ASCENT INDUSTRIES CORP.

Consolidated Financial Statements

(Expressed in Canadian Dollars)

Periods Ended December 31, 2018 and May 31, 2018

ASCENT INDUSTRIES CORP.
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(Expressed in Canadian Dollars)
Periods Ended December 31, 2018 and May 31, 2018

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May 7, 2020
Edmonton, Alberta

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ascent Industries Corp.

Opinion

We have audited the consolidated financial statements of Ascent Industries Corp. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of operations, changes in equity and cash flow for the period then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018, and the consolidated financial performance and consolidated cash flow for the period then ended in accordance with International financial reporting standards (IFRS).

Basis for Opinion

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

Material Uncertainty Relating to Going Concern

We draw your attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $17,367,855 and a comprehensive loss of $17,588,833 during the period ended December 31, 2018 and has an accumulated deficit of $37,667,525. In addition, subsequent to December 31, 2018, the Company defaulted on certain debt obligations and failed to secure proper licensing in Canada to produce and sell cannabis and cannabis related products. These events have substantially restricted access to continue operations and, as a result, the Company has filed for protection under the Companies’ Creditors Arrangement Act (the “CCAA”). As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements for the year ended May 31, 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on September 27, 2018.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. 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 Consolidated Financial Statements

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

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

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

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

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

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

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

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Justin Rousseau.

Kingston Ross Pasnak LLP

Kingston Ross Pasnak LLP
Chartered Professional Accountants

ASCENT INDUSTRIES CORP.
Consolidated Statement of Financial Position
(Expressed in Canadian Dollars)
As at December 31, 2018 and May 31, 2018

	December 31 **2018**	*May 31* 2018
ASSETS		
CURRENT		
Cash and cash equivalents	**$ 1,339,027**	$ 2,587,436
Trade and other receivables *(Note 4)*	**786,480**	1,523,111
Prepaid expenses *(Note 5)*	**1,249,612**	533,460
Deposits for properties *(Note 6)*	**7,595,000**	1,050,000
Inventory *(Note 7)*	**2,019,434**	1,080,681
Investments *(Note 8)*	**376,502**	360,000
	13,366,055	7,134,688
CONSTRUCTION IN PROGRESS *(Note 9)*	**6,361,671**	1,030,841
PROPERTY, PLANT AND EQUIPMENT *(Note 9)*	**17,387,007**	16,756,082
INTANGIBLE ASSETS *(Note 10)*	**10,128,872**	6,505,693
	$ 47,243,605	$ 31,427,304

See notes to financial statements

ASCENT INDUSTRIES CORP.

Consolidated Statement of Financial Position

(Expressed in Canadian Dollars)

As at December 31, 2018 and May 31, 2018

	***December 31* 2018**	*May 31* 2018
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Trade and other payables	**$ 3,412,011**	$ 2,888,291
Current portion of finance leases *(Note 11)*	**14,561**	30,532
Short term debt payable *(Note 12)*	**1,731,003**	1,746,199
Contingent consideration *(Note 13)*	**500,000**	-
Derivative liability *(Note 14)*	**1,976,063**	875,695
FINANCE LEASE *(Note 11)*	**1,658**	11,196
LOAN PAYABLE *(Note 14)*	**3,895,745**	3,821,278
	11,531,041	9,373,191
SHAREHOLDERS' EQUITY		
Share capital *(Note 15)*	**70,214,848**	31,576,460
Contributed surplus	**1,572,639**	1,572,639
Accumulated other comprehensive income	**(197,307)**	23,671
Common shares to be issued *(Note 16)*	**548,597**	8,673,862
Share-based reserve *(Note 17)*	**1,241,312**	507,151
Deficit	**(37,667,525)**	(20,299,670)
	35,712,564	22,054,113
	$ 47,243,605	$ 31,427,304

ON BEHALF OF THE BOARD

Jeremy South (signed) *Director*

Mark Lotz (signed) *Director*

See notes to financial statements

ASCENT INDUSTRIES CORP.
Consolidated Statement of Operations
(Expressed in Canadian Dollars)
Periods Ended December 31, 2018 and May 31, 2018

	7 months ended *December 31* **2018**	12 months ended *May 31* 2018
REVENUE	**$ 1,568,014**	$ 9,919,812
COST OF SALES	**1,965,577**	7,782,466
GROSS MARGIN BEFORE FAIR VALUE ADJUSTMENTS	**(397,563)**	2,137,346
Fair value adjustment on sale of inventory	**(1,285,695)**	(3,921,329)
Fair value adjustment on growth of biological assets	**-**	2,574,822
GROSS MARGIN AFTER FAIR VALUE ADJUSTMENTS	**(1,683,258)**	790,839
EXPENSES		
General and administration	**6,490,615**	6,418,049
Selling and marketing	**1,824,250**	2,370,861
Depreciation and amortization	**1,696,098**	1,579,966
Pre-production costs	**881,840**	1,497,391
Share based compensation *(Note 17)*	**718,477**	507,151
Research and development	**329,922**	195,463
Research and development recoveries	**-**	(45,761)
	11,941,202	12,523,120
LOSS FROM OPERATIONS	**(13,624,460)**	(11,732,281)
OTHER EXPENSES		
Accretion expense *(Note 14)*	**(74,467)**	(178,723)
Interest and other	**(285,845)**	(1,343,066)
Impairment of goodwill *(Note 13)*	**(1,073,000)**	-
Loss on derivative liability *(Note 14)*	**(1,100,368)**	(518,250)
Listing expense *(Note 3)*	**(1,625,219)**	-
	(4,158,899)	(2,040,039)
LOSS BEFORE INCOME TAXES AND COMPREHENSIVE INCOME	**(17,783,359)**	(13,772,320)
INCOME TAXES *(Note 22)*	**(415,504)**	-
NET LOSS	**(17,367,855)**	(13,772,320)

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See notes to financial statements

ASCENT INDUSTRIES CORP.

Consolidated Statement of Operations *(continued)*

(Expressed in Canadian Dollars)

Periods Ended December 31, 2018 and May 31, 2018

	7 months ended *December 31* **2018**	12 months ended *May 31* 2018
COMPREHENSIVE INCOME		
Currency translation adjustment	**(220,978)**	23,671
	(220,978)	23,671
COMPREHENSIVE LOSS	**$ (17,588,833)**	$ (13,748,649)
EARNINGS PER SHARE	**$ (0.05)**	$ (0.07)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**317,805,414**	186,807,688

See notes to financial statements

ASCENT INDUSTRIES CORP.
Consolidated Statement of Changes in Equity
(Expressed in Canadian Dollars)
Periods Ended December 31, 2018 and May 31, 2018

