



Harvest One Cannabis Inc.

Consolidated Financial Statements

For the years ended June 30, 2019 and 2018
(in Canadian dollars)

Harvest One Cannabis Inc.

Table of contents

Independent auditor's report	2
Consolidated statements of financial position	3
Consolidated statements of loss and comprehensive loss	4
Consolidated statements of changes in equity	5
Consolidated statements of cash flows	6
Notes to the consolidated financial statements	7-41



Independent Auditor's Report

To the Shareholders and the Board of Directors of
Harvest One Cannabis Inc.

Opinion

We have audited the consolidated financial statements of Harvest One Cannabis Inc, (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 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.

Material Uncertainty related to Going Concern

We draw attention to Note 2 b) in the financial statements, which indicates that the Company incurred a net loss of \$27,965 during the year ended June 30, 2019 and has incurred cumulative losses from inception in the amount of \$54,450. These events or conditions, along with other matters as set forth in Note 2 b), indicate that material uncertainties exist that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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 in this auditor's report. We have nothing to report in this regard.

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

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

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 GAAS 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the 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 Jayana Darras.

/s/ Deloitte LLP

Chartered Professional Accountants
Vancouver, British Columbia
October 28, 2019

Harvest One Cannabis Inc.

Consolidated statements of financial position

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

	Note	June 30 2019 \$	June 30 2018 \$
Assets			
Current assets			
Cash and cash equivalents		20,301	56,846
Accounts receivable	4	3,308	990
Inventories	5	9,083	4,584
Biological assets	6	857	904
Prepaid expenses and deposits	7	1,612	1,681
Promissory note	8	255	—
		35,416	65,005
Property, plant and equipment	9	31,125	10,540
Investment in associate	10	1,865	—
Intangible assets	11	10,334	5,759
Goodwill	13	23,583	27,717
Total assets		102,323	109,021
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	14	8,301	4,110
Finance leases		101	—
		8,402	4,110
Finance leases		139	—
Deferred tax liability	20	647	—
Total liabilities		9,188	4,110
Equity			
Share capital	17	125,093	117,736
Other reserves	18	18,042	13,856
Accumulated other comprehensive loss		(139)	(83)
Accumulated deficit		(54,450)	(26,598)
Equity attributable to Harvest One shareholders		88,546	104,911
Non-controlling interest	12(b)	4,589	—
Total equity		93,135	104,911
Total liabilities and equity		102,323	109,021

Commitments (note 21)

Subsequent events (note 25)

“Frank Holler”
Frank Holler, Director

“Grant Froese”
Grant Froese, Director

Harvest One Cannabis Inc.

Consolidated statements of loss and comprehensive loss

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

		For the year ended	
	Note	June 30 2019 \$	June 30 2018 \$
Revenue	22	11,987	726
Excise taxes	3(a)	522	—
Net revenue		11,465	726
Cost of sales			
Production costs		2,721	2,021
Inventory expensed to cost of sales		5,048	566
Inventory write-down	5	181	674
Gross profit (loss) before fair value adjustments		3,515	(2,535)
Realized fair value amounts included in inventory sold	5	4,499	137
Unrealized change in fair value of biological assets	6	(3,992)	(3,596)
Gross profit		3,008	924
Expenses			
General and administration	15	13,987	7,308
Sales and marketing		2,911	390
Acquisition costs	12	673	1,509
Research and development		100	—
Depreciation and amortization		497	75
Share-based compensation	18(a)	4,245	2,240
Asset impairment and write-downs	9(b), 13	7,385	—
Severance and reorganization costs	19	1,346	—
		31,144	11,522
Loss from operations		(28,136)	(10,598)
Other income (expense)			
Interest and other income		140	15
Finance costs	16	(45)	(1,902)
Share of loss from investment in associate	10(a)	(217)	—
Unrealized gain on warrants in associate	10(b)	291	—
Foreign exchange gain (loss)		2	(122)
		171	(2,009)
Net loss		(27,965)	(12,607)
Other comprehensive (loss) income			
Foreign currency translation		(56)	6
Comprehensive loss		(28,021)	(12,601)
Net loss attributable to:			
Harvest One Cannabis Inc.		(27,852)	(12,607)
Non-controlling interests	12(b)	(113)	—
Comprehensive loss attributable to:			
Harvest One Cannabis Inc.		(27,908)	(12,601)
Non-controlling interests	12(b)	(113)	—
Net loss per share – basic and diluted		(0.15)	(0.11)
Weighted average number of outstanding common shares		179,774,376	120,056,383

Harvest One Cannabis Inc.

Consolidated statements of changes in equity

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

	Note	Number of shares #	Share capital \$	Other reserves \$	Accumulated other comprehensive loss \$	Accumulated deficit \$	Non- controlling interest	Total \$
Balance, July 1, 2017		89,177,458	33,843	3,398	(89)	(13,991)	—	23,161
Convertible debenture units issued		—	—	7,604	—	—	—	7,604
Equity portion of issuance costs on convertible debenture units		—	(376)	(492)	—	—	—	(868)
Convertible debentures converted	16	24,773,056	16,716	(3,331)	—	—	—	13,385
Units offering	17(b)	22,115,385	34,721	5,529	—	—	—	40,250
Equity portion of issuance costs on units offering		663,461	(3,964)	1,208	—	—	—	(2,756)
Common shares issued for acquisitions	12	18,488,954	15,900	—	—	—	—	15,900
Warrants issued for Dream Water acquisition		—	—	225	—	—	—	225
Warrants exercised	17(b)	18,183,138	20,608	(2,402)	—	—	—	18,206
Share-based compensation	18(a)	—	—	2,240	—	—	—	2,240
Stock options exercised		220,000	288	(123)	—	—	—	165
Foreign currency translation		—	—	—	6	—	—	6
Net loss		—	—	—	—	(12,607)	—	(12,607)
Balance, June 30, 2018		173,621,452	117,736	13,856	(83)	(26,598)	—	104,911
Balance, July 1, 2018		173,621,452	117,736	13,856	(83)	(26,598)	—	104,911
Common shares issued for acquisitions	12	11,848,295	6,926	—	—	—	—	6,926
Warrants exercised	17(b)	350,104	431	(131)	—	—	—	300
Share-based compensation	18(a)	—	—	4,245	—	—	—	4,245
Foreign currency translation		—	—	—	(56)	—	—	(56)
Non-controlling interest	12(b)	—	—	—	—	—	4,274	4,274
Change in ownership interests in subsidiary	12(b)	—	—	72	—	—	428	500
Net loss		—	—	—	—	(27,852)	(113)	(27,965)
Balance, June 30, 2019		185,819,851	125,093	18,042	(139)	(54,450)	4,589	93,135

Harvest One Cannabis Inc.

Consolidated statements of cash flows

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

		For the year ended	
	Note	June 30 2019	June 30 2018
		\$	\$
Operating activities			
Net loss		(27,965)	(12,607)
Adjustments to reconcile non-cash items			
Depreciation and amortization	9, 11	879	457
Asset impairment and write-downs	9(b), 13	7,371	—
Inventory write-down	5	181	674
Loss on disposal of property, plant and equipment		4	—
Share-based compensation	18(a)	4,245	2,240
Interest and other income	16	(5)	1,758
Share of net loss from investment in associate	10(a)	217	—
Unrealized gain on warrants in associate	10(b)	(291)	—
Warrants issued in Dream Water acquisition		—	225
Unrealized change in fair value of biological assets	6	(3,992)	(3,596)
Realized fair value amounts included in inventory sold	5	4,499	—
Fair value adjustment in inventory expensed to cost of sales		468	—
Changes in non-cash working capital			
Accounts receivable		(2,278)	(659)
Inventories		(5,549)	150
Prepaid expenses and deposits		(70)	(1,367)
Accounts payable and accrued liabilities		2,322	1,618
Net cash used in operating activities		(19,964)	(11,107)
Investing activities			
Purchase of property, plant and equipment	9	(11,114)	(2,673)
Purchase of intangible assets	11	(148)	(26)
Investment in associate	10	(1,791)	—
Acquisition of assets and businesses, net of cash acquired	12	(4,023)	(16,822)
Promissory note		(250)	—
Net cash used in investing activities		(17,326)	(19,521)
Financing activities			
Common share units issued		—	40,250
Change in ownership interests in subsidiary	12(b)	500	—
Issuance costs on common share units		—	(2,756)
Convertible debenture units issued		—	20,125
Issuance costs on convertible debenture units		—	(1,879)
Warrants exercised	18(b)	300	18,206
Stock options exercised		—	165
Repayment of loan payable assumed on Dream Water USA acquisition		—	(255)
Finance lease payment		(40)	—
Advances from related party		—	(634)
Net cash provided by financing activities		760	73,222
Effect of foreign exchange on cash		(15)	6
(Decrease) increase in cash during the year		(36,545)	42,600
Cash, beginning of the year		56,846	14,246
Cash, end of the year		20,301	56,846

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

1. Nature of operations

Harvest One Cannabis Inc. ("Harvest One") is a publicly traded corporation, incorporated in Canada, with its head office located at 504 – 999 Canada Place, Vancouver, BC, V6C 3E1. Harvest One's common shares are listed on the TSX Venture Exchange under the symbol "HVT" and on the OTCQX® Best Market operated by OTC Market Group ("OTCQX") under the symbol "HRVOF".

