

Ascent Industries Corp

Consolidated Financial Statements

**For the years ended May 31, 2018 and 2017
(In Canadian Dollars)**

Independent Auditors' Report

To the Shareholders of Ascent Industries Corp.:

We have audited the accompanying consolidated financial statements of Ascent Industries Corp., which comprise the consolidated statements of financial position as at May 31, 2018 and May 31, 2017, and the consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of these consolidated financial statements, which states that Ascent Industries Corp. incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters described in Note 1, indicates the existence of a material uncertainty which may cast significant doubt about the ability of Ascent Industries Corp. to continue as a going concern.

Vancouver, British Columbia

September 27, 2018


Chartered Professional Accountants

ASCENT INDUSTRIES CORP**Consolidated Statements of Financial Position****As at May 31,**

(Expressed in Canadian Dollars)

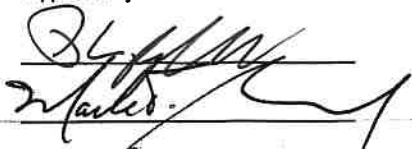
	Notes	2018	2017
Assets			
Current assets:			
Cash and cash equivalents		\$ 2,587,436	\$ 865,094
Receivables	3	1,523,111	1,285,108
Prepaid expenses	4	533,460	130,356
Deposits for properties	5	1,050,000	4,635,467
Investments	6	360,000	250,000
Inventory	7	1,080,681	909,833
Biological assets	7	-	1,069,867
Total current assets		7,134,688	9,145,725
Long-term assets			
Construction in progress	8	1,030,841	-
Property, plant & equipment	8	16,756,082	8,738,514
Intangible assets	9	6,505,693	23,156
Total assets		\$ 31,427,304	\$ 17,907,395
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable, payroll and accrued liabilities		\$ 2,888,291	\$ 1,005,958
Current portion of finance leases	10	30,532	281,613
Short term loan payable	11	1,746,199	1,770,563
Derivative liability	12	875,695	357,445
Total current liabilities		5,540,717	3,415,579
Long-term liabilities			
Finance leases	10	11,196	27,438
Loans payable	12	3,821,278	3,642,555
Total liabilities		9,373,191	7,085,572
Shareholders' equity			
Share capital	13, 21	31,576,460	15,594,284
Common shares to be issued	13	8,673,862	182,250
Contributed surplus		1,572,639	1,572,639
Share based compensation reserve	13	507,151	-
Accumulated other comprehensive income		23,671	-
Deficit		(20,299,670)	(6,527,350)
Total equity		22,054,113	10,821,823
Total liabilities and equity		\$ 31,427,304	\$ 17,907,395

Going concern (Note 1)

Commitments and contingencies (Note 14)

Subsequent events (Note 21)

Approved by the Board of Directors



Phillip Campbell, Director

Mark T. Brown, Director

ASCENT INDUSTRIES CORP**Consolidated Statements of Operations****For the Years Ended May 31,**

(Expressed in Canadian Dollars)

Notes	2018	2017
Revenue:		
Sales	\$ 9,919,812	\$ 4,880,075
Cost of sales	7,782,466	3,904,919
	<u>2,137,346</u>	<u>975,156</u>
Gross margin before fair value adjustments	2,137,346	975,156
Fair value adjustment on sale of inventory	3,921,329	-
Fair value adjustment on growth of biological assets	(2,574,822)	265,988
	<u>790,839</u>	<u>709,168</u>
Gross margin after fair value adjustments	790,839	709,168
Expenses:		
General and administration	6,418,049	1,659,461
Selling and marketing	2,370,861	465,527
Research & development	195,463	122,727
Research & development recoveries	(45,761)	(44,375)
Pre-production costs	1,497,391	821,563
Share based compensation	507,151	-
Depreciation & amortization	1,579,966	430,494
	<u>12,523,120</u>	<u>3,455,397</u>
Loss from operations	<u>(11,732,281)</u>	<u>(2,746,229)</u>
Other (income) expenses		
Interest and other	1,343,066	196,077
Loss on derivative liability	518,250	-
Accretion expense	178,723	-
	<u>2,040,039</u>	<u>196,077</u>
Net loss for the year	<u>(13,772,320)</u>	<u>(2,942,306)</u>
Comprehensive Income		
Currency translation adjustment	<u>23,671</u>	<u>-</u>
Comprehensive Loss	<u>\$ (13,748,649)</u>	<u>\$ (2,942,306)</u>
Basic and diluted loss per share	<u>\$ (0.07)</u>	<u>\$ (0.02)</u>
Weighted average number of common shares outstanding, diluted	<u>186,807,688</u>	<u>131,221,769</u>

ASCENT INDUSTRIES CORP**Consolidated Statements of Cash Flows****For the Year Ending May 31,**

(Expressed in Canadian Dollars)

	Notes	2018	2017
Cash provided by (used for):			
Operating activities:			
Net loss for the year		\$ (13,772,320)	\$ (2,942,306)
Items not affecting cash:			
Depreciation & amortization	8	1,579,966	430,494
Loss on disposal of Agrima equipment	8	16,774	-
Shares issued for services	13	415,356	-
Share based compensation - stock options	13	507,151	-
Share based compensation - common shares	13	380,353	-
Loss on derivative liabilities		518,250	-
Change in fair value on sale of inventory	7	3,921,329	-
Change in fair value of biological assets	7	(2,574,822)	265,988
Changes in non-cash working capital balances:			
Receivables		(195,389)	(598,624)
Prepaid expenses		(499,328)	(86,203)
Inventory		(3,978,279)	(839,575)
Biological assets		3,644,689	236,784
Accounts payable, payroll and accrued liabilities		438,161	1,881,744
Cash used in operating activities		<u>(9,598,109)</u>	<u>(1,651,698)</u>
Investing activities:			
Deposits for properties	5	3,197,883	(4,635,467)
Purchase property, plant and equipment	8	(9,600,191)	(3,285,501)
Purchase of intangible assets	9	(3,996,710)	(250,000)
Preproduction costs	7	(142,941)	-
Purchases of other investments	6	(110,000)	-
Cash used in investing activities		<u>(10,651,959)</u>	<u>(8,170,968)</u>
Financing activities:			
Warrants exercised	13	3,431,581	-
Units & shares issued	13	19,114,078	6,507,491
Units & share issue costs	13	(462,696)	-
Payments on finance lease	10	(267,323)	(207,464)
Payments on long-term debt	11	(24,364)	(22,386)
Proceeds from long-term debt	11	-	4,000,000
Cash provided by financing activities		<u>21,791,276</u>	<u>10,277,641</u>
Increase in cash and cash equivalents		1,541,208	454,975
Effect of exchange rate changes on cash		181,135	-
Cash and cash equivalents, beginning of year		865,094	410,119
Cash and cash equivalents, end of year		<u>\$ 2,587,436</u>	<u>\$ 865,094</u>

