BERTRAM CAPITAL FINANCE, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2018

(Expressed in U.S. Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Directors of
Bertram Capital Finance, Inc.

Opinion

We have audited the accompanying financial statements of Bertram Capital Finance, Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2018 and 2017 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, 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 audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

In connection with our audit of the financial statements, our responsibility is to read the other information 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the 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.

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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 generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the 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.

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 Glenn Parchomchuk.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada — Chartered Professional Accountants

April 30, 2019

Bertram Capital Finance, Inc.
Statements of Financial Position
As at
(Expressed in U.S. Dollars)

	Note	**December 31, 2018 $**	December 31, 2017 $
Assets			
Current assets			
Cash		3,759,457	979,368
Subscriptions receivable	12	-	130,000
Trade receivables	14	1,419,552	318,707
Leases receivable	4,14	1,031,410	470,870
Loans receivable	5,14	59,067	52,760
Inventory	6	112,385	51,835
Prepaid expenses		11,000	86,911
		6,392,871	2,090,451
Non-current assets			
Deposits		59,500	-
Leases receivable	4,14	555,428	636,410
Loans receivable	5,14	42,131	74,728
Property and equipment	8	1,317,541	291,517
Intangible assets	9	725,170	954,170
		2,699,770	1,956,825
Total assets		**9,092,641**	4,047,276
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables	10,14	581,404	679,632
Warrant liability	12(d)	460,000	-
		1,041,404	679,632
Shareholders' equity			
Share capital	12	10,352,917	3,946,209
Commitment to issue shares and warrants	12	95,600	137,000
Reserves	12	51,000	-
Deficit		(2,448,280)	(715,565)
Total shareholders' equity		**8,051,237**	3,367,644
Total liabilities and shareholders' equity		**9,092,641**	4,047,276

Nature of operations	1
Basis of presentation	2
Commitments and contingencies	17
Subsequent events	17(b), 20

Approved on behalf of the Board of Directors on April 30, 2019 by:

" Bernie Radochonski " Director

" Joshua Mann " Director

The accompanying notes are an integral part of these financial statements

Bertram Capital Finance, Inc.
Statements of Loss and Comprehensive Loss
For the years ended
(Expressed in U.S. Dollars)

	Note	**December 31, 2018 $**	December 31, 2017 $
Revenue			
Lease and rental income	4,14	665,197	436,380
Product sales	14	886,205	269,763
Service income	14	1,155,953	222,110
Total revenue		**2,707,355**	928,253
Cost of Sales			
Lease expenses	4,14	377,555	60,600
Product expenses	6	288,981	33,017
Service expenses	14	1,067,043	202,484
Total cost of sales		**(1,733,579)**	(296,101)
Gross profit		**973,776**	632,152
Operating expenses			
Amortization	9	229,000	190,830
Consulting fees	14	819,514	288,063
Depreciation	8	15,129	61,594
General and administrative		172,730	31,712
Investor relations		272,741	18,298
Professional fees	14	225,796	25,146
Rent		98,609	18,617
Share-based compensation	12 (a),14	195,600	90,000
Transfer agent and filing		12,312	-
Travel		55,296	4,536
Total operating expenses		**(2,096,727)**	(728,796)
Loss from operations		**(1,122,951)**	(96,644)
Other (expenses) and income			
Finance income		18,919	16,348
Loss provision on trade receivables	15	(3,000)	-
Loss provision on loans receivable	5(b)(c), 15	(165,683)	-
Warrant liability - derivative	12(d)	(460,000)	-
Write-off of investment	7	-	(100,000)
Loss and comprehensive loss for the year		**(1,732,715)**	(180,296)
Basic and diluted loss per common share	12	**(0.04)**	(0.01)

The accompanying notes are an integral part of these financial statements

Bertram Capital Finance, Inc.
Statements of Changes in Shareholders' Equity
For the years ended December 31, 2018 and 2017
(Expressed in U.S. Dollars)

	Note	**Number of common shares**	**Share capital $**	**Commitment to issue shares and warrants $**	**Reserves $**	**Deficit $**	**Total $**
December 31, 2016		32,919,422	2,821,101	-	-	(535,269)	2,285,832
Issuance of common shares - cash	12	3,763,816	1,268,500	-	-	-	1,268,500
Share issue costs - cash		-	(96,392)	-	-	-	(96,392)
Warrants to be issued for finder's fees		-	(47,000)	47,000	-	-	-
Shares to be issued for services		-	-	90,000	-	-	90,000
Loss and comprehensive loss for the year		-	-	-	-	(180,296)	(180,296)
December 31, 2017		36,683,238	3,946,209	137,000	-	(715,565)	3,367,644
December 31, 2017		36,683,238	3,946,209	137,000	-	(715,565)	3,367,644
Issuance of common shares - cash	12	16,746,801	6,381,395	-	-	-	6,381,395
Issuance of common shares - for services	12	296,714	190,000	(90,000)	-	-	100,000
Common shares accrued - for services	12	-	-	95,600	-	-	95,600
Share issue costs - cash		-	(160,687)	-	-	-	(160,687)
Finders' warrants issued		-	(4,000)	(47,000)	51,000	-	-
Loss and comprehensive loss for the year		-	-	-	-	(1,732,715)	(1,732,715)
December 31, 2018		**53,726,753**	**10,352,917**	**95,600**	**51,000**	**(2,448,280)**	**8,051,237**

The accompanying notes are an integral part of these financial statements

Bertram Capital Finance, Inc.
Statements of Cash Flows
For the years ended
(Expressed in U.S. Dollars)

	Note	December 31, 2018 $	December 31, 2017 $
Operating activities:			
Loss for the year		(1,732,715)	(180,296)
Adjustments for:			
Amortization		229,000	252,424
Depreciation		15,129	-
Share-based compensation		195,600	90,000
Interest income - accrued		(5,248)	(15,152)
Loss provision on trade receivables		3,000	-
Loss provision on loans receivable		165,683	-
Warrant liability		460,000	-
Write-off of investment		-	100,000
Changes in non-cash working capital items:			
Trade and other payables		226,367	251,878
Trade receivables		(1,103,845)	(318,707)
Prepaid deposits and expenses		16,411	(86,911)
Inventory		(60,550)	(51,835)
Leases receivable		(479,558)	(365,030)
Cash flows used in operating activities		**(2,070,726)**	(323,629)
Investing activities:			
Loans receivable - repayments received		418,449	74,000
Loans receivable - advances		(552,594)	-
Acquisition of property and equipment		(1,299,356)	(345,414)
Acquisition of intangible assets		-	(65,000)
Cash flows used in investing activities		**(1,433,501)**	(336,414)
Financing activities:			
Proceeds from issuance of common shares		6,511,395	1,138,500
Share issue costs		(227,079)	(30,000)
Proceeds from promissory note payable		300,000	-
Repayment of promissory note payable		(300,000)	-
Cash flows from financing activities		**6,284,316**	1,108,500
Change in cash		2,780,089	448,457
Cash, beginning of year		979,368	530,911
Cash, end of year		**3,759,457**	979,368

Income taxes paid		**$ -**	$ -
Interest paid		**$ -**	$ -
Interest received		**$ 3,666**	$ -
Supplemental cash flow information	13		

The accompanying notes are an integral part of these financial statements

1. Nature of operations

Bertram Capital Finance Inc. (the "Company" or "Bertram") was incorporated under the *Colorado Business Corporation Act* in Colorado, USA on February 20, 2015. The Company's head office and registered office is 821 22nd Street, Denver Colorado, USA 80205.

Bertram is focused on providing personnel and management resources as well as infrastructure and equipment for the production, cultivation and dispensary operations of licensed cannabis businesses. The Company itself does not directly produce or sell cannabis products but rather provides support services to licensed cannabis providers. The Company operates exclusively in Colorado where the legal commercial production and vendin`g of marijuana is permitted by Colorado state law under *Colorado Amendment 64.*

On October 17, 2018, Bertram executed a definitive business combination agreement (the "Definitive Agreement") which superseded a Letter of Intent signed on July 5, 2018 with Metropolitan Energy Corp. ("Metropolitan"), a public company listed on the NEX board of the TSX Venture Exchange (the "NEX"), to affect a reverse takeover transaction (the "Transaction") and conduct a concurrent private placement of subscription receipts (Note 12) (the "Subscription Receipts"). The Transaction closed on February 25, 2019 (Note 20).