These consolidated financial statements as at and for the years ended June 30, 2019 and 2018 include Harvest One and its subsidiaries (together referred to as "the Company") and the Company's interest in an affiliated company.

The principal activities of the Company are to provide innovative lifestyle and wellness products to consumers and patients in regulated markets around the world through its subsidiaries: United Greeneries Ltd. ("United Greeneries"), a Licensed Producer of cannabis pursuant to the *Cannabis Act*, and Greenbelt Greenhouse Ltd. ("Greenbelt") under the cultivation segment; Satipharm Limited ("Satipharm") and PhytoTech Therapeutics Ltd. ("PhytoTech"), both under the Company's medical and nutraceutical segment; and Dream Water Global ("Dream Water"), the Company's consumer segment, which was enhanced with the recent acquisition of Delivra Corp. ("Delivra"). The Company also has exposure to the retail vertical through its investment in Burb Cannabis Corp. ("Burb").

2. Significant accounting policies

a) Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on October 28, 2019.

b) Basis of accounting – going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company's ability to continue in the normal course of operations is dependent on its ability to achieve profitable operation or raise additional capital through debt or equity financings. While the Company has been successful in raising capital in the past, there is no assurance it will be successful in closing further financing transactions in the future.

The Company had a consolidated net loss of \$27,965 and negative operating cash flows of \$19,964 for the year ended June 30, 2019 and an accumulated deficit of \$54,450 as at June 30, 2019. These conditions indicate the existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. If for any reason the Company is unable to continue as a going concern, then this could have an impact on the Company's ability to realize assets at their recognized values, in particular goodwill and other intangible assets, and to extinguish liabilities in the normal course of business at the amounts stated in the consolidated financial statements. Management acknowledges that in the absence of securing additional capital there is uncertainty over the Company's ability to meet its funding requirements as they fall due.

c) Basis of measurement

These consolidated financial statements are presented in Canadian dollars and are prepared on a historical cost basis, except for certain financial instruments and biological assets which are measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether the price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date in accordance with IFRS 13 – *Fair Value Measurement*.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

2. Significant accounting policies (continued)

c) Basis of measurement (continued)

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. Further information on fair value measurements is available in note 6 and 10(b).

d) Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The accounts of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Intercompany transactions, balances and unrealized gains or losses on transactions are eliminated. The table below lists the Company's subsidiaries, investment in associate and the ownership interests in each:

Subsidiary	Jurisdiction	% ownership	Accounting method
United Greeneries Holdings Ltd.	Canada	100%	Consolidation
United Greeneries Ltd.	Canada	100%	Consolidation
United Greeneries Operations Ltd.	Canada	100%	Consolidation
United Greeneries Saskatchewan Ltd.	Canada	100%	Consolidation
Satipharm Limited	Ireland	100%	Consolidation
Satipharm Europe Ltd.	UK	100%	Consolidation
Satipharm AG	Switzerland	100%	Consolidation
Satipharm Canada Limited	Canada	100%	Consolidation
Satipharm Australia Pty Ltd.	Australia	100%	Consolidation
Dream Products Inc.	Canada	100%	Consolidation
Dream Products USA Inc.	USA	100%	Consolidation
Sarpes Beverages, LLC	USA	100%	Consolidation
PhytoTech Therapeutics Ltd.	Israel	100%	Consolidation
Greenbelt Greenhouse Ltd.	Canada	50.1%	Consolidation
Burb Cannabis Corp.	Canada	19.99%	Equity

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 less the fair value amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. The acquisition date is the date where the Company obtains control of the acquiree. 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.

Non-controlling interest in the acquiree is recognized either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets, determined on an acquisition-by-acquisition basis. For each acquisition, the excess of total consideration, the fair value of previously held equity interest prior to obtaining control and the non-controlling interest in the acquiree, over the fair value of the identifiable net assets acquired, is recorded as goodwill.

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 during the measurement period. The measurement period is the period from the acquisition date to the date complete information about facts and circumstances that existed as of the acquisition date is received. However, the measurement period does not exceed one year from the acquisition date.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

2. Significant accounting policies (continued)

d) *Basis of consolidation (continued)*

Asset acquisitions

Acquisitions which do not meet the definition of a business combination are accounted for as an asset acquisition. Consideration paid is allocated to the identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

Investment in associate

As associate is an entity over which the Company has significant influence and is neither a subsidiary nor a joint arrangement. The Company has significant influence when it has the power to participate in the financial and operating policy decisions of the associate but does not have control or joint control over those policies. The Company accounts for its investment in associate using the equity method.

Under the equity method, the Company's investment in associate is initially recognized at cost, including transaction costs, and subsequently increased or decreased to recognize the Company's share of net earnings or losses of the associate after any adjustments necessary to give effect to uniform accounting policies and for impairment losses after the initial recognition date. The Company's share of earnings or losses of the associate are recognized in net loss during the period. Unrealized gains and losses on transactions between the Company and its associate are eliminated to the extent of the Company's interest in the associate.

The Company assesses if there are any indicators of impairment of the carrying amount of the investment on an annual basis during the fourth quarter. An impairment test is performed when there is objective evidence of impairment, such as significant adverse changes in the external environment in which the associate operates or a significant or prolonged decline in the fair value of the investment below its carrying amount. An impairment loss is recorded when the recoverable amount becomes lower than the carrying amount.

e) *Foreign currency translation*

The presentation and functional currency of the Company is the Canadian dollar. The individual financial statements of each subsidiary are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

Foreign currency transactions are translated into the individual entity's functional currency at the exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to the functional currency of the individual entity at the foreign exchange rate applicable at that date. Realized and unrealized exchange gains and losses are recognized through the consolidated statement of loss and comprehensive loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The assets and liabilities of foreign operations are translated in Canadian dollars at year-end exchange rates while income and expenses, and cash flows are translated into Canadian dollars using average exchange rates. Exchange differences resulting from translating foreign operations are recognized in other comprehensive loss and accumulated in equity.

f) *Classification of expenses*

The Company reclassified \$390 of expenses from sales and marketing to general and administration, and \$1,509 from general and administration to acquisition costs to conform with the current year presentation.

g) *Biological assets*

The Company's biological assets consist of cannabis plants and seeds. The Company measures the biological assets in accordance with IAS 41 - *Agriculture* at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Fair value is determined based on expected future cash flows of the in-process biological assets less costs to complete. Costs to sell include post-harvest production, shipping, and fulfillment costs. Unrealized gains or losses arising from changes in fair value less costs to sell during the year are included in the results of operations of the related year. Seeds are measured at cost which approximates fair value.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

2. Significant accounting policies (continued)

h) *Production costs*

Production costs include the direct and indirect costs incurred prior to the harvest of cannabis plants. These costs include a portion of labour, quality and testing, depreciation, and utilities.

i) *Inventories*

Inventories of harvested finished goods and packing materials are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value.

Inventories of purchased product are valued at the lower of cost and net realizable value.

Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

j) *Plant, property and equipment*

Property, plant and equipment is measured at cost less accumulated depreciation. Depreciation is provided on a straight line basis over the asset's useful life commencing from the time the asset is available for use. The depreciation rates used for each class of depreciable asset are:

Office equipment	3 – 5 years
Plant and equipment	3 – 25 years
Building and leasehold improvements	23 – 40 years

An asset's residual value and useful life are reviewed during each financial year and adjusted if appropriate. Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and recognized in the consolidated statement of loss and comprehensive loss.

Assets under finance lease are amortized according to their asset category.

Construction in progress is transferred to the appropriate category of property, plant and equipment when available for use and depreciation of the asset commences at that point.

k) *Finite-life and indefinite-life intangible assets*

Intangible assets with a finite life are recorded at cost less accumulated amortization. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization is provided on a straight-line basis over their estimated useful lives:

Website	5 years
Customer relationships	7 years

The estimated useful life and amortization method are reviewed during each financial year and adjusted if appropriate, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives are comprised of acquired brand names and in-process R&D which are carried at cost. Brand names are estimated to have an indefinite life because they are expected to generate cash flows indefinitely. In-process R&D is not yet available for use and is not subject to amortization. Indefinite life intangible assets are not amortized but are tested for impairment annually and when there is an indication of impairment.

l) *Goodwill*

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill is allocated to the cash-generating unit ("CGU") to which it relates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

2. Significant accounting policies (continued)

m) *Impairment of long-lived assets*

Long-lived assets, including property, plant and equipment and intangible assets are evaluated to determine whether there is any indication that these assets are impaired at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset may exceed its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets (the 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 the consolidated statement of loss and comprehensive 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 recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

n) *Finance leases*

A lease of property, plant and equipment is classified as a finance lease if it transfers substantially all the risks and rewards of ownership to the Company. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. Property acquired under a finance lease is depreciated over the shorter of the period of expected use on the same basis as other similar property, plant and equity or the lease term.

A lease of property, plant and equipment is classified as an operating lease whenever the terms of the lease do not transfer substantially all the risks and rewards of ownership to the lessee.

o) *Warrants in associate*

The Company classifies its warrants in associate as financial assets at fair value through profit or loss ("FVTPL"). At initial recognition, the warrants are recognized at fair value and remeasured at the end of each reporting period with subsequent changes in fair value being recognized in net loss for the period.