	Common shares	Common shares to be issued	Contributed surplus	Accumulated other comprehensive income	Share-based reserve	Deficit	**Total equity**
As at June 1, 2017	$ 15,594,284	$ 182,250	$ 1,572,639	$ -	$ -	$ (6,527,350)	**$ 10,821,823**
Exercise of warrants (for private placement A)	440,972	(182,250)	-	-	-	-	**258,722**
Exercise of warrants (for private placement B)	2,990,609	-	-	-	-	-	**2,990,609**
Shares cancelled for private placement A	(20,000)	-	-	-	-	-	**(20,000)**
Shares issued for private placement B	25,000	-	-	-	-	-	**25,000**
Shares issued for private placement C	10,206,645	-	-	-	-	-	**10,206,645**
Shares issued for finders fees	399,702	-	-	-	-	-	**399,702**
Shares issued for equipment	512,000	-	-	-	-	-	**512,000**
Shares issued for service	415,356	-	-	-	-	-	**415,356**
Shares issued for licenses	772,560	-	-	-	-	-	**772,560**
Shares issued for software	321,675	-	-	-	-	-	**321,675**
Shares issued for compensation	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)**
As at May 31, 2018	$ 31,576,460	$ 8,673,862	$ 1,572,639	$ 23,671	$ 507,151	$ (20,299,670)	**$ 22,054,113**

(continues)

See notes to financial statements

ASCENT INDUSTRIES CORP.
Consolidated Statement of Changes in Equity *(continued)*
(Expressed in Canadian Dollars)
Periods Ended December 31, 2018 and May 31, 2018

	Common shares	Common shares to be issued	Contributed surplus	Accumulated other comprehensive income	Share-based reserve	Deficit	**Total equity**
As at June 1, 2018	$ 31,576,460	$ 8,673,862	$ 1,572,639	$ 23,671	$ 507,151	$ (20,299,670)	**$ 22,054,113**
Exercise of warrants (for private placement B)	916,667	-	-	-	-	-	**916,667**
Shares issued as a deposit for property	1,150,000	-	-	-	-	-	**1,150,000**
Shares issued for service	271,200	-	-	-	-	-	**271,200**
Shares issued for equipment	621,647	-	-	-	-	-	**621,647**
Shares issued in First Circle acquisition	225,000	250,000	-	-	-	-	**475,000**
Shares issued for private placement D	12,000,000	(8,673,862)	-	-	-	-	**3,326,138**
Shares issued for finders fees	204,163	-	-	-	-	-	**204,163**
Shares issued in Paget Minerals reverse take-over	3,796,748	-	-	-	-	-	**3,796,748**
Shares issued through public offering	19,234,200	-	-	-	-	-	**19,234,200**
Share issuance costs	(1,751,469)	-	-	-	-	-	**(1,751,469)**
Exercise of warrants (for private placement D)	1,970,232	298,597	-	-	-	-	**2,268,829**
Share based compensation	-	-	-	-	734,161	-	**734,161**
Foreign currency reserve	-	-	-	(220,978)	-	-	**(220,978)**
Net loss for the period	-	-	-	-	-	(17,367,855)	**(17,367,855)**
As at December 31, 2018	$ 70,214,848	$ 548,597	$ 1,572,639	$ (197,307)	$ 1,241,312	$ (37,667,525)	**$ 35,712,564**

See notes to financial statements

ASCENT INDUSTRIES CORP.
Consolidated Statement of Cash Flow
(Expressed in Canadian Dollars)
Periods Ended December 31, 2018 and May 31, 2018

	7 months ended *December 31* **2018**	12 months ended *May 31* 2018
OPERATING ACTIVITIES		
Net loss for the period	**$ (17,367,855)**	$ (13,772,320)
Items not affecting cash:		
Depreciation and amortization	**1,696,098**	1,579,966
Change in fair value of biological assets	**-**	(2,574,822)
Change in fair value of sale of inventory	**1,285,695**	3,921,329
Loss on disposal of Agrima equipment	**-**	16,774
Shares issued for products and services	**1,117,547**	415,356
Stock based compensation	**734,160**	887,504
Loss on derivative liabilities	**1,100,368**	518,250
	(11,433,987)	(9,007,963)
Changes in non-cash working capital:		
Trade and other receivables	**465,800**	(195,389)
Prepaid expenses	**(294,964)**	(499,328)
Inventory	**(834,860)**	(3,978,279)
Biological assets	**-**	3,644,689
Trade and other payables	**592,229**	438,161
Income taxes payable	**415,504**	-
	343,709	(590,146)
Cash flow used by operating activities	**(11,090,278)**	(9,598,109)
INVESTING ACTIVITIES		
Purchase of property, plant, equipment and construction in progress	**(7,181,659)**	(9,600,191)
Purchase of intangible assets	**(3,703,069)**	(3,996,710)
Deposits for properties	**(5,395,000)**	3,197,883
Pre-production costs	**-**	(142,941)
Purchases of investments	**(16,502)**	(110,000)
Proceeds on reverse take-over	**2,189,996**	-
Cash flow used by investing activities	**(14,106,234)**	(10,651,959)

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ASCENT INDUSTRIES CORP.
Consolidated Statement of Cash Flow *(continued)*
(Expressed in Canadian Dollars)
Periods Ended December 31, 2018 and May 31, 2018

	2018	2018
FINANCING ACTIVITIES		
Warrants exercised	**2,792,528**	3,431,581
Shares issued	**22,560,338**	19,114,078
Share issue costs	**(1,376,969)**	(462,696)
Repayment of loan payable	**(15,196)**	(24,364)
Repayment on finance leases	**(25,509)**	(267,323)
Cash flow from financing activities	**23,935,192**	21,791,276
OTHER CASH FLOW ITEMS		
Effect of exchange rate change on cash	**12,911**	181,134
(DECREASE) INCREASE IN CASH	**(1,248,409)**	1,722,342
CASH AND CASH EQUIVALENT - BEGINNING OF PERIOD	**2,587,436**	865,094
CASH AND CASH EQUIVALENT - END OF PERIOD *(Note 18)*	**$ 1,339,027**	$ 2,587,436

See notes to financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

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.

The consolidated financial statements as at and for seven months ended December 31, 2018 and the year ended May 31, 2018, 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. The Company's Canadian licensing applications through its subsidiary Agrima, are currently under review by Health Canada.

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 period ended December 31, 2018, the Company has generated $1,568,014 in revenues from operations, incurred a net loss of $17,367,855 and has an accumulated deficit of $37,667,525.

Subsequent to December 31, 2018, the Company defaulted on certain debts and failed to secure proper licensing in Canada to produce and sell cannabis and cannabis related products. These events have substantially restricted access to continue operations and, as a result, the Company filed for protection under the Companies' Creditors Arrangement Act (the "CCAA"). While under CCAA protection, creditors and others are stayed from enforcing any rights against the Company. It is not possible to predict the outcome of matters related to the CCAA proceedings. As a result of the CCAA proceedings and other factors outlined below, a material uncertainty exists that cast significant doubt of the Company's ability to continue as a going concern.

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1. NATURE OF OPERATIONS AND GOING CONCERN *(continued)*

The Company has financed its working capital requirements primarily through equity and debt financing. The Company's ability to continue as a going concern is dependent upon its ability satisfy its debts and leave CCAA protection and obtain necessary licensing 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 once it leaves CCAA protection. 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.