Under the terms of the Definitive Agreement, Metropolitan acquired, indirectly through its wholly-owned subsidiary incorporated in the state of Colorado (the "AcquireCo"), all issued and outstanding securities of Bertram in exchange for re-designated Class A Subordinated Voting Shares and newly-created Class B non-trading Super Voting Shares, as applicable, in the capital of Metropolitan pursuant to a merger of Bertram and AcquireCo, the result of which constituted a reverse takeover of Metropolitan by the shareholders of Bertram. Upon completion of the Transaction, Metropolitan delisted from the NEX, changed its name to Cannabis One Holdings Inc., ("Cannabis One") and obtained a listing on the Canadian Securities Exchange (the "CSE"). The common shares of Cannabis One commenced trading on the CSE on February 26, 2019, under the symbol "CBIS."

In conjunction with the execution of the Definitive Agreement, Bertram split its securities on a basis of approximately 5.9343-to-1 (the "Share Split"). All share and per share information in these financial statements have been retroactively restated to reflect the effect of the Share Split.

2. Basis of presentation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC") in effect for the year ended December 31, 2018. Certain new accounting policies are included within Note 3 below. This is the first set of the Company's financial statements where IFRS 9 and IFRS 15 have been applied. Changes to significant accounting policies are described in Note 3.

Basis of measurement

These financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are stated at their fair value in accordance with the Company's accounting policies. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Functional and presentation currency

These financial statements are presented in United States ("U.S.") dollars, which is the functional currency of the Company.

2. Basis of preparation (continued)

Going concern

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to continue its operations for at least the next twelve months and will be able to realize its assets and discharge its liabilities in the normal course of business.

Historically the Company has funded its operations primarily through the issuance of equity. In the near future it is anticipated that the Company will continue to rely on the issuance of equity to fund its operations. There are no assurances that the Company will be successful in continuing to complete such financings to fund operations. The Company's continuing operations are dependent upon its ability to generate profitable operations through the negotiation of additional lease, loan, and service agreements as well as from the sale of goods. As at December 31, 2018, the Company had working capital of $5,351,467, and shareholders' equity of $8,051,237. Management has assessed that this working capital is sufficient for the Company to continue as a going concern beyond one year.

The Company indirectly derives its revenues from the cannabis industry in certain states of the United States, which industry is illegal under United States federal law. The Company is not directly engaged in the manufacture, importation, possession, use, sale or distribution of cannabis in the recreational cannabis marketplace in either Canada or the United States, nor is the Company directly engaged in the manufacture, importation, possession, use, sale or distribution of cannabis in the medical cannabis marketplace in Canada or the United States.

Several states in the United States have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol ("THC"), while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of adult-use recreational and medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act (the "CSA") in the United States and as such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under United States federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

2. Basis of preparation (continued)

Estimates and critical judgments by management

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenues and expenses. Management continually evaluates these judgments, estimates and assumptions based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and judgments which may cause a material adjustment to the carrying amounts of assets and liabilities.

The areas which require management to make critical judgments include:

- *Impairment of long-lived assets*

  The impairment of long-lived assets, including property and equipment, and intangible assets, is influenced by judgment in defining a cash-generating unit and determining the indicators of impairment and estimates used to measure impairment losses. The Company is required to measure a long-lived asset's recoverable amount when there are indicators that the carrying value of a long-lived asset may be impaired. In measuring the recoverable amount, the Company performs a discounted cash flow analysis which includes various subjective inputs including forecasts of revenue, cost of sales, and expenditures, as well as estimates in respect of a discount factor, tax shield, and growth rate. During the year ended December 31, 2018, the Company performed an impairment test on its intangible assets (Note 9).

- *Useful lives, valuation, and depreciation of property and equipment and amortization of intangible assets*

  The depreciation and amortization methods and useful lives reflect the pattern in which management expects the assets' future economic benefits to be consumed by the Company. Judgments are required in determining these expected useful lives. The Company's intangible assets were valued by an independent third party during the year ended December 31, 2017 and are recorded at cost and amortized over their estimated useful lives based on the guidelines outlined within the independent valuation. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and useful lives of the assets.

- *Valuation of investment*

  The determination of fair value of the Company's privately-held investment at other than initial cost, is subject to certain limitations (Note 7). Financial information for the private company in which the Company has an investment may not be available and, even if available, that information may be limited and/or unreliable. Adjustment to the fair value of an investment will be based on management's judgment and any value estimated may not be realized or realizable. The resulting values for non-publicly traded investments may differ from values that would be realized if a ready market existed.

- *Deferred tax assets and liabilities*

  Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements.

- *Revenue recognition*

  Management makes judgements with regards to revenue as to whether the Company is in an agency relationship as defined by IFRS 15, effective January 1, 2018. In an agency relationship, the gross inflows of economic benefits often include amounts collected on behalf of the principal and amounts which do not result in increases in equity for the Company. The amounts collected on behalf of the principal are not revenue; instead, revenue is the amount of commission. Management has determined that the Company is the principal in earning each type of revenue.

2. Basis of preparation (continued)

Estimates and critical judgments by management (continued)

The areas which require management to make significant estimates and assumptions in determining carrying values include:

- *Impairment of financial assets (trade, leases, and loans receivable)*

  All the Company's trade, loans, and leases receivable are reviewed for indicators of impairment at each reporting date. The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions and/or debtor-specific circumstances, as well as forward-looking estimates at the end of each reporting period. Specifically, management reviews the aging of outstanding balances, historical bad debt experience, payment history, indicators of changes in customer credit worthiness, and changes in customer payment terms to identify and determine the extent of impairment if any.

- *Valuation of intangible assets*

  The Company has capitalized costs related to the acquisition of intellectual property being trademarks and trade names. Intangible asset impairment testing requires management to make critical estimates in the impairment testing model. On an annual basis, the Company tests whether intangible assets are impaired. The recoverable amount of intangible assets is determined using a discounted future cash flow model, which incorporates assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

- *Inventory*

  The Company reviews the net realizable value of, and demand for, its inventory quarterly to provide assurance that recorded inventory is stated at the lower of cost or net realizable value. Factors that could impact estimated demand and selling prices include competitor actions, supplier prices and economic trends.

- *Fair value of financial instruments*

  Determining the fair value requires judgment and is based on market prices or management's best estimate if there is no active market. When the fair value of a financial instrument cannot be derived from an active market, it is determined using other valuation techniques including discounted cash flows. The inputs to these models are taken from observable markets where possible, however, when not feasible, a degree of judgment is required in establishing fair values. The estimate includes consideration of inputs such as liquidity risk and credit risk. Changes in the assumptions about these factors may affect the reported fair value of financial instruments.

- *Fair value of common shares issued for services (share-based compensation)*

  Management is required to estimate the fair value of the Company's common shares when issuing its common shares for services. Management has estimated the fair value of the common shares with reference to recent private placements completed by the Company.

- *Fair value of warrants and warrant liability*

  The fair value of compensatory finders' warrants classified within shareholders' equity are estimated using the Black-Scholes pricing model. There are a number of estimates used in the calculation, such as expected life, and share price volatility which can vary from actual future events. The factors applied in the calculation are management's best estimates based on historical information and future forecasts. When warrants are classified as liabilities (warrant liability) which may occur on non-compensatory warrants, the updated values of relevant inputs within the Black-Scholes pricing model are used to calculate the fair value of the warrant liability at each reporting date.

2. Basis of preparation (continued)

Estimates and critical judgments by management (continued)

- *Contingencies*

  The assessment of contingencies involves the exercise of judgment and estimates of the outcome of future events. In assessing loss contingencies related to legal proceedings that are pending against the Company and that may result in regulatory or government actions that may negatively impact the Company’s business or operations, the Company and its legal counsel evaluate the perceived merits of the legal proceeding or unasserted claim or action as well as the perceived merits of the nature and amount of relief sought or expected to be sought, when determining the amount, if any, to recognize as a contingent liability or when assessing the impact on the carrying value of the Company’s assets. Contingent assets are not recognized in the financial statements.