Warrants with a positive fair value are recognized as a financial asset and are not offset in the consolidated financial statements. The warrants are presented as non-current if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months.

p) *Share capital*

The Company's common shares are classified as equity instruments. Incremental costs directly related to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. For equity offerings of units consisting of a common share and warrant, when both instruments are classified as equity, the Company bifurcates the proceeds between the common share and the warrant.

q) *Revenue recognition*

Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer, with an element of variable consideration for sales allowances to account for the potential return of goods.

Gross revenue includes excise taxes, which the Company pays as principal, but excludes duties and taxes collected on behalf of third parties. 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 from sale of goods, as presented on the consolidated statements of 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.

Net revenue as presented in the consolidated statements of loss and comprehensive loss, represents revenue from the sale of goods less applicable excise taxes, expected price discounts, and allowances for customer returns. Excise taxes are a production tax which become payable when a cannabis product is delivered to the customer and are not directly related to the value of revenue.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

2. Significant accounting policies (continued)

q) Revenue recognition (continued)

The Company's contracts with customers for the sales of cannabis, liquid sleep shots and sleep powder packets and CBD Gelpell® microsphere capsules ("CBD Gelpell® capsules") consist of one performance obligation. The Company has concluded that revenue from the sale of these products should be recognized at the point in time when the Company satisfies its performance obligation upon delivery to the customer.

r) Loss per share

Basic loss per share is calculated by dividing net loss by the weighted average number of outstanding common shares during the year. Diluted loss per share is calculated similarly but includes potential dilution from the exercise of warrants and stock options, except when the effect would be anti-dilutive.

s) 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 those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in the consolidated statement of loss and comprehensive 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.

t) Share-based compensation

The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate. Consideration paid by employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from other reserves to share capital.

u) Financial instruments

Classification of financial instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

	Classification
Cash and cash equivalents	Fair value through profit or loss
Accounts receivable	Amortized cost
Promissory note	Amortized cost
Warrants in associate	Fair value through profit or loss
Accounts payable and accrued liabilities	Other liabilities
Finance leases	Other liabilities

Financial assets

All financial assets (including assets designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Company classifies its financial assets as financial assets at fair value through profit or loss or amortized cost. A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

2. Significant accounting policies (continued)

u) *Financial instruments (continued)*

Accounts receivables and promissory notes are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value. Subsequent to initial recognition accounts receivables and promissory notes are measured at amortized cost using the effective interest method, less any impairment losses.

Financial liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company classifies its financial liabilities as either financial liabilities at fair value through profit or loss or other liabilities. Financial liabilities at fair value are stated at fair value with changes being recognized in the consolidated statement of loss and comprehensive loss. Other liabilities are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.

Transaction costs

Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Impairment of financial assets

Financial assets, other than those classified at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period or whenever circumstances dictate. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

v) *Critical accounting estimates and judgments*

The preparation of these 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.

Biological assets and inventory

In calculating the fair value of biological assets, management is required to make a number of estimates, including estimating the stage of growth of the cannabis plants up to the point of harvest, harvesting costs, selling costs, average or expected selling prices, wastage and expected yields for the cannabis plants. In calculating final inventory values, management compares the inventory cost to estimated net realizable value.

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

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives and when the asset is available for use, 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.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

2. Significant accounting policies (continued)

v) Critical accounting estimates and judgments (continued)

Share-based compensation

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

Warrants

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

Business combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. The Company must determine whether it is the acquirer or acquiree in each acquisition. Under IFRS 3 – *Business Combinations*, the acquirer is the entity that obtains control of the acquiree in the acquisition. If it is not clear which company is the acquirer, additional information must be considered, such as the combined entity's relative voting rights, existence of a large minority voting interest, composition of the governing body and senior management, and the terms behind the exchange of equity interest.

Goodwill and intangibles impairment

The Company performs an annual impairment test for goodwill and indefinite life intangible assets in the fourth quarter and whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit.

For the purpose of impairment testing, goodwill and indefinite life intangible assets are allocated to CGUs representing the lowest level that the assets are monitored for internal reporting purpose. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of each CGU containing the assets to its recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and value-in-use.

Determining whether an impairment has occurred requires valuation of the respective CGU, which management estimates using a discounted cash flow method. The discounted cash flow method uses estimates and assumptions, including actual operating results, future business plans, economic projections and market data.

Income taxes

Deferred tax assets, including those arising from tax loss carry-forwards, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depends on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

3. New accounting standards and interpretations

a) New or amended standards effective July 1, 2018

The Company has adopted the following new or amended IFRS standards for the period beginning July 1, 2018.

IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 was issued by the International Accounting Standards Board (“IASB”) replacing IAS 18 – *Revenue* (“IAS 18”). The Company adopted IFRS 15 using the modified retrospective approach and determined that there is no impact of adoption in accumulated deficit. The standard contains a five-step model that applies to contracts with customers to determine how and when to recognize revenue.

1. Identifying the contract with a customer;
2. Identifying the performance obligation(s) in the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligation(s) in the contract; and
5. Recognizing revenue when or as the Company satisfies the performance obligation(s).

The Company generates revenue from the following: (1) sale of cannabis under the Company’s Cultivation segment; (2) sale of liquid sleep shots and sleep powder packets under the Company’s Consumer segment; and (3) sale of CBD Gelpell® capsules under the Company’s Medical and Nutraceutical segment. Revenue from these segments is recognized when the Company satisfies its performance obligation upon delivery to the customer. The transaction price is typically a fixed amount of customer consideration with an element of variable consideration for sales allowances to account for the potential return of goods. The Company’s previous revenue recognition policy under IAS 18 was to recognize revenue at the time the goods were shipped and the adoption of IFRS 15 had no material impact on the revenue previously recognized.

The Company has applied IFRS 15 using the modified retrospective approach. Based on the Company’s assessment, the adoption of this new standard had no material impact on the amounts recognized in its consolidated financial statements.

Effective October 17, 2018, Canada Revenue Agency (“CRA”) began levying an excise tax on the sale of medical and recreational cannabis products. The Company becomes liable for these excise duties when cannabis products are delivered to the customer. The excise taxes payable is the higher of: (1) a flat-rate duty which is imposed when a cannabis product is packaged; and (2) 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 from sale of goods, as presented on the consolidated statements of 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.

IFRS 9 – Financial Instruments (“IFRS 9”)

IFRS 9 replaced IAS 39 – *Financial Instruments: Recognition and Measurement* (“IAS 39”) and all previous versions of IFRS 9. The Company adopted IFRS 9 using the modified retrospective approach and determined that there is no impact of adoption in the comparative periods or in accumulated deficit.

IFRS 9 introduces new requirements for classification and measurement, impairment, and hedge accounting. The standard 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. Under IFRS 9, financial assets are initially measured at fair value. In the case of a financial asset not at fair value through profit or loss, financial assets are initially measured at fair value plus transaction costs. Financial assets are subsequently measured at:

- Amortized cost;
- Fair value through other comprehensive income (“FVOCI”); or
- FVTPL.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

3. New accounting standards and interpretations (continued)

a) New or amended standards effective July 1, 2018 (continued)

The classification is based on whether the contractual cash flow characteristics represent “solely payment of principal and interest” as well as the business model under which the financial assets are managed. Financial assets are required to be reclassified only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

Consistent with IAS 39, all financial liabilities held by the Company under IFRS 9 are initially measured at fair value and subsequently measured at amortized cost.

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
Cash and cash equivalents	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Promissory note	Loans and receivables	Amortized cost
Warrants in associate	Not applicable	FVTPL
Accounts payable and accrued liabilities	Other liabilities	Other liabilities
Finance leases	Other liabilities	Other liabilities

Impairment of financial assets

Under IFRS 9, the Company is required to apply an expected credit loss (“ECL”) model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the balance sheet date. For trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected losses taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions. The Company has assessed the impairment of its accounts receivable using the ECL model and no material difference was noted based on a collectability assessment of the outstanding receivables. As a result, no impairment loss has been recognized upon transition.

b) Recent accounting pronouncements

The following IFRS standard has been recently issued by the IASB. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

IFRS 16 – Leases (“IFRS 16”)

In January 2016, the IASB issued IFRS 16, which will replace IAS 17 – Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The Company intends to adopt IFRS 16 on July 1, 2019 and is currently assessing the impact of this new standard on its consolidated financial statements.

4. Accounts receivable

The summary of the Company's accounts receivable is as follows:

	June 30 2019	June 30 2018
	\$	\$
Trade receivables	2,577	460
Taxes recoverable from governments	731	530
	3,308	990

At the reporting date, the Company assessed the collectability of the balance and concluded that none of the receivables were uncollectible.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

5. Inventories

The summary of the Company's inventories is as follows:

	June 30 2019 \$	June 30 2018 \$
Harvested cannabis		
Work-in-process	3,974	3,084
Finished goods	1,328	—
	5,302	3,084
CBD Gelpell® capsules		
Raw materials	1,399	140
Finished goods	748	—
	2,147	140
Liquid sleep shots and sleep powder packets		
Raw materials	650	260
Finished goods	652	846
	1,302	1,106
Packaging and supplies	332	254
	9,083	4,584

a) Harvested cannabis

During the year ended June 30, 2019, cost of sales on cannabis inventory sold was \$5,580 (2018 - \$137), of which \$4,499 (2018 - \$137) related to realized fair value changes and \$1,081 (2018 - \$nil) related to costs incurred to sell harvested cannabis inventory.

