

**DionyMed Holdings Inc.**

**INTERIM CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**For the Three and Six Months Ended August 31, 2018**

**(Expressed in U.S. Dollars)**

**Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements**

In accordance with National Instrument 51-102, the Company discloses that its external auditors have not reviewed the accompanying interim condensed consolidated financial statements.

**Amended to include the financial information for the period ended February 28, 2018**

**DionyMed Holdings Inc.**  
**Interim Condensed Unaudited Consolidated Statement of Financial Position**  
**As of August 31, 2018**  
**(Expressed in U.S. Dollars)**

	Note	August 31, 2018	February 28, 2018
<b>Assets</b>			
<b>Current Assets</b>			
Cash	\$	1,648,088	\$ 133,117
Accounts Receivables		1,287,609	165,313
Inventories		2,678,286	1,209,811
Prepaid Expenses		180,639	45,313
		5,794,622	1,553,554
<b>Non-Current Assets</b>			
Security Deposits		255,989	213,301
Property and Equipment		921,195	124,671
Intangible Assets		20,206,204	5,249,000
Goodwill		27,835,918	24,576,489
<b>Total Assets</b>	<b>\$</b>	<b>55,013,928</b>	<b>\$ 31,717,015</b>
<b>Liabilities and Equity</b>			
<b>Current Liabilities</b>			
Accounts Payable and Accrued Liabilities	\$	4,949,777	\$ 2,115,128
Taxes Payable		1,239,880	59,086
Note Payables		575,000	-
Financial Liabilities	4	12,565,000	-
Due to Shareholders		415,341	874,372
		19,744,998	3,048,586
<b>Non-Current Liabilities</b>			
Convertible Debentures	7	13,925,698	3,206,348
Royalty Debt		1,490,151	-
<b>Total Liabilities</b>	<b>\$</b>	<b>5,160,847</b>	<b>\$ 6,254,934</b>
<b>Equity</b>			
Share Capital	5	\$ 31,396,213	\$ 25,904,385
Foreign Currency Translation Reserve		273,036	10,498
Accumulated Deficit		(11,816,168)	(452,802)
<b>Total Equity</b>	<b>\$</b>	<b>19,853,081</b>	<b>\$ 25,462,081</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$</b>	<b>55,013,928</b>	<b>\$ 31,717,015</b>

*Approved and Authorized on behalf of the Board on  
April 10, 2019*

**“Edward Fields”**

Chief Executive Officer and Chairman

**“Peter Kampian”**

Chief Financial Officer

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

**DionyMed Holdings Inc.**  
**Interim Condensed Unaudited Consolidated Statement of Loss and Comprehensive Loss**  
**For the Three- and Six-Month Periods Ended August 31, 2018**  
**(Expressed in U.S. Dollars)**

	Note	For the three months ended August 31, 2018	For the six months ended August 31, 2018
<b>Revenue</b>		\$ 3,064,354	\$ 4,755,153
<b>Direct Costs</b>		2,877,566	4,235,363
<b>Gross Profit</b>		(350,991)	354,065
<b>Expenses</b>			
Wages and Salaries		2,902,647	4,102,590
Administrative and Other	8	2,728,854	3,774,486
Legal and Professional Fees		1,093,524	1,708,601
Interest Expenses	7	197,031	214,541
Sales and Marketing Expenses		160,831	481,995
Amortization and Depreciation Expenses		362,247	560,323
Financing Costs	7	479,740	479,740
Royalties		210,156	272,181
Share-Based Compensation	5	223,954	286,388
Foreign Exchange (Gain) Loss		(11,058)	2,311
<b>Total Expenses</b>		8,347,926	11,883,156
<b>Net Loss</b>		\$ (8,161,138)	\$ (11,363,366)
<b>Other Comprehensive Income (Loss)</b>			
Foreign Exchange Gain on Translation		352,022	352,022
<b>Comprehensive Loss</b>		\$ (7,809,116)	\$ (11,011,344)

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

**DionyMed Holdings Inc.**  
**Interim Condensed Unaudited Consolidated Statement of Changes in Shareholders' Equity**  
**For the Six-Month Period Ended August 31, 2018**  
**(Expressed in U.S. Dollars)**