3. Significant accounting policies

These financial statements have been prepared using the following significant accounting policies:

New accounting policy – IFRS 9 Financial Instruments

The Company has initially adopted IFRS 9 Financial Instruments from January 1, 2018. The effect of initially applying these standards did not have a material impact on the Company’s financial statements. A number of other new standards are also effective from January 1, 2018, but they also did not have a material impact on the Company's financial statements.

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. There was no material impact to the Company’s financial statements as a result of transitioning to IFRS 9.

The details of the new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

<u>Classification and measurement of financial assets and liabilities</u>

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held-to-maturity, loans and receivables, and available-for-sale.

The adoption of IFRS 9 has not had a significant effect on the Company’s accounting policies related to financial liabilities. The classifications of financial liabilities remain the same under IFRS 9, as they were under IAS 39. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

A financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. The classifications of the Company’s financial instruments given effect to the adoption of IFRS 9 are included in the significant accounting policy below, “Financial Instruments.”

<u>Impairment of financial assets</u>

An ‘expected credit loss’ (“ECL”) model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The Company's financial assets measured at amortized cost and subject to the ECL model include trade receivables, loans receivable, and leases receivable. The adoption of the ECL impairment model had no impact on the carrying amounts of the Company's financial assets on the transition date given the trade receivables are substantially all current, regular payments are being made on loans receivable, and leases receivables are being deferred based on pre-agreed upon terms. Additionally, there has been minimal historical customer default.

3. Significant accounting policies (continued)

Financial instruments

All financial instruments are recognized initially at fair value on the date at which the Company becomes a party to the contractual provisions of the instrument.

Classification and measurement

The Company classifies its financial instruments in the following categories based on the purpose for which it was acquired: FVTPL asset, amortized cost, FVOCI, other financial liabilities, and FVTPL liability . The impact of the adoption of IFRS 9 did not change the measurement approach of any of the financial instruments below. The Company's financial assets and financial liabilities are classified and measured as follows:

	Measurement Category		
Asset/Liability	**Original (IAS 39)**	**New (IFRS 9)**	**Subsequent measurement**
Cash	FVTPL asset	FVTPL asset	Fair value
Trade receivables	Loans and receivables	Amortized cost	Amortized cost
Loans receivable	Loans and receivables	Amortized cost	Amortized cost
Investment	Available-for-sale	FVTPL asset	Fair value
Trade and other payables	Other financial liabilities	Other financial liabilities	Amortized cost
Promissory note payable	Other financial liabilities	Other financial liabilities	Amortized cost
Warrant liability	FVTPL liability	FVTPL liability	Fair value

New accounting policy – IFRS 15

IFRS 15 Revenue from Contracts with Customers

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 became effective on January 1, 2018. There was no significant impact to these financial statements.

3. Significant accounting policies (continued)

Accounting standards issued but not yet effective

IFRS 16 Leases

IFRS 16 specifies how to recognize, measure, present and disclose leases. The new standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17 the new lease standard continues to require lessors to classify leases as operating or finance. IFRS 16 is to be applied retrospectively for annual periods beginning on or after January 1, 2019.

The Company has completed the scoping and review of contracts and is in the process of measuring the impact of IFRS 16 on the leases identified upon transition and for modified retrospective restatement.

The Company anticipates the adoption of IFRS 16 will have a material impact on the statements of financial position primarily due to the capitalization and recognition and measurement of the right-of-use assets and lease liabilities. The impacts on profit or loss will be an elimination of lease expense within general and administrative expense, for those contracts which are recognized as leases, and instead will be replaced by an amortization of the right-of-use asset and interest (finance) costs on the lease liability. All lease contracts are denominated in U.S. dollars, therefore there will be no additional volatility in foreign exchange amounts recognized in profit or loss.

The Company has a portfolio of leases for building premises in respect of its corporate office, cultivation facilities that are or will be sub-leased, and dispensary retail locations that are or will be sub-leased. These leases are expected to be recorded as right-of-use assets and lease liabilities under IFRS 16. The Company estimates at January 1, 2019, it will record a right-of use asset of approximately $1,548,000 and a corresponding lease liability of approximately $1,739,000, with the difference between the right-of-use asset and lease liability to be recorded to deficit.

Impairment

Financial assets:

The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as the reporting date, with the risk of default as at the date of initial recognition, based on all information available, and reasonable and supportive forward-looking information.

Non-financial assets:

Non-financial assets are reviewed quarterly by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present the recoverable amount of an asset is evaluated at the CGU level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss is recognized in profit or loss to the extent that the carrying amount exceeds the recoverable amount.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business and are all classified as current. Trade receivables are recognized initially at the amount of consideration that is unconditional. The Company's trade receivables do not contain significant financing components. The Company holds trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. Details about the Company's impairment policies and the calculation of the loss allowance are provided in Note 15.

3. Significant accounting policies (continued)

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company, and the revenue and associated costs can be measured reliably. Specifically, the Company's revenue recognition guidelines are as follows:

<u>Lease and rental income</u>

The Company generates lease and rental income from leases of premises and equipment leases.

Premise leases:

The Company accounts for sub-leases of premises to tenants as operating leases. Premise lease income includes all amounts earned from tenants related to lease agreements including property tax and operating cost recoveries. The Company reports premise lease income based on the periodic rent due under the terms of the lease.

Equipment leases:

The Company accounts for sub-leases of equipment as finance leases. Lease income is recognized using the effective interest rate method whereby lease payments are allocated between finance income (lease income) and principal repayment in each accounting period in such a way that finance income will emerge as a constant rate of return on the Company's net investment in the lease.

<u>Product sales</u>

The Company recognizes revenue from the sale of products at the time delivery (goods are shipped and received by the customer) has occurred and collectability of the revenue is reasonably assured.

<u>Service income</u>

Service income is recognized as services are provided to the customer and collectability of the revenue is reasonably assured.

Leases

Leases are classified as finance or operating leases based on the substance of the transaction at the inception of the lease.

Finance leases

Under a finance lease substantially all the risks and rewards incidental to legal ownership are transferred by the lessor to the lessee at the inception of the lease transaction.

A lease receivable is recognized at inception as asset in an amount equal to the net investment in the lease. When assets are leased out under a finance lease, the present value of the minimum lease payments is recognized as a lease receivable. The difference between the gross lease receivables and the present value of the lease receivables is recognized as unearned finance income.

Lease payments are allocated between finance income (lease income) and principal repayment in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor's net investment in the lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income which are aggregated within leases receivable.

Operating leases

Under an operating lease, payments made are recognized in profit or loss on a straight-line basis over the term of the lease.

3. Significant accounting policies (continued)

Finance income

Finance income is included in profit or loss for loans receivable measured at amortized cost and is recognized using the effective interest rate method.

Inventory

Inventory is valued at the lower of cost and net realizable value. The cost of inventory is calculated using the weighted average method and comprises all costs of purchase necessary to bring the goods to sale. Net realizable value represents the estimated selling price for products sold in the ordinary course of business less the estimated costs necessary to make the sale. Management uses the most reliable evidence available in determining the net realizable value of inventories. Actual selling prices may differ from estimates, based on market conditions at the time of sale.

Allowances are made against obsolete or damaged inventory and charged to cost of sales. The reversal of any write-down of inventory arising from increase in the net realizable value is recognized as a reduction of cost of sales in the period in which the reversal occurred.

Long-lived assets

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and impairment losses. Property and equipment not available for use is not subject to depreciation. Depreciation is recognized on a straight-line basis over the following terms:

Extraction equipment	5 years
Cultivation equipment	5 years
Leasehold improvements	5 years to 10 years, depending on lease term
Furniture and equipment	5 years

An asset's residual value, useful life and depreciation method is reviewed at each reporting period and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs that meet the asset recognition criteria are capitalized, while costs incurred that do not extend the economic useful life of an asset are considered repairs and maintenance, which are accounted for as an expense recognized during the period. 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 profit or loss.

Intangible assets

For intangible assets with a finite useful life, the assets are recorded at cost and amortized over their estimated useful lives using the following annual rates and methods:

Trademarks	5 years
Trade Names	5 years
Other Intangible Assets	5 years

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated brands are recognized in profit or loss as incurred.