ASCENT INDUSTRIES CORP

Consolidated Statements of Changes in Shareholders' Equity For the Years Ended May 31, 2018 and 2017

(Expressed in Canadian Dollars)

	Common Shares		Common shares to be issued	Share-based reserve	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Shareholders' Equity
	Number	\$	\$		\$	\$	\$	\$
Balance, May 31, 2016	117,812,838	\$ 8,161,125	\$ -	\$ -	\$ -	\$ -	\$ (3,585,044)	\$ 4,576,081
Shares issued for private placement A	350,000	35,000	-	-	-	-	-	35,000
Shares cancelled private placement A	(1,000,000)	(100,000)	-	-	-	-	-	(100,000)
Shares issued for private placement B	42,708,839	6,406,325	-	-	-	-	-	6,406,325
Common shares to be issued	-	-	182,250	-	-	-	-	182,250
Shares issued for debt	7,821,802	1,107,918	-	-	-	-	-	1,107,918
Shares issued for services	1,419,284	212,893	-	-	-	-	-	212,893
Share issuance costs	-	(228,977)	-	-	-	-	-	(228,977)
Contribution to capital	-	-	-	-	1,572,639	-	-	1,572,639
Net loss for the year	-	-	-	-	-	-	(2,942,306)	(2,942,306)
Balance, May 31, 2017	169,112,763	15,594,284	182,250	-	1,572,639	-	(6,527,350)	10,821,823
Exercise of warrants (for private placement A)	3,266,460	440,972	(182,250)	-	-	-	-	258,722
Exercise of warrants (for private placement B)	11,962,436	2,990,609	-	-	-	-	-	2,990,609
Shares cancelled for private placement A	(133,333)	(20,000)	-	-	-	-	-	(20,000)
Shares issued for private placement B	166,667	25,000	-	-	-	-	-	25,000
Shares issued for private placement C	25,516,613	10,206,645	-	-	-	-	-	10,206,645
Shares issued for finders fees	999,254	399,702	-	-	-	-	-	399,702
Shares issued for equipment	1,280,000	512,000	-	-	-	-	-	512,000
Shares issued for services	1,666,845	415,356	-	-	-	-	-	415,356
Shares issued for licenses	3,090,240	772,560	-	-	-	-	-	772,560
Shares issued for software	804,188	321,675	-	-	-	-	-	321,675
Shares issued as compensation	950,882	380,353	-	-	-	-	-	380,353
Share issuance costs	-	(462,696)	-	-	-	-	-	(462,696)
Shares to be issued for private placement D	-	-	8,673,862	-	-	-	-	8,673,862
Share based compensation	-	-	-	507,151	-	-	-	507,151
Foreign currency reserve	-	-	-	-	-	23,671	-	23,671
Net loss for the year	-	-	-	-	-	-	(13,772,320)	(13,772,320)
Balance, May 31, 2018	218,683,015	\$ 31,576,460	\$ 8,673,862	\$ 507,151	\$ 1,572,639	\$ 23,671	\$ (20,299,670)	\$ 22,054,113

The accompanying notes form an integral part of these financial statements

ASCENT INDUSTRIES CORP

Notes to the Consolidated Financial Statements
For the Years Ended May 31, 2018 and 2017
(Expressed in Canadian Dollars)

1. Nature of Operations

Ascent Industries Corp. (“Ascent”), was incorporated under the *Business Corporations Act* (British Columbia) on May 30, 2013. Ascent’s head office and principal address is located at 260 – 22529 Lougheed Hwy, Maple Ridge, BC V2X 0T5 and the registered records office address is located at Suite 1700 – 666 Burrard Street, Vancouver, BC V6C 2X8. In April 2018, Ascent entered into a letter of intent to acquire by Paget Minerals Corp. (“Paget”), a company listed on the NEX board of the TSX Venture Exchange by way of a reverse take over of Paget by Ascent (see Note 21).

The consolidated financial statements as at and for years ended May 31, 2018, and 2017, include Ascent and its subsidiaries (together referred to as the “Company”) and the Company’s interest in affiliated companies.

On November 10, 2017 Agrima Botanicals Corp. (“Agrima”), a wholly owned subsidiary of Ascent, was granted a Producer’s License under Health Canada’s Access to Cannabis for Medical Purposes Regulations (“ACMPR”). The license allows Agrima to cultivate cannabis and produce cannabis oils.

The Company operates in the USA through wholly owned subsidiaries in Nevada and Oregon with licenses to produce, process and distribute cannabis and processed cannabis products including cannabis oils. On July 26, 2017, the Oregon Liquor Control Commission granted a Marijuana Wholesaler License and a Marijuana Processor License to Luff Enterprises, LLC the Company’s wholly owned Oregon subsidiary. On November 22, 2017, the State of Nevada, Department of Taxation granted to Luff Enterprises NV, Inc., the Company’s wholly-owned Nevada subsidiary doing business as Sweet Cannabis, Certification as a Medical Marijuana Production Establishment and Certification as a Medical Marijuana Cultivation Establishment. On January 5, 2018, the State of Nevada Department of Taxation granted to Sweet Cannabis, a Nevada Marijuana Product Manufacturing License and Nevada Marijuana Cultivation Facility License. Ascent is further expanding into federally legal jurisdictions outside of Canada and the USA, including activities currently focused on Europe through its wholly owned subsidiary in Denmark.

The Company’s primary activities relate to cannabis cultivation, processing, production, research, product and brand development, and distribution.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on a going concern basis which assumes that the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. For the year ended May 31, 2018, the Company has generated \$9,919,812 in revenues from operations, incurred a net loss of \$13,772,320 and has an accumulated deficit of \$20,299,670.

The Company has financed its working capital requirements primarily through equity and debt financings. The Company’s ability to continue as a going concern is dependent upon its ability to commence profitable operations and generate funds therefrom or raise additional financing in order to meet current and future obligations. While the Company has been successful in raising financing in the past, there is no assurance that it will be able to obtain additional financing or that such financing will be available on reasonable terms. These conditions combined with the accumulated losses to date indicate the existence of a material uncertainty that may cast doubt on the Company’s ability to continue as a going concern. As of May 31, 2018, the Company was in the process of raising equity through a subscription receipt offering and a Series D private placement (see Note 13), and these offerings were closed subsequent to year end (Note 21).

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

ASCENT INDUSTRIES CORP

Notes to the Consolidated Financial Statements
For the Years Ended May 31, 2018 and 2017
(Expressed in Canadian Dollars)

2. Significant Accounting Policies

(a) Statement of Compliance and Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board on a going concern basis. These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on September 27, 2018.

(b) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Agrima Botanicals Corp., Bloom Holdings Ltd., Pinecone Products Ltd., Agrima Scientific Corp., Azeha Holdings Inc., Agrima Botanicals ApS (Denmark), West Fork Holdings Inc., West Fork Holdings NV Inc., Sweet Cannabis Inc., Luff Enterprises LLC., Sweet Cannabis NV Inc., Luff Enterprises NV Inc. and AIC Health Services Corp. All significant inter-company balances and transactions have been eliminated on consolidation.