The Company regularly reviews its harvested cannabis inventory for quality and freshness. During the year ended June 30, 2019, 34,090 (2018 – 69,270) grams of cannabis inventory did not meet the quality standards for dried flower sale and therefore, was revalued as extraction grade cannabis. As a result, the Company recognized an impairment of \$181 (2018 – \$210) of harvested cannabis to reduce the carrying amount to its estimated net realizable value.

b) CBD Gelpell® capsules

The Company regularly assesses the net realizable value of its CBD Gelpell® capsules. At June 30, 2018, the CBD Gelpell® capsules on hand had a limited remaining shelf life. As a result, the Company impaired approximately \$464 of CBD Gelpell® capsules to reduce the carrying amount to its estimated net realizable value. There was no write-down of CBD Gelpell® capsules for the year ended June 30, 2019.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

6. Biological assets

The continuity of biological assets, which consists of seeds and cannabis plants, is as follows:

	June 30 2019	June 30 2018
	\$	\$
Balance, beginning of year	904	110
Unrealized change in fair value of biological assets	3,992	3,596
Transferred to inventory upon harvest	(4,039)	(2,802)
Balance, end of year	857	904

As at June 30, 2019, included in the carrying amount of biological assets was \$821 in cannabis plants and \$36 in seeds (2018 – \$883 in cannabis plants and \$21 in seeds).

Biological assets are valued in accordance with IAS 41 – *Agriculture* and are presented at their fair value less costs to sell up to the point of harvest. The fair value measurements for biological assets have been categorized as Level 3 of the fair value hierarchy based on the inputs to the valuation technique used, as there is currently no actively traded commodity market for plants. The fair value was determined using a valuation model to estimate the expected harvest yield per plant applied to the estimated fair value less costs to sell per gram. The significant assumptions applied in determining the fair value of biological assets are as follows:

- wastage of plants based on their various stages;
- expected yield by strain of plant of approximately 21 grams per plant based on an average of historical growing results (2018 – approximately 20 grams per plant);
- percentage of costs incurred to date compared to the estimated total costs to be incurred (“stage of plant growth”);
- percentage of costs incurred for each stage of plant growth;
- selling price which is between \$7.80 and \$10.20 per gram; and
- selling costs which is between \$1.50 and \$3.80 per gram.

The selling price used in the valuation of biological assets is based on the average selling price of cannabis products for the recreational market and can vary based on different strains being grown. Expected yields for the cannabis plant is also subject to a variety of factors, such as strains being grown, length of growing cycle, and space allocated for growing. Selling costs include packaging, labelling, shipping, and other costs incurred to sell cannabis products for the recreational market.

The Company periodically assesses the significant assumptions applied in determining the fair value of biological assets based on historical information obtained as well as planned production schedules. When there is a material change in any of the significant assumptions, the fair value of biological assets is adjusted.

During the year ended June 30, 2019, the Company determined that the fair value less costs to sell was \$6.30 per gram (2018 - \$6.45 per gram).

These estimates are subject to volatility and a number of uncontrollable factors which could significantly affect the fair value of biological assets in future periods. A 10% increase or decrease in the fair value less costs to sell or in the expected yield would result in an increase or decrease of approximately \$104 in biological assets at June 30, 2019 (2018 – \$126).

On average, the growth cycle is 13 weeks and for in-process biological assets, the fair value at point of harvest is adjusted based on the stage of plant growth. As at June 30, 2019, on average, the biological assets were 65% complete as to the next expected harvest date (2018 – 64%).

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

7. Prepaid expenses and deposits

The summary of the Company's prepaid expenses and deposits is as follows:

	June 30 2019	June 30 2018
	\$	\$
Prepayments	976	997
Deposits	636	684
	1,612	1,681

On March 3, 2019, the Company entered into a definitive arrangement agreement (the "Agreement") to acquire all the outstanding shares of Delivra Corp. ("Delivra"). Concurrent with the execution of the Agreement, the Company entered into a services agreement with Delivra in the amount of \$250. Under the terms of the services agreement, Delivra will provide the Company with certain product formulations. As at June 30, 2019, \$150 is included in prepayments based on services received from Delivra.

Subsequent to June 30, 2019, the Company acquired 100% of the outstanding shares of Delivra as described in note 25(a).

8. Promissory note

Concurrent with the execution of the Agreement as described in note 7, the Company provided Delivra with a loan in the amount of \$250 bearing interest at 6% per annum and having a term of one year. The balance at June 30, 2019 includes \$5 of accrued interest.

Subsequent to June 30, 2019, the Company acquired 100% of the outstanding shares of Delivra as described in note 25(a).

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

9. Property, plant and equipment

The summary of the Company's property, plant and equipment is as follows:

	Plant and equipment \$	Office equipment \$	Building and leasehold improvements \$	Land \$	Construction in progress \$	Total \$
Cost						
July 1, 2017	2,141	238	5,001	431	907	8,718
Additions	492	148	256	964	902	2,762
Disposals	(58)	—	—	—	—	(58)
June 30, 2018	2,575	386	5,257	1,395	1,809	11,422
Accumulated depreciation						
July 1, 2017	405	39	10	—	—	454
Depreciation	223	59	146	—	—	428
June 30, 2018	628	98	156	—	—	882
Net book value						
June 30, 2018	1,947	288	5,101	1,395	1,809	10,540
Cost						
July 1, 2018	2,575	386	5,257	1,395	1,809	11,422
Additions	143	132	19	—	12,252	12,546
Additions from Greenbelt acquisition (note 12)	2,742	17	6,604	461	—	9,824
Transfers	388	—	—	—	(388)	—
Disposals and write-downs	(1,278)	—	—	—	(327)	(1,605)
June 30, 2019	4,570	535	11,880	1,856	13,346	32,187
Accumulated depreciation						
July 1, 2018	628	98	156	—	—	882
Depreciation	334	113	200	—	—	647
Disposals and write-downs	(467)	—	—	—	—	(467)
June 30, 2019	495	211	356	—	—	1,062
Net book value						
June 30, 2019	4,075	324	11,524	1,856	13,346	31,125

a) Construction in progress

Additions to construction in progress during the year ended June 30, 2019 mainly relate to: (1) the construction of a 68,000 square foot indoor flowering facility at the Lucky Lake property in Saskatchewan; and (2) the modular expansion on the land adjacent to the Duncan facility as described in note 9(b). The amounts capitalized to construction in progress related to these projects will be transferred to other classes of property, plant and equipment upon completion and will be depreciated over their respective useful lives once available for use.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

9. Property, plant and equipment (continued)

b) Asset impairment and write-downs

On August 10, 2018, the Company terminated a five-year lease agreement for a site located in Aldergrove, British Columbia ("BC") for the construction of a 59,000 square foot facility. The Company completed a feasibility audit and, in light of the results and regulatory changes, decided not to proceed with this facility. During the year ended June 30, 2019, approximately \$200 in costs related to the Aldergrove site were written-off. These costs consisted of amounts capitalized in construction in progress and prepaid expenses and deposits.

During the year ended June 30, 2019, the Company commenced a modular expansion that will increase the annual production capacity of harvested cannabis on the land adjacent to the Duncan facility which United Greeneries has under lease. As a result, the amounts capitalized in construction in progress of approximately \$279 related to other planned projects for the previously vacant land were written-off.

During the year ended June 30, 2019, the Company underwent a security upgrade at its Duncan facility to replace its existing security equipment. As a result, the Company recognized an impairment of \$807 to reduce the carrying amount of the existing equipment to its net realizable value.

10. Investment in associate

The summary of the Company's investment in associate is as follows:

	June 30 2019 \$	June 30 2018 \$
Investment in associate	1,102	—
Warrants in associate	763	—
	1,865	—

a) Investment in associate

On September 28, 2018, the Company invested \$1,750 (\$1,791 including acquisition-related costs) to acquire 5,042,000 Class E common shares and 3,268,870 common share purchase warrants in Burb. Burb is a BC-based retailer of cannabis and cannabis-related products. The shares currently provide the Company with a 19.99% ownership interest in Burb, which is the maximum investment permitted by a Licensed Producer in a retail cannabis business under applicable BC law and regulation.

The 3,268,870 common share purchase warrants received have an exercise price of \$0.5354 per warrant expiring on September 28, 2023 ("Burb warrants"). The consideration paid has been allocated between the value of the Class E common shares and the Burb warrants at the date of acquisition (note 10(b)).

Management has determined that the ownership interest in addition to board representation provides the Company with significant influence over Burb. Therefore, the Company has accounted for the investment under the equity method.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

10. Investment in associate (continued)

a) Investment in associate (continued)

The following table summarizes the financial information of Burb at 100% as at September 28, 2018, prior to the investment made by the Company:

Current assets	\$	90
Non-current assets		15
Current liabilities		(13)
Non-current liabilities		(93)
Net liabilities		(1)

The following table summarizes the carrying amount of the Company's interest in Burb as at September 30, 2018 and June 30, 2019:

Company's share (%)		19.99%
Share of net liabilities	\$	—
Acquisition-related costs		41
Goodwill		1,278
Total carrying amount, September 30, 2018		1,319
Share of loss for the year ended June 30, 2019		(217)
Total carrying amount, June 30, 2019		1,102

b) Warrants in associate

As part of the investment in Burb as described in note 10(a), the Company received 3,268,870 Burb warrants at an exercise price of \$0.5354 per warrant. The Burb warrants expire on September 28, 2023 and will allow the Company to increase its equity position by a further 11.5%.