These consolidated financial statements have been prepared based on knowledge and understanding of the Company's financial position and operations at December 31, 2018 and do not include any forward-looking information. As a result, they 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.

2. SUMMARY OF 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 April 28, 2020.

(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., Bloom Meadows Corp., Pinecone Products Ltd., Agrima Scientific Corp., Azeha Holdings Ltd., 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., AIC Health Winnipeg Corp., AIC Health Winnipeg Wellness Corp., 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) <u>Changes in accounting policies</u>

The Company has adopted IFRS 9 and IFRS 15 effective June 1, 2018 without restatement of comparative periods.

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 Company adopted IFRS 15 using the modified retrospective approach where the cumulative impact of adoption will be recognized in retained earnings as of June 1, 2018 and comparatives will not be restated.

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 assessment of which requires judgment. The model features the following contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized:

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

Contract liabilities arising from revenue contracts are classified as deferred revenue on the statement of financial position and represents the entity's obligation to transfer goods or services to a customer for which the Company has received consideration from the customer.

Incremental costs to obtain a contract with a customer are capitalized if the Company expects to recover those costs and are amortized into operating expenses over the life of a contract on a rational, systematic basis consistent with the pattern of the transfer of goods or services to which the asset relates. The Company had no capitalized incremental costs of obtaining a customer contract on adoption of IFRS 15 or as at December 31, 2018.

Based on the Company's assessment, the adoption of this new standard had no impact on the amounts recognized in its condensed interim consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IFRS 9 - Financial Instruments

IFRS 9 replaces the provisions of IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

IFRS 9 applies new standards for the recognition and measurement of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the Company's future cash flows. The Company has used transitional provisions in order to not restate comparative periods. The financial information for the May 31, 2018 fiscal year is presented using the standards set in IAS 39 and does not reflect the reporting requirements of IFRS 9.

The adoption of IFRS 9 has not significantly impacted the accounting policies relating to financial assets and liabilities held by the Company.

(f) Cash and cash equivalents

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

(g) Inventory

Inventories of harvested finished good, purchased finished goods 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.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Property, plant, equipment and construction in progress

Property, plant and equipment are stated at cost, net of accumulated amortization and/or accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Company derecognizes the replaced part, and recognizes the new part with its own associated useful life and amortization. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

For the periods ending December 31, 2018 and 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 to 5 years
- Furniture, fixtures and tools - 4 to 5 years
- Leasehold improvements - 10 years
- Groundworks - 10 years
- Buildings - 40 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, 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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Construction in progress is not amortized until the construction is completed and the asset is available for use.

(i) 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.

For the periods ending December 31, 2018 and 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

(j) 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.

(k) 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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) 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 it's 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.

(m) 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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) 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.

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.

(o) Comprehensive income

Comprehensive income consists of net earnings and other comprehensive income (OCI). OCI represents changes in shareholder's equity during a period arising from transactions and other events and circumstances from non-owner sources and includes unrealized gains and losses on financial assets classified as available for sale and changes in the fair value of the effective portion of cash flow hedging instruments.

(p) 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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Revenue recognition

The Company generates revenue primarily from the sale of cannabis and cannabis related products. The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

1. Identifying the contract with a customer;

2. Identifying the performance obligation(s) in the contract;

3. Determining the transaction price;

4. Allocating the transaction price to the performance obligation(s) in the contract; and

5. Recognizing revenue when or as the Company satisfies the performance obligation(s).

Revenue from the sale of cannabis is generally recognized when control over the goods has been transferred to the customer. Payment for wholesale transactions is due within a specified time period as permitted by the underlying agreement and the Company's credit policy upon the transfer of goods to the customer. The Company generally satisfies its performance obligation and transfers control to the customer upon delivery and acceptance by the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled.

(r) 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.

(s) Income 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.

Current income taxes

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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred income taxes

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.

(t) Statement of Cash Flow

The Company is using the indirect method in its presentation of the Statement of Cash Flow.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IFRS 9 are classified at amortized cost, at fair value through other comprehensive income (FVOCI) or fair value profit or loss (FVTPL). The determinant of the classification of the financial asset is based on the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date.

The Company’s financial assets include cash and cash equivalents, trade and other receivables, and investments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets unless it is measured at amortized cost or at fair value through other comprehensive income. The company can make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

The Company may irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis.

The Company has designated investments at fair value through profit or loss.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Amortized cost
Financial assets measured at amortized cost is permitted by IFRS 9 if the two following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company has designated cash and cash equivalents, and trade and other receivables at amortized cost.

Fair value through other comprehensive income
Financial assets measured at fair value through other comprehensive income is permitted by IFRS 9 if the two following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company has not designated any financial assets at fair value through other comprehensive income.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when one of the following conditions is met:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognized to the extent of the Company's continuing involvement in it.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

With the introduction of IFRS 9, the Company has to recognize a loss allowance for expected credit losses on all financial assets and certain off-balance sheet loan commitments and guarantees. The expected credit loss model requires a loss allowance to be claimed on the financial asset regardless of whether an actual loss event has occurred. This differs from the IAS 39 standards which specified that an allowance is recorded on performing loans to capture losses only when there was objective evidence that a financial asset or a group of financial assets is impaired.

The expected credit loss model presents three stages of credit loss allowances that must be assessed on all financial assets acquired by the Company. At the reporting date, if the credit risk of a financial asset has not significantly changed from initial recognition an allowance for that financial instrument at an amount equal to a 12-month expected credit losses is recognized (Stage 1). Once the financial assets credit risk significantly increases from initial recognition, a lifetime expected credit loss will be recognized (Stage 2). At Stage 2 the interest revenue from the asset will continue to be calculated on the carrying value of the asset before impairments. If the credit quality of the financial asset deteriorates, the lifetime expected loss will continue to be recognized however the interest revenue will now be calculated on the net amortized carrying value after deducting the loss allowance (Stage 3).

The assessment of significant increases in credit loss is completed at the reporting date and considers historical events, current market conditions and supportable information about future economic conditions that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If in a subsequent year the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit or loss, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, carried at amortized cost. This includes directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, short term debt payable, derivative liability, contingent consideration, and loans payable.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

<u>Financial liabilities at fair value through profit or loss</u>
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as measured at fair market value if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities at fair value are recognized in the statement of comprehensive income.

The Company has not designated any financial liabilities as fair value through profit or loss.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Amortized cost
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method (EIR). The EIR amortization is included in finance costs in the statement of comprehensive income.

The Company has designated trade and other payables, short term debt payable, derivative liability, contingent consideration, and loans payable at amortized cost.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, or a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 24.

(continues)

(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The following chart outlines the classification changes in financial instruments as a result of adopting IFRS 9 standards as at June 1, 2018:

(v) Financial instruments classification

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Reclassification amount	New carrying amount under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost	2,587,436	$ -	2,587,436
Trade and other receivables	Loans and receivables	Amortized cost	1,523,111	-	1,523,111
Investment	Available for sale	FVTPL	360,000	-	360,000
Trade and other payables	Other financial liabilities	Amortized cost	2,888,291	-	2,888,291
Short term debt payable	Other financial liabilities	Amortized cost	1,746,199	-	1,746,199
Derivative liability	Other financial liabilities	Amortized cost	875,695	-	875,695
Loans payable	Other financial liabilities	Amortized cost	3,821,278	-	3,821,278

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) 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

(a) 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 24.