(c) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis except for biological assets, assets classified as held for sale and available-for-sale and derivatives, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

(d) Functional and Presentation Currency.

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency of the Company's US subsidiaries is the US Dollar, and the functional currency of the Company's Danish subsidiary is the Danish Krone.

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated statement of financial position date are translated to Canadian dollars at the foreign exchange rate applicable at that date. Realized and unrealized exchange gains and losses are recognized in the consolidated statements as a comprehensive loss.

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

The assets and liabilities of foreign operations are translated into Canadian dollars at period end exchange rates. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates. Exchange differences resulting from the translation of foreign operations are recognized in other comprehensive income and accumulated in equity.

(e) Cash and cash equivalents.

Cash and cash equivalents include cash deposits in financial institutions and other deposits that are readily convertible into cash.

ASCENT INDUSTRIES CORP

Notes to the Consolidated Financial Statements
For the Years Ended May 31, 2018 and 2017
(Expressed in Canadian Dollars)

2. Significant Accounting Policies (continued)

(f) Inventory

Inventories of harvested finished good and packaging materials are initially measured at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less costs to sell at harvest which becomes the deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that the cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. Products for resale and supplies and consumables are valued at cost.

The Company reviewed inventory for obsolete, redundant and slow-moving goods and any such inventories were written down to net realizable value.

(g) Property, Plant and Equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. For the year ended May 31, 2018, the Company has enacted a change in estimate. For year ending May 31, 2017 depreciation was calculated using the diminishing balance basis over the estimated useful life of the assets, except in the year of acquisition, when half of the rate was used. For the year ending May 31, 2018, depreciation is calculated on a straight-line basis over the estimated useful life of the assets on a pooled basis, as is consistent with industry practice.

- Management estimates those useful lives to be:
- Computer and business equipment – 3 years
- Agriculture, laboratory and production equipment – 4 - 5 years
- Furniture, fixtures and tools – 4 - 5 years
- Leasehold improvements – 10 years
- Groundworks – 10 years
- Buildings – 40 years

An asset's residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted if appropriate.

The Company capitalizes borrowing costs on capital invested in projects under construction. Upon commencement of commercial operations, capitalized borrowing costs, as a portion of the total cost of the asset, are depreciated over the estimated useful life of the related asset.

Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognized in profit or loss.

(h) Intangible Assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization is provided on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively.

ASCENT INDUSTRIES CORP

Notes to the Consolidated Financial Statements
For the Years Ended May 31, 2018 and 2017
(Expressed in Canadian Dollars)

2. Significant Accounting Policies (continued)

(h) Intangible Assets (continued)

For the year ending May 31, 2018, amortization is calculated on a straight-line basis over the estimated useful life of the assets on a pooled basis, as is consistent with industry practice.

- Management estimates those useful lives to be:
- Licenses for the cultivation of cannabis – 40 years
- Software – 10 years

(i) Leased assets

The Company leases some items of property, plant and equipment. A lease of property, plant and equipment is classified as a capital lease if it transfers substantially all of the risks and rewards incidental to ownership to the Company. A lease of property, plant and equipment is classified as an operating lease whenever the terms of the lease do not transfer substantially all of the risks and rewards of ownership to the lessee. Lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits are consumed.

(j) Biological assets

The Company measures biological assets consisting of medical cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest.

Unrealized gains or losses arising from the changes in fair value less costs to sell during the year are included in the results of operations.

(k) Impairment of non-financial assets

The carrying amount of the Company's non-financial assets is reviewed at each financial reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized when the carrying amount of an asset or its cash generating unit ("CGU") exceeds its recoverable amount. Impairment losses are recognized in profit and loss for the period.

The recoverable amount of an asset or CGU is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment.

ASCENT INDUSTRIES CORP

Notes to the Consolidated Financial Statements
For the Years Ended May 31, 2018 and 2017
(Expressed in Canadian Dollars)

2. Significant Accounting Policies (continued)

(l) Share capital

Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded in reserves over the vesting periods are recorded as share capital. Share capital issued for nonmonetary consideration is recorded at an amount based on fair market value of the shares on the date of issue.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. When shares and warrants are issued at the same time, the proceeds are allocated first to common shares issued, according to their fair value and the residual value being allocated to shares. Any fair value attributed to the warrants is recorded as contributed surplus.

(m) Share-based payments

The fair value of options is determined using the Black–Scholes option pricing model which incorporates all market vesting conditions. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are transferred to deficit in the year of forfeiture or expiry.

Upon the exercise of stock options, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

(n) Loss per share

The Company calculates basic loss per share using the weighted average number of common shares outstanding during the year. Diluted loss per share is the same as basic loss per share, as the issuance of shares on the exercise of stock options and share purchase warrants is anti-dilutive.

(o) Revenue recognition

Revenue is recognized at the fair value consideration received or receivable. Revenue from the sale of goods is recognized when the Company has transferred the significant risks and rewards of ownership to the buyer and it is probable that the Company will receive the previously agreed upon payment. Significant risks and rewards are generally considered to be transferred when the Company has shipped the product to customers.

(p) Research and development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete the development to use or sell the asset.

ASCENT INDUSTRIES CORP

Notes to the Consolidated Financial Statements
For the Years Ended May 31, 2018 and 2017
(Expressed in Canadian Dollars)

2. Significant Accounting Policies (continued)

(q) Taxes

Tax expense recognized in profit or loss comprises the sum of current and deferred taxes not recognized in other comprehensive income or directly in equity.

(i) Current tax

Current tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred tax

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

(r) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized on the statements of financial position at the time the Company becomes a party to the contractual provisions of the financial instrument.

Financial instruments are initially measured at fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument. The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity, available-for-sale, and other financial liabilities.

(i) Financial assets

a) Financial assets at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are either 'held-for-trading' or designated at fair value through profit or loss. They are initially and subsequently recorded at fair value and changes in fair value are recognized in profit or loss for the period.

ASCENT INDUSTRIES CORP

Notes to the Consolidated Financial Statements
For the Years Ended May 31, 2018 and 2017
(Expressed in Canadian Dollars)

2. Significant Accounting Policies (continued)

(r) Financial instruments (continued)

(i) Financial assets (continued)

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value and subsequently on an amortized cost basis using the effective interest method, less any impairment losses. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

The Company has designated its cash and cash equivalents and accounts receivable as loans and receivables.

c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are initially recorded at fair value and subsequently measured at amortized cost.

The Company does not have any held-to-maturity financial assets.

d) Available-for-sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any other financial asset categories. They are initially and subsequently measured at fair value and the changes in fair value, other than impairment losses are recognized in other comprehensive income (loss) and presented in the fair value reserve in shareholders' equity. When the financial assets are sold or an impairment write-down is required, losses accumulated in the fair value reserve recognized in shareholders' equity are included in profit or loss.