The fair value of the Burb warrants was estimated using the Black-Scholes option pricing model with the following weighed average assumptions at June 30, 2019 and September 28, 2018:

Risk-free interest rate	2.38%
Expected life of Burb warrants (years)	4.25 - 5.00
Expected annualized volatility	116.21% - 117.62%
Expected dividend yield	Nil

As Burb is a privately held company, volatility was estimated by using the historical volatility of comparable public companies. The expected life in years represents the period of time that the Burb warrants 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 Burb warrants.

The Burb warrants are fair valued at the end of each reporting period with changes in fair value being recognized in net loss in the period. During the year ended June 30, 2019, an unrealized gain of \$291 was recognized.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

11. Intangible assets

The summary of the Company's intangible assets is as follows:

	Brand names	In-process R&D	Customer relationships	Website and other	Total
	\$	\$	\$	\$	\$
Cost					
July 1, 2017	—	—	—	32	32
Additions	—	—	—	26	26
Additions from Dream Water acquisition	4,190	—	1,540	—	5,730
June 30, 2018	4,190	—	1,540	58	5,788
Accumulated amortization					
July 1, 2017	—	—	—	1	1
Amortization	—	—	19	9	28
June 30, 2018	—	—	19	10	29
Net book value					
June 30, 2018	4,190	—	1,521	48	5,759
Cost					
July 1, 2018	4,190	—	1,540	58	5,788
Additions	—	—	—	148	148
Additions from PhytoTech acquisition (note 12)	—	4,659	—	—	4,659
June 30, 2019	4,190	4,659	1,540	206	10,595
Accumulated amortization					
July 1, 2018	—	—	19	10	29
Amortization	—	—	220	12	232
June 30, 2019	—	—	239	22	261
Net book value					
June 30, 2019	4,190	4,659	1,301	184	10,334

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

12. Asset acquisitions and business combinations

The summary of the Company's asset acquisition and business combination completed during the year ended June 30, 2019 is as follows:

Acquisitions completed during the year ended June 30, 2019	PhytoTech (a)	Greenbelt (b)	Total
	\$	\$	\$
Consideration transferred			
Cash paid	1,000	3,250	4,250
Common shares issued	3,580	3,346	6,926
Cash acquisition costs paid	103	—	103
	4,683	6,596	11,279
Purchase price allocation			
Net assets acquired	24	8,904	8,928
Intangible assets			
In process R&D	4,659	—	4,659
Non-controlling interest	—	(4,274)	(4,274)
Goodwill	—	1,966	1,966
	4,683	6,596	11,279
Non-controlling interest at acquisition (%)	0%	48%	
Net assets acquired			
Cash and cash equivalents	28	302	330
Accounts receivables	2	51	53
Prepaid expenses and deposits	—	7	7
Inventories	—	104	104
Property, plant and equipment	—	9,824	9,824
Assets acquired	30	10,288	10,318
Accounts payable and accrued liabilities	(6)	(457)	(463)
Finance leases	—	(280)	(280)
Deferred tax liability	—	(647)	(647)
	24	8,904	8,928
Net cash outflows			
Cash consideration	1,103	3,250	4,353
Less: cash acquired	(28)	(302)	(330)
	1,075	2,948	4,023
Acquisition costs expensed			
Year ended June 30, 2019	—	152	152

a) *PhytoTech Therapeutics Ltd.*

On November 20, 2018, the Company acquired 100% of the net assets of PhytoTech, an Israeli-based pharmaceutical research and development ("R&D") company that develops cannabinoid-based drug products for a variety of clinical trials to service the medical market and administers clinical trials using Satipharm's proprietary CBD Gelpell® capsules.

The Company acquired all of the outstanding shares of PhytoTech from the Company's majority shareholder MMJ Group Holdings Limited ("MMJ") for a total consideration of \$4,580, which consisted of \$1,000 cash and 8,326,695 common shares with a fair value of \$3,580 based on the closing share price of the Company's common shares on November 20, 2018.

The acquisition was a related party transaction, measured at the exchange value being the amounts agreed to by the parties, and was reviewed and approved by the independent members of the Company's Board of Directors. The transaction was accounted for as an asset acquisition.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

12. Asset acquisitions and business combinations (continued)

b) Greenbelt Greenhouse Ltd.

On March 29, 2019, the Company acquired a 52% ownership interest in Greenbelt, a private Canadian company located in Hamilton, Ontario to control significant production of high-quality greenhouse grown cannabis for newly infused formulations of the Company's existing brands. The Company acquired 52% of Greenbelt's issued and outstanding shares for an aggregate consideration of \$6,596, consisting of \$3,250 cash and 3,521,600 common shares, with a fair value of \$3,346 based on the closing share price of the Company's common shares on March 29, 2019.

The transaction was accounted for as a business combination in accordance with IFRS 3 – *Business Combinations*. The non-controlling interest recognized at the acquisition date was recorded at its proportionate share of Greenbelt's fair value of identifiable net assets.

Goodwill arose from the acquisition as the consideration paid reflects: (1) the benefit of the acquired workforce and (2) expected revenue growth. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. No amount of goodwill is expected to be deductible for tax purposes.

Due to the timing of this acquisition, the purchase price allocation for the Greenbelt acquisition is provisional based on estimated fair value of the identifiable assets acquired and liabilities assumed at the acquisition date. The values assigned are, therefore, preliminary and subject to change as additional information is received. Management continues to refine and finalize its purchase price allocation for the fair value of identifiable intangible assets and the allocation of goodwill.

During the year ended June 30, 2019, preliminary acquisition date values have been adjusted from the preliminary values reported as at the acquisition date. Management retrospectively recorded a \$930 decrease in net assets acquired, resulting in a \$446 and \$484 increase to non-controlling interest and goodwill, respectively.

For the year ended June 30, 2019, Greenbelt contributed a net loss of \$227 since the March 29, 2019 acquisition date. If the acquisition had been completed on July 1, 2018, the Company estimates it would have recorded an increase of \$1,283 in net loss for the year ended June 30, 2019.

Non-controlling interest has been recognized at the non-controlling interest proportionate share of the acquiree's net assets. Subsequent to the acquisition, Harvest One's interest in Greenbelt has been diluted to 50.1% by the issuance of additional equity by Greenbelt. The following is a continuity of Greenbelt's non-controlling interest:

Balance, June 30, 2018	\$	—
Non-controlling interest arising on acquisition of Greenbelt		4,274
Non-controlling interest adjustment for change in ownership interests		428
Share of loss for the year ended June 30, 2019		(113)
Balance, June 30, 2019		4,589

The Company also entered into a loan facility agreement with Greenbelt dated March 29, 2019, pursuant to which the Company agreed to provide a secured bridge loan facility to Greenbelt of up to \$3,500 bearing interest of 4.5% per annum over a one-year term. Under the loan facility, Greenbelt may draw down funds for the purpose of completing the planned retrofit of Greenbelt's greenhouse facility.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

12. Asset acquisitions and business combinations (continued)

The summary of the Company's business combination completed during the year ended June 30, 2018 is as follows:

Acquisitions completed during the year ended June 30, 2018	Dream Water (c) \$
Consideration transferred	
Cash paid	16,275
Common shares issued	15,900
Settlement of intercompany balances	1,307
	33,482
Purchase price allocation	
Net assets acquired	35
Intangible assets	
Customer relationships	1,540
Brand name	4,190
Goodwill	27,717
	33,482
Net assets acquired	
Cash	760
Accounts receivables	150
Prepaid expenses and deposits	198
Inventories	1,392
Property, plant and equipment	32
Assets acquired	2,532
Accounts payable and accrued liabilities	(1,725)
Shareholder loan	(400)
Security deposit	(117)
Loan payable	(255)
	35
Net cash outflows	
Cash consideration	17,582
Less: cash acquired	(760)
	16,822
Acquisition costs expensed	
Year ended June 30, 2018	1,509

c) Dream Water

On May 29, 2018, the Company completed the acquisition of all outstanding shares of Dream Water Canada and Dream Water USA for a total consideration of \$33,482, which consisted of \$16,275 cash; 18,488,954 common shares with a fair value of \$15,900 based on the closing market price of the Company's common shares on May 24, 2018, which is the closing date of the Dream Water Canada acquisition; and \$1,307 from the settlement of intercompany balances.

Dream Water delivers a ready-made consumer goods marketing, distribution, and production development division to the Company. The transaction was accounted for as a business combination in accordance with IFRS 3 – Business Combinations.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

12. Asset acquisitions and business combinations (continued)

c) Dream Water (continued)

Goodwill arose from the acquisition as the consideration paid reflected: (1) the benefit of the acquired workforce; (2) expected revenue growth; and (3) future product and market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The amount of goodwill that is expected to be deductible for tax purposes is approximately \$10,483.