	Note	Number of Shares (Common)	Number of Shares (Series A Convertible Preferred)	Number of Shares (Series F Convertible Preferred)	Share Capital	Warrants	Option Reserves	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Shareholders' Equity
<b>Balance - January 11, 2018</b>		-	-	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Share Exchange and Contribution with DionyMed, Inc.		116,666	-	2	98,888	-	-	-	-	98,888
Share Exchange and Contribution with Herban, Inc.		-	-	6,596	25,747,522	-	-	-	-	25,747,522
Share-Based Compensation		-	-	-	-	-	57,975	-	-	57,975
Other Comprehensive Gain		-	-	-	-	-	-	10,498	-	10,498
Net Loss		-	-	-	-	-	-	-	(452,802)	(452,802)
<b>Balance - February 28, 2018</b>		116,666	-	6,598	25,846,410	-	57,975	10,498	(452,802)	25,462,081
Series A Private Placement	5,7	1,768,598	1,289	-	1,481,379	-	-	-	-	1,481,379
Convertible Promissory Note (Including Accrued Interest) Conversion	7	1,114,446	30,064	-	3,217,149	-	-	-	-	3,217,149
Common Shares Issued to Settle Shareholder Payable	5	560,000	-	-	439,513	-	-	-	-	439,513
Warrants Issued with Grenville Royalty Purchase Agreements	5	-	-	-	-	67,399	-	-	-	67,399
Share-Based Compensation	5	-	-	-	-	-	286,388	-	-	286,388
AOCI: Translation of Financial Statement Balances		-	-	-	-	-	-	(89,484)	-	(89,484)
OCI: Gain on Translation of Intercompany Balances		-	-	-	-	-	-	352,022	-	352,022
Net loss		-	-	-	-	-	-	-	(11,363,366)	(11,363,366)
<b>Balance - August 31, 2018</b>		3,559,710	31,353	6,598	\$ 30,984,451	\$ 67,399	\$ 344,363	\$ 273,036	\$ (11,816,168)	\$ 19,853,081

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

**DionyMed Holdings Inc.**  
**Interim Condensed Unaudited Consolidated Statement of Cash Flow**  
**For the Six-Month Period Ended August 31, 2018**  
**(Expressed in U.S. Dollars)**

	<b>From March 1, 2018 to August 31, 2018</b>
<b>Operating Activities</b>	
Net Loss for the Period	\$ (11,363,366)
Adjustment for Non-Cash Items:	
Amortization and Depreciation	560,323
Share-Based Compensation	286,388
Interest Expense on Series B Convertible Debentures	207,177
Financing Fees Withheld	796,482
Accounts Receivable forgiven from Rise	(245,125)
Accrued Royalty Buyout Loss	122,051
Write-down of Inventory	442,055
Change in Non-Cash Working Capital Items:	
Accounts Receivables	(1,122,296)
Inventories	(903,809)
Prepaid Expenses	(135,326)
Security Deposits	(42,688)
Accounts Payable and Accrued Liabilities	2,426,788
Excise and Cultivation Taxes Payable	1,180,794
<b>Net cash (used in) operating activities</b>	<u>(7,790,552)</u>
<b>Investing Activities</b>	
Purchase of Fixed Assets	(668,929)
Purchase of Assets from Rise Brands	(1,240,000)
Purchase of Assets from JDK Holdings (Winberry)	(3,109,457)
Advance to Cascade Cannabis Distribution, Inc. before Acquisition	(112,627)
<b>Net cash provided by (used in) investing activities</b>	<u>(5,131,014)</u>
<b>Financing Activities</b>	
Proceeds from Issuance of Shares as part of Series A Round of Financing	1,962,118
Proceeds from Issuance of Series B Convertible Debentures	11,235,413
Proceeds from Grenville Royalty Financing	1,455,825
Grenville Royalty Financing Costs	(20,326)
Due to Shareholders	(19,518)
Repayment of financing	(439,513)
<b>Net cash provided by financing activities</b>	<u>14,173,999</u>
<b>Net increase in cash</b>	<u>1,252,433</u>
Cash, Beginning of Period	133,117
Foreign currency translation	262,538
<b>Cash, End of Period</b>	<u>\$ 1,648,088</u>

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

**DionyMed Holdings Inc.**  
**Notes to the Interim Condensed Unaudited Consolidated Financial Statements**  
**For the Three- and Six-Month Periods Ended August 31, 2018**  
**(Expressed in U.S. Dollars, unless stated otherwise)**

**1. NATURE OF OPERATIONS**

DionyMed Holdings Inc. (“DionyMed Holdings” or the “Company”) was incorporated in Ontario, Canada, on January 11, 2018.

The Company’s principal activity is to brand, manufacture and distribute cannabis products within the states of California and Oregon. The Company is currently licensed under the laws of the State of California to produce and sell medicinal and adult-use cannabis products within such state.