The Company has designated investments as available for sale.

(ii) Financial liabilities

All financial liabilities are recognized initially at fair value plus any directly attributable transaction costs on the date at which the Company becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition, the Company's financial liabilities classified as other financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in profit and loss. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired.

ASCENT INDUSTRIES CORP

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2. Significant Accounting Policies (continued)

(r) Financial instruments (continued)

(ii) Financial liabilities (continued)

The Company's non-derivative financial liabilities include its accounts payable and accrued liabilities, payroll payable, finance lease, and loans payable, which are designated as other liabilities.

The Company's derivative financial liabilities are stated at fair value with changes recognized through profit and loss.

(iii) Compound financial instruments

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition. Interest and losses and gains relating to the financial liability are recognized in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognized on conversion.

(iv) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is reviewed at each reporting date to determine whether there is any indication of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss with a corresponding reduction in the financial asset, or, in the case of amounts receivable, are reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ASCENT INDUSTRIES CORP

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2. Significant Accounting Policies (continued)

(s) Significant accounting judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements are described below.

Significant judgments

(i) Fair value of financial instruments

The individual fair values attributed to the different components of a financing transaction, notably convertible debt and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market. The assumptions regarding the derivative liabilities are disclosed in note 12.

(ii) Biological assets

Biological assets, consisting of cannabis plants and agricultural produce consisting of cannabis, are measured at fair value less costs to sell up to the point of harvest.

Determination of the fair values of the biological assets and the agricultural product requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the cannabis up to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle.

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2. Significant Accounting Policies (continued)

(s) Significant accounting judgments, estimates and assumptions (continued)

Significant judgments (continued)

(ii) Biological assets (continued)

The valuation of biological assets at the point of harvest is the cost basis for all cannabis based inventory and thus any critical estimates and judgments related to the valuation of biological assets are also applicable for inventory. The valuation of work-in-process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying cost for the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

(iii) Estimated useful lives and depreciation of property, plant and equipment

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

Significant estimates

(i) Convertible instruments

Convertible notes are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible notes in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

The identification of convertible notes components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

(ii) Deferred tax assets

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

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2. Significant Accounting Policies (continued)

(t) Recent accounting pronouncements

There were no new standards effective June 1, 2017 that had an impact on the Company's consolidated financial statements. The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

(i) IFRS 7 Financial instruments: Disclosure

IFRS 7 Financial instruments: Disclosure, was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018.

(ii) IFRS 9, Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

(iii) IFRS 15 Revenue from Contracts with Customers

The IASB replaced IAS 18, *Revenue*, in its entirety with IFRS 15, *Revenue from Contracts with Customers*. The standard 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 is effective for annual periods beginning on or after January 1, 2018, with early application permitted.

(iv) IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 *Leases*, which will replace IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. The extent of the impact of adoption of the standard has not yet been determined.

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3. Accounts Receivable

Accounts receivable consist of the following:

Included in trade receivables is an amount of \$765,475 (\$265,202 at May 31, 2017) due from companies connected to directors and shareholders of Ascent arising from the purchase of inventory, which were paid subsequent to year end. (see Note 16).

	May 31, 2018	May 31, 2017
Trade receivables	\$ 1,209,439	\$ 1,305,064
GST recoverable (payable)	313,672	(19,956)
	<u>\$ 1,523,111</u>	<u>\$ 1,285,108</u>

4. Prepaid Expenses

Prepaid expenses consist of the following:

	May 31, 2018	May 31, 2017
Deposits	\$ 107,619	\$ 122,556
Prepaid insurance	61,233	-
Prepaid inventory	201,396	-
Prepaid vendors	163,212	7,800
	<u>\$ 533,460</u>	<u>\$ 130,356</u>

5. Deposits for Properties

Deposits for properties consist of the following:

	May 31, 2018	May 31, 2017
Deposit for Pitt Meadows property	\$ 1,050,000	\$ -
Deposit for Las Vegas property	-	4,635,467
	<u>\$ 1,050,000</u>	<u>\$ 4,635,467</u>

ASCENT INDUSTRIES CORP

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6. Investments

During the year ended May 31, 2017 and 2018, the Company participated in a private placement in a privately held, startup company that is developing pet food products incorporating cannabinoid extracts. The Company does not have significant influence or control over the investee and has classified the investment as available for sale.

As the investee is privately held and there is no quoted market price for its common shares, the investment has been recorded at cost, and consists of the following:

	May 31, 2018	May 31, 2017
Enhanced Pet Sciences Corp	\$ 360,000	\$ 250,000

7. Inventory and Biological Assets

Inventory consists of the following:

	May 31, 2018	May 31, 2017
Packaging	\$ 554,620	\$ 543,755
Finished terpenes	187,973	151,995
Terpenes in process	-	168,051
Finished packaged goods	232,689	46,032
Finished unpackaged goods	105,399	-
	<u>\$ 1,080,681</u>	<u>\$ 909,833</u>

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7. Inventory and Biological Assets (continued)

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

	May 31, 2018	May 31, 2017
Balance, beginning of period	\$ 1,069,867	\$ -
Purchase of plant material	60,720	-
Production costs capitalized	29,387	-
Transferred from related party (Note 16)	-	1,570,023
Disposed biological assets due to transition of operations	(67,500)	-
Changes in fair value, less costs to sell	(1,092,474)	(243,142)
Transferred to inventory upon harvest	-	(257,014)
Balance, end of period	\$ <u>-</u>	\$ <u>1,069,867</u>

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

- (a) Expected yield by plant;
- (b) Wastage of plants;
- (c) Duration of the production cycle;
- (d) Percentage of costs incurred as of this date compared to the total costs expected to be incurred;
- (e) Percentage of costs incurred for each stage of plant growth; and
- (f) Market values.

ASCENT INDUSTRIES CORP

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8. Property, Plant and Equipment

A continuity of the Company's property, plant and equipment for the year ended May 31, 2018 is as follows:

Cost	Balance at June 1, 2017	Additions	Transfers	Disposals	Balance at May 31, 2018
Construction in progress	\$ -	1,030,841	-	-	1,030,841
Land	655,000	632,270	-	-	1,287,270
Buildings	4,529,554	4,480,355	-	-	9,009,909
Computer equipment	24,488	233,662	-	-	258,150
Wireless network	75,928	11,075	-	-	87,003
Software	14,429	26,161	-	-	40,590
Mobile equipment	27,553	47,387	-	-	74,940
Furniture and fixtures	214,489	94,983	-	-	309,472
Security fencing and equipment	55,797	436,335	-	-	492,132
Tools and equipment	1,195,004	852,620	-	-	2,047,624
Leasehold improvements	1,414,230	1,896,859	-	-	3,311,089
New groundworks	79,254	53,928	-	-	133,182
Agriculture and lab equip.	1,604,623	670,096	-	(20,871)	2,253,848
Total	\$ 9,890,349	10,466,572	-	(20,871)	20,336,050
Business Segments					
British Columbia	\$ 8,548,026	4,643,026	(1,036,037)	(20,871)	12,134,144
Oregon	1,342,323	611,350	939,169	-	2,892,842
Nevada	-	5,212,196	96,868	-	5,309,064
Total	\$ 9,890,349	10,466,572	-	(20,871)	20,336,050

At May 31, 2018, the Company has various capital projects under construction. Amounts advanced to various construction companies and equipment suppliers totaled \$1,030,841 (\$Nil at May 31, 2017). No depreciation was taken on these amounts during the period.