3. Significant accounting policies (continued)

Impairment of long-lived assets

Long-lived assets, including property and equipment, and intangible assets are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell and its value in use. Value in use is based on the estimated cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Share capital

Common shares issued by the Company are classified as shareholders' equity. Costs directly attributable to the issue of common shares are recognized as a deduction from shareholders' equity, net of any related income tax effects. Common shares issued for consideration other than cash, are valued based on their fair value at the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of warrants attached to private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then to the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in the private placements to be the more easily measurable component. The balance, if any, is allocated to the attached warrants. Any fair value attributable to the warrants is recoded as reserves.

Share-based payments

The fair value of stock options granted is recognized as a share-based payment expense with a corresponding increase in reserves. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the stock options granted is measured using the Black-Scholes option pricing model considering the terms and conditions upon which the options were granted. The Company annually revises its estimates of the number of stock options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to reserves.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods and services received.

The fair value of compensatory finders' warrants issued is recognized as a share issue cost (a reduction of share capital) with a corresponding increase in reserves. The fair value is measured and recorded on the issuance date using the Black-Scholes option pricing model considering the terms and conditions upon which the warrants were issued.

3. Significant accounting policies (continued)

Loss per share

Basic loss per share is computed by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period.

Diluted loss per share is computed similar to basic loss per share except that (i) loss attributable to common shareholders are adjusted for the dilutive effect of warrants. Under this method, the Company assumes that outstanding dilutive warrants were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting periods.

Income taxes

Current and deferred tax are recognized in profit or loss, except to the extent that they relate to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Comparative figures

Certain comparative figures within operating expenses on the statement of loss and comprehensive loss have been reclassified to conform to the current year’s presentation.

(Expressed in U.S. Dollars)

4. Leases receivable

As at December 31, 2018, and 2017, leases receivable consists of two equipment lease agreements with Cannabis Corp., (Note 14).

The two lease agreements have a term of five years each and will expire on December 31, 2021 and March 31, 2022. There is no purchase option at the expiration of these leases. In addition, the Company holds the equipment as security until the end of the lease term. The Company's implicit lease rates are 4.96% and 13.61% on each of its leases. The maturities of leases receivable shown in the table below are not to be regarded as a forecast of future cash collections.

The future contractual payments, including principal and interest, are due to the Company as follows:

Year	December 31, 2018 $	December 31, 2017 $
2018	-	523,827
2019	523,827	523,827
2020	523,827	523,827
2021	523,827	523,827
2022	97,227	97,227
Gross lease receivable	1,668,708	2,192,535
Deferred lease receivable[1]	950,428	426,601
Unearned lease income	(1,032,298)	(1,511,856)
Lease receivable (principal)	**1,586,838**	1,107,280
Current portion (within one year)	**1,031,410**	470,870
Long-term portion (later than one year but no later than five years)	**555,428**	636,410

[1] As at December 31, 2018, lease payments due from Cannabis Corp., in the amount of $950,428 (2017 - $426,601) are being deferred until such time that the equipment becomes usable by Cannabis Corp. The deferral is due to construction delays at Cannabis Corp.'s cultivation facility where the equipment will be utilized.

During the year ended December 31, 2018, the Company earned lease income on the lease of equipment of $479,557 (2017 - $436,380), included within lease and rental income.

(Expressed in U.S. Dollars)

5. Loans receivable

Promissory Notes

a) On November 15, 2015, the Company entered into a Promissory Note Agreement with a company that has a common director (the “Borrower”). Interest is due on the unpaid principal at 10% per annum and is secured by the assets of the Borrower. The unpaid principal and interest is payable to the Company in annual instalments of $52,760, on or by every November 15, until November 15, 2020, at which time the remaining balance is due to the Company in full. As at December 31, 2018, principal and interest remain outstanding and receivable in the amount of $84,263 (2017 - $127,488).

b) During the year ended December 31, 2018, the Company entered into five additional Promissory Note Agreements, one of which was with Cannabis Corp., a related party (Note 14). In total, the Company advanced $443,519 to these parties. One of the notes bore interest at 8% per annum, three of the notes bore interest at 12% per annum, and one of the notes bore interest at 5% per month. All five of the notes had maturities ranging from one to three months. As at December 31, 2018, the principal amounts on three of the notes had been repaid in full. Interest on one of the notes remains outstanding and receivable. Subsequent to December 31, 2018, the Company entered into an Asset Purchase Agreement with one of the parties pursuant to which the promissory note receivable will be offset (Note 20).

   During the year ended December 31, 2018, it was determined that reasonable expectation of recovery of one of the notes was significantly hindered as the debtor failed to engage in a repayment plan with the Company. As a result, the Company issued a notice of default to the debtor on December 21, 2018 and recorded a loss provision on loans receivable in the amount of $52,944 which includes accrued interest receivable of $1,050 (a second loss provision is discussed in (c) below).

c) On August 2, 2018, the Company entered into a Materials Purchases Agreement with a third party (the “MPA Debtor”) whereby the Company would advance funds to the MPA Debtor to enable their purchase of goods and materials until August 2, 2019. Pursuant to this agreement, the Company would advance funds to the MPA Debtor, at which time the parties would execute a Promissory Note Agreement, bearing interest at 12% per annum. This note is secured by the inventory held by the MPA Debtor. As at December 31, 2018, the Company had advanced $109,075 to the MPA Debtor.

   During the year ended December 31, 2018, it was determined that reasonable expectation of recovery of this note was significantly hindered as the MPA Debtor failed to engage in a repayment plan with the Company. As a result, the Company issued a notice of default to the MPA Debtor on December 26, 2018 and recorded a loss allowance on loans receivable in the amount of $112,739 which includes accrued interest receivable of $3,664 (an additional loss provision is discussed above). Refer to the disclosure on contingencies (Note 17) for details.

The change in the loans receivable is as follows:

	December 31, 2018 **$**	December 31, 2017 $
Balance, beginning of year	127,488	186,336
Advances	552,594	-
Repayments	(418,449)	(74,000)
Interest accrual	5,248	15,152
Loss allowance (Note 15)	(165,683)	-
Balance, end of year	**101,198**	127,488

(Expressed in U.S. Dollars)

5. Loans receivable (continued)

	December 31, 2018 $	December 31, 2017 $
Current portion	59,067	52,760
Long-term portion	42,131	74,728
	101,198	127,488

The contractual payments, including principal and interest, are due to the Company as follows:

Year	**December 31, 2018 $**	December 31, 2017 $
2018	-	52,760
2019	69,695	52,760
2020	52,760	52,760
Total payments due	122,455	158,280
Less: interest portion	(21,257)	(30,792)
Loan receivable (principal)	**101,198**	127,488

Refer to Note 15 regarding the loss provisions recognized on loans receivable during the year ended December 31, 2018.

6. Inventory

The Company's inventory consists primarily of unfilled vape pens and pre-charged fire cartridges (without any cannabis content) for sale to third party cannabis producers who may then fill with their own licensed cannabis product prior to being used in the medical or recreational consumption of cannabis products.

Inventory recognized as an expense in cost of sales was $288,981 for the year ended December 31, 2018 (2017 - $33,017).

7. Investment

On November 21, 2016, the Company paid $100,000 to acquire an 8% membership interest in VANGA, MB Corporation ("VANGA"), an unrelated private company located in Los Angeles, California, USA.

As at December 31, 2017, due to the inability of the Company to obtain recent financial information of VANGA, difficulties in VANGA receiving required licenses, and given the Company did not receive any profits or returns from this investment, the Company had recorded a permanent impairment on this investment to $nil.

As at December 31, 2018, there was no new financial information available, therefore, there was no change in the carrying value of the investment during the year then ended.