In addition to the states listed above the Company also conducts pre-licensing activities in other markets including Massachusetts, New Jersey, Nevada, Colorado and Illinois. In these markets, the Company has either applied for licenses, or plans on applying for licenses, but does not currently own any cultivation, production or retail licenses.

The Company’s registered head office is 40 King Street West, Suite #2100, Toronto, ON M5H 3C2.

**2. Basis of Preparation**

**Statement of Compliance**

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee, effective for the Company’s reporting for the period ended August 31, 2018.

These interim condensed consolidated financial statements were approved by the Board of Directors on April 10, 2019.

**Going Concern**

These interim condensed consolidated financial statements have been prepared under the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue in the normal course of operations is dependent on its ability to raise financing sufficient to maintain operations and there are no assurances that the Company will be successful in achieving this goal. For the six-month period ended August 31, 2018, the Company reported a net loss of \$11,363,366, operating cash outflows of \$7,790,552 and, as of that date, an accumulated deficit amounting to \$11,816,168. These material circumstances cast significant doubt on the Company’s ability to continue as a going concern and ultimately on the appropriateness of the use of the accounting principles applicable to a going concern. These interim condensed consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. The Company continues to have access to equity and debt financing from private and public markets, but there are no guarantees that such financing would be available.

**Basis of Measurement**

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

**Functional and Presentation Currency**

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

**Basis of Consolidation**

**DionyMed Holdings Inc.**  
**Notes to the Interim Condensed Unaudited Consolidated Financial Statements**  
**For the Three- and Six-Month Periods Ended August 31, 2018**  
**(Expressed in U.S. Dollars, unless stated otherwise)**

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

<b>Subsidiaries</b>	<b>Jurisdictions</b>	<b>Interest</b>
DionyMed, Inc ("DionyMed Inc")	Ontario, Canada	100%
Herban Industries, Inc ("Herban")	Delaware, USA	100%
Herban Industries CA LLC ("Herban CA")	California, USA	100%
Herban Industries OR LLC ("Herban OR")	Oregon, USA	100%
Herban Industries NJ LLC ("Herban NJ")	New Jersey, USA	100%

**Business Combinations**

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The Company measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets and liabilities assumed, all measured as of the acquisition date. Any excess of the fair value of the net assets acquired over the assumed consideration paid is a gain on business acquisition and is recognized as a gain in the Statement of Loss. The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

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

**Business Combinations – Common Control**

IFRS provides no guidance on common control transactions and, as such, the Company has elected as an accounting policy to adopt the acquisition method as described in IFRS 3 in connection with the common control transactions discussed in Note 4.

**3. Significant Accounting Policies**

Critical Accounting Estimate, Judgement and Policies are consistent with the July 31, 2018 audited financial statements included in the listing statement dated October 3, 2018.

**4. Acquisitions and Business Combinations**

**Acquisition of Assets from JDK Holdings, LLC (Winberry)**

On August 31, 2018, the Company through its subsidiary, Herban OR, acquired certain assets from JDK Holdings, LLC ("Winberry" or "Winberry Farms"), a privately-owned U.S. company. Winberry Farms is an award-winning concentrate and vape cartridge brand. The acquisition was made with a total purchase price of \$7,500,000, subject to working capital adjustments, with the potential for additional earn-out payments ("earn-out payment") having a maximum aggregate value of up to approximately \$4,000,000 subject to the achievement of specific performance objectives over the 18-month period following January 1, 2019. The earn-out payment is accounted for as separate compensation arrangement outside the business combination in accordance with IFRS 3. The acquisition consideration and related expenses were financed with cash on hand and proceeds from Series B convertible debentures financing.

The acquisition of assets from Winberry by the Company was accounted for using the acquisition method of accounting, whereby assets and liabilities acquired were revalued to their fair value and any excess of the purchase price was recognized as goodwill.

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

**DionyMed Holdings Inc.**  
**Notes to the Interim Condensed Unaudited Consolidated Financial Statements**  
**For the Three- and Six-Month Periods Ended August 31, 2018**  
**(Expressed in U.S. Dollars, unless stated otherwise)**

Cash	\$	126,749
Accounts Receivable		269,488
Inventory		1,006,721
Property, Plant and Equipment		160,121
Customer Relationships		3,100,000
Market Related Intangible Assets		2,010,000
Licenses		38,000
Recipes and Formulas		2,450,000
Goodwill		2,369,837
<b>Total Assets Acquired</b>		<b>11,899,469</b>
Assumed Accounts Payable		(291,957)
<b>Fair value of net assets acquired</b>	<b>\$</b>	<b>11,238,959</b>