(b) 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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(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.

(c) Estimated useful lives and depreciation of property, plant and equipment and intangible assets

Depreciation of property, plant and equipment and intangible assets 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

(a) 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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) 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.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Company elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured.

Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued that the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IFRS 16 Leases

IFRS 16 has been established to replace IAS 17. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases with the objective to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is in the process of reviewing the impact of this change.

(Expressed in Canadian Dollars)

3. REVERSE TAKE OVER TRANSACTION ("RTO")

Effective August 8, 2018, Paget Minerals Corp. (Paget) acquired 100% of the issued and outstanding shares of Ascent Industries Corp. in exchange for 9,542,639 common shares issued by Paget. As a result of this share issuance, the former shareholders of Ascent Industries Corp. obtained 96.71% of the common shares of Paget and, consequently, control of Paget.

Accordingly, the Company has accounted for the acquisition as a reverse takeover, and no goodwill or intangible asset representing the stock exchange listing has been recorded. Therefore, for accounting purposes, Ascent Industries Corp., the legal subsidiary, has been treated as the accounting acquirer, and Paget, the legal parent, has been treated as the accounting acquire in these consolidated financial statements. As Ascent Industries Corp. was deemed to be the acquirer for accounting purposes, Paget's assets, liabilities, and operations since incorporation are included in these consolidated financial statements at their historical carrying values. Paget's results of operations have been included from August 8, 2018, the date of completion of the acquisition.

These consolidated financial statements have been prepared on the basis the acquisition constituted the issuance of shares by Ascent as consideration for Paget's net assets. The transaction has been accounted for in accordance with IFRS 2, Share Based Payments as Paget did not meet the definition of a business under IFRS 3, Business Combinations. The acquisition was recorded by the Company as a listing expense which reflects the difference between the fair value of the Ascent Industries Corp. common shares issued to the Paget shareholders less the fair value of the assets of Paget acquired.

For the purposes of accounting for the reverse takeover, the percentage of ownership of the pre-acquisition shareholders of Paget in the combined entity upon completion of the acquisition was determined to be 3.29% (which represents 9,542,639 common shares out of a total of 290,263,039 common shares of the Company outstanding upon closing of the acquisition).

The excess of the fair value of the consideration received by the pre-acquisition shareholders of Paget over the fair value of the identifiable net assets of Paget on the closing date of the acquisition was calculated as follows:

Common shares issued (9,542,639 shares at $0.40)	**$ 3,817,056**
Adjustment for fair value of options (83,333 stock options exercisable at $0.60)	**15,683**
Adjustment for fair value of warrants (500,000 stock warrants exercisable at $0.60)	**22,483**
	3,855,222
Net assets of the Company	
Cash	**2,189,996**
Trade and other receivables	**3,942**
Prepaid expenses	**20,000**
Investments	**16,502**
Trade and other payables	**(437)**
	2,230,003
Listing expense	**$ 1,625,219**

(Expressed in Canadian Dollars)

4. TRADE AND OTHER RECEIVABLES

	***December 31* 2018**	*May 31* 2018
Trade receivables	**$ 117,791**	$ 1,209,439
GST recoverable	**668,689**	313,672
	$ 786,480	$ 1,523,111

During the period ended December 31, 2018, no bad debt expense was recognized (May 31, 2018 - $nil).

			Past due but not impaired		
	Total	< 30 days	30-60 days	60-90 days	> 90 days
December 31, 2018	$ 117,791	$ 117,791	$ -	$ -	$ -
May 31, 2018	1,209,439	1,209,439	-	-	-

5. PREPAID EXPENSES

	***December 31* 2018**	*May 31* 2018
Prepaid vendors	**$ 629,095**	$ 364,608
Deposits	**531,219**	107,619
Prepaid insurance	**89,298**	61,233
	$ 1,249,612	$ 533,460

6. DEPOSITS FOR PROPERTIES

	***December 31* 2018**	*May 31* 2018
Deposit for Pitt Meadows property	**$ 7,595,000**	$ 1,050,000

(Expressed in Canadian Dollars)

7. INVENTORY AND BIOLOGICAL ASSETS

	December 31 **2018**	*May 31* 2018
Inventory		
Packaging	**$ 750,214**	$ 554,620
Finished terpenes	**215,230**	187,973
Finished packaged goods	**416,175**	232,689
Finished unpackaged goods	**637,815**	105,399
	$ 2,019,434	$ 1,080,681

The Company determined there was uncertainty in the ability to sell certain Canadian inventory to due the lack of required licensing, resulting in a reduction of net realizable value. As a result, the Company recognized a loss on the write-down of inventory of $1,285,695 (May 31, 2018 - $nil).

Biological Assets		
Balance, beginning of period	**$ -**	$ 1,069,867
Purchase of plant material	**-**	60,720
Production costs capitalized	**-**	29,387
Disposed biological assets due to transition of operations	**-**	(67,500)
Changes in fair value, less costs to sell	**-**	(1,092,474)
	$ -	$ -

At December 31, 2018 purchased plant material and biological assets were valued at $nil as the Company had not yet been granted a sales license under Health Canada.

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.

(Expressed in Canadian Dollars)

8. INVESTMENTS

During the year ended May 31, 2018, the Company invested in Enhanced Pet Sciences Corp., 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. The investee is privately held and there is no quoted market price for its common shares.

During the period ended December 31, 2018, the Company acquired an investment in Sebastiani Ventures Corp, a publicly traded company previously held by Paget Minerals Corp. The Company does not have significant influence or control over the investee.

	December 31 **2018**	*May 31* 2018
Enhanced Pet Sciences Corp.	**$ 360,000**	$ 360,000
Sebastiani Ventures Corp.	**16,502**	-
	$ 376,502	$ 360,000

(Expressed in Canadian Dollars)

9. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

Cost	June 1 2018 Balance	Additions	Disposals	**December 31 2018 Balance**
Construction in progress	$ 1,030,841	$ 5,330,830	$ -	**$ 6,361,671**
Land	1,287,270	33,889	-	**1,321,159**
Buildings	9,009,909	406,133	-	**9,416,042**
Computer equipment	258,150	246,690	-	**504,840**
Wireless network	87,003	-	-	**87,003**
Software	40,590	1,727	-	**42,317**
Mobile equipment	74,940	2,875	-	**77,815**
Furniture and fixtures	309,472	36,233	-	**345,705**
Security fencing and equipment	492,132	116,906	-	**609,038**
Tools and equipment	2,047,624	74,990	-	**2,122,614**
Leasehold improvements	3,311,089	523,935	-	**3,835,024**
New groundwork	133,182	-	-	**133,182**
Agriculture and lab equipment	2,253,848	643,120	-	**2,896,968**
	$ 20,336,050	$ 7,417,328	$ -	**$ 27,753,378**