In connection with the acquisition, the Company issued 517,000 warrants with a value of \$225 issued to the broker on May 29, 2018 (note 18(b)).

During the year ended June 30, 2019, management finalized the purchase price allocation of Dream Water and adjusted the based on estimated fair value of the identifiable assets acquired and liabilities assumed at the acquisition date. As a result of measurement period adjustments, management retrospectively recorded a \$160 decrease in net assets acquired, resulting in \$160 increase to goodwill.

For the year ended June 30, 2019, Dream Water contributed revenue of \$5,747 (2018 – \$442) and a net loss of \$2,348 (2018 – \$531).

13. Goodwill

The summary of the Company's goodwill is as follows:

	June 30 2019	June 30 2018
	\$	\$
Dream Water acquisition	21,617	27,717
Greenbelt acquisition (note 12(b))	1,966	—
	23,583	27,717

During the year ended June 30, 2019, the Company continued to integrate its Dream Water operations and, in the process, identified approximately 400,000 sleep powder packets in inventory which did not meet the quality standards for retail sale and therefore, were destroyed. The products identified were in this condition pre-dating the acquisition date. As a result, the preliminary purchase price allocation was adjusted by \$160 to reflect the one-time write-down of sleep powder inventory to its net realizable value which increased the goodwill that arose from the Dream Water acquisition.

During the fourth quarter ended June 30, 2019, the Company performed its annual impairment test on goodwill and concluded that the carrying value of the Dream Water CGU exceed the recoverable amount. As such, the Company recognized an impairment charge of \$6,100 in the consumer segment to reduce the carrying value to the recoverable amount.

The recoverable amount of the Dream Water CGU was determined based on a fair value less costs of disposal calculation using cash flow projections covering a five-year period based on management's best estimates. The fair value less costs of disposal was calculated by discounting the future cash flow projections and terminal value of the Dream Water CGU using level 3 inputs in the fair value hierarchy. Key assumptions used in the calculation of the recoverable amount include future cash flows and growth rates, weighted average cost of capital and terminal growth rate. Management used a range of growth rates between 7% to 75%, a discount rate of 17% and a terminal growth rate of 2%. These key assumptions were based on historical data from internal sources as well as industry and market trends.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

14. Accounts payable and accrued liabilities

The summary of the Company's accounts payable and accrued liabilities is as follows:

	June 30 2019	June 30 2018
	\$	\$
Trade payables	3,586	1,245
Accrued liabilities	4,143	2,279
Payroll liabilities	325	314
Other payables	247	272
	8,301	4,110

Trade payables and accrued liabilities are non-interest bearing. Trade payables are normally settled on a 30-day basis. Other payables are non-interest bearing and have an average term of 30 days. All amounts are expected to be settled within 12 months.

15. General and administration expenses

The summary of the Company's general and administration expenses is as follows:

	June 30 2019	June 30 2018
	\$	\$
Insurance	530	155
Investor relations	395	390
Office and general	1,359	674
Professional and consulting services	2,733	1,865
Regulatory	69	379
Rent	462	200
Salaries, bonus and benefits	7,591	2,936
Travel	848	709
	13,987	7,308

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

16. Convertible debenture units

The summary of the Company's convertible debenture units is as follows:

	June 30 2019	June 30 2018
	\$	\$
Balance, beginning of year	—	—
Issued	—	20,729
Equity portion	—	(7,604)
Conversion	—	(13,304)
Accretion	—	179
Balance, end of year	—	—

On December 14, 2017, the Company completed a bought deal financing ("the Offering") of unsecured convertible debentures units ("the Debenture Units") for the gross principal amount of \$20,125. Each Debenture Unit consisted of \$1 principal amount unsecured convertible debentures of the Company ("the Convertible Debentures") and 458 common share purchase warrants ("Debenture Warrants") of the Company.

Each Debenture Warrant entitles the holder to acquire one common share for an exercise price of \$1.09 until December 14, 2020. The Company could accelerate the expiry date of the Debenture Warrants if the closing price of the Company's common shares equaled or exceeded \$1.64 for ten consecutive days.

The Convertible Debentures bore interest at 8.0% per annum, payable semi-annually on June 30 and December 31 of each year and would mature on December 14, 2022. The Convertible Debentures were convertible into common shares of the Company at a price of \$0.84 per share, subject to forced conversion at the Company's option if the volume weighted average price ("VWAP") of the Company's common shares equaled or exceeded \$1.40 per share for 30 consecutive trading days.

The Company paid the underwriters a cash commission equal to 6.0% of the aggregate principal amount of the Debenture Units issued. In addition, the Company issued the underwriters 604 Debenture Units. Issuance costs were allocated between the liability and equity components of the Debenture Units.

The liability component of the Convertible Debentures was valued using Company specific interest rates assuming no conversion features exist. The debt component was to be accreted to face value over the term to maturity as a non-cash interest charge and the equity component is presented in other reserves as a separate component of equity. The Debenture Warrants were valued based on the quoted price in active markets. The residual amount after valuing the liability component of the Convertible Debentures and Debenture Warrants was allocated to the equity component of the Convertible Debentures.

On February 23, 2018, the Company exercised its option to convert the remaining principal amount of the Convertible Debentures outstanding into common shares of the Company at a price of \$0.84 as the VWAP of the Company's common shares exceeded \$1.40 per share for 30 consecutive trading days. The conversion was completed on March 28, 2018.

During the year ended June 30, 2018, the Company recorded \$1,511 of deferred financing fee amortization and \$179 of accretion expense which are both included in finance costs. In addition, the Company paid interest of \$87 and issued 24,773,056 common shares on conversion of \$20,729 convertible debentures, including \$80 in interest.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

17. Share capital

a) Authorized

The Company has an unlimited number of authorized common shares with no par value.

b) Issued capital

At June 30, 2019, 185,619,747 common shares (2018 – 173,621,452) were issued and fully paid.

(i) Acquisitions

During the years ended June 30, 2019 and 2018, the Company issued the following shares for business combinations:

	Number of shares #	Share capital \$
Year ended June 30, 2019		
Acquisition of PhytoTech	8,326,695	3,580
Acquisition of Greenbelt	3,521,600	3,346
	11,848,295	6,926
Year ended June 30, 2018		
Acquisition of Dream Water	18,488,954	15,900
	18,488,954	15,900

(ii) Convertible debentures, options and warrants

During the years ended June 30, 2019 and 2018, the Company issued the following shares on the conversion of convertible debentures and exercise of options and warrants:

	Note	Number of shares #	Share capital \$	Reserves \$
Year ended June 30, 2019				
Exercise of warrants	18(b)	350,104	431	(131)
		350,104	431	(131)
Year ended June 30, 2018				
Conversion of convertible debentures	16	24,773,056	16,716	(3,331)
Exercise of options	18(a)	220,000	288	(123)
Exercise of warrants	18(b)	18,183,138	20,608	(2,402)
		43,176,194	37,612	(5,856)

(iii) Equity financing

On January 31, 2018, the Company completed a bought deal financing ("Units Offering") of 22,115,385 units at a price of \$1.82 per unit for gross proceeds of \$40,250. Each unit consists of one common share and one common share purchase warrant ("Units Offering Warrants"). Each Units Offering Warrant entitles the holder to purchase one common share at an exercise price of \$2.30 per Units Offering Warrant until January 31, 2020 (note 17(b)).

The Company paid the underwriters a cash commission of 6.0% of the aggregate principal amount of the Units issued. In addition, the Company issued the underwriters 663,461 brokers' compensation units warrants ("Brokers' Units Offering Warrants").

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

18. Other reserves

The summary of the Company's other reserves is as follows:

	Share-based awards (a)	Warrants (b)	Convertible debenture units	Other (c)	Total
	\$	\$	\$	\$	\$
June 30, 2017	1,454	1,307	—	637	3,398
Share-based compensation	2,134	—	—	—	2,134
Stock options exercised	(123)	—	—	—	(123)
Share-based compensation (options issued by MMJ)	—	—	—	106	106
Fair value of warrants issued	—	10,027	—	—	10,027
Warrants exercised	—	(2,402)	—	—	(2,402)
Convertible debenture units issued	—	—	3,331	—	3,331
Issuance costs on warrants issued	—	716	—	—	716
Convertible debentures converted	—	—	(3,331)	—	(3,331)
June 30, 2018	3,465	9,648	—	743	13,856
Share-based compensation	4,245	—	—	—	4,245
Warrants exercised	—	(131)	—	—	(131)
Change in ownership interests in subsidiaries (note 12(b))	—	—	—	72	72
June 30, 2019	7,710	9,517	—	815	18,042

a) Share-based awards

(i) Stock options

The Company has established a share purchase option plan ("Plan") whereby the Company's Board of Directors may from time to time grant stock options to employees and non-employees. The maximum number of shares that may be reserved for issuance under the Plan is 10% of the issued and outstanding common shares of the Company. Vesting is determined by the Board of Directors.