Cash Paid (First Tranche Payment)	\$	900,000
Working Capital Adjustment		107,959
Series B Convertible Debentures Issued		2,100,000
Financial Liability - Winberry (Second Tranche Payment and Earnout)		8,131,000
<b>Fair value of consideration</b>	<b>\$</b>	<b>11,238,959</b>

**Acquisition of Assets from Rise Brands, Inc.**

On June 14, 2018, the Company through its subsidiary, Herban CA, acquired certain assets from Rise Brands, Inc (“Rise”), a privately-owned U.S. company. Rise is a logistics management, co-packaging, and other service provider to cannabis cultivators, manufacturers, and retailers in California. The acquisition was made for cash consideration of \$8,000,000, subject to working capital adjustments, with the potential for additional earn-out payments (“earn-out payment”) having a maximum aggregate value of up to approximately \$4,000,000 subject to the achievement of specific performance objectives over the 18-month period following January 1, 2019. The earn-out payment is accounted for as separate compensation arrangement outside the business combination in accordance with IFRS 3. The acquisition consideration and related expenses were financed with cash on hand and proceeds from Series B convertible debentures financing.

The acquisition of assets from Rise by the Company was accounted for using the acquisition method of accounting, whereby assets and liabilities acquired were revalued to their fair value and any excess of the purchase price was recognized as goodwill.

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

Customer Relationships	\$	4,340,000
Market Related Intangible Assets		3,410,000
Licenses		12,000
Software		125,000
Goodwill		889,591
<b>Total Assets Acquired</b>		<b>8,776,591</b>
Less: Receivables from Rise Brands, Inc Forgiven		(245,125)
Assumed Debt		(632,466)

**DionyMed Holdings Inc.**  
**Notes to the Interim Condensed Unaudited Consolidated Financial Statements**  
**For the Three- and Six-Month Periods Ended August 31, 2018**  
**(Expressed in U.S. Dollars, unless stated otherwise)**

<b>Fair value of net assets acquired</b>	<b>\$</b>	<b>7,899,000</b>
Cash Paid (First Tranche Payment and Advance to Rise)	\$	3,215,000
Financial Liability - Rise Brands, Inc		4,684,000
<b>Fair value of consideration</b>	<b>\$</b>	<b>7,899,000</b>

**Acquisition of Common Controlled Entities**

**Acquisition of DionyMed**

Effective February 28, 2018, the Company acquired a 100% controlling interest in DionyMed. This acquisition was completed in exchange for the Company's shares. 116,666 common shares and 2 series F convertible preferred shares were issued by DionyMed Holdings to DionyMed's shareholders in exchange of DionyMed's 116,666 common shares and 6,598 series F convertible preferred shares.

An independent valuation specialist was used to value the 116,666 common shares and 2 series F convertible preferred shares. Each common share was valued at CAD\$1 and each series F convertible preferred share was valued at CAD\$5,000 resulting in total of CAD\$126,666 (USD\$98,888) as consideration for the acquisition of DionyMed. Significant assumptions used in valuation of the share consideration include equity volatility, asset volatility, risk free rate, discount for lack of marketability, venture capital rate of return, long term growth rate, and expected tax rate.

**Acquisition of Herban**

Effective February 28, 2018, the Company acquired a 100% controlling interest in Herban. This acquisition was completed in exchange for the Company's shares. 6,596 series F convertible preferred shares were issued by DionyMed Holdings to Herban's shareholders in exchange of Herban's 30,000,000 common shares.

An independent valuation specialist was used to value the 6,596 series F convertible preferred shares. Each series F convertible preferred share was valued at CAD\$5,000 resulting in total of CAD\$32,980,000 (USD\$25,747,522) as consideration for the acquisition of Herban. Significant assumptions used in valuation of the share consideration include equity volatility, asset volatility, risk free rate, discount for lack of marketability, venture capital rate of return, long term growth rate, and expected tax rate.

The following table summarizes the preliminary purchase price allocations and the total fair value of considerations for the acquisition of DionyMed and Herban:

	Preliminary (Herban)	Preliminary (DionyMed)	Total
Cash	\$ 128,111	\$ 5,006	\$ 133,117
Accounts receivable	47,326	119,111	166,437
Prepaid expenses	45,313	-	45,313
Security deposits	213,301	-	213,301
Inventories	1,209,813	-	1,209,813
Fixed assets	124,671	-	124,671
Other Assets	7,563	-	7,563
Customer Relationships	5,020,000	-	5,020,000
Market Related Intangible Assets	-	217,000	217,000