Accumulated Amortization	June 1 2018 Balance	Amortization	Accumulated Amortization on Disposals	**December 31 2018 Balance**
Construction in progress	$ -	$ -	$ -	**$ -**
Land	-	-	-	**-**
Buildings	(779,100)	(143,208)	-	**(922,308)**
Computer equipment	(50,593)	(142,398)	-	**(192,991)**
Wireless network	(77,498)	(9,505)	-	**(87,003)**
Software	(16,204)	(7,236)	-	**(23,440)**
Mobile equipment	(16,965)	(22,399)	-	**(39,364)**
Furniture and fixtures	(160,171)	(17,168)	-	**(177,339)**
Security fencing and equipment	(98,746)	(91,570)	-	**(190,316)**
Tools and equipment	(422,240)	(67,301)	-	**(489,541)**
Leasehold improvements	(240,092)	(158,595)	-	**(398,687)**
New groundwork	(34,211)	(34,014)	-	**(68,225)**
Agriculture and lab equipment	(653,307)	(762,179)	-	**(1,415,486)**
	$ 2,549,127	$ 1,455,573	$ -	**$ (4,004,700)**

(continues)

(Expressed in Canadian Dollars)

9. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS *(continued)*

Cost	June 1 2017 Balance	Additions	Disposals	May 31 2018 Balance
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 groundwork	79,254	53,928	-	133,182
Agriculture and lab equipment	1,604,623	670,096	(20,871)	2,253,848
	$ 9,890,349	$ 10,466,572	$ (20,871)	$ 20,336,050

Accumulated Amortization	June 1 2017 Balance	Amortization	Disposals	May 31 2018 Balance
Construction in progress	$ -	$ -	$ -	$ -
Land	-	-	-	-
Buildings	(609,593)	(169,507)	-	(779,100)
Computer equipment	(5,066)	(45,527)	-	(50,593)
Wireless network	(50,343)	(27,155)	-	(77,498)
Software	(7,882)	(8,322)	-	(16,204)
Mobile equipment	(4,133)	(12,832)	-	(16,965)
Furniture and fixtures	(107,755)	(52,416)	-	(160,171)
Security fencing and equipment	(29,168)	(69,578)	-	(98,746)
Tools and equipment	(120,978)	(301,262)	-	(422,240)
Leasehold improvements	(113)	(239,979)	-	(240,092)
New groundwork	(23,589)	(10,622)	-	(34,211)
Agriculture and lab equipment	(193,215)	(464,190)	4,098	(653,307)
	$ (1,151,835)	$ (1,401,390)	$ 4,098	$ (2,549,127)

(continues)

(Expressed in Canadian Dollars)

9. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS *(continued)*

Net book value	**December 31 2018**	May 31 2018
Construction in progress	**$ 6,361,671**	$ 1,030,841
Land	**1,321,159**	1,287,270
Buildings	**8,493,734**	8,230,809
Computer equipment	**311,849**	207,557
Wireless network	**-**	9,505
Software	**18,877**	24,386
Mobile equipment	**38,451**	57,975
Furniture and fixtures	**168,366**	149,301
Security fencing and equipment	**418,722**	393,386
Tools and equipment	**1,633,073**	1,625,384
Leasehold improvements	**3,436,337**	3,070,997
New groundwork	**64,957**	98,971
Agriculture and lab equipment	**1,481,482**	1,600,541
	$ 23,748,678	$ 17,786,923

10. INTANGIBLE ASSETS

	December 31 **2018**	*May 31* 2018
Licenses	**$ 6,346,064**	$ 3,760,292
Software	**4,212,221**	2,934,289
	10,558,285	6,694,581
Accumulated amortization	**(429,413)**	(188,888)
	$ 10,128,872	$ 6,505,693

Amortization expense of $240,525 at December 31, 2018 (May 31, 2018 - $188,595), is included in the accompanying consolidated statement of operations.

(Expressed in Canadian Dollars)

11. FINANCE LEASE

The Company previously 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.

	December 31 2018	May 31 2018
Less than 1 year	**$ 20,928**	$ 41,227
Between 1 and 3 years	**1,744**	13,952
Total minimum lease payments	**22,672**	55,179
Less: Amount representing interest at approximately 62.0%	**(6,453)**	(13,451)
Present value of minimum lease payments	**16,219**	41,728
Less: Current portion	**(14,561)**	(30,532)
Long term portion	**$ 1,658**	$ 11,196

12. SHORT TERM DEBT 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, repayable in monthly payments of $14,494. The short term debt payable at December 31, 2018 is $1,731,003 (May 31, 2018 - $1,746,199).

(Expressed in Canadian Dollars)

13. ACQUISITION

On June 26, 2018, the Company completed the acquisition of net assets of First Circle Medical Pharmacy and Clinic pursuant to a Purchase Agreement (the "Agreement") dated June 26, 2018, for a total consideration of $1,250,000. First Circle Medical Pharmacy and Clinic is focused on providing multidisciplinary, patient-centric, full-service health care to patients in Canada. The transaction was accounted for as a business combination.

Cash paid at closing	$	**275,000**
Common shares issued		**225,000**
Performance milestones achieved		
Common shares to be issued		**250,000**
Contingent consideration		**500,000**
	$	**1,250,000**

Contingent consideration represents the amount estimated to be paid out over a 12-month period on achievement of future performance milestones related to cumulative successful patient referrals and cumulative patients ordering medicine through the telemedicine services of the Clinics.

This consideration is to be satisfied based on four individual milestones, each resulting in issuance of $250,000 of Ascent Industries Corp. Common Shares, with the fair value being determined based on management's assessment of the profitability of each milestone being achieved. The issuance of the Company's shares should not result in former First Circle Medical Pharmacy and Clinic shareholders accumulating 50% or more of the Company's shares.

During the period ended December 31, 2018, the first milestone was achieved for closing of the purchase. The Company has not issued the shares and thus has recorded $250,000 in Common shares to be issued.

All common shares issued were accounted for at fair value at the dates of issuance.

The fair value of the assets and liabilities acquired was as follows:

Allocation		
Inventory	$	**42,000**
Equipment		**35,000**
Leasehold improvements		**100,000**
Goodwill		**1,073,000**
	$	**1,250,000**

For the period ended December 31, 2018, First Circle Medical Pharmacy and Clinic accounted for $1,241,990 in net loss since June 28, 2018 which includes a goodwill impairment of $1,073,000.

(continues)

13. ACQUISITION *(continued)*

At December 31, 2018, the Company recorded a goodwill impairment of $1,073,000 based on significant concerns and uncertainties in the obtaining licensing in Canada. The goodwill impairment was recognized in the First Circle Medical Pharmacy and Clinic cash-generating unit and is the full amount of goodwill that was attributable to this cash generating unit. The recoverable amount of the cash-generating unit was determined to be its fair value less costs of disposal and is categorized as level 3 in the fair value hierarchy. Management has determined the fair value less costs of disposal would not be lower than the carrying amount of the tangible assets acquired.

