioneer Valley Extracts, LLC, a manufacturer and emerging cannabis brand in Massachusetts.

At close, the total purchase price will be $550,000 consisting of $150,000 in cash and $400,000 in subordinate voting shares priced at the 15-day volume-weighted average price at closing of the transaction.

As of the date of these condensed interim consolidated financial statements, this transaction has not yet closed.

9. Intangible Assets and Goodwill

A continuity of intangible assets other than goodwill is as follows:

		Customer Relationships		Market-related Intangible Assets		Recipes and Formulas		Software		Total
Cost										
As at January 1, 2019	$	8,848,000	$	4,217,000	$	2,299,000	$	133,076	$	15,497,076
Additions from acquisitions		-		38,000		-		-		38,000
Additions		-		-		-		-		-
Impairment		(573,000)		-		-		-		(573,000)
Foreign exchange		-		-		-		340		340
As at June 30, 2019	**$**	**8,275,000**	**$**	**4,255,000**	**$**	**2,299,000**	**$**	**133,416**	**$**	**14,962,416**
Accumulated amortization and impairment losses										
As at January 1, 2019	$	536,918	$	87,900	$	153,267	$	13,542	$	791,627
Amortization		619,721		95,450		229,900		12,500		957,571
Impairment		(33,425)		-		-		-		(33,425)
As at June 30, 2019	**$**	**1,123,214**	**$**	**183,350**	**$**	**383,167**	**$**	**26,042**	**$**	**1,715,773**
Net carrying amount										
As at January 1, 2019	$	8,311,082	$	4,129,100	$	2,145,733	$	119,534	$	14,705,449
As at June 30, 2019	**$**	**7,151,786**	**$**	**4,071,650**	**$**	**1,915,833**	**$**	**107,374**	**$**	**13,246,643**

For intangible assets subject to amortization, assessments of whether significant indicators of impairment existed were completed and significant indicators of impairment were identified during the six months ended June 30, 2019 in respect of the customer relationship assets, for which an impairment was recorded.

Hometown Heart's relationship with Eaze was terminated by the Company on March 29, 2019, resulting in the impairment of the related asset which carried a cost of $573,000 and accumulated amortization of $33,425. No other significant indicators of impairment were identified for the six months ended June 30, 2019.

A continuity of goodwill is as follows:

Balance as at January 1, 2019	$ 21,923,600
Goodwill acquired in acquisition of assets from Cascade Cannabis Distribution, Inc.	293,344
Measurement period adjustment on Winberry Farms	(117,022)
Measurement period adjustment on Hometown Heart	(2,049,133)
Balance as at June 30, 2019	**$ 20,050,789**

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

For goodwill and intangible assets not subject to amortization, no significant indicators of impairment were identified for the six months ended June 30, 2019.

Measurement period adjustment on Winberry Farms

The Company has finalized the purchase price allocation to the individual assets acquired and liabilities assumed using the acquisition method. The measurement period adjustment includes a decrease to the assumed debt on the acquisition date of $117,022 based on a review of the validity of outstanding accounts payable assumed upon acquisition, which was found to have accrued for amounts that were not subsequently invoiced to the Company.

Measurement period adjustment on Hometown Heart

The Company has finalized the purchase price allocation to the individual assets acquired and liabilities assumed using the acquisition method. The measurement period adjustment includes a decrease to the assumed tax liability on the acquisition date of $2,049,133 based on a review of the U.S. federal tax liability assumed upon acquisition, which was found to be over-accrued.

10. Inventory Finance Facility

	Principal Balance	Capitalized Financing Costs	Currency Translation	Total
As at January 1, 2019	$ 3,000,000	$ (2,211,180)	$ (22,562)	$ 766,258
Repayment of early draw	(3,000,000)	-	-	(3,000,000)
Initial draw	13,000,000	(5,965,312)	-	7,034,688
Cancellation of warrants on the early draw	-	1,447,043	-	1,447,043
Amortization of capitalized financing costs	-	1,384,037	-	1,384,037
Foreign currency translation impact	-	-	138,280	138,280
As at June 30, 2019	**$ 13,000,000**	**$ (5,345,412)**	**$ 115,718**	**$ 7,770,306**

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

Net proceeds in the amount of $9,148,143 were received by the Company, net of the repayment of the $3,000,000 early draw and $851,857 in capitalized transaction costs.

The drawdown on the Inventory Finance Facility is secured by a general security agreement over the assets of the Company in favour of the lenders. As part of the consideration to the lenders, the Company issued 3,670,753 warrants with an exercise price of CAD$4.65 expiring February 5, 2022, with a fair value of $5,188,038. The fair value component relating to the warrants was determined using the Black-Scholes pricing model and has been treated as capitalized financing costs.