**DionyMed Holdings Inc.**  
**Notes to the Interim Condensed Unaudited Consolidated Financial Statements**  
**For the Three- and Six-Month Periods Ended August 31, 2018**  
**(Expressed in U.S. Dollars, unless stated otherwise)**

Licenses	12,000	-	12,000
Goodwill	24,236,726	339,763	24,576,489
<b>Total Assets Acquired</b>	<b>31,044,824</b>	<b>680,880</b>	<b>31,725,704</b>
Less: Accounts payable and accrued liabilities	(1,953,836)	(197,838)	(2,151,674)
Due from (to) DionyMed Holdings Inc.	(2,488,611)	2,841,712	353,101
Convertible Promissory Notes assumed by DionyMed Holdings Inc.	-	(3,206,348)	(3,206,348)
Other liabilities	(854,855)	(19,518)	(874,373)
<b>Fair value of net assets acquired</b>	<b>\$ 25,747,522</b>	<b>\$ 98,888</b>	<b>\$ 25,846,410</b>

Number of common shares issued	-	116,666	116,666
Fair value of common shares issued	\$ -	\$ 91,081	\$ 91,081
Number of series F convertible preferred shares issued	6,596	2	6,598
Fair value of series F convertible preferred shares issued	\$ 25,747,522	\$ 7,807	\$ 25,755,329
<b>Fair value of consideration</b>	<b>\$ 25,747,522</b>	<b>\$ 98,888</b>	<b>\$ 25,846,410</b>

## 5. Share Capital

### Share Capital

The Company has authorized unlimited common shares, Series F Convertible Preferred Shares, and Series A Convertible Preferred Shares.

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

In March 2018, the Company raised additional CAD\$1,897,498 (USD\$1,481,379) through the issuance of 1,768,598 common shares and 1,289 series A preferred shares as part of Series A round of financing.

On March 2, 2018, the Company issued 29,965 Series A Convertible Preferred Shares and 1,110,514 Common Shares for equity conversions relating to the Convertible Preferred Notes (Note 13). In addition, the Company issued 99 Series A Convertible Preferred Shares and 3,932 Common Shares in satisfaction of CAD\$13,835 (USD\$10,801) of accrued interest on the Convertible Preferred Notes. In total, the Convertible Preferred Notes are converted into 30,064 Series A Convertible Preferred Shares and 1,114,446 Common Shares.

In April 2018, the Company issued 560,000 common shares at CAD\$1 per share to settle part of the working capital loan (Note 9).

### Warrants

	Issue Date	Number of Warrants	Exercise Price (CAD)	Expiry Date
(1). Warrants Issued to Grenville for Royalty Debt	4-Apr-18	100,000.00	1.50	4-Apr-23
(2). Warrants Issued to Grenville for Royalty Debt	25-May-18	90,000.00	1.50	4-Apr-23

**DionyMed Holdings Inc.**  
**Notes to the Interim Condensed Unaudited Consolidated Financial Statements**  
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Total and Weighted Average Exercise Price	190,000.00	1.50
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The fair value of the warrants issued was determined using the Black-Scholes options pricing model, using the following assumptions:

Input Data	Warrants (1)	Warrants (2)
Stock Price now in CAD	\$ 1.00	\$ 1.00
Exercise Price in CAD	\$ 1.50	\$ 1.50
Number of periods to Exercise in years	2	2
Risk-Free Interest Rate	1.92%	1.92%
Share Volatility (annualized $\sigma$ )	1.05	1.05

**Stock Options**

Upon the share exchange transaction on February 28, 2018, the Company approved to establish the 2018 Stock Plan (the "New Plan") to assume the awards granted by each of DionyMed and Herban as of the date of the share exchange and contribution. The New Plan authorized the issuance of up to 20% common shares or Series A Convertible Preferred Shares on a fully diluted basis.

5,017,500 options issued by Herban under the Herban Plan were assumed by the New Plan. The assumed options were cancelled and new options were issued.

600,000 options issued by DionyMed under the DionyMed Old Plan were assumed by the New Plan. The assumed options were cancelled and new options were issued.

1,882,562 stock options have been vested and are exercisable as at August 31, 2018 from CAD\$0.10 to CAD\$2.09. 1,223,459 stock options have been forfeited.

	Number of Options	Weighted Average Exercise Price (CAD)
Balance as at March 1, 2018	7,154,500	\$ 0.30
Options issued to the Company's employees	2,760,001	2.09
Cancelled/Forfeited/Expired	- 815,625	0.10
Cancelled/Forfeited/Expired	- 339,500	1.00
Cancelled/Forfeited/Expired	- 53,334	2.09
<b>Balance as at August 31, 2018</b>	<b>8,706,042</b>	<b>\$ 0.85</b>

Below summary lists the number of years that various options granted are vesting over. All options are subject to 1 year cliff condition.