ASCENT INDUSTRIES CORP

Notes to the Consolidated Financial Statements
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8. Property, Plant and Equipment (continued)

Accumulated Depreciation	Balance at June 1, 2017	Additions	Disposals	Foreign Exchange Movement	Balance at May 31, 2018
Construction in progress	\$ -	-	-	-	-
Land	-	-	-	-	-
Buildings	(609,593)	(168,266)	-	(1,241)	(779,100)
Computer equipment	(5,066)	(45,323)	-	(204)	(50,593)
Wireless network	(50,343)	(27,155)	-	-	(77,498)
Software	(7,882)	(8,295)	-	(27)	(16,204)
Mobile equipment	(4,133)	(12,737)	-	(95)	(16,965)
Furniture and fixtures	(107,755)	(52,324)	-	(92)	(160,171)
Security fencing and equipment	(29,168)	(69,076)	-	(502)	(98,746)
Tools and equipment	(120,978)	(298,472)	-	(2,790)	(422,240)
Leasehold improvements	(113)	(235,927)	-	(4,052)	(240,092)
New groundworks	(23,589)	(10,622)	-	-	(34,211)
Agriculture and lab equip.	(193,215)	(463,174)	4,098	(1,016)	(653,307)
Total	\$ (1,151,835)	(1,391,371)	4,098	(10,019)	(2,549,127)
Business Segments					
British Columbia	\$ (1,151,835)	(987,344)	4,098	-	(2,135,081)
Oregon	-	(104,175)	-	(2,584)	(106,759)
Nevada	-	(299,852)	-	(7,435)	(307,287)
Total	\$ (1,151,835)	(1,391,371)	4,098	(10,019)	(2,549,127)
Net Book Value	\$ 8,738,514				17,786,923

Depreciation expense of \$1,391,371 at May 31, 2018 (\$430,494 at May 31, 2017), is included in the accompanying consolidated statement of operations.

ASCENT INDUSTRIES CORP

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9. Intangible Assets

A continuity of the intangible assets for the year ended May 31, 2018 is as follows:

Cost	Balance at June 1, 2017	Additions	Transfers	Balance at May 31, 2018
Licenses	\$ 23,156	3,760,292	(23,156)	3,760,292
Software		2,934,289		2,934,289
Total	\$ 23,156	6,694,581	(23,156)	6,694,581

Business segments

British Columbia	\$ 23,156	5,337,289	(23,156)	5,337,289
Oregon	-	-	-	-
Nevada	-	944,957	23,156	968,113
Denmark	-	389,179		389,179
Total	\$ 23,156	6,671,425	-	6,694,581

Accumulated Depreciation	Balance at June 1, 2017	Additions	Foreign Exchange Movement	Balance at May 31, 2018
Licenses	\$ -	(41,880)	(293)	(42,173)
Software	-	(146,715)	-	(146,715)
Total	\$ -	(188,595)	(293)	(188,888)

Business Segments

British Columbia	\$ -	(176,751)	-	(176,751)
Oregon	-	-	-	-
Nevada	-	(11,844)	(293)	(12,137)
Denmark	-	-	-	-
Total	\$ -	(188,595)	(293)	(188,888)
Net Book Value	\$ 23,156			6,505,693

Amortization expense of \$188,595 at May 31, 2018 (\$Nil at May 31, 2017), is included in the accompanying consolidated statement of operations.

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10. Finance Lease

During the year ended May 31, 2017, the Company entered into finance lease agreements related to two production equipment transactions totaling \$529,886, of which down payments of \$174,585 were made. The finance leases are repayable over a period of 1 to 3 years expiring June 2018 and February 2020.

	May 31 2018	May 31 2017
Less than 1 year	\$ 41,227	\$ 340,549
Between 1 and 3 years	13,952	30,257
Total minimum lease payments	55,179	370,806
Less: amount representing interest at approximately 31.10% to 62.01%	(13,451)	(61,755)
Present value of minimum lease payments	41,728	309,051
Less: current portion	(30,532)	(281,613)
Long term portion	\$ 11,196	\$ 27,438

11. Short Term Loan Payable

A wholly owned subsidiary of the Company has a mortgage on its property in Maple Ridge, BC. The initial mortgage amount was for \$1,800,000 for a two-year period beginning January 1, 2016 bearing interest at 8.5% per annum compounded monthly. The mortgage was renewed for a one-year term on January 1, 2018 for the principal outstanding of \$1,754,546 with the same interest rate of 8.5% per annum compounded monthly. The short-term loan payable is \$1,746,199.

12. Long Term Liabilities

A wholly owned subsidiary of the Company has an 8.0% interest only mortgage on its Las Vegas, NV property. The aggregate amount of the mortgage is \$4,000,000 and the mortgage has a two-year term beginning on May 29, 2017. This mortgage is secured against the Las Vegas property and the Maple Ridge property. There is a conversion privilege at the option of the lender, in whole or in part at any time during the term into common shares of the Company at \$0.35 per share, and a prepayment right exercisable by the Company should there be an offering of shares or merger type transaction, at a share price of at least \$1.00. The conversion privilege contains a price adjustment clause in the event of any future financing at a price of less than \$0.35 per common share. As the conversion price can be amended, the conversion feature failed the 'fixed-for-fixed' criteria and was classified as a derivative liability with a fair value of \$357,445 at the date of issuance. The conversion feature was valued using a binomial model on the issuance date and remeasured to fair value at May 31, 2018 with the following assumptions:

	May 31, 2018	May 31, 2017
Exercise price	\$0.35	\$0.35
Time to maturity	1 years	2 years
Risk-free rate	1.29%	0.71%
Volatility	75%	80%
Dividend rate	Nil	Nil

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12. Long Term Liabilities (continued)

	Derivative Liability	
Balance May 31, 2017	\$	357,445
Change in fair value		518,250
Balance May 31, 2018	\$	875,695

	Long Term Liabilities	
Balance May 31, 2017	\$	3,642,555
Add: Accretion interest		178,723
Balance May 31, 2018	\$	3,821,278

13. Share Capital and Contributed Surplus

(a) Authorized

Unlimited number of common shares with no par value; and unlimited number of preferred shares with no par value.

(b) Issued and Outstanding

At May 31, 2018, there were 218,683,015 issued and fully paid common shares (May 31, 2017 - 169,112,763).