(Expressed in U.S. Dollars)

8. Property and equipment

Property and equipment consists of the following:

	Extraction equipment $	Cultivation equipment $	Leasehold improvements $	Furnitiure and equipment $	Total $
Cost					
December 31, 2016	137,552	204,390	93,160	133,295	568,397
Additions	-	526,805	111,973	7,136	645,914
Transfers to leases	-	(731,195)	-	(45,800)	(776,995)
December 31, 2017	137,552	-	205,133	94,631	437,316
Accumulated depreciation					
December 31, 2016	43,558	29,912	16,568	28,912	118,950
Additions	27,510	2,543	13,906	17,635	61,594
Transfers to leases	-	(32,455)	-	(2,290)	(34,745)
December 31, 2017	71,068	-	30,474	44,257	145,799
Cost					
December 31, 2017	137,552	-	205,133	94,631	437,316
Additions	382,338	-	634,608	24,207	1,041,153
Reclassifications	27,496	64,681	2,454	(94,631)	-
December 31, 2018	**547,386**	**64,681**	**842,195**	**24,207**	**1,478,469**
Accumulated depreciation					
December 31, 2017	71,068	-	30,474	44,257	145,799
Additions	-	-	10,288	4,841	15,129
Reclassifications	14,206	30,051	-	(44,257)	-
December 31, 2018	**85,274**	**30,051**	**40,762**	**4,841**	**160,928**
Net book value					
December 31, 2017	66,484	-	174,659	50,374	291,517
December 31, 2018	**462,112**	**34,630**	**801,433**	**19,366**	**1,317,541**

During the year ended December 31, 2017, the Company, as the lessor, entered two lease agreements (Note 4) to lease out cultivation equipment, and certain furniture and equipment. The Company holds the equipment under all lease agreements as security until the end of the lease terms. In accordance with the terms of the two lease agreements, the leased equipment is always owned by the Company and possession will revert to the Company upon expiration of the lease agreements.

During the year ended December 31, 2018, the Company did not enter into any new lease agreements.

As at December 31, 2018, and 2017, there we no impairment indicators in respect to the Company's property and equipment.

(Expressed in U.S. Dollars)

9. Intangible assets

On March 1, 2017, the Company entered into an Asset Purchase Agreement with Cannabis Corp., to purchase certain intellectual property for total consideration of $1,145,000. During the year ended December 31, 2016, the Company made pre-payments $1,080,000 towards the consideration.

The intellectual property is comprised of the trade names, “Cannabis”, “The Joint by Cannabis”, “Incognito by Cannabis”, “Fire by Cannabis” and “Cannabis Prime”, as well as related trademarks and website domains.

	Prepaid amount $	Website domains $	Trademarks $	Trade names $	Total $
Cost					
December 31, 2016	1,080,000	-	-	-	1,080,000
Additions	65,000	-	-	-	65,000
Asset Purchase Agreement	(1,145,000)	200,000	470,000	475,000	-
December 31, 2017, and 2018	**-**	**200,000**	**470,000**	**475,000**	**1,145,000**
Accumulated amortization					
December 31, 2016	-	-	-	-	-
Additions	-	33,333	78,332	79,165	190,830
December 31, 2017	-	33,333	78,332	79,165	190,830
Additions	-	40,000	94,000	95,000	229,000
December 31, 2018	**-**	**73,333**	**172,332**	**174,165**	**419,830**
Net book value					
December 31, 2017	-	166,667	391,668	395,835	954,170
December 31, 2018	**-**	**126,667**	**297,668**	**300,835**	**725,170**

During the year ended December 31, 2018, the Company performed an impairment test on intangible assets by performing a discounted cash flow analysis. It was determined that are no impairment indicators present on intangible assets.

10. Trade and other payables

Trade and other payables consists of the following:

	December 31, 2018 $	December 31, 2017 $
Trade payables and accrued liabilities	416,404	514,632
Sub-lease tenant deposits	165,000	165,000
	581,404	679,632

11. Promissory note payable

On August 13, 2018, the Company entered into a Promissory Note Agreement with a third-party (the "Note") and borrowed $300,000, which was repaid during the year ended December 31, 2018.

12. Share capital

The Company is authorized to issue a total of 100,000,000 shares, whereby 95,000,000 can be issued as common shares (Class A Subordinated Voting (one vote per share), or Class B Super Voting (10 votes per share)) and 5,000,000 as preferred shares. Each common shareholder is entitled to have one vote and receive their pro-rated share of dividends, if declared.

a) Transactions for the issuance of share capital during the year ended December 31, 2018:

- The Company issued 934,827 common shares at $0.34 per share for gross proceeds of $315,060, less cash share issue costs of $8,404.

- The Company completed a non-brokered private placement of 15,811,974 Subscription Receipts at $0.38 (CAD$0.50) per Subscription Receipt for gross proceeds of $6,066,335. Each Subscription Receipt was automatically exchanged for one common share and one-half of one common share purchase warrant of the Company on the signing of the Definitive Agreement (Note 1). A total of 7,905,987 warrants were issued with each exercisable to purchase one common share of Cannabis One (Note 1) at an exercise price of CAD$0.75 expiring on October 28, 2020. See Note 12(d) for discussion of these warrants classified as a financial liability.

  Cash share issue costs including finders' fees and other cash share issue costs of $152,283 were paid. Additionally, 42,326 compensatory finders' warrants to purchase Cannabis One Shares (the "Cannabis One Broker Warrants") were issued at a fair value of $4,000. The Cannabis One Broker Warrants are exercisable at CAD$0.50 each, expiring on October 28, 2020. Compensatory warrants are not subject to classification as a financial liability.

- The Company issued 296,714 common shares and accrued 267,043 common shares with an aggregate fair value of $285,600 ($90,000 was included in commitment to issue shares and warrants as at December 31, 2017 (Note 12(b)) to Directors of the Company for their services provided during the years ended December 31, 2018 and 2017. Of this amount, $195,600 is recognized as share-based compensation expense during the year ended December 31, 2018 (2017 - $90,000).

b) Transactions for the issuance of share capital during the year ended December 31, 2017:

- The Company issued 3,763,816 common shares for gross proceeds of $1,268,500 at $0.34 per common share. As at December 31, 2017, $130,000 was recorded as subscriptions receivable and was collected in January 2018. In connection with the issuance of common shares during the year ended December 31, 2017, the Company incurred share issue costs of $96,392 and granted 290,809 finders' warrants with a fair value of $47,000 which was accrued within commitment to issue shares and warrants as at December 31, 2017. The finders' warrants were issued on January 15, 2018 with an exercise price of $0.34 each expiring on January 15, 2020.

- The Company approved the issuance of 264,705 common shares at $0.34 per share for an aggregate fair value of $90,000, to five Directors of the Company for their services provided during the year ended December 31, 2017. The amount was accrued and included within commitment to issue shares and warrants as at December 31, 2017. Certain of these common shares were issued during the year ended December 31, 2018 (Note 12(a)), with the balance remaining in commitment to issue shares and warrants.

In 2015, the Company established a Long-Term Incentive Plan ("LTIP") for executives and other employees and consultants of the Company. As of December 31, 2018, and 2017, no LTIP shares were issued by the Company to qualified participants.

12. Share capital (continued)

c) Warrants

A summary of the status of the Company's warrants is as follows:

	Number of Warrants		Weighted Average Exercise price (CAD)
December 31, 2016, and 2017	-		-
Issued - Warrants attached to units	7,905,987	$	0.75
Issued - Finders' warrants	290,809	$	0.50
Issued - Finders' warrants	42,326	$	0.50
December 31, 2018	**8,239,122**	**$**	**0.75**

As at December 31, 2018, the Company had warrants outstanding and exercisable as follows:

Number of warrants		Exercise price (CAD)	Expiry date	Remaining life (years)
7,905,987	$	0.75	October 28, 2020	1.83
290,809	$	0.50	January 15, 2020	1.04
42,326	$	0.50	October 28, 2020	1.83

The fair value of the finders' warrants issued during the year ended December 31, 2018 and accrued as at December 31, 2017 (those with an expiry date of January 15, 2020), was calculated using the Black-Scholes Model with the following weighted average assumptions:

		December 31, 2018		December 31, 2017
Risk-free interest rate		1.68%		1.68%
Expected life of warrants		2.00 years		2.00 years
Expected volatility		50%		100%
Dividend rate		0%		0%
Weighted average fair value per warrant	$	0.09	$	0.16

d) Warrant liability

In connection with the non-brokered private placement of Subscription Receipts during the year ended December 31, 2018, 7,905,987 warrants were issued with exercise prices denominated in Canadian dollars. When non-compensatory warrants have an exercise price denominated in a currency which is different from the functional currency of the Company (United States dollar), the warrants are treated as a financial liability. These warrants are therefore classified as a financial liability with changes in fair value recognized in profit or loss. The warrant liability is measured using Level 3 inputs within the fair value hierarchy.