The 744,000 warrants previously issued to the lenders on November 28, 2018 were cancelled by the Company on June 1, 2019.

Interest expense of $433,502 has been accrued and included as part of Accounts Payable and Accrued Liabilities in the condensed interim consolidated statement of financial position.

The Inventory Finance Facility bears interest at a rate of LIBOR (at a floor of 0%) + 8% per annum plus an anniversary fee of 2.5% of the principal balance in the first year and 3.75% of the principal balance in the second year. The Inventory Finance Facility matures on February 5, 2021.

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

Breaches of debt covenants

The Inventory Finance Facility is subjected to covenant clauses, whereby the Company is required to meet certain key financial ratios. As at June 30, 2019, the Company did not fulfil the current ratio, accounts payable to accounts receivable ratio, and unpaid accounts payable covenant, as required in the agreement for the Inventory Finance Facility.

Due to these breaches of the covenant clauses, the lenders are contractually entitled to request for immediate repayment of the outstanding facility amount drawn of $13,000,000 and accrued interest of $433,500. The outstanding balances are presented as current liabilities as at June 30, 2019.

The lenders had not requested early repayment of the outstanding facility amounts drawn as of the date when these condensed interim consolidated financial statements were approved by the Board of Directors.

The Company has obtained a waiver from the lenders on August 20, 2019 to waive the breaches described above for the period from April 1, 2019 to September 30, 2019.

11. Term Loans

As at January 1, 2019	$	3,860,000
Repayments		(3,860,000)
As at June 30, 2019	**$**	**-**

During the six months ended June 30, 2019, the principal balance of the term loans was fully repaid.

12. Long Term Debt

Series B Convertible Debentures

As at January 1, 2019	$	29,814,543
Conversion to equity		(1,879,720)
Fair value adjustment		(20,018,339)
Foreign currency translation impact		1,233,817
As at June 30, 2019	**$**	**9,150,301**

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

During the six months ended June 30, 2019, there were conversions of the Series B Convertible Debentures of $1,879,720. On June 30, 2019, the fair value for the Series B Convertible Debentures was estimated to be $9,150,301.

As the convertible debentures are designated as fair value through profit or loss, they are revalued at the end of each reporting period using the Black-Scholes valuation model. The Company used a volatility of 90%, dividend yield of 0.0% and risk-free rate of 1.46% where the fair value of the convertible debentures on that date was calculated to be $9,150,301. For the six months ended June 30, 2019, the Company recognized a decrease in fair value of $20,018,339 and an increase in fair value due to foreign currency translation of $1,233,817.

As at June 30, 2019, interest expense of $95,654 has been accrued and included as part of Accounts Payable and Accrued Liabilities in the condensed interim consolidated statement of financial position.

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

Financial Liabilities

The Company's acquisitions of the assets of Rise Logistics and Winberry Farms and the Company's acquisition of Hometown Heart during the ten months ended December 31, 2018 gave rise to financial liabilities. These financial liabilities are measured at fair value at the end of each reporting period. A continuity of the financial liabilities for these acquisitions is as follows:

	Rise Logistics	Winberry Farms	Hometown Heart	Total
Total financial liabilities as at January 1, 2019	$ 2,335,000	$ 5,153,000	$ 7,944,000	$ 15,432,000
Repayment of financial liabilities	(2,375,000)	(500,000)	-	(2,875,000)
Fair value adjustment	40,000	357,000	759,498	1,156,498
Other adjustments	-	-	(159,498)	(159,498)
Total financial liabilities as at June 30, 2019	**$ -**	**$ 5,010,000**	**$ 8,544,000**	**$ 13,554,000**
Financial Liabilities – Current	$ -	$ 4,569,000	$ 2,852,000	$ 7,421,000
Financial Liabilities – Non-Current	-	441,000	5,692,000	6,133,000
Total financial liabilities as at June 30, 2019	**$ -**	**$ 5,010,000**	**$ 8,544,000**	**$ 13,554,000**

The financial liabilities of Hometown Heart were adjusted to reflect the consideration owing of 100,000 shares valued at CAD$2.06, which were released during the six months ended 2019 from the Company to the shareholders of Hometown Heart.