The continuity of the Company's stock options at June 30, 2019 and 2018 is as follows:

	Number outstanding #	Weighted average exercise price \$
Outstanding at July 1, 2017	8,050,000	0.75
Granted	2,275,000	1.01
Exercised	(220,000)	0.75
Forfeited	(1,080,000)	0.75
Outstanding at June 30, 2018	9,025,000	0.82
Granted	12,460,000	0.79
Expired	(2,113,334)	0.75
Forfeited	(1,586,666)	0.98
Outstanding at June 30, 2019	17,785,000	0.79

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

18. Other reserves (continued)

a) Share-based awards (continued)

(i) Stock options (continued)

The number of options outstanding and exercisable at June 30, 2019 is as follows:

Expiry date	Number of stock options outstanding	Exercise price	Number of stock options exercisable
	#	\$	#
July 6, 2019	1,500,000	0.75	1,500,000
December 31, 2019	400,000	0.75	400,000
April 27, 2022	2,550,000	0.75	2,550,000
January 25, 2023	150,000	1.77	75,000
May 28, 2023	925,000	0.84	462,500
July 3, 2023	8,000,000	0.77	1,200,003
September 18, 2023	1,050,000	0.91	—
October 30, 2023	300,000	0.54	—
April 22, 2024	2,415,000	0.85	75,000
June 17, 2024	495,000	0.68	—
	17,785,000		6,262,503

(ii) Performance appreciation rights

On July 3, 2018, 2,500,000 performance appreciation rights ("PAR") were granted to certain Executives of the Company. Each PAR entitles the holder to purchase one common share at an exercise price of \$0.77 for a period of five years following the grant date, of which 375,000 PARs vested immediately and the remaining PARs vest evenly over three years. The Company may, in its sole discretion, replace all or part of the outstanding PARs granted with stock options on a one for one exchange basis.

In determining the amount of share-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of stock options and PARs granted during the year ended June 30, 2019 by applying the following assumptions:

	June 30 2019	June 30 2018
Risk-free interest rate	1.35% – 2.29%	1.77% – 2.12%
Expected life of options and PARs (years)	3.59	3.59
Expected annualized volatility	86.47% – 102.56%	89.50% – 94.76%
Expected dividend yield	Nil	Nil

Volatility was estimated by using the historical prices of the Company's common shares. The expected life in years represents the period of time that the stock options and PARs 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 stock option and PAR.

The Company intends to settle the PARs through equity instruments and used the Black-Scholes option pricing model to establish the fair value of the PARs to determine the amount of share-based compensation during the year ended June 30, 2019.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

18. Other reserves (continued)

b) Warrants

The continuity of the Company's warrants at June 30, 2019 and 2018 is as follows:

	RTO Warrants (i)	Brokers' RTO Warrants and Secondary Warrants (ii)	Debenture Warrants (iii)	Units Offering Warrants (iv)	Brokers' Units Offering Warrants (v)	Dream Water Warrants (vi)	Total number outstanding #	Weighted average exercise price \$
Outstanding at June 30, 2017	16,667,000	2,000,040	—	—	—	—	18,667,040	0.97
Issued	—	600,002	9,493,882	22,115,385	663,461	517,000	33,389,730	1.91
Exercised	(13,290,532)	(1,300,006)	(3,592,600)	—	—	—	(18,183,138)	1.00
Outstanding at June 30, 2018	3,376,468	1,300,036	5,901,282	22,115,385	663,461	517,000	33,873,632	1.88
Issued	—	100,002	—	—	—	—	100,002	1.00
Exercised	(150,000)	(200,004)	(100)	—	—	—	(350,104)	0.86
Outstanding at June 30, 2019	3,226,468	1,200,034	5,901,182	22,115,385	663,461	517,000	33,623,530	1.89

(i) RTO Warrants

In connection with the private placement on April 26, 2017, the Company issued 16,667,000 RTO Warrants.

During the year ended June 30, 2019, 150,000 (2018 – 13,290,532) RTO warrants were exercised at \$1.00 per warrant for proceeds of \$150 (2018 – \$13,291) and exchanged for 150,000 (2018 – 13,290,532) common shares.

(ii) Brokers' RTO Warrants and Secondary Warrants

In connection with the private placement on April 26, 2017, the Company also issued 2,000,040 warrants to the Brokers ("Brokers' RTO Warrants") with an exercise price of \$0.75 per warrant and which expire 36 months from the date of issue. Upon exercise of the Brokers' RTO Warrants, the Company will issue one common share and one-half common share purchase warrant ("Secondary Warrant"). Each whole Secondary Warrant will be exercisable into one common share of the Company with an exercise price of \$1.00 per warrant and expire 36 months from the issuance of the Secondary Warrant.

During the year ended June 30, 2019, 200,004 (2018 – 1,200,004) Brokers' RTO Warrants were exercised for proceeds of \$150 (2018 – \$900) and exchanged for 200,004 (2018 – 1,200,004) common shares. In addition, during the year ended June 30, 2018, 100,002 Secondary Warrants were exercised for proceeds of \$100 and exchanged for 100,002 common shares.

(iii) Debenture Warrants

In connection with the Offering on December 14, 2017, the Company issued 9,493,882 Debenture Warrants (note 16). Upon exercise of the Debenture Warrants, the Company will issue one common share.

During the year ended June 30, 2019, 100 (2018 – 3,592,600) Debenture Warrants were exercised for proceeds of \$0.1 (2018 – \$3,916) and exchanged for 100 (2018 – 3,592,600) common shares.

(iv) Units Offering Warrants

In connection with the Units Offering, the Company issued 22,115,385 Units Offering Warrants (note 17(b)). Upon exercise of the Units Offering Warrants, the Company will issue one common share.

The Units Offering Warrants were valued based on the quoted price in active markets.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

18. Other reserves (continued)

b) Warrants (continued)

(v) Brokers' Units Offering Warrants

In connection with the Units Offering on January 31, 2018, the Company also issued 663,461 Broker's Units Offering Warrants to the Brokers with an exercise price of \$2.30 per warrant and which expire 24 months from the date of issue. Upon exercise of the Brokers' Units Offering Warrants, the Company will issue one common share.

(vi) Dream Water Warrants

In connection with the Dream Water acquisition on May 29, 2018, the Company issued 517,000 warrants to the broker with an exercise price of \$1.00 per warrant and which expire 36 months from the date of issue ("Dream Water Warrants"). Upon exercise of the Dream Water Warrants, the Company will issue one common share.

The Company's outstanding warrants at June 30, 2019 is as follows:

	Issued #	Exercised #	Outstanding #	Exercise price \$	Expiry date
Reverse Take-Over ("RTO") Warrants	16,667,000	13,440,532	3,226,468	1.00	April 27, 2020
Brokers' RTO warrants	2,000,040	1,400,008	600,032	0.75	April 27, 2020
Brokers' Secondary Warrants	700,004	100,002	600,002	1.00	January 4, 2021
Debenture Warrants	9,493,882	3,592,700	5,901,182	1.09	December 14, 2020
Units Offering Warrants	22,115,385	—	22,115,385	2.30	January 31, 2020
Brokers' Units Offering Warrants	663,461	—	663,461	2.30	January 31, 2020
Dream Water Warrants	517,000	—	517,000	1.00	May 29, 2021
	52,156,772	18,533,242	33,623,530		

c) Other

During the year ended June 30, 2018, the Company recorded \$106 in share-based compensation expense as a result of vesting of stock options from MMJ, issued to employees of Harvest One, United Greeneries and Satipharm in previous years, whereby the Company incurred the expense as it was the primary recipient of the services provided.

19. Related parties

In addition to the related party transaction described in note 12(a), the Company had the following related party transactions:

a) Compensation of key management personnel

Key management personnel ("KMP") include persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The KMP of the Company are the members of the Company's executive management team and Board of Directors. Compensation provided to KMP is as follows:

	June 30 2019 \$	June 30 2018 \$
Salaries and benefits	1,448	745
Severance costs	947	—
Consulting fees	80	265
Directors' fees	124	126
Share-based compensation	3,555	1,499
Total	6,154	2,635

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

19. Related parties (continued)

b) Payments to related parties

As at June 30, 2019, there was \$33 directors' fees owing (2018 – \$27) included in accounts payable and accrued liabilities.

During the year ended June 30, 2019, the Company paid \$22 (2018 – \$41) in legal fees to a law firm owned by a director of the Company.

During the year ended June 30, 2018, the Company assumed a \$400 shareholder loan as part of the acquisition of Dream Water Canada. The former shareholder of Dream Water Canada was subsequently appointed as an officer of the Company and the Company repaid the shareholder loan in full.

c) Severance payments

The Company paid \$750 to the former Chief Executive Officer and \$120 to the former Chief Financial Officer of the Company in accordance with the terms of their mutual separation agreements, which is included in severance and reorganization costs for the year ended June 30, 2019.

d) Payments to MMJ

During the year ended June 30, 2019, the Company acquired all of the outstanding shares of PhytoTech from MMJ for a total consideration of \$4,580, which was measured at the exchange value being the amounts agreed to by the parties.