As at December 31, 2018, the Company had 7,905,987 (2017 – nil) warrants outstanding which are classified and accounted for as a financial liability. The Company recognized an expense of $460,000 from the changes in the fair value of the warrant liability from the issuance date on October 28, 2018 to December 31, 2018. The fair value of the Canadian dollar denominated warrants was determined using the Black-Scholes Pricing Model as at December 31, 2018 as follows:

		December 31, 2018
Stock price	$	0.38
Risk-free interest rate		1.68%
Exercise price		$ 0.55 (CAD $0.75)
Expected life of warrants		1.83 years
Expected volatility		50%
Dividend rate		0%
Weighted average fair value per warrant	$	0.06

(Expressed in U.S. Dollars)

12. Share capital (continued)

e) Loss per share amounts

Weighted average loss per common share is calculated as follows:

	December 31, 2018 $	December 31, 2017 $
Numerator		
Loss and comprehensive loss for the year	(1,732,715)	(180,296)
Denominator		
Weighted average number of common shares outstanding, basic and diluted	40,355,831	33,416,564
Basic and diluted loss per common share	**(0.04)**	(0.01)

As at December 31, 2018, all warrants outstanding were excluded from the diluted weighted average number of common shares calculation, as their effect would have been anti-dilutive.

13. Supplemental cash flow information

The Company incurred non-cash financing and investing activities during the years ended December 31, 2018, and 2017 as follows:

	December 31, 2018 $	December 31, 2017 $
Non-cash investing activities:		
Property and equipment included in trade payables	42,296	300,500
Property and equipment transferred to leases receivable	-	742,250
Non-cash financing activities:		
Fair value of finders' warrants issued/to be issued	4,000	47,000
Share issue costs included in trade payables	-	66,392
Subscriptions receivable	-	130,000

14. Related party balances and transactions

Key management personnel include those persons having the authority and responsibility of planning, directing and executing the activities of the Company. The Company has determined that its key management personnel consist of members of the Company's Board, and its Executive Officers.

Other than as disclosed elsewhere within these financial statements, key management personnel transactions, and related party transactions and balances as at and during the years ended December 31, 2018 and 2017 are listed below. As described below and throughout these financial statements, the Company engaged in several transactions with Cannabis Corp., a company jointly owned by a spouse of an officer of the Company and an unrelated third party.

(Expressed in U.S. Dollars)

14. Related party balances and transactions (continued)

Key management personnel compensation:

The net aggregate compensation paid or payable to key management during the years ended December 31, 2018 and 2017 was as follows:

	December 31, 2018 $	December 31, 2017 $
Share-based compensation[(1)]	195,600	90,000
Lease expenses – cost of sales	125,000	-
Consulting fees	613,564	165,430
Share issue costs – finders' fees	10,318	96,392
Share issue costs – finders' warrants	-	47,000

(1) Share-based compensation comprised the fair value of common shares on the approval date of the award of those shares to Directors of the Company, for their services provided during the years ended December 31, 2018, and 2017. Certain of these common shares were issued during the year ended December 31, 2018 (Note 12(a)) while the remainder are included in commitment to issue shares and warrants.

Other related party transactions:

The following transactions within these financial statements involved other related parties as follows:

	December 31, 2018 $	December 31, 2017 $
Interest earned on loan receivable[(2)]	9,534	15,246
Interest earned on loan receivable[(1)]	3,666	-
Lease and rental income[(1)]	665,197	436,380
Product sales[(1)]	96,550	264,000
Service income[(1)]	897,353	222,110

(1) Amounts charged/products sold to Cannabis Corp.

(2) Amounts charged to a company controlled by a common director (Note 5).

Related party balances:

The following balances were payable/receivable to/from related parties as at December 31, 2018 and 2017:

	December 31, 2018 $	December 31, 2017 $
Prepaid expenses[(3)]	-	30,000
Trade payables and accrued liabilities due to related parties	195	-
Trade receivables[(1)]	339,624	315,707
Current portion of leases receivable[(1)]	1,031,410	470,870
Long-term portion of leases receivable[(1)]	555,428	636,410
Current portion of loans receivable[(2)]	42,131	43,449
Long-term portion of loans receivable[(2)]	42,131	84,039

(1) Amounts due from Cannabis Corp.

(2) Amount due from a company controlled by a common director (Note 5).

(3) Prepaid expense to Wildhorse Capital Partners, a company in which the CFO of the Company has significant influence.

15. Financial risk management and financial instruments

Fair value of financial instruments

IFRS 13 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

- 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.

The fair value of cash is measured using Level 1 inputs. The fair value of the Company's investment (Note 7) classified as FVTPL is measured using Level 2 inputs. The carrying values of subscriptions receivable, trade receivables, and trade and other payables, approximate their respective fair values due to the short-term nature of these instruments. The Company's loans receivable and leases receivable also approximate fair value as they bear market rates of interest.

The Company's warrant liability is measured using Level 3 inputs as described in Note 12(d).

Economic dependence

The Company derives 44% (2017 – 99%) of its revenues from one company, Cannabis Corp. Additionally, as at December 31, 2018, 24% (December 31, 2017 – 99%) of trade receivables represent amounts due from Cannabis Corp., and 71% of trade receivables as at December 31, 2018 represent amounts due from three other arm's length companies (2017 – 1% due from one other arm's length company).

15. Financial risk management and financial instruments (continued)

Risk management

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 market risk (including interest rate risk, price risk, and currency risk), credit risk, and liquidity risk.

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.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: interest rate risk, price risk, currency risk, and commodity price risk. The Company does not have any direct exposure to commodity price risk.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk on its financial assets that bear interest, being leases receivable, and loans receivables. The Company does not have assets with a variable interest rate, which minimizes the Company's exposure to fluctuations in interest rates.

Price risk

Price risk is the uncertainty associated with the valuation of assets and liabilities arising from changes in equity markets. The Company holds shares in a private company (Note 7) which are carried at a value of $nil as at December 31, 2018 (2017 - $nil). The Company's share price will fluctuate and result in an increase or decrease of the warrant liability.

Currency risk

Currency risk is the risk of change in profit or loss that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to currency risk with respect to the trade and other payables denominated in Canadian dollars, and outstanding non-compensatory warrants issued with exercise prices denominated in Canadian dollars. A 10% change in the foreign exchange rate between the U.S. dollar and Canadian dollar would impact profit or loss by approximately $96,000.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk for the Company arises from cash, trade receivables, leases receivable, and loans receivable. The carrying amount of these financial assets represents the maximum credit exposure as at December 31, 2018, and 2017.

Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand. Credit risk exposure on cash is limited through maintaining cash with high-credit quality financial institutions and management considers this risk to be minimal for all cash assets.

The Company is exposed to credit risk inherent in its trade receivables which include credit exposures to customers and their outstanding trade receivable balances. The Company has certain trade receivables due from entities in which the Company has completed, or is in the process of completing, acquisitions of certain assets of those entities (Note 20). The underlying agreements provide for an offset of trade receivables, and other receivables, if any, against the consideration payable by the Company. Credit risk relating to the leases receivable from Cannabis Corp., is considered low based upon the nature of the Company's relationship with Cannabis Corp., and its payment history in respect of other financial assets due from Cannabis Corp.

(Expressed in U.S. Dollars)

15. Financial risk management and financial instruments (continued)

Credit risk (continued)

Impairment of financial assets

The Company has three types of financial assets that are subject to the expected credit loss model:

- Trade receivables arising from product sales, lease and rental income, and service income;
- Leases receivable; and
- Loans receivable

While cash is also subject to the impairment requirements of IFRS 9, the risk is insignificant.

The Company applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables and leases receivable. The Company applies the general approach using practical expedients to loans receivable which involves recognition at each reporting date of a loss allowance based on a 12-month expected credit loss model without the requirement to re-assess whether any significant increases in credit risk have occurred at each reporting date.

To measure the expected credit losses, trade receivables and leases receivable have been respectively grouped based on specific credit risk characteristics, debtor circumstances, and the days past due. The volume of debtors in these respective categories is low. The expected loss amounts are based on payment profiles since January 1, 2017, and the corresponding historical credit losses experienced within this period for these debtors. The historical loss rates, if any, are considered and adjusted in respect of aged trade receivables to reflect current and forward-looking information on factors specific to the customers' ability to settle the receivables.