13. Leases

A continuity of the Company's right-of-use assets is as follows:

	January 1, 2019 to June 30, 2019
Carrying value as at January 1, 2019	$ 6,836,440
Additions	47,264
Depreciation	(740,880)
Carrying value as at June 30, 2019	**$ 6,142,824**

A continuity of the Company's lease liabilities is as follows:

		From January 1, 2019 to June 30, 2019
Carrying value as at January 1, 2019		$ 7,150,203
Additions		47,264
Less: Payments made on lease obligations	$ 1,056,977	
Less: Interest expense on lease liabilities	(503,766)	(553,211)
Carrying value as at June 30, 2019		**$ 6,644,256**
Lease liabilities – Current		1,171,501
Lease liabilities – Non-current		5,472,755
Carrying value as at June 30, 2019		**$ 6,644,256**

The Company's right-of-use assets and lease liabilities as at June 30, 2019 related predominantly to premises.

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

The contractual undiscounted cash outflows for lease obligations are as follows:

		June 30, 2019
< 1 year	$	2,124,761
1 to 3 years		3,803,112
3 to 5 years		2,047,110
Thereafter		2,304,788
Total	**$**	**10,279,771**

As at June 30, 2019, the Company had commitments of $97,553 relating to short-term leases which were not included in the calculation of the right-of-use asset and lease obligation upon adoption of IFRS 16.

Interest expense on the lease obligations for the three and six months ended June 30, 2019 was $251,886 and $503,766, respectively.

14. Alumina Partners (Ontario) Ltd. Capital Commitment

On June 5, 2019, the Company announced a capital commitment from Alumina Partners (Ontario) Ltd. (“Alumina”) for up to CAD$32,000,000 on a private placement basis completed in tranches over a 24-month period. The issuance of subordinate voting shares and warrants in each tranche is referred to herein as a unit (each a “Unit” and collectively, the “Units”). Each Unit shall be comprised of one (1) subordinate voting share and one-half of one (1/2) warrant.

Following the initial subscription, the Company may request that Alumina subscribe for subsequent tranches a minimum of five trading days following the issuance of the previous tranche.

The purchase price for each Unit in each tranche will be priced at a discount of 15% to 20% to the market price of the common shares traded on the Canadian Securities Exchange (“Exchange”), or such lesser discount as dictated by Section 2.1 of Policy 6 of the Exchange. The market price of the subordinate voting shares for each tranche will be defined as the price per subordinate voting share formally protected and reserved by the Company’s filing of a Notice of Proposed Issuance of Listed Securities with the Exchange using the Exchange’s Form 9. Alumina is not required to close a tranche if the closing price of the subordinate voting shares on the Exchange determined as of the close of trading on the trading day prior to the closing date is below the market price in the Form 9 corresponding to such tranche, subject to investor waiver.

At the closing of each tranche, the Company shall issue Alumina an amount of subordinate voting share purchase warrants equal to one-half of subordinate voting shares subscribed by Alumina in connection with that tranche. Each warrant will permit Alumina to acquire one subordinate voting share for five years from the date of closing the tranche, subject to a four month hold period from the date the warrants are issued. The exercise price of each warrant for each tranche is set at a 50% premium to the market price for the corresponding tranche.

At June 30, 2019, there has only been one tranche for an issuance of 662,252 Units for gross proceeds of $753,750.

15. Share Capital

Share Capital

The Company has authorized unlimited Subordinate Voting Shares (“common shares”), Series F Convertible Preferred Shares, and Series A Convertible Preferred Shares.

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

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

In January 2019, the Company issued 590,353 common shares at a price of C$4.25 as interest on the term loans repaid (Note 11).

On May 7, 2019, the Company closed a bought deal private placement financing with a syndicate of agents co-led by Canaccord Genuity Corp. and Cormark Securities Inc. for 3,822,055 units of the Company at a price of C$2.75 per Unit (the "Issue Price") for aggregate gross proceeds to the Company of $7,148,824. Each unit was comprised of one common share and one common share purchase warrant exercisable into one common share at price of C$3.80 per share for a period of 36 months following the closing of the offering. The net proceeds from the Offering were used primarily towards the Company's strategic growth initiatives and for general working capital purposes.

In May 2019, in connection with the acquisition of assets from Rise Brands Inc., the Company issued 1,486,418 common shares at a price of C$2.06 in satisfaction of the second tranche payment of $2,375,000 for the acquisition.

In June 2019, the Company issued 662,252 common shares at a price of C$0.98 to Alumina on the first tranche draw on its capital commitment (Note 14).

Warrants

On February 5, 2019, the Company issued tranche 10, consisting of 3,670,753 warrants with a fair value of $5,218,129, on the initial draw on the Inventory Finance Facility (Note 10). As part of this issuance, the 744,000 warrants with a fair value of $1,447,043, issued by the Company on the early draw on the inventory finance facility, has been cancelled.

On May 7, 2019, in connection with the bought deal private placement financing, the Company issued tranches 15 and 16, consisting of 3,822,055 warrants and 267,544 broker warrants with a fair value of $4,610,646.