20. Income taxes

Income tax recovery differs from expected income tax recovery if the Canadian federal and provincial statutory income tax rates were applied to loss before taxes. The principal factors causing these differences are shown below:

	June 30 2019 \$	June 30 2018 \$
Loss before income taxes	(27,965)	(12,607)
Statutory tax rates	27.0%	26.5%
Expected income tax recovery	(7,551)	(3,341)
Difference in foreign tax rates	425	245
Effect of change in tax rates	7	(163)
Non-deductible expenses	3,008	1,021
Financing costs	—	(1,477)
Foreign currency translation	37	(2)
Change in unrecognized deferred tax assets	4,182	3,639
Other	(108)	78
Income tax recovery	—	—

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

20. Income taxes (continued)

The nature and tax effect of the taxable temporary differences giving rise to deferred tax assets are summarized as follows:

	June 30 2018	Deferred tax assets (liabilities) assumed from acquisition	Recovered through (charged to) earnings	June 30 2019
	\$	\$	\$	\$
Deferred tax assets				
Non-capital losses	5,575	341	3,846	9,762
Finance costs	2,056	—	(435)	1,621
Biological assets	(557)	—	871	314
Other	88	—	(46)	42
Total deferred tax assets	7,162	341	4,236	11,739
Deferred tax liabilities				
Inventories	(143)	—	110	(33)
Property, plant and equipment	569	(988)	(123)	(542)
Total deferred tax liabilities	426	(988)	(13)	(575)
Net deferred tax assets	7,588	(647)	4,223	11,164
Deferred tax assets not recognized	(7,588)	—	(4,223)	(11,811)
Deferred tax liabilities	—	(647)	—	(647)

The Company has accumulated non-capital losses from various jurisdictions for the year ended June 30, 2019 for income tax purposes, which may be deducted in the calculation of taxable income in future years. The Canadian non-capital losses will be expiring between 2032 and 2038.

	June 30 2019	June 30 2018
	\$	\$
Canada	33,618	19,570
Australia	38	40
USA	554	369
Switzerland	1,858	1,531
Ireland	2,122	86
UK	347	27
Israel	59	—
Total	38,596	21,623

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

21. Commitments

As at June 30, 2019, the Company's commitments that have not been disclosed elsewhere in the consolidated financial statements is as follows:

	Less than 1 year	Between 2 to 5 years	Over 5 years	Total
	\$	\$	\$	\$
Operating lease commitments	449	1,226	84	1,759
Finance lease commitments	112	139	—	251
Purchase commitments	—	2,284	—	2,284
Extraction services commitments	302	603	—	905
Capital commitments	3,173	—	—	3,173
	4,036	4,252	84	8,372

a) *Operating lease commitments*

On April 23, 2019, the Company entered into a new five-year lease agreement for office space in Vancouver, BC with monthly rent at a rate of \$21 which commenced on May 1, 2019.

The Company entered into two lease agreements for the Company's Dream Water operations on September 12, 2018 and February 22, 2019, respectively: (1) a three-year lease agreement in Miami, Florida with monthly rent at a rate of US\$4 which commenced on October 1, 2018 and (2) a two-year lease agreement in Toronto, Ontario with monthly rent at a rate of \$3 which commenced on April 1, 2019.

b) *Finance lease commitments*

On March 29, 2019, the Company acquired a 52% ownership interest in Greenbelt, which was subsequently reduced to a 50.1% ownership interest. In connection with this acquisition, the Company assumed two existing finance equipment leases with remaining terms of approximately 2.5 years.

c) *Purchase commitments*

On May 31, 2017, the Company entered into a five-year agreement with Gelpell AG for the exclusive marketing, distribution and sale of the CBD Gelpell® capsules worldwide. As part of this agreement, the Company has annual minimum purchase commitments.

d) *Extraction services commitments*

On November 11, 2018, the Company entered into a multi-year Extraction Services Agreement with Valens GroWorks Corp ("Valens") for cannabis extraction and value-added services. As part of this agreement, the Company will ship to or purchase from Valens bulk quantities of dried cannabis over an initial three-year term. Valens will process the cannabis on a fee-for-service basis into bulk resin or other cannabis oil derivative products.

e) *Capital commitments*

On October 17, 2018, the Company entered into an agreement to purchase four custom designed modular buildings to be placed on the land adjacent to the Duncan facility. The modular buildings are expected to be completed during the 2019 calendar year and are expected to increase the annual production capacity of harvested cannabis. In addition, capital commitments include amounts committed for the construction of the Lucky Lake facility.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

22. Segmented information

The Company operates in three reportable segments: Cultivation (United Greeneries and Greenbelt), Medical and Nutraceutical (Satipharm and PhytoTech), and Consumer (Dream Water), which is the way the Company reports information regarding segment performance, including net profit (loss), to its chief operating decision maker as of June 30, 2019.

The Cultivation segment includes the cultivation and distribution of cannabis in the medical and recreational markets under the federally regulated *Cannabis Act* with a licence issued by Health Canada. The Medical and Nutraceutical segment includes the processing, manufacturing and distribution of cannabis-based food supplement products throughout Europe and Australia. The Consumer segment includes the marketing, distribution, and product development of liquid sleep shots and sleep powder packets throughout Canada and the US.

The segments for the years ended June 30, 2019 and 2018 are as follows:

	Year ended June 30, 2019					Year ended June 30, 2018				
	Cultivation	Medical and Nutraceutical	Consumer	Corporate	Total	Cultivation	Medical and Nutraceutical	Consumer	Corporate	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Net revenue	5,483	235	5,747	—	11,465	177	107	442	—	726
Gross profit (loss) before fair value adjustments	1,499	(46)	2,062	—	3,515	(2,054)	(514)	33	—	(2,535)
Gross profit (loss)	992	(46)	2,062	—	3,008	1,405	(514)	33	—	924
Expenses	2,847	2,869	10,491	14,937	31,144	1,358	1,003	538	8,623	11,522
Net loss	(1,757)	(2,902)	(8,456)	(14,850)	(27,965)	31	(1,621)	(531)	(10,486)	(12,607)

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

22. Segmented information (continued)

The Company generates net revenue from three geographical locations:

Net revenue	June 30 2019	June 30 2018
	\$	\$
Canada	6,040	216
US	5,190	403
Europe	235	107
Total	11,465	726

Net revenues in each geographical location relate to the sale of the following:

- Canada – harvested cannabis and Dream Water liquid sleep shots
- US – Dream Water liquid sleep shots and sleep powder packets
- Europe – CBD Gelpell® capsules

The Company has the following non-current assets in three geographic locations:

Non-current assets	June 30 2019	June 30 2018
	\$	\$
Canada	51,681	27,738
US	10,567	16,278
Israel	4,659	—
Total	66,907	44,016

23. Financial instruments and risk

The Company thoroughly examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include foreign exchange risk, credit risk, interest rate risk, and liquidity risk. Where material, these risks are reviewed and monitored by the Board of Directors.

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. As at June 30, 2019, the Company is exposed to foreign currency risk through its bank accounts denominated in United States Dollars ("USD"), Euros ("Euros"), British Pounds ("GBP"), Swiss Francs ("CHF"), Australian Dollars ("AUD"), and Israeli New Shekel ("ILS"). A 10% appreciation (depreciation) of USD, Euros, GBP, CHF, AUD, or ILS against the CAD, with all other variables held constant, would result in an immaterial change in the Company's loss and comprehensive loss for the year.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's trade accounts receivable. The Company's cash and accounts receivable are exposed to credit risk. The risk for cash is mitigated by holding these instruments with highly rated financial institutions. The Company provides credit to its customers in the normal course of business and has mitigated this risk by managing and monitoring the underlying business relationships. As at June 30, 2019, the Company is not exposed to any significant credit risk.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

23. Financial instruments and risk (continued)

As at June 30, 2019, the Company's aging of receivables was approximately as follows:

	June 30 2019	June 30 2018
	\$	\$
0 – 60 days	2,240	389
61 – 120 days	337	71
	2,577	460

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. As at June 30, 2019, the Company is not exposed to any significant interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities have maturities of 30 days or less or are due on demand and are subject to normal trade terms. The Company has current assets of \$35,416 and current liabilities of \$8,402. The Company addresses its liquidity through debt or equity financing obtained through the sale of convertible debentures and common shares. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

Fair value hierarchy

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value 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 that are not based on observable market data.

During the year ended June 30, 2019, there were no transfers of amounts between fair value levels.

Cash and cash equivalents are classified as Level 1 financial instruments.

The Company's other financial instruments, including accounts receivable, promissory note and accounts payable and accrued liabilities are carried at cost which approximates fair value due to the relatively short maturity of those instruments.

24. Capital management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of the components of shareholders' equity.

The Company manages its capital structure and adjusts it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements.

Harvest One Cannabis Inc.

Notes to the consolidated financial statements

Years ended June 30, 2019 and 2018

(Expressed in thousands of Canadian dollars, except share and per share amounts)

25. Subsequent events

a) *Acquisition of Delivra*

On July 3, 2019, the Company completed its acquisition of Delivra, a Canadian-based manufacturer of natural topical creams. The Company acquired all the outstanding shares of Delivra for a total consideration of \$21,822, which consisted of \$20,639 in shares, \$769 in options, and \$414 in warrants.

In connection with the acquisition, the Company expensed \$517 of acquisition-related costs for the year ended June 30, 2019.

b) *Stock option issuances*

Subsequent to June 30, 2019, the Company granted a total of 1,385,000 stock options under the Company's stock option incentive plan to certain new directors, officers and employees of the Company. Each stock option entitles the holder to purchase one common share at an exercise price between \$0.52 to \$0.56 for a period of five years following the grant date of which 105,000 stock options vested immediately and the remaining stock options vest over three years.