On this basis, the loss allowance as at December 31, 2018 (on adoption of IFRS 9) was determined as follows for trade receivables and loans receivable. There was no loss provision determined on leases receivable:

	Current $	30+ days overdue $	60+ days overdue $	120+ days overdue $	Total $
Gross carrying amount - trade receivables	-	-	-	3,000	3,000
Gross carrying amount - loans receivable	-	165,683	-	-	165,683
Loss provision	**-**	**165,683**	**-**	**3,000**	**168,683**

Trade receivables, loans receivable, and leases receivable are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, failure of a debtor to engage in a repayment plan with the Company, the issuance by the Company of a Notice of Default, or a Court Order for Possession, and a failure by the debtor to make contractual payments for a period of greater than 120 days past due, or shorter if specific circumstances suggest otherwise.

Impairment losses are presented as loss provisions within profit or loss. Subsequent recoveries of amounts previously written-off are credited against the same line item. In the prior year, impairment of trade receivables was assessed based on the incurred loss model. Individual financial assets which were known to be uncollectible were written-off by reducing the carrying amount directly. During the year ended December 31, 2017, and prior thereto, there were no impairments of financial assets.

As at December 31, 2018, 95% of trade receivables were due from four customers (December 31, 2017 – 99% was due from one customer). As at December 31, 2018, an expected credit loss of $3,000 was recognized on trade receivables for a single customer for which there is minimal expectation for future repayment (2017 - $nil).

(Expressed in U.S. Dollars)

15. Financial risk management and financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash which is available on demand and held by a reputable bank in the United States. Historically, the Company has generated the majority of its cash flows from revenue-generating activity and financing activities, and used these cash flows to support operating activities. As at December 31, 2018, the Company has working capital of $5,351,467. The Company's contractual obligations include trade and other payables, which will be settled within the next fiscal year as well as the commitments described in Note 17.

16. Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue opportunities to deliver solutions for financing, and complete potential business and/or asset acquisitions of state-licensed cannabis cultivators, manufacturers, and dispensaries throughout legal markets within the United States. The Company has the ability to raise new capital through equity and debt issuances and/or through operations. The Company prepares annual estimates of expected expenditures and monitors actual expenditures compared to the estimates to ensure that there is sufficient capital on hand to meet ongoing obligations.

The Company is not exposed to any externally imposed capital requirements, nor were there changes in the Company's approach to capital management during the year ended December 31, 2018.

17. Commitments and contingencies

a) Commitments:

The Company has a lease agreement in effect for its head office. On September 27, 2018, the Company entered into a lease renewal agreement for its head office which carries through to October 31, 2023. The Company also entered into two additional lease agreements during the year ended December 31, 2017, for facilities which are to be sub-leased to Cannabis Corp., (Note 14) as described below.

The Company's minimum annual commitments are as follows:

Year	Total Commitment $
2019	367,100
2020	376,500
2021	387,800
2022	399,400
2023	382,500
Thereafter	849,500
	2,762,800

(Expressed in U.S. Dollars)

17. Commitments and contingencies (continued)

a) Commitments (continued):

The Company entered into two sub-lease agreements to lease a cultivation facility, and a dispensary to Cannabis Corp. Minimum annual lease payments to be received by the Company over the term of the leases are as follows:

Year	Total Commitment $
2019	230,520
2020	235,789
2021	242,863
2022	250,151
2023	257,656
Thereafter	857,889
	2,074,868

b) Contingencies:

Alan and Brooks Builders LLC ("A&B")

In October 2018, the Company received a notice of civil claim against the Company with respect to the construction of one of the Company's leased properties. A&B is seeking to recover $507,767 in labor and materials related to work performed. It is the position of the Company that A&B was hired to perform certain construction services at the property, but that the parties never entered into a written contract and never agreed to the cost of construction services.

The Company, in consultation with legal counsel, assesses that it is not probable that the claim of A&B will be successful and that the Company will be required to pay any amounts. Accordingly, no provision for possible loss has been included in these financial statements.

Bronner Corp. ("Bronner")

In December 2018, the Company filed a claim against Bronner for breach of contract pursuant to the Materials Purchases Agreement entered into on August 2, 2018 (Note 5(c)) as Bronner had failed to engage in a repayment plan with the Company on the funds advanced by the Company to Bronner. The Company is seeking repossession of inventory which was pledged as security for the funds advanced, and monetary damages of approximately $130,000.

On April 29, 2019, Bronner filed an answer to the litigation and asserted counterclaims. Bronner is also seeking to consolidate this lawsuit with the Strainz & Bronner lawsuit described below. A response to the counterclaim is due from the Company on or before May 20, 2019. The Company intends to answer the counterclaims and proceed with litigation against Bronner.

The likelihood of success of this litigation cannot be determined at this time. Accordingly, no contingent asset has been included in these financial statements.

Strainz, Inc. ("Strainz") & Bronner (subsequent to December 31, 2018)

On January 29, 2019, Strainz and Bronner filed a claim against the Company claiming breach of contract, breach of implied covenant of good faith and fair dealing, misappropriation of trade secrets, and fraudulent misrepresentation and concealment. Strainz and Bronner were parties to loans receivable that were written-off during the year ended December 31, 2018 (Note 5(b)(c)). Strainz and Bronner are seeking monetary damages against the Company.

On April 29, 2019, the Company filed a Motion to Dismiss this proceeding on the basis that necessary and indispensable parties were not made parties to the litigation. Strainz and Bronner have also filed a Motion to Consolidate this proceeding with the proceeding involving Bronner as disclosed above. Court ruling on the Motion to Dismiss filed by the Company is pending. The Company is required to respond to the Motion to Consolidate the proceedings on or before May 20, 2019.

(Expressed in U.S. Dollars)

17. Commitments and contingencies (continued)

b) Contingencies (continued):

Strainz, Inc. ("Strainz") & Bronner (subsequent to December 31, 2018) (continued)

The Company intends to answer and proceed vigorously with this proceeding. The claims asserted against the Company are believed to be substantially groundless, frivolous, and simply asserted as a means to extort and extract payment from the Company. The Company denies that there is any merit to any of the claims asserted against it and denies that any of the claims are supported by evidence. The Company will likely not challenge the Motion to Consolidate.

No complete evaluation can be made of the likelihood of success of this proceeding at this time. The Company believes that many of the claims are unfounded and the damages claimed are greatly overstated. Accordingly, no provision for possible loss has been included in these financial statements.

18. Segmented information

The Company operates in one segment which is providing personnel and management resources, infrastructure and equipment for the production, cultivation and dispensary operations of licensed cannabis. Reportable segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources, and in assessing performance.

All of the Company's long-lived assets are located in the United States. All revenues were generated in the United States.

During the year ended December 31, 2018, four customers (2017 – one customer) represented more than 10% of revenue individually (Note 14):

	December 31, 2018		December 31, 2017	
	Amount $	**Percentage**	Amount $	Percentage
Lease and rental income	665,197	100%	436,380	100%
Product sales	879,800	99%	264,000	98%
Service income	1,090,645	94%	222,110	100%
Total	**2,635,642**		922,490	

19. Income Taxes

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	December 31, 2018 $	December 31, 2017 $
Loss for the year	(1,732,715)	(180,296)
Expected income tax (recovery)	(427,000)	(67,000)
Change in tax resulting from:		
Change in statutory rates	-	(14,000)
Permanent differences and other	69,000	27,000
Change in unrecognized deductible temporary differences	358,000	54,000
Total income tax expense (recovery)	**-**	**-**

In December 2017, the United States government proposed changes to the Federal corporate income tax rate to reduce the rate from 34% to 21% effective January 1, 2018 and onwards. This change in tax rate was substantively enacted on December 22, 2017. The relevant deferred tax balances have been re-measured to reflect the decrease in the Company's Federal income tax rate from 34% to 21%.