In June 2019, the Company issued tranche 18, consisting of 331,126 warrants with a fair value of $262,411, to Alumina on the first tranche draw on the capital commitment (Note 14).

The following is a summary of warrants for the six months ended June 30, 2019:

	Number of Warrants		Fair Value of Warrants		Weighted Average Exercise Price (CAD)
Outstanding, beginning of year	12,574,898	$	19,916,643	$	5.28
Issued	9,305,049		10,885,032		3.98
Cancelled	(744,000)		(1,442,738)		5.31
Exercised	(33,664)		(49,888)		2.95
Outstanding, end of period	21,102,283	$	29,309,049	$	4.71

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

The following table summarizes the Company's warrants by tranche:

Warrant Tranche	Issue Date	Number of Warrants	Exercise Price (CAD)	Expiry Date
(1).	Apr 4, 2018	100,000	$ 1.50	Apr 4, 2023
(2).	May 25, 2018	90,000	1.50	Apr 4, 2023
(3).	Nov 28, 2018	201,590	0.20	Jul 11, 2019
(4).	Nov 28, 2018	423,375	2.06	Nov 29, 2020
(5).	Nov 28, 2018	493,188	4.25	Nov 29, 2020
(7).	Nov 28, 2018	8,115,297	6.37	Nov 29, 2020
(8).	Dec 31, 2018	2,373,784	3.09	Nov 29, 2020
(9).	Jan 31, 2019	70,387	3.09	Nov 29, 2020
(10).	Feb 5, 2019	3,670,753	4.65	Feb 5, 2022
(11).	Feb 8, 2019	72,800	3.09	Nov 29, 2020
(12).	Mar 29, 2019	60,678	3.09	Nov 29, 2020
(13).	Apr 30, 2019	72,814	3.09	Nov 29, 2020
(14).	May 31, 2019	53,398	3.09	Nov 29, 2020
(15).	May 7, 2019	3,822,055	3.80	May 7, 2022
(16).	May 7, 2019	267,544	2.75	May 7, 2022
(17).	Jun 30, 2019	883,494	3.09	Nov 29, 2020
(18).	Jun 10, 2019	331,126	2.84	Jun 9, 2024
Total and Weighted Average Exercise Price		**21,102,283**	**$ 4.71**	

As at June 30, 2019, the weighted average remaining life of the warrants is 2.0 years. All outstanding warrants are currently exercisable.

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

Input Data	Stock price at issuance (CAD)	Exercise price (CAD)	Number of periods to exercise (years)	Risk-free interest rate	Share volatility
Warrants (1)	$ 1.00	$ 1.50	2.0	1.92%	1.05
Warrants (2)	$ 1.00	$ 1.50	2.0	1.92%	1.05
Warrants (3)	$ 4.25	$ 0.20	0.6	2.21%	1.05
Warrants (4)	$ 4.25	$ 2.06	2.0	2.21%	1.05
Warrants (5)	$ 4.25	$ 4.25	2.0	2.21%	1.05
Warrants (7)	$ 4.25	$ 6.37	2.0	2.22%	1.05
Warrants (8)	$ 2.71	$ 3.09	2.0	1.91%	1.05
Warrants (9)	$ 3.65	$ 3.09	2.0	1.91%	1.05
Warrants (10)	$ 3.73	$ 4.65	2.0	1.91%	1.05
Warrants (11)	$ 3.49	$ 3.09	2.0	1.91%	1.05
Warrants (12)	$ 3.35	$ 3.09	2.0	1.91%	1.05
Warrants (13)	$ 2.55	$ 3.09	1.5	1.51%	0.92
Warrants (14)	$ 2.80	$ 3.09	1.5	1.51%	0.92
Warrants (15)	$ 2.75	$ 3.80	3.0	1.51%	0.92
Warrants (16)	$ 2.75	$ 2.75	3.0	1.51%	0.92
Warrants (17)	$ 1.96	$ 3.09	1.4	1.51%	0.90
Warrants (18)	$ 2.08	$ 2.84	5.0	1.51%	0.90

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

Stock Options

The following is a summary of stock options for the six months ended June 30, 2019:

	Number of Options	Weighted Average Exercise Price (CAD)
Outstanding, beginning of period	8,975,035	$ 1.13
Granted	999,500	3.36
Forfeitures	(928,562)	1.11
Exercised	(173,333)	1.22
Outstanding, end of period	8,872,640	$ 1.38
Exercisable, end of period	4,125,597	0.59