Option Vesting Years	Number of Options
1	97,500
3	1,250,000
4	5,421,875

**DionyMed Holdings Inc.**  
**Notes to the Interim Condensed Unaudited Consolidated Financial Statements**  
**For the Three- and Six-Month Periods Ended August 31, 2018**  
**(Expressed in U.S. Dollars, unless stated otherwise)**

5	1,936,667
<b>Total</b>	<b>8,706,042</b>

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

	<b>February 28, 2018</b>	<b>August 14, 2018</b>
Risk free interest rate	2.07% - 2.65%	2.44% - 2.85%
Expected dividend yield	0%	0%
Underlying share price	CAD\$1.00 per share	CAD\$2.06 per share
Expected volatility based on comparable companies	110%	105%
Expected term	7 years	7 years
Black-Scholes value of each option	\$0.42 - \$0.80	\$0.83 - \$1.60

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

The Company recorded \$223,954 and \$286,388 in share-based compensation expense related to options issued to employees for the three- and six-month periods ended August 31, 2018.

## **6. Commitments and Contingencies**

### Commitments

The Company has contractual obligations to make the following payments.

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Thereafter</b>
<b>USD denominated</b>						
Operating leases	\$ 860,440	\$ 877,217	\$ 878,551	\$ 850,958	\$ 686,976	\$ 1,903,752
Royalties and licensing fees	124,500	-	-	-	-	-
Consultants and advisors	120,000	120,000	120,000	-	-	-
<b>Total USD denominated</b>	<b>\$ 1,104,940</b>	<b>\$ 997,217</b>	<b>\$ 998,551</b>	<b>\$ 850,958</b>	<b>\$ 686,976</b>	<b>\$ 1,903,752</b>
<b>CAD denominated</b>						
Operating leases	\$ 79,750	\$ 7,250	\$ -	\$ -	\$ -	\$ -
Royalties and licensing fees	395,830	474,996	79,166	-	-	-
<b>Total CAD denominated</b>	<b>\$ 475,580</b>	<b>\$ 482,246</b>	<b>\$ 79,166</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

The Company leases certain business facilities from third parties under operating lease agreements that specify minimum rentals. The leases expire through 2028 and contain renewal provisions. The Company's net rent expense for the three- and six-month periods ended August 31, 2018 was approximately \$342,000 and \$524,000 respectively.

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As part of acquisition of assets from Rise Brands, Inc and JDK Holdings, LLC (Note 4), the Company is obligated for certain earn-out payments with aggregate maximum value of up to \$8,000,000.

Contingencies

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation at August 31, 2018, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At August 31, 2018, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's combined operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

**7. Long Term Debt**

	Convertible Promissory Notes	Convertible Debentures	Total
<b>As at March 1, 2018</b>	\$ 3,206,348	\$ -	\$ 3,206,348
Fair value of financial liability at issuance	-	13,925,699	13,925,699
Conversion to equity	(3,206,348)	-	(3,206,348)
<b>As at August 31, 2018</b>	\$ -	\$ 13,925,699	\$ 13,925,699

**Series A Convertible Promissory Notes**

In February 2018, DionyMed issued Series A Convertible Promissory Notes (the "Notes") for a total principal amount of CAD\$4,107,011 (USD\$3,206,348). The Notes, which are convertible at the conversion price to be determined by the next financing, bear interest at 1.75% per annum and have maturity date of December 31, 2020. On February 28, 2018, as part of the share exchange transaction to acquired DionyMed by the Company, the Company assumed the Notes.

On March 2, 2018, the Company issued 29,965 Series A Convertible Preferred Shares and 1,110,514 Common Shares for equity conversions relating to the Notes. In addition, the Company issued 99 Series A Convertible Preferred Shares and 3,932 Common Shares in satisfaction of CAD\$13,835 (USD\$10,801) of accrued interest on the convertible promissory notes. In total, the Notes are converted into 30,064 Series A Convertible Preferred Shares and 1,114,446 Common Shares.

**Series B Convertible Debentures**

On June 14, 2018, the Company closed the first tranche of a non-brokered private placement of 3,040 Common Share Convertible Debentures and 350 Series A Convertible Debentures at a price of CAD\$1,000 per Convertible Debenture, for gross proceeds of CAD\$3,390,000 (USD\$2,604,287). On June 15, 2018, the Company closed the second tranche of the non-brokered private placement by issuing 5,600 Common Share Convertible Debentures at a price of CAD\$1,000 per Common Share Convertible Debenture for gross proceeds of CAD\$5,600,000 (USD\$4,302,066).