(Expressed in U.S. Dollars)

19. Income Taxes (continued)

The significant components of the Company's temporary differences that have not been included on the statements of financial position are as follows:

	December 31, 2018 $	**Expiry Date**	December 31, 2017 $	Expiry Date
Temporary differences				
Equipment	231,000	No Expiry Date	91,000	No Expiry Date
Investment	100,000	No Expiry Date	100,000	No Expiry Date
Intangible assets	280,000	No Expiry Date	127,000	No Expiry Date
Net operating loss carry forwards	1,363,000	2035 to 2038	237,000	2035 to 2037

Tax attributes are subject to review, and potential adjustment, by tax authorities. Section 280E of the Tax Code prohibits businesses from taking deductions or credits in carrying on any trade or business consisting of trafficking in controlled substances which are prohibited by federal law. The International Revenue Service has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are authorized under state laws, seeking substantial sums in tax liabilities, interest and penalties resulting from underpayment of taxes due to the application of Section 280E. Under a number of cases, the United States Supreme Court has held that income means gross income (not gross receipts). Under this reasoning, the cost of goods sold is permitted as a reduction in determining gross income, notwithstanding Section 280E. Although proper reductions for cost of goods sold are generally allowed to determine gross income, the scope of such items has been the subject of debate, and deductions for significant costs may not be permitted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses. Thus, the Company, to the extent of its "trafficking" activities (if applicable), and/or key contract counterparties directly engaged in trafficking in cannabis, may be subject to United States federal tax, without the benefit of deductions or credits.

20. Subsequent events

a) On February 25, 2019, the reverse takeover transaction between the Company and Metropolitan closed (Note 1). As a result, Cannabis One as the resulting issuer, obtained a listing on the CSE and its common shares commenced trading on February 26, 2019, under the symbol “CBIS.”

In connection with closing of the reverse takeover transaction, on February 25, 2019 the Company issued the equivalent of 4,199,350 Class A Subordinated Voting Shares to certain eligible recipients of the Company’s Rights Plan, with an additional 12,000,000 Rights reserved for issuance upon completion of certain milestones as defined in the Company’s Listing Statement.

In connection with closing of the reverse takeover transaction, the Company granted 4,900,000 stock options to purchase Class A Subordinated Voting Shares to certain directors, employees and consultants. The stock options are exercisable at CAD$0.60 with one-third vesting immediately and the remainder vesting one-third annually until February 21, 2021. The stock options have a five-year term expiring on February 25, 2024.

Subsequent to December 31, 2018, the Company entered into the following agreements to acquire certain businesses and or assets:

b) Liht Transaction (pending completion):

Effective March 5, 2019, Company executed a letter of intent (“LOI”) to acquire a 51% ownership in California license holder, “420 Express Delivery Inc.” which operates, “Green Leaf Wellness”, a dispensary in the Coachella Valley of California, from Liht Cannabis Corp., (the “Liht Transaction”) a publicly traded company on the CSE.

Consideration payable by the Company will be the rebranding of the Green Leaf Wellness dispensary, valued at US$250,000, under Cannabis One’s “The Joint™” banner; and US$350,000 in Class A Subordinated Voting Shares of Cannabis One (“CBIS SUB Shares”), which will be subject to a 12-month trading restriction following the date of issuance. Cannabis One will retain a right-of-first refusal to purchase the remaining 49% of Green Leaf Wellness and related assets at fair market value in exchange for additional Subordinated Shares and/or cash consideration for a period of 5 years following closing of the Liht Transaction.

c) Honu Transaction (pending completion):

On April 9, 2019, the Company entered into a definitive Asset Purchase Agreement (“Honu APA”) with Honu Enterprises Inc., (“Honu”) a Washington-based cannabis-infused products brand, whereby the Company has agreed to acquire certain assets of Honu including intellectual property and equipment (the “Honu Transaction”).

The consideration payable by the Company will be up to $10,280,811 in Class B Super Voting Shares (“CBIS SVS Shares”) due in equal parts upon closing of the Honu Transaction and subsequently upon the satisfaction of provisions applicable to two earn-out considerations (the “Earn-Outs”). Upon closing of the Honu Transaction the Company will issue CBIS SVS Shares to Honu equal in value to $3,426,937, less the offset of the loan receivable from Honu (per above). Each CBIS SVS Share is convertible into 10 Class A Subordinated Voting Shares (CBIS SUB Shares). The Earn-Outs are payable if, and only if, applicable annual revenue targets have been met. All CBIS SVS Shares issued pursuant to the Honu Transaction will be subject to a contractual lock-up, restricting the transfer of CBIS SVS Shares for a period of 18 months from closing, with 33.33% of the locked-up CBIS SVS Shares being released on each 6-month anniversary from the issuance of such shares. The Honu Transaction has not yet closed.

As at December 31, 2018, Honu was indebted to the Company in the amount of $16,935 (included accrued interest receivable of $310) recorded within loans receivable, and $460,190 recorded within trade receivables. Any amount owed to the Company by Honu at the time of closing of the Honu Transaction, will be offset against the consideration payable by the Company.

20. Subsequent events (continued)

d) Fat Face Farms Transaction (completed):

On April 17, 2019, the Company closed on a definitive Asset Purchase Agreement ("Fat Face Farms APA") and completed the acquisition of certain assets of Colorado-based JBC Enterprises LLC ("JBC" or "Fat Face Farms") which operates the branded cannabis cultivation facility "Fat Face Farms", located in Denver, Colorado (the "Fat Face Farms Transaction"). Under the terms of the Fat Face Farms APA, the Company acquired the business and operating assets of JBC, inclusive of all leasehold rights, intellectual property, and equipment. The Company completed the acquisition for the purpose of expanding its brand portfolio and adding expertise in respect of cultivation operations so to facilitate potential future expansion into additional state-legal markets.

Consideration paid by the Company consisted of 37,358 Class B Super Voting Shares ("CBIS SVS Shares") for gross consideration of $1,100,000 (CAD$1,467,719). Each CBIS SVS Share is convertible into 10 Class A Subordinated Voting Shares (CBIS SUB Shares). The CBIS SVS Shares are subject to a trading restriction until August 17, 2019.

As at December 31, 2018, JBC was indebted to the Company in the amount of $71,790 recorded within trade receivables. Any amount owed to the Company by JBC at the time of closing of the Fat Face Farms Transaction, will be offset against the consideration payable by the Company.

As at the date of authorization of these financial statements, the initial accounting for the acquisition of Fat Face Farms is incomplete. As a result, the Company is unable to provide disclosure in accordance with IFRS 3 *Business Combinations* in respect of the following: (i) the amount and qualitative factors that make up goodwill that may be recognized, and the amount if any, of goodwill that is expected to be deductible for tax purposes; (ii) the fair values and gross contractual amounts of receivables acquired; (iii) the amounts recognized for each major class of assets and liabilities assumed; (iv) the amount of separately recognized transactions which may include acquisition-related professional fees and other costs that may be recognized as an expense in profit or loss.

e) Evergreen Organix Transaction (pending completion):

On April 22, 2019, the Company announced it had executed three definitive agreements to acquire certain assets of Nevada-based LV 3480 Partners LLC, 3480 Investors, Inc., and Agro Finance LLC (collectively, "Evergreen Organix") (the "Evergreen Organix Transaction"). Subject to the approval of Nevada State regulators, the Company will acquire Nevada-State issued cannabis cultivation and manufacturing licenses, related infrastructure and operations, intellectual property and other assets including several flower and infused-product brands. Evergreen Organix has established manufacturing and distribution relationships for the production of its suite of brands across six states: Nevada, California, Colorado, Washington, Oregon, and Montana.

Consideration payable by the Company totals $47,710,623 comprised of Class B Super Voting Shares (CBIS SVS Shares), cash, and assumed liabilities as follows:

i. Payable to LV 3480 Partners LLC: US$24,607,506 in CBIS SVS Shares less any funds previously advanced by the Company to Evergreen Organix. The CBIS SVS Shares will be subject to a lock-up period of 18-months following the date of issuance which restricts the transfer of these securities during the lock-up period. During the lock-up period 33.33% of the issued CBIS SVS Shares will be released from the lock-up every six months. There will be a trading restriction of four months following closing of the Evergreen Organix Transaction;

ii. Payable to 3480 Investors, Inc.: US$15,000,000, comprised of US$14,355,000 in assumed liabilities and US$645,000 in cash; and

iii. Payable to Agro Finance LLC: US$8,103,117 in cash.

As at December 31, 2018, Evergreen Organix was indebted to the Company in the amount of $249,250 recorded within trade receivables. Any amount owed to the Company by Evergreen Organix at the time of closing of the Evergreen Organix Transaction, will be offset against the consideration payable by the Company.