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

Exercise Price (CAD)	Number of Options Outstanding	Number of Options Vested	Weighted Average Remaining Life (Years)
$ 0.10	3,005,000	2,628,125	8.10
0.15	600,000	237,500	8.40
1.00	982,313	540,492	8.70
2.09	2,692,827	586,979	9.10
3.30	78,000	-	9.40
2.36	184,000	80,000	9.50
3.50	350,000	-	9.50
3.33	450,000	-	9.50
3.83	200,000	-	9.60
3.60	117,500	52,500	9.60
3.14	106,000	-	9.80
2.60	107,000	-	9.90
Total	**8,872,640**	**4,125,597**	**8.75**

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

	June 30, 2019
Risk free interest rate	1.46% - 1.93%
Expected dividend yield	0%
Underlying share price (CAD)	$2.60 - $3.83 per share
Expected volatility based on comparable companies	90% - 92%
Expected term	7 years
Black-Scholes value of each option	$0.92 - $2.36

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

For the three and six months ended June 30, 2019 (three and four months ended June 30, 2018), the Company recorded share-based compensation expense related to options issued to employees and consultants of $484,972 and $1,098,333, respectively (2018 – $194,389 and $215,156, respectively).

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

16. Loss per Share

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

	April 1, 2019 to June 30, 2019	April 1, 2018 to June 30, 2018	January 1, 2019 to June 30, 2019	March 1, 2018 to June 30, 2018
Net loss attributable to common shareholders – basic & diluted	$ (9,067,449)	$ (3,460,256)	$ (8,721,686)	$ (4,471,458)
Weighted average common shares outstanding – basic & diluted	56,255,412	39,598,856	54,356,382	39,429,122
Net (loss) per common share – basic & diluted	**$ (0.16)**	**$ (0.09)**	**$ (0.16)**	**$ (0.11)**

Included in the calculation of basic net earnings (loss) per share are the common shares and the equivalent number of common shares represented by the Series A Convertible Preferred Shares and Series F Convertible Preferred Shares.

Diluted net income (loss) per common share is calculated by dividing the applicable net income (loss) by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period. As at June 30, 2019 and 2018, all instruments were anti-dilutive.

17. Interest Expense

Interest expense was comprised of the following:

	April 1, 2019 to June 30, 2019	April 1, 2018 to June 30, 2018	January 1, 2019 to June 30, 2019	March 1, 2018 to June 30, 2018
Interest expense on inventory finance facility	$ 498,568	$ -	$ 743,215	$ -
Interest expense on convertible debentures	328,993	43,262	625,446	60,283
Interest expense on lease liabilities	251,886	-	503,766	-
Other interest expenses	75,991	6,313	78,939	6,553
Total	**$ 1,155,438**	**$ 49,575**	**$ 1,951,366**	**$ 66,836**

18. Deferred Tax Liabilities

A continuity of deferred tax liabilities and recoveries is as follows:

	Rise logistics	Winberry Farms	Hometown Heart	Total
As at January 1, 2019	$ 1,406,666	$ 1,547,127	$ 132,655	$ 3,086,448
Deferred tax recovery	(72,225)	(121,505)	(120,673)	(314,403)
As at June 30, 2019	**$ 1,334,441**	**$ 1,425,622**	**$ 11,982**	**$ 2,772,045**

19. Contingencies and Commitments

Contingencies

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is compliant with applicable local and state regulations at June 30, 2019, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

On June 5, 2019, the Company, through its subsidiary, Herban CA, filed suit in the California Superior Court for the County of San Francisco against Eaze Technologies, Inc. ("Eaze") seeking an injunction to halt Eaze's processing of credit and debit cards through its website and app. As of the date of these condensed interim consolidated financial statements, this lawsuit is still in progress.

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

<u>Commitments</u>

The Company has contractual obligations to make the following payments:

	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total
USD-denominated							
Lease liabilities	$ 2,124,761	$ 2,072,768	$ 1,730,344	$ 1,245,819	$ 801,291	$ 2,304,788	$ 10,279,771
Consultants and advisors	216,000	216,000	216,000	-	-	-	648,000
Total USD-denominated	**$ 2,340,761**	**$ 2,288,768**	**$ 1,946,344**	**$ 1,245,819**	**$ 801,291**	**$ 2,304,788**	**$ 10,927,771**
CAD-denominated (in USD)							
Lease liabilities	$ 97,553	$ -	$ -	$ -	$ -	$ -	$ 97,553
Total CAD-denominated	**$ 97,553**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 97,553**

As part of acquisition of assets from Winberry Farms and the acquisition of Hometown Heart, the Company is obligated for certain earn-out payments with aggregate maximum value of up to $16,000,000.

20. Financial Instruments and Financial Risk Management

Financial Instruments

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

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

Level 1 —Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 —Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 —Inputs for the asset or liability that are not based on observable market data.