On July 10, 2018, the Company closed the third tranche of the non-brokered private placement by issuing 2,920 Common Share Convertible Debentures and 660 Series A Convertible Debentures at a price of CAD\$1,000 per Convertible Debenture for gross proceeds of CAD\$3,580,000 (USD\$2,750,250).

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On August 28, 2018, the Company closed the fourth tranche of the non-brokered private placement by issuing 1,680 Common Share Convertible Debentures and 3,930 Series A Convertible Debentures at a price of CAD\$1,000 per Convertible Debenture for gross proceeds of CAD\$5,610,000 (USD\$4,269,096). The combined gross proceeds of the four tranches of the financing was approximately CAD\$18,180,000 (USD\$13,925,699).

The Debentures, which are convertible at the conversion price that is the lesser of: (a) the price that is a 30% discount to the Liquidity Event Price defined in the Debenture Agreement; and (b) CAD\$2.06, bear interest at 14% per annum and have maturity date of June 30, 2020.

The Company elected to measure debt and equity components at FVTPL as a combined instrument. Both the debt host liability and derivative liability are revalued at each reporting date.

During the six-month period ended August 31, 2018, the transaction costs directly attributed to issuing the Debentures amount to \$473,991 and are expensed. In addition, interest expense of \$146,386 was expensed and paid.

**8. Administrative and Other Expenses**

The Company's administrative and other expenses included the following at August 31, 2018:

	For the three months ended August 31, 2018	For the six months ended August 31, 2018
Travel expenses	\$ 729,737	\$ 1,015,094
Rent expenses	342,135	524,847
Taxes, permits and licenses	119,122	244,299
Bad debt expenses	144,478	144,248
Insurance	87,014	118,972
Dues and subscriptions	66,299	76,330
Vehicle expenses	36,727	54,289
Telecommunications	11,117	20,408
Utilities	11,698	16,095
Office supplies	61,957	80,802
Repairs and maintenance	13,308	13,934
Bank charges	1,902	3,474
Recruiting and training	-	1,772
Write-down of inventory	537,779	607,779
Other operating expenses	565,581	852,144
	<u>\$ 2,728,854</u>	<u>\$ 3,774,486</u>

**9. Related Party Transactions**

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

**Consulting Services from Daniel Fields**

Daniel Fields, a shareholder of the Company, provided consulting services for the Company. During the six-month period ended August 31, 2018, the Company paid approximately \$279,635 to Daniel Fields for expenses and consulting fees, which is included in Legal and Professional Fees on the Interim Condensed Consolidated Statement of Operations. As at August 31, 2018,

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\$181,859 remained payable by the Company, which is included in Accounts Payable and Accrued Liabilities on the Interim Condensed Consolidated Statement of Financial Position.

**Ambassador Technologies Inc Marketing Services**

Ambassador Technologies Inc, over which the Company's Chief Executive Officer has significant influence, is a marketing agency company doing business in California as ByProxie. The entity is not consolidated with the Company because the Company is not entitled to its variable returns. Since August 2017, the Company engaged ByProxie to provide marketing services in California. During the six-month period ended August 31, 2018, the Company incurred related expenses of approximately \$249,682 included in Sales and Marketing Expenses on the Interim Condensed Consolidated Statement of Loss and Comprehensive Loss.

**WestField Partners, LLC**

WestField Partners, LLC, over which the Company's Chief Executive Officer has control, is a management services company. WestField Partners, LLC is not consolidated with the Company because the Company is not entitled to its variable returns. WestField Partners, LLC entered into a management services agreement with the Company on March 1, 2016. During the six-month period ended August 31, 2018, the Company paid WestField Partners, LLC approximately \$46,251 for management services, rent, and outside services reimbursements, which is included in Administrative and Other Expenses on the Interim Condensed Consolidated Statement of Operations. As at August 31, 2018, the Company owed approximately \$29,574 to the entity, which is included in Accounts Payable and Accrued Liabilities on the Interim Condensed Consolidated Statement of Financial Position.

**10. Subsequent Events**

**Term Loans**

On September 24, 2018, the Company entered into a term loan agreement with certain lenders in the aggregate principal amount of \$4,000,000 (the "Term Loan"). The Term Loan matures on the first to occur of: (i) an event of default which has not been cured or waived, (ii) thirty (30) business days after the Company is publicly listed and tradable on a recognized securities exchange and (iii) September 24, 2019, when the principal amount of the Term Loan, the unpaid interest thereon, and all other obligations relating to the Term Loan and the loan documents shall be immediately due and payable.