During the year ended May 31, 2018, the Company received \$440,972 and \$2,990,609 pursuant to the exercise of warrants issued as a part of series A and series B, respectively, non-brokered private placement of units.

During the year ended May 31, 2018, 133,333 units of the series A non-brokered private placement were cancelled and put into an estate trust.

During the year ended May 31, 2018, the Company issued the 166,667 units at a price of \$0.15 per unit for gross proceeds of \$25,000 as last tranche of the series B private placement initiated during the year ended May 31, 2017.

During the year ended May 31, 2018, the Company closed a series C non-brokered private placement of shares consisting of 25,516,613 common shares at a price of \$0.40 per share for gross proceeds of \$10,206,645, net of \$462,696 in issuance costs consisting of 999,254 in common shares issued as finders' fees in the amount of \$399,702 and legal fees of \$62,994.

During the year ended May 31, 2018, the Company received \$8,673,862 for the series D placement of units. These securities have not yet been issued at May 31, 2018.

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13. Share Capital and Contributed Surplus (continued)

(b) Issued and Outstanding (continued)

During the year ended May 31, 2018, the Company issued 1,280,000 common shares at a price of \$0.40 per shares for the purchase of equipment.

During the year ended May 31, 2018, the Company issued 1,666,845 common shares at prices between \$0.135 and \$0.40 per shares for services.

During the year ended May 31, 2018, the Company issued 3,090,240 common shares at a price of \$0.25 per shares for the Nevada licenses.

During the year ended May 31, 2018, the Company issued 804,188 common shares at a price of \$0.40 per shares for the purchase of proprietary software.

During the year ended May 31, 2018, the Company issued 950,882 shares at a price of \$0.40 for employment services for \$380,353, of which \$300,000 was accrued as at May 31, 2017 (see Note 16).

During the year ended May 31, 2017, the Company issued the 350,000 units at a price of \$0.10 per unit for gross proceeds of \$35,000 as the balance of tranche 3 of the series A private placement initiated during the year ended May 31, 2016. These units consisted of one common share and one half common share purchase warrant. Each warrant entitled the holder to purchase an additional common share of the Company at a price of \$0.135 per common share for a period of eighteen months.

During the year ended May 31, 2017, the Company issued 42,708,839 units as part of the series B non-brokered private placement at a price of \$0.15 per unit for gross proceeds of \$6,406,325. Each unit consisted of one common share and one half common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of \$0.25 per common share for a period of eighteen months. In connection with the private placement the Company issued 1,419,284 common shares for finder's fees.

During the year ended May 31, 2017, the Company received \$182,250 pursuant to the exercise of warrants, for which the common shares have yet to be issued. These have been shown as common shares to be issued on the statement of changes in shareholders' equity.

(c) Share Purchase Warrants

Each whole warrant entitles the holder to purchase one common share of the Company. A summary of the status of the warrants issued, exercised or expired is as follows:

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13. Share Capital and Contributed Surplus (continued)

(c) Share Purchase Warrants (continued)

	Warrants	Weighted average exercised price
Balance May 31, 2016	8,328,535	\$ 0.135
Issued	525,397	0.135
Issued	25,025,436	0.250
Exercised	(1,475,000)	0.135
Expired	(2,652,075)	0.135
Balance May 31, 2017	29,752,293	0.232
Exercised	(1,791,460)	0.135
Exercised	(11,962,436)	0.250
Expired	(2,935,397)	0.135
Expired	(563,000)	0.250
Balance May 31, 2018	12,500,000	\$ 0.250

During the year ended May 31, 2018, 1,791,460 warrants were exercised with an exercise price of \$0.135 per common share and 11,962,436 were exercised with an exercise price of \$0.25 per common share were exercised for total gross proceeds of \$3,232,456. Not all common shares issuable on exercise of these warrants have yet been issued, and accordingly, these have been reflected as common shares to be issued on the statement of changes of shareholders' equity.

During the year ended May 31, 2017, 1,475,000 warrants were exercised with exercise price of \$0.135 per common share for gross proceeds of \$199,125. Gross proceeds of \$182,250 were received by the Company at May 31, 2017 and the remaining \$16,875 was received after year end. The common shares issuable on exercise of these warrants have not yet been issued, and accordingly, these have been reflected as common shares to be issued on the statement of changes in shareholders' equity.

The following table summarizes the warrants that remain outstanding as at May 31, 2018:

Exercise Price	Warrants #	Expiry Date
\$ 0.250	3,666,667	June 6, 2018
0.250	8,833,333	August 6, 2018
	12,500,000	

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13. Share Capital and Contributed Surplus (continued)

(d) Share-based Compensation

During the year ended May 31, 2018, the shareholders of the Company approved a Stock Option Plan to attract and retain directors, employees, officers and consultants for contributions towards the long-term goals of the Company.

The Company recorded \$507,151 for the year ended May 31, 2018 (\$Nil – 2017) in share-based compensation expense related to options.

At May 31, 2018, the weighed average exercise price of options outstanding was \$0.40 and the weighed average remaining contractual life was 3.68 years based on a vesting period of four years.

The following table summarizes the options outstanding as at May 31, 2018:

	Options	Exercise price
Balance May 31, 2017	-	\$ -
Options granted	12,470,000	0.40
Options exercised	-	-
Options forfeited/cancelled	-	-
Balance May 31, 2018	12,470,000	\$ 0.40

In determining the amount of share-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of options granted during the year ended May 31, 2018 by applying the following assumptions

	May 31, 2018
Risk-free interest rate	2.04%
Expected life of options (years)	5
Expected annualized volatility	75%
Expected dividend yield	Nil
Weighted average Black-Scholes value of each option	\$ 0.2473

Volatility was established by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history.

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14. Commitments and Contingencies

Effective March 1, 2016, the Company entered into a four-year lease agreement for office and processing premises located in Portland, Oregon. The lease terminates February 28, 2020. The obligations under this lease are as follows:

2019	\$	147,015
2020		112,316
		<u>259,331</u>

Effective March 1, 2017, the Company entered into a five-year lease agreement for office and processing premises located in Pitt Meadows, BC. The lease terminates February 28, 2022. The obligations under this lease are as follows:

2019	\$	158,139
2020		159,414
2021		163,240
2022		122,430
		<u>603,223</u>

During the year ended May 31, 2018, the Company purchased software for a total of \$1,500,000US (Note 9). During the year ended May 31, 2018, the Company made payments of \$250,000US in cash and issued \$250,000US in common shares. At May 31, 2018 the Company has a remaining commitment of \$1,000,000US, which is to be paid in cash and common shares, both in the amount of \$500,000US subject to achievement of certain milestones.

During the year ended May 31, 2018, the Company entered into a contract to purchase a property in Pitt Meadows, BC for a total of \$18,500,000. During the year ended 2018, the Company made deposits of \$1,050,000 in cash (Note 5). At May 31, 2018, the Company has a remaining commitment of \$17,450,000.