There have been no transfers between fair value levels during the six months ended June 30, 2019.

The following tables summarize the Company's financial instruments:

	Financial Instruments Measured at Fair Value	Financial Instruments Measured at Amortized Cost	Carrying Value	Fair Value
Financial Assets				
Cash	-	1,579,410	$ 1,579,410	$ 1,579,410
Accounts Receivables	-	4,356,527	$ 4,356,527	$ 4,356,527
Investments	-	600,000	$ 600,000	$ 600,000
Financial Liabilities				
Accounts Payable and Accrued Liabilities	-	12,646,779	$ 12,646,779	$ 12,646,779
Inventory Finance Facility	-	7,770,306	$ 7,770,306	$ 7,206,000
Financial Liabilities (Level 3)	13,554,000	-	$ 13,554,000	$ 13,554,000
Convertible Debentures (Level 3)	9,150,301	-	$ 9,150,301	$ 9,150,301
Royalty Debt	-	2,272,912	$ 2,272,912	$ 2,702,447

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

Financial Risk Management

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

Banking Risk

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

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

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

Credit Risk

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

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

The maximum credit risk exposure as at June 30, 2019 is $6,535,937.

Liquidity Risk

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

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

As at June 30, 2019

	< 1 year	1 to 3 years	Total
Accounts Payable and Accrued Liabilities	12,646,779	-	$ 12,646,779
Inventory Finance Facility	7,770,306	-	$ 7,770,306
Financial Liabilities	7,421,000	6,133,000	$ 13,554,000
Convertible Debentures	-	9,150,301	$ 9,150,301
Royalty Debt	-	2,272,912	$ 2,272,912

Market Risk

- Interest Rate Risk

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

  As at June 30, 2019, if the interest rates had increased or decreased by 1%, with all other variables held constant, the net income (loss) of the Company could possibly have decreased or increased by approximately $90,000.

- Currency Risk

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

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

  As at June 30, 2019, if the Canadian dollar had strengthened or weakened by 5% in relation to the U.S. Dollar, with all other variables held constant, the net income (loss) of the Company could possibly have decreased or increased by approximately $530,000.

  As at June 30, 2019, the Company had no hedging agreements in place with respect to foreign exchange rates, however management monitors the Canadian and U.S. currency markets closely and continuously assesses the need to enter into currency hedging arrangements. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Capital Management

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

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

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

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

21. Supplementary Cash Flow Information

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

			Non-cash changes				
	January 1, 2019	Cash flows	Acquisitions	Foreign exchange movements	Fair value changes	Other changes(1)	June 30, 2019
Inventory Finance Facility	766,258	9,148,193	-	138,280	-	(2,282,425)	$ 7,770,306
Term Loans	3,860,000	(3,860,000)	-	-	-	-	$ -
Lease Liabilities	-	(553,212)	47,265	-	-	7,150,203	$ 6,644,256
Financial Liabilities	15,432,000	(500,000)	-	-	997,000	(2,375,000)	$ 13,554,000
Convertible Debentures	29,814,543	-	-	1,233,817	(20,018,339)	(1,879,720)	$ 9,150,301
Royalty Debt	1,716,189	-	-	81,340	-	475,383	$ 2,272,912
Total	$ 51,588,990	$ 4,234,981	$ 47,265	$ 1,453,437	$ (19,021,339)	$ 1,088,441	$ 39,391,775

			Non-cash changes				
	March 1, 2018	Cash flows	Acquisitions	Foreign exchange movements	Fair value changes	Other changes(1)	June 30, 2018
Notes Payable	874,372	(19,517)	600,000	-	-	(439,514)	$ 1,015,341
Financial Liabilities	-	-	4,684,000	-	-	-	$ 4,684,000
Convertible Debentures	3,206,348	6,287,005	-	(49,021)	-	(3,175,852)	$ 6,268,480
Royalty Debt	-	1,464,032	-	(39,510)	-	(67,399)	$ 1,357,123
Total	$ 4,080,720	$ 7,731,520	$ 5,284,000	$ (88,531)	$ -	$ (3,682,765)	$ 13,324,944

(1) Other changes include adoption of IFRS 16 (Note 3), warrant expense, realized fair value adjustment on debt carried at fair value, debentures converted, repayment of financial liabilities with the Company's shares, and accrued buyout loss.

During the six months ended June 30, 2019, $1,884,058 of accrued interest expenses on the term loans were settled through the issuance of 590,353 common shares of the Company.

During the three and six months ended June 30, 2019 (three and four months ended June 30, 2018), the Company paid interest of $684,000 and $960,000, respectively (2018 – $nil and $nil, respectively).