(Expressed in Canadian Dollars)

14. LONG TERM LIABILITIES

Effective May 29, 2017 and as amended July 26, 2018, 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 is due on January 1, 2020. 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 December 31, 2018 with the following assumptions:

May 31, 2018

- Exercise price: $0.35
- Time to maturity: 1 year
- Risk-free rate: 1.29%
- Volatility: 75%
- Dividend rate: nil

December 31, 2018

- Exercise price: $0.35
- Time to maturity: 1 year and 1 day
- Risk-free rate: 1.64%
- Volatility: 70%
- Dividend rate: nil

Derivative liability	
Balance June 1, 2017	**$ 357,445**
Change in fair value	**518,250**
Balance May 31, 2018	**875,695**
Change in fair value	**1,100,368**
	$ 1,976,063

(continues)

(Expressed in Canadian Dollars)

14. LONG TERM LIABILITIES *(continued)*

Loan payable	
Balance June 1, 2017	**$ 3,642,555**
Add: Accretion interest	**178,723**
Balance May 31, 2018	**3,821,278**
Add: Accretion interest	**74,467**
	$ 3,895,745

15. SHARE CAPITAL

Authorized:
Unlimited Common shares with no par value
Unlimited Preferred shares with no par value

		***December 31* 2018**	*May 31* 2018
Issued:			
320,151,457	Common shares (May 31, 2018 - 218,683,015)	**$ 70,214,848**	$ 31,576,460

At December 31, 2018, there were 320,151,457 issued and fully paid common shares (May 31, 2018 - 218,683,015).

During the year ended May 31, 2018, the Company:

- received $440,972 and $2,990,609 respectively pursuant to the exercise of warrants issued as a part of series A and series B, non-brokered private placement of units.
- cancelled and put into an estate trust 133,333 units of the series A non-brokered private placement.
- issued 166,667 shares at a price of $0.15 per unit for gross proceeds of $25,000 as the last tranche of the series B private placement initiated during the year ended May 31, 2017.
- 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.
- received $8,673,862 for the series D placement of units. These securities were issued during the period ended December 31, 2018.
- issued 1,280,000 common shares at a price of $0.40 per shares for the purchase of equipment.
- issued 1,666,845 common shares at prices between $0.135 and $0.40 per shares for services.

(continues)

15. SHARE CAPITAL *(continued)*

- issued 3,090,240 common shares at a price of $0.25 per shares for the Nevada licenses.
- issued 804,188 common shares at a price of $0.40 per shares for the purchase of proprietary software.
- 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.

During the period ended December 31, 2018, the Company:

- received $916,667 pursuant to the exercise of warrants issued as a part of a series B non-brokered private placement.
- issued 2,777,778 units and 416,667 shares as consideration for properties in Pitt Meadows at a price of $0.36 per unit/share for a total of $1,150,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.50 per common share for a period of two years.
- issued 205,556 units as consideration for services at a price of $0.36 and $0.40 per share for total services of $80,000.
- issued 458,810 as consideration for services at a price of $0.36 and $0.40 per share for total services of $191,200.
- issued 562,500 shares as consideration for the purchase of First Circle Medical Clinic Ltd. at a price of $0.40 per share for a total of $225,000.
- issued 30,000,000 units as part of the series D non-brokered private placement at a price of $0.40 per unit for gross proceeds of $12,000,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.50 per common share for a period of two years. In connection with the private placement the Company issued 510,407 units and paid $76,178 in transaction costs.
- Company issued 48,085,500 units as part of a brokered public placement at a price of $0.40 per unit for gross proceeds of $19,234,200. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.60 per common share for a period of two years. Issue costs consist of 2,885,130 units consisting of one option and one warrant at a unit price of $0.40. Warrants can be exercised at a price of $0.60 to acquire one common share for a period of two years.
- issued 7,996,000 units as part of a brokered public placement at a price of $0.40 per unit for gross proceeds of $3,198,400. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.60 per common share for a period of two years.
- issued 1,495,870 common shares at a deemed price of $0.40 per share for gross proceeds of $598.348 to former existing shareholders of Paget pursuant to closing of the Amalgamation.

(continues)

15. SHARE CAPITAL *(continued)*

- issued 1,412,152 shares at a price of $0.44 per shares for the purchase of equipment.
- received $1,970,232 pursuant to the exercise of warrants issued as a part of a Series D non-broker private placement and a brokered public placement.

(Expressed in Canadian Dollars)

16. 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:

Balance June 1, 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
Expired	**(12,000,000)**		0.250
Issued	**2,885,130**		0.400
Issued	**33,493,741**		0.500
Issued	**56,581,500**		0.600
Exercised	**(51,796)**		0.400
Exercised	**(2,833,334)**		0.500
Exercised	**(1,796,499)**		0.600
Balance December 31, 2018	**88,778,742**	$	0.565

During the year ended May 31, 2018, the Company received total gross proceeds of $3,232,456 on the exercise of a total of 1,791,460 and 11,962,436 warrants an exercise price of $0.135 and $0.25 per common share respectively.

During the period ended December 31, 2018 the Company:

- received total gross proceeds of $916,667 pursuant to the exercise of 3,666,667 series B warrants at a price of $0.25 per common share.
- issued 2,777,778 units as consideration for properties in Pitt Meadows. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.50 per common share for a period of two years.
- issued 30,000,000 units as part of the series D non-brokered private placement. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.50 per common share for a period of two years.

(continues)

(Expressed in Canadian Dollars)

16. SHARE PURCHASE WARRANTS *(continued)*

- issued 48,085,500 units as part of a brokered public placement. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.60 per common share for a period of two years. Issue costs consist of 2,885,130 units consisting of one option and one warrant. Options can be exercised at a price of $0.40 to acquire one common share and one warrant at a price of $0.60 per common share for a period of two years.
- issued 7,996,000 units as part of a brokered public placement. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.60 per common share for a period of two years.
- issued 500,000 warrants at a deemed exercise price of $0.60 per share to former existing warrant holders of Paget pursuant to the Amalgamation. The fair value of the warrants at the date of grant was estimated at $22,483, based on the following weighted average assumptions: stock price volatility - 86%, risk free interest rate – 2.19%, dividend yield – 0.00%; and expected life – 6 months.
- received total gross proceeds of $490,472 pursuant to the exercise of 1,226,180 public offering warrants at $0.40 each.
- received total gross proceeds of $486,875 pursuant to the exercise of 973,750 series D warrants at $0.50 each.
- received total gross proceeds of $1,127,900 pursuant to the exercise of 1,879,833 public offering warrants at $0.60 each.

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

Exercise Price	Number of Warrants	Expiry Date
$0.600	500,000	January 5, 2019
0.500	30,660,407	June 19, 2020
0.600	46,789,000	June 21, 2020
0.600	7,996,001	July 24, 2020
0.600	2,833,334	August 3, 2020
	88,778,742	

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.

(Expressed in Canadian Dollars)

17. 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 $734,161 for the period ended December 31, 2018 ($507,151 – year ended May 31, 2018) 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.