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15. Segment Information

The Company operates in two primary segments; medical cannabis and other. For the years ending May 31, 2018 and 2017 operating segment information is as follows:

	Medical Cannabis	Other	Total
For the year ended May 31, 2018:			
Revenues	\$ 9,919,812	\$ -	\$ 9,919,812
Gross profit (loss)	2,137,346	-	2,137,346
Income (loss) from operations	(6,849,485)	(4,882,796)	(11,732,281)
Net Income (Loss)	(7,371,645)	(6,400,675)	(13,772,320)

For the year ended May 31, 2017:			
Revenues	\$ 4,880,075	\$ -	\$ 4,880,075
Gross profit (loss)	975,156	-	975,156
Income (loss) from operations	(1,931,587)	(814,642)	(2,746,229)
Net Income (Loss)	(2,004,742)	(937,564)	(2,942,306)

	Medical Cannabis	Other	Total
As at May 31, 2018:			
Total assets	\$ 23,255,357	\$ 8,171,947	\$ 31,427,304
Total liabilities	2,894,313	6,478,878	9,373,191

As at May 31, 2017:			
Total assets	\$ 16,286,465	\$ 1,620,930	\$ 17,907,395
Total liabilities	3,000,835	4,084,737	7,085,572

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15. Segment Information (continued)

The Company generates revenue in two geographical locations: Canada and the USA. The Company has incorporated a wholly-owned subsidiary in Denmark. The activities as of May 31, 2018 of the Denmark subsidiary are immaterial. Accordingly, the operations of the Denmark subsidiary do not constitute a segment. All revenues during the year ended May 31, 2018 were generated in Canada and the USA and all material assets and liabilities were located in Canada and the USA.

	Canada	USA	Total
For the year ended May 31, 2018:			
Revenues	\$ 9,340,975	\$ 578,837	\$ 9,919,812
Gross profit (loss)	2,532,481	(395,135)	2,137,346
Loss from operations	(8,414,681)	(3,317,600)	(11,732,281)
Net Income (Loss)	(10,443,078)	(3,329,242)	(13,772,320)

For the year ended May 31, 2017:			
Revenues	\$ 4,880,075	\$ -	\$ 4,880,075
Gross profit (loss)	975,156	-	975,156
Loss from operations	(1,940,554)	(805,675)	(2,746,229)
Net Income (Loss)	(2,136,631)	(805,675)	(2,942,306)

	Canada	USA	Total
As at May 31, 2018:			
Total assets	\$ 21,502,940	\$ 9,924,364	\$ 31,427,304
Total liabilities	9,173,788	199,403	9,373,191

As at May 31, 2017:			
Total assets	\$ 16,195,244	\$ 1,712,151	\$ 17,907,395
Total liabilities	6,995,727	89,845	7,085,572

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16. Related Parties

(a) Goods and Services

Balances and transactions between the Company and its wholly owned and controlled subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties are disclosed below:

The Company incurred the following transactions with related parties during the year ended May 31, 2018:

During the year ended May 31, 2018, the Company sold \$4,603,748 of inventory to companies connected to directors and shareholders of Ascent. A majority of these sales were to a company with an electronic commerce platform. This sales channel was not directly immediately available to the Company due to the lead time and the material costs associated with the Company creating its own online platform. The sales were made at generally the same terms and prices from other online providers. The Company expects to use the services of online sales providers going forward after obtaining a sales license from Health Canada to increase access to qualified clients.

During the year ended May 31, 2017 the Company had a contract processing agreement with Tallheo Holdings Ltd. ("Tallheo"), a Company owned by a major shareholder. Sales with Tallheo were \$1,322,127 in 2017. This contract processing agreement was terminated on January 31, 2017, biologic assets with a value of \$1,570,023 was transferred to the Company and recorded as contribution to capital.

	May 31, 2018	May 31, 2017
Reimbursement to a company controlled by a director for fees paid on behalf of the Company	\$ -	\$ 22,800
Paid to a company related to directors for equipment purchases agreement	-	22,500
Received from companys controlled by a directors for purchase of supplies	-	1,323,302
Received from companys that is a major shareholder fo the purchase of supplies	4,603,748	410,360
Received from a company controlled by a director for the purchase of shares	108,000	-
Received from a director for the purchase of shares	-	-
Shares issued to companies controlled by directors for conversion of debt	-	400,000
Shares issued to a director for conversion of debt	300,000	30,000
Shares issued directors for compensation bonuses	512,000	-
Received equipment in exchange for shares from a company that is a major shareholder	421,177	400,000
Received from a company that is a major shareholder for purchase of shares	-	3,350,000
Received from a company that is a controlled by a director for purchase of shares	-	1,570,023
	<u>\$ 5,944,925</u>	<u>\$ 7,528,985</u>

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16. Related Parties (continued)

(b) Compensation of Key Management Personnel

Three of the Company's directors are also the key management personnel that have the authority and responsibility for planning, directing and controlling the activities of the Company. The Company's key management personnel were paid compensation as follows:

	May 31, 2018	May 31, 2017
Management compensation	\$ 648,789	\$ 523,616
Share-based Payments	309,090	-
	<u>\$ 957,879</u>	<u>\$ 523,616</u>

(c) Related Party Balances

The following related party amounts were included in (i) accounts receivable, (ii) accounts payable and (iii) accrued liabilities.

	May 31, 2018	May 31, 2017
(i) Receivable from a company that is a major shareholder for sale of inventory supplies	\$ 765,475	\$ 265,202
(ii) Payable to a company controlled by a director for purchase of inventory supplies	-	21,750
(iii) Payable to company management for compensation	-	310,000

The May 31, 2017 management compensation estimated accrual for \$310,000 was paid during the year ended May 31, 2018 for the actual amount of \$300,000.

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17. Income Taxes

Income tax reconciliation

The following table reconciles the expected income taxes expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the statements of operations for the years ended May 31, 2018 and 2017:

	Year ended May 31, 2018	Year ended May 31, 2017
Loss before income taxes	\$ (13,772,320)	\$ (2,942,306)
Statutory tax rate	26.42%	26.00%
Expected (recovery) at statutory rate	(3,638,647)	(765,000)
Non-deductible items	152,799	1,574
Changes in estimates	174,471	3,060
Other items	74,381	-
Share issuance costs	(119,602)	-
Change in tax rates	72,885	-
Difference in tax rates	197,550	(64,564)
Change in unrecognized deferred tax assets	3,086,163	824,930
Income tax	\$ -	\$ -

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. The unrecognized deductible temporary differences in Canada at May 31, 2018 and 2017 are as follows:

	Year ended May 31, 2018	Year ended May 31, 2017
Non-capital loss carry-forwards	\$ 3,375,022	\$ 1,698,262
Biological assets	-	(278,166)
Convertible loan	188,183	-
Property and equipment	195,278	44,302
Financing costs	134,877	-
CEC	1,409	1,459
Unrecognized deductible temporary differences	\$ 3,894,769	\$ 1,465,857

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17. Income Taxes (continued)