22. Segmented Information

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

During the three and six months ended June 30, 2019 and three and four months ended June 30, 2018, the Company has generated the following types of revenues:

	April 1, 2019 to June 30, 2019	April 1, 2018 to June 30, 2018	January 1, 2019 to June 30, 2019	March 1, 2018 to June 30, 2018
Revenue streams				
Distribution	**$ 8,356,252**	$ 1,360,660	**$ 14,302,957**	$ 2,399,876
Direct-to-consumer	**1,851,878**	-	**12,623,815**	-
Subleases	**101,587**	-	**101,587**	-
Discounts on Sales				
Distribution	**(115,896)**	-	**(146,207)**	-
Direct-to-consumer	**(912,415)**	-	**(950,287)**	-
Taxes on Sales				
Direct-to-consumer	**(330,456)**	-	**(2,563,579)**	-
Net revenue	**$ 8,950,950**	**$ 1,360,660**	**$ 23,368,286**	**$ 2,399,876**

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

Based on contractual arrangements with these customers, the Company only recognizes the net service fees of the product processed through its distribution network as part of the distribution revenue. The gross revenue of logistics product delivered through the Company for the three and six months ended June 30, 2019 (three and four months ended June 30, 2018) is $2,349,000 and $7,356,000, respectively (2018 – $nil and $nil, respectively).

Geographic segments

The following table is a summary of revenues by geographic location of the customers for the periods ended June 30, 2019 and 2018:

	April 1, 2019 to June 30, 2019	April 1, 2018 to June 30, 2018	January 1, 2019 to June 30, 2019	March 1, 2018 to June 30, 2018
Canada	$ -	$ -	$ -	$ -
United States of America	**8,950,950**	1,360,660	**23,368,286**	2,399,876
Net revenue	$ **8,950,950**	$ **1,360,660**	$ **23,368,286**	$ **2,399,876**

The Company's corporate and administrative offices are in Canada. The following summarizes the location of the Company's non-current assets as at June 30, 2019:

	Canada	United States of America	Total
Security Deposits	$ 24,948	$ 585,277	$ **610,225**
Property and Equipment	14,637	2,487,136	**2,501,773**
Right-of-use Assets	-	6,142,824	**6,142,824**
Investments	-	600,000	**600,000**
Intangible Assets	8,418	13,238,225	**13,246,643**
Goodwill	-	20,050,789	**20,050,789**
Total	$ **48,004**	$ **43,104,250**	$ **43,152,254**

23. Related Party Transactions

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

Key Management Personnel Compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. Compensation provided to key management is as follows:

	April 1, 2019 to June 30, 2019	April 1, 2018 to June 30, 2018	January 1, 2019 to June 30, 2019	March 1, 2018 to June 30, 2018
Salaries and bonuses	$ **475,000**	$ 207,000	$ **937,500**	$ 307,000
Share-based compensation	**300,000**	86,000	**402,000**	91,000
Total	$ **775,000**	$ **293,000**	$ **1,339,500**	$ **398,000**

Consulting Services from Daniel Fields

Daniel Fields, a shareholder of the Company, provided consulting services for the Company. During the three and six months ended June 30, 2019 (three and four months ended June 30, 2018), the Company incurred consulting fees of $20,000 and $80,000, respectively (2018 – $60,000 and $80,000, respectively) and chargeable expenses of $29,000 and $151,000, respectively (2018 – $156,000 and $159,000, respectively), included in Legal and Professional Fees on the condensed interim consolidated statements of income (loss) and comprehensive income (loss). As at June 30, 2019, $46,000 (2018 – $243,000) remained payable by the Company, which is included in Accounts Payable and Accrued Liabilities on the condensed interim consolidated statement of financial position. The Company has terminated the consulting services agreement with Daniel Fields in June 2019.

Ambassador Technologies Inc Marketing Services

Ambassador Technologies Inc, over which the Company's Chief Executive Officer has significant influence, is a marketing agency company doing business in California as ByProxie. The entity is not consolidated with the Company because the Company is not entitled to its variable returns. Since August 2017, the Company engaged ByProxie to provide marketing services in California. During the three and six months ended June 30, 2019 (three and four months ended June 30, 2018), the Company incurred related expenses to ByProxie of $314,000 and $595,000, respectively (2018 – $9,000 and $14,000, respectively) for ByProxie services in addition to $1,217,000 and $1,532,000, respectively (2018 – $68,000 and $94,000, respectively) in reimbursements for payments made by ByProxie to third-party vendors, included in Sales and Marketing Expenses on the condensed interim consolidated statements of income (loss) and comprehensive income (loss). As at June 30, 2019, $666,000 (2018 – $16,000) remained payable by the Company, which is included in Accounts Payable and Accrued Liabilities on the condensed interim consolidated statements of financial position.