At December 31, 2018, the weighed average exercise price of options outstanding was $0.40 and the weighed average remaining contractual life was 4.10 years based on vesting periods of four to five years.

Balance June 1, 2017	**-**	$	-
Options granted	**12,470,000**		0.40
Balance May 31, 2018	**12,470,000**		0.40
Options granted	**50,000**		0.40
Options granted	**1,648,750**		0.40
Options granted	**600,000**		0.40
Options forfeited/cancelled	**(6,161,468)**		0.40
Balance December 31, 2018	**8,607,282**	$	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 quarter ended December 31, 2018 by applying the following assumptions:

Risk-free interest rate	1.93% - 2.32%
Expected life of options (years)	5
Expected annualized volatility	75%
Expected dividend yield	Nil
Weighted average Black-Scholes value of each option	$0.2400 - 0.5359

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

18. SUPPLEMENTAL CASH FLOW INFORMATION

During the period ended December 31, 2018, 1,412,152 shares were issued for consideration of $621,647 to be used for the purchase of equipment, 664,366 shares were issued for consideration of $271,200 to be used for settlement of services provided, 562,500 shares were issued for $225,000 for consideration in the acquisition of First Circle Medical Clinic Ltd., and 3,194,445 shares and warrants were issued for $1,150,000 for consideration for acquisition of properties in Pitt Meadows.

During the year ended May 31, 2018, 1,280,000 shares were issued for consideration of $512,000 to be used for the purchase of equipment, 1,666,845 shares were issued for consideration of $415,356 to be used for settlement of services provided, 3,090,240 shares were issued for consideration of $772,560 for the acquisition of licenses, 804,188 shares were issued for consideration of $321,675 for the acquisition of software, 999,254 shares were issued for consideration of $399,702 in settlement of finders fees and 950,882 shares were issued for consideration of $380,353 in settlement of compensation.

(Expressed in Canadian Dollars)

19. 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	$ 157,139
2020	26,297
	$ 183,436

Effective February 1, 2017 the Company entered into a five-year lease agreement for office and processing premises located in Pitt Meadows, BC. The lease terminates January 31, 2022. The obligations under this lease are as follows:

2019	$ 158,139
2020	162,390
2021	163,240
2022	27,207
	$ 510,976

Effective July 31, 2018 the Company purchased First Circle Medical Clinic Ltd. And First Circle Pharmacy Ltd. and assumed two five year lease agreements for clinic and pharmacy premises located in Winnipeg, MB. The lease terminates September 1, 2022. The obligations under this lease are as follows:

2019	$ 69,240
2020	69,240
2021	69,240
2022	51,930
	$ 259,650

During the year ended May 31, 2018, the Company purchased software for a total of $1,935,300 (1,500,000 US). As at December 31, 2018 the Company made payments of $327,500 ($250,000US) in cash and issued $321,675 ($250,000US) in common shares. At December 31, 2018 the Company has a remaining commitment of $1,294,500 ($1,000,000US), which is to be paid in cash and common shares, both in the amount of $647,500 ($500,000US) subject to the achievement of 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. As at, December 31, 2018 the Company has made cash deposits of $6,445,000 and issued $1,150,000 in common shares. At December 31, 2018, the Company has a remaining commitment of $11,485,000 due on closing.

(Expressed in Canadian Dollars)

20. SEGMENTED INFORMATION

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

	Medical Cannabis	Other	Total
For the period ended December 31, 2018			
Revenue	$ 1,568,014	$ -	$ 1,568,014
Gross loss	(1,683,258)	-	(1,683,258)
Loss from operations	(10,004,457)	(3,620,003)	(13,624,460)
Net loss	(11,661,180)	(5,706,675)	(17,367,855)
For the year ended May 31, 2018			
Revenue	$ 9,919,812	$ -	$ 9,919,812
Gross profit	2,137,346	-	2,137,346
Loss from operations	(6,849,485)	(4,882,796)	(11,732,281)
Net loss	(7,371,645)	(6,400,675)	(13,772,320)
As at December 31, 2018			
Total assets	$ 24,331,474	$ 22,912,131	$ 47,243,605
Total liabilities	1,188,671	10,342,370	11,531,041
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

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 December 31, 2018 of the Denmark subsidiary are immaterial. Accordingly, the operations of the Denmark subsidiary do not constitute a segment. All revenues during the period ended December 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 period ended December 31, 2018			
Revenue	$ 26,465	$ 1,541,549	$ 1,568,014
Gross loss	(541,222)	(1,142,036)	(1,683,258)
Loss from operations	(9,168,430)	(4,456,030)	(13,624,460)
Net loss	(15,029,033)	(2,338,822)	(17,367,855)

(continues)

(Expressed in Canadian Dollars)

20. SEGMENTED INFORMATION *(continued)*

	Canada	USA	Total
For the year ended May 31, 2018			
Revenue	$ 9,340,975	$ 578,837	$ 9,919,812
Gross profit (loss)	2,532,481	(395,135)	2,532,481
Loss from operations	(8,414,681)	(3,317,600)	(11,732,281)
Net loss	(10,443,078)	(3,329,242)	(13,772,320)
As at December 31, 2018			
Total assets	$ 35,654,547	$ 11,589,058	$ 47,243,605
Total liabilities	11,193,949	337,092	11,531,041
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

(Expressed in Canadian Dollars)

21. RELATED PARTY TRANSACTIONS

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:

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 period ended December 31, 2018, the Company provided $17,907 in services to a company connected to directors and shareholders of Ascent Industries Corp.

	***7 months ended December 31* 2018**	*12 months ended May 31* 2018
Received from a company controlled by a director for the purchase of shares	**$ 916,667**	$ 108,000
Received from a company that is a shareholder for the purchase of shares	**94,260**	-
Received from company connected to directors and shareholders of Ascent Industries Corp.	**17,907**	-
Received from a director for the purchase of shares	**11,700**	-
Received from companies that are major shareholders for the purchase of supplies	**-**	4,603,748
Shares issued to directors for compensation bonuses	**-**	512,000
Received equipment in exchange for shares from a company that is a major shareholder	**-**	421,177
Shares issued to a director for conversion of debt	**-**	300,000
Key Employees		
(Management)		
Salaries and benefits	**$ 524,652**	$ 648,789
Share-based payments	**386,698**	309,090

Included in the trade and other receivables and trade and other payables of the Company are the following related party balances:

Trade and other receivables		
Major shareholder	**$ -**	$ 765,475

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(Expressed in Canadian Dollars)

22. INCOME TAXES

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 December 31, 2018 and May 31, 2018 are as follows:

	***December 31* 2018**	*May 31* 2018
Non-capital loss carry-forwards	**$ 7,186,211**	$ 3,375,022
Property, plant and equipment	**(1,753,773)**	195,278
Other	**-**	324,469
	$ 5,432,438	$ 3,894,769

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 Company has Canadian non-capital loss carryforwards of approximately $25,951,858 (May 31, 2018 – $12,763,773) 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 between 2031 and 2039.