Income tax reconciliation (continued)

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. The unrecognized deductible temporary differences in the United States at May 31, 2018 and 2017 are as follows:

	Year ended May 31, 2018	Year ended May 31, 2017
Non-capital loss carry-forwards	\$ 921,345	\$ 282,909
Unrecognized deductible temporary differences	\$ 921,345	\$ 282,909

The Corporation has non-capital loss carryforwards of approximately \$12,763,773 (2017 – \$6,104,470) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Year	Loss carry-forward amount
2031	3,251
2034	506,068
2035	1,178,594
2036	1,743,449
2037	2,115,037
2038	7,217,374
Total	\$ 12,763,773

The Corporation has non-capital loss carryforwards of approximately \$4,387,355 (2017 – \$832,086) which may be carried forward to apply against future year income tax for US income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Year	Loss carry-forward amount
2036	25,034
2037	807,052
2038	3,555,269
Total	\$ 4,387,355

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18. Financial Instruments and Risk Management

(a) Fair Value Hierarchy

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, payroll payable, finance lease and loans payable. The carrying values of these financial instruments approximate their fair values as at May 31, 2018. Investments without quoted prices in active markets are designated as available for sale and are carried at cost.

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

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

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

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

There were no transfers of amounts between levels during the year ended May 31, 2018.

	Fair Value at May 31, 2018	Basis of Measurement	Financial Instrument
Financial Assets:			
Cash and cash equivalents	\$ 2,587,436	Amortized Cost	Loans and receivables
Accounts receivable	1,523,111	Amortized Cost	Loans and receivables
Investment	360,000	Cost	Available for sale
Financial Liabilities:			
Accounts payable, payroll and accrued liabilities	2,888,291	Amortized Cost	Other financial liabilities
Current portion of finance leases	30,532	Amortized Cost	Other financial liabilities
Current portion of long term liabilities	1,746,199	Amortized Cost	Other financial liabilities
Derivative liability	875,695	Amortized Cost	Other financial liabilities
Finance leases	11,196	Amortized Cost	Other financial liabilities
Long-term loans	3,821,278	Amortized Cost	Other financial liabilities

The Company's warrants and convertible debentures are measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument (see Note 13).

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

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18. Financial Instruments and Risk Management (continued)

(b) Financial instruments risk

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

(i) Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash and cash equivalents and trade and other receivables. The risk exposure is limited to their carrying amounts at the balance sheet date. The risk is mitigated by holding cash and cash equivalents with highly rated Canadian financial institutions. The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. The Company periodically assesses the quality of its investments and is satisfied with the credit rating of the financial institutions and the investment grade of its guaranteed investment certificates. Trade and other receivables primarily consist of trade accounts receivable and goods and services taxes recoverable ("GST").

The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk, but has limited risk as the majority of sales are transacted with credit cards.

As at May 31, 2018 and 2017, the Company's aging of receivables was approximately as follows:

	2018	2017
Current	\$ 1,523,111	\$ 1,285,108

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. Subsequent to May 31, 2018, the Company has reduced its current exposure to liquidity risk through the receipt of certain private placement financings for aggregate gross of \$22,000,000.

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company's short-term loans and convertible loans are either non-interest bearing or have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

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19. Supplementary Cash Flow Information

During the year ended May 31, 2018, 1,280,000 shares were issued for \$512,000 for equipment (Note 8), 1,666,845 shares were issued for \$415,356 for services, 3,090,240 shares were issued for \$772,560 for licenses (Note 9), 804,188 shares were issued for \$321,675 for software (Note 9), 999,254 shares were issued for \$399,702 in finders fees and 950,882 shares were issued for \$380,353 in compensation.

During the year ended May 31, 2017, 7,821,802 shares were issued for \$1,107,918 debt, 1,419,284 shares were issued for \$212,893 finders fees, 2,666,666 units comprising of one share and one-half of a share purchase warrant were issued for \$400,000 of equipment and 1,207,591 common shares were issued for \$148,426 pre-production wages.

20. Capital Management

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

The capital structure of the Company consists of items included in shareholders' equity and debt, net of cash and cash equivalents. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or seek additional debt financing to ensure that it has sufficient working capital to meet its short-term business requirements. There were no changes in the Company's approach to capital management during the period ended May 31, 2018.

21. Subsequent Events

Subsequent to the year ending May 31, 2018, the Company made additional \$3,120,000 deposits on the contract to purchase a property located in Pitt Meadows, BC (Note 14).

In June 2018, the Company received \$916,667 pursuant to the exercise of 3,666,667 warrants as a part of series B. The remaining 8,833,333 unexercised warrants were to expire on August 9, 2018 but were extended to February 9, 2019.

In July 2018, the Company closed a series D non-brokered private placement consisting of 30,000,000 units at a price of \$0.40 per unit for gross proceeds of \$12,000,000, net of \$255,204 in issuance costs consisting of 510,407 units issued as finders' fees. Units consist of one common share and one warrant. Warrants can be exercised at a price of \$0.50 to acquire one common share and will expire in July 2020.

In July 2018, Ascent acquired Paget by way of a reverse take-over of Paget by the shareholders of Ascent. The transaction was closed by way of an amalgamation between Paget and Ascent, with the amalgamated entity continuing the business of Ascent under the name "Ascent Industries Corp." Paget was listed on NEX, a separate board of the TSX Venture Exchange ("TSXV"). The amalgamated entity is listed on the Canadian Securities Exchange upon completion of the amalgamation.

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21. Subsequent Events (continued)

In July 2018, the Company closed a brokered private placement of subscription receipts consisting of 48,085,500 units at a price of \$0.40 per unit for gross proceeds of \$19,234,200. Each unit consists of one common share and one warrant. Warrants can be exercised at a price of \$0.60 to acquire one common share and expire in July 2020. Issue costs consist of 2,885,130 units consisting of one option and one warrants at a unit price of \$0.60. Warrants can be exercised at a price of \$0.60 to acquire one common share and will expire in July 2020.

In July 2018, the Company incorporated AIC Health Winnipeg Corp., and AIC Health Winnipeg Wellness Corp., wholly-owned subsidiaries. AIC Health Winnipeg Corp. purchased First Circle Medical Clinic Ltd. for \$225,000 in common shares and AIC Health Winnipeg Wellness Corp. purchased First Circle Pharmacy Ltd. for \$275,000 in cash.

In August 2018, the Company gave notice that it would change financial year-end from May 31 to December 31, in order to align the Company's financial statement reporting requirements with the majority of public companies which operate on a calendar fiscal year end.

In August 2018, the Company amended the contract to purchase a property in Pitt Meadows from a total consideration of \$18,500,000 to \$18,930,000, to reflect the addition purchase of a mobile unit and staff housing for an aggregate of \$430,000. The total consideration consists of \$14,930,000 in cash and \$4,000,000 in units valued at \$0.36 per unit, consisting of one common share and one warrant to acquire a common share at \$0.50 per share for a period of two years.