WestField Partners, LLC and WestField Aviation Partners, LLC

The Company's Chief Executive Officer has control over WestField Partners, LLC, a management services company, and WestField Aviation Partners, LLC, an aviation services company. WestField Partners, LLC and WestField Aviation Partners, LLC are not consolidated with the Company because the Company is not entitled to their variable returns. WestField Partners, LLC entered into a management services agreement with the Company to provide rent and employee services on March 1, 2016, and WestField Aviation Partners, LLC is engaged as needed. During the three and six months ended June 30, 2019 (three and four months ended June 30, 2018), the Company incurred management services expenses of $30,000 and $60,000, respectively (2018 – $30,000 and $40,000, respectively) which are included in Administrative and Other Expenses; rent and employee expenses of $39,000 and $82,000, respectively (2018 – $nil and $nil, respectively) which are included in Administrative and Other Expenses; and aviation expenses of $nil and $167,000, respectively (2018 – $165,000 and $165,000, respectively) which are included in Business Development Expenses on the condensed interim consolidated statements of income (loss) and comprehensive income (loss). As at June 30, 2019, $16,000 (2018 – $44,000) remained payable by the Company, which is included in Accounts Payable and Accrued Liabilities on the condensed interim consolidated statements of financial position.

24. Subsequent Events

Amendment to Inventory Finance Facility Agreement

The Inventory Finance Facility Agreement was amended as of July 18, 2019 and the lenders provided an additional advance of $2 million.

In consideration for the Lenders agreeing to enter into the Amending Agreement, the Company has issued: (i) 986,853 warrants to purchase Subordinate Voting Shares of the Company to the Marin Finance Fund LP with an exercise price of CAD$1.65 per Subordinate Voting Share until June 28, 2022; (ii) 563,318 warrants to purchase Subordinate Voting Shares to the current lenders at an exercise price of CAD$1.80 per Subordinate Voting Share until June 28, 2022. Proceeds were received on July 18, 2019.

Acquisition with Innovative Industrial Properties, Inc. ("IIPR") for Certain Assets from MM Esperanza 2 LLC ("MMAC")

On July 24, 2019, the Company closed the acquisition of certain assets from MMAC including 1.83-acre Los Angeles cannabis campus, retail, distribution, manufacturing and cultivation licenses, and a dispensary attached to the property for the purchase price of $13,067,000 in cash and $6 million in the Company's series A shares.

In conjunction with the close of the MMAC transaction, the Company entered into an agreement to sell the Los Angeles cannabis campus to Innovative Industrial Properties, Inc. ("IIPR") for $13 million and lease back the Los Angeles cannabis campus through a 15-year lease with two optional 5-year extensions. IIPR is also providing the Company up to $2 million of capital to make improvements at the property.

Second Tranche Draw from Alumina Partners (Ontario) Ltd. Capital Commitment

On July 29, 2019, the Company issued 425,000 Units to Alumina for gross proceeds of $458,621 as part of the second tranche draw from Alumina Capital Commitment.

Issuance of $2,000,000 Secured Convertible Notes (the "Notes") to Gotham Green Partners ("GGP")

On August 1, 2019, the Company issued an aggregate of $2,000,000 of Secured Convertible Notes (the "Notes") to funds management by GGP, an investor in the global cannabis industry. The Company intends to use the proceeds from the issuance of the Note for general corporate purposes.

The Notes bears interest from the date of issuance at LIBOR + 12.5% per annum. During the first six months, interest may be paid-in-kind ("PIK") at the Company's option such that any amount of PIK interest will be added to the outstanding principal of the Note.

The Notes (including all accrued interest thereon) is convertible at any time at the option of the holder, into Subordinate Voting Shares at a price equal to CAD$1.45.

The Company shall have the right prior to December 31, 2019 to make a one-time prepayment ("One-Time Prepayment Option") at 125% of the outstanding principal amount of the Notes and if it does so, the holders shall forfeit their conversion right.

In connection with the issuance of the Notes, the Company has issued to the lenders 1,671,151 warrants with an exercise price of CAD$1.58, each of which is exercisable to purchase one subordinate voting share of the Company for a period of 36 months from the date of issuance. If the Company elects to exercise the One-Time Prepayment Option, then the warrant coverage shall be reduced by 50%.

In connection with issuing the Notes to GGP, the Company's Inventory Finance Facility Agreement is also being amended to reflect an increase in the interest rate from LIBOR (at a floor of 0%) + 8% to LIBOR (at a floor of 2.5%) + 10%, to be in line with the Note.