The Company has non-capital loss carryforwards of approximately $1,687,416 (May 31, 2018 – $4,387,355) 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 between 2037 and 2039.

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 periods ended December 31, 2018 and May 31, 2018:

	***December 31* 2018**	*May 31* 2018
Loss before income taxes	**$ (17,783,359)**	$ (13,772,320)
Statutory tax rate	**26.00 %**	26.42 %
Expected recovery at statutory rate	**(4,623,673)**	(3,638,647)
Non-deductible items	**997,187**	227,180
Change in estimates	**286,096**	174,471
Share issuance costs	**186,804**	(119,602)
Foreign tax credit	**415,504**	-
Difference in tax rates	**-**	270,435
Losses carried forward	**3,153,586**	3,086,163
Income tax	**$ 415,504**	$ -

23. 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 periods ended December 31, 2018 or May 31, 2018.

24. FINANCIAL INSTRUMENTS

The financial instruments recognized on the consolidated statement of financial position are comprised of cash and cash equivalents, trade and other receivables, investments, trade and other payables, short term debt payable, derivative liability, contingent consideration, and loans payable.

Fair value

The carrying values of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their fair values due to the short-term nature of these instruments.

In evaluating fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and different valuation techniques may have a material effect on the estimated fair value amounts. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

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(Expressed in Canadian Dollars)

24. FINANCIAL INSTRUMENTS *(continued)*

Fair value measurements of investments, short term debt payable, derivative liability, contingent consideration, and loans payable are as follows:

		Fair value measurements using		
	Carrying amount	Level 1	Level 2	Level 3
December 31, 2018				
Investments	**$ 376,502**	**$ 16,502**	$ -	$ 360,000
Short term debt payable	**1,731,003**	**-**	1,731,003	-
Derivative liability	**1,976,063**	**-**	-	1,863,806
Contingent consideration	**500,000**	**-**	-	500,000
Loan payable	**3,895,745**	**-**	3,895,745	-
May 31, 2018				
Investments	**360,000**	**-**	-	360,000
Short term debt payable	**1,746,199**	**-**	1,746,199	-
Derivative liability	**875,695**	**-**	-	875,695
Loan payable	**3,821,278**	**-**	3,821,278	-

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

As at December 31, 2018, the Company measured its investment in Sebastiani Ventures Corp. at Level 1 fair value.

Level 2 – quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

The fair value of short term debt payable approximates it carrying value as it bears a fixed rate of interest of 8.5% per annum compounded monthly, which approximates a market rate for comparable transactions.

The fair value of loan payable approximates it carrying value as it bears a fixed rate of interest of 8% per annum, which approximates a market rate for comparable transactions.

Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The investment in Enhanced Pet Sciences Corp. is measured at fair value, but as the investment is privately held and there is no quoted market price for its common shares, fair value is deemed to be best represented by the initial acquisition price of the investment.

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24. FINANCIAL INSTRUMENTS *(continued)*

Contingent consideration classified as liabilities as part of the consideration paid for First Circle Medical Pharmacy and Clinic is a Level 3 financial liability. Contingent consideration was estimated by discounting to present value the probability-weighted contingent payments expected to be made. Assumptions used in these calculations probability of achieving the necessary milestones associated with the acquisition. The settlement of contingent consideration could differ from current estimated based on the actual results of these financial measures.

Derivative liability classified as liabilities as part of the consideration paid for the acquisition of the mortgage for the Las Vegas, NV property is a Level 3 financial liability and represents the 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. The settlement of the derivative liability could differ from current estimated based on the actual results of these financial measures.

There were no transfers between levels 1, 2 and 3 inputs during the period.

Risk Management

The Company is exposed to risks of varying degrees of significance from its use of financial instruments which could affect its ability to achieve its strategic objectives for growth and stakeholder returns. The principal risks to which the Company is exposed, and the actions taken to manage them, are described below.

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 Tax ("GST") recoverable.

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 December 31, 2018 and May 31, 2018 all of the Company's trade receivables were current.

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(Expressed in Canadian Dollars)

24. FINANCIAL INSTRUMENTS *(continued)*

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company has obtained primiarily fixed rate debt which limits its exposure to interest rate fluctuations.

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.

At December 31, 2018 the contractual obligations related to financial liabilities are as follows:

	Less than 1 year	1 to 5 years	Total
Trade and other payables	$ 3,412,011	$ -	$ 3,412,011
Finance leases	14,561	1,658	16,219
Short term debt payable	1,731,003	-	1,731,003
Contingent consideration	500,000	-	500,000
Derivative liability	1,976,063	-	1,976,063
Loan payable	-	3,895,745	3,895,745

25. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.

(Expressed in Canadian Dollars)

26. SUBSEQUENT EVENTS

The outbreak of the Coronavirus Disease 2019, or COVID-19, has spread across the globe and is impacting worldwide economic activity. This global pandemic poses the risk that the Company or its clients, employees, contractors, suppliers, and other partners may be unable to conduct regular business activities for an indefinite period of time. While it is not possible at this time to estimate the impact that COVID-19 could have on the Company's business, the continued spread of COVID-19 and the measures taken by the federal, provincial and municipal governments to contain its impact could adversely impact the Company's business, financial condition or results of operations. The extent to which the COVID-19 outbreak impacts the Company's results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the spread of the virus and government actions.

On April 8, 2019 the Company received net consideration of $18,173,216 for the assets of the Company as follows:

Gross consideration	**$ 19,152,056**
Less: Commission	**(978,840)**
	18,173,216
Inventory	**541,877**
Prepaids	**103,221**
Deposits and construction in progress	**14,432,232**
Property, plant and equipment	**10,674,398**
Assumption of long term debt	**(8,518,259)**
Assumption of derivative debt	**(1,976,063)**
Net gain over net book value	**$ 2,915,810**

On December 12, 2019 the plan at a meeting of Affected Creditors was supported by 98% of the number of Affected Creditors and 97% of the value of Affected Claims (as defined in the Plan). Pursuant to the CCAA, the Plan required the approval of a majority in number of Affected Creditors, who represent at least two-thirds in value of the Affected Claims, who actually vote, or who, under the terms of the Plan, are deemed to have voted on the resolution approving the Plan at the Meeting.

On March 6, 2020 and the Company’s CCAA proceedings concluded and the Company commenced an application to British Columbia Securities Commission ("BCSC") for a management cease trade order to replace the administrative relief provided by CCAA from continuous disclosure prescribed under National Instrument 51-102 – Continuous Disclosure Obligations NI 51-102. The BCSC granted a Management Cease Trade Order on March 11, permitting a 60 day period for the Company to comply with NI 51-102.

On December 20, 2019 the Supreme Court of British Columbia sanctioned and approved the Company’s consolidated plan of compromise, arrangement and organization under the CCAA (the "Plan")

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26. SUBSEQUENT EVENTS *(continued)*

On January 28, 2020 the Company entered into a secured loan agreement with Enhanced Pet Sciences Corp for US$500,000. The loan bears interest at 8% per annum and is due on December 31, 2020. The principals of the borrower have provided guarantees and have provided collateral security.