The Term Loan includes a repayment premium equal to \$2,000,000 payable in the Company's Common Shares with the number of Common Shares calculated as \$2,000,000 divided by the price per share at the listing event.

**Investment in and Acquisition of Hometown Heart**

On October 1, 2018, DionyMed Group invested \$2,000,000 in unsecured convertible notes of Hometown Heart, a California corporation that engages in the business of direct-to-consumer cannabis sales and delivery, that includes the right, but not the obligation, to purchase the outstanding shares of Hometown Heart for \$6,000,000 and a \$12,000,000 earn-out, which will be paid subject to Hometown Heart achieving certain performance metrics.

On December 5, 2018, DionyMed Group exercised its options to purchase the outstanding shares of Hometown Heart for \$6,000,000 and a \$12,000,000 earn-out, which will be paid subject to Hometown Heart achieving certain performance metrics. The Company obtained control of Hometown Heart on December 13, 2018 upon the closing of the transaction. The Company operates Hometown Heart under a Management Services Agreement.

**Acquisition of Assets from Cascade Distribution, Inc.**

On September 27, 2018, the Company through its subsidiary, Herban OR, entered an agreement to acquire certain assets of Cascade Cannabis Distribution, Inc. ("Cascade"). Cascade holds a recreational wholesale license in the State of Oregon for the distribution of adult-use cannabis and provides product processing, packaging and distribution services in Oregon. As at the date of the release for these interim condensed consolidated financial statements, this transaction has not closed pending approval from the State of Oregon for the transfer of the recreational wholesale license to Herban OR.

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The transaction is to be closed for a total purchase price of \$150,000, and a \$100,000 earn-out, subject to certain performance obligations.

**Inventory Finance Facility**

On November 12, 2018, the Company entered into a mandate letter (the "Mandate Letter") with a lender to arrange a hybrid asset-based loan facility (the "Inventory Finance Facility") of up to US\$40,000,000 to provide working capital funding for the Company, including a US\$3,000,000 early draw facility (the "Early Draw Facility"). On closing of the transaction, the Mandate Letter and the Early Draw Facility became binding on the Company.

The Early Draw Facility is secured by a general security agreement over the assets of DionyMed in favor of certain credit funds managed by the Arranger, bears interest at a rate of 10.4% per annum and matures on February 12, 2020. Under the Early Draw Facility, DionyMed made one drawdown under the Inventory Finance Facility on November 13, 2018 for gross proceeds of US\$3,000,000. The transaction fees of \$852,650 are withheld from the gross proceeds for various fees including mandate fee, due diligence fee and legal fee resulting in net proceeds of \$2,147,350. Neither the Company nor its subsidiaries may dispose of any asset, incur any indebtedness or create or permit any security over its assets other than as permitted by the Early Draw Facility.

On November 28, 2018, as part of the consideration to the lenders, the Company issued 27,795 common shares at CAD\$4.25 and 744,000 warrants with an exercise price of CAD\$5.31 expiring three years from the date of issue.

On January 17, 2019, the Company signed a definitive agreement (the "Agreement") for a two-year, up to US\$40 million senior secured credit facility from the arranger. The credit facility consists of a US\$15 million term loan facility and a US\$25 million asset-backed loan facility. The Company will draw US\$13 million following the completion of certain conditions to the satisfaction of the investors. Currently, the syndicate of investors have committed to provide US\$13 million of the credit facility.

This credit facility will be used for acquisitions, capital expenditures, refinancing existing debt, working capital and general corporate purposes.

**Business Combination with Sixonine Ventures Corp**

On November 28, 2018, DionyMed Brands was formed in a Reverse Take-Over transaction in which DionyMed Holdings, the continuing entity for accounting purposes, is considered to have acquired the assets and liabilities of the former Sixonine Ventures Corp., a public company formerly trading on the TSX Venture Exchange. The combined entity was renamed DionyMed Brands Inc. Consideration in the amount of \$2,618,584 in the Company's Common Shares and \$614,173 in the Company's Warrants were issued in respect of this transaction.

The Listing Event generated gross proceeds of CAD\$34,490,000, the transaction fees for which were CAD\$4,473,374, resulting in net proceeds of CAD\$30,016,638.

**Strategic Partnership with Nevada-Based Retailer Acres Cannabis**

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

**Binding Term Sheet to Acquire Pioneer Valley Extracts, LLC**

On January 22, 2019, the Company signed a binding term sheet to acquire Pioneer Valley Extracts, LLC, a manufacturer and emerging cannabis brand in Massachusetts.