

DionyMed Brands Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2019 and May 31, 2018

(Expressed in U.S. Dollars)

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

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

DionyMed Brands Inc.
Condensed Interim Consolidated Statement of Financial Position
As of March 31, 2019 and December 31, 2018
(Unaudited – Expressed in U.S. Dollars)

	Note	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Assets			
Current Assets			
Cash		\$ 5,086,272	\$ 8,814,561
Accounts Receivable		4,914,804	4,222,123
Inventories		4,241,933	3,513,420
Prepaid Expenses		419,655	289,870
Right-of-Use Assets, Current	3, 6	1,474,979	-
		16,137,643	16,839,974
Non-Current Assets			
Security Deposits		569,440	534,017
Property and Equipment		1,357,283	989,527
Right-of-Use Assets, Non-Current	3, 6	5,038,280	-
Investments		250,000	-
Intangible Assets	4	13,999,637	14,705,450
Goodwill		22,083,098	21,923,600
Total Assets		\$ 59,435,381	\$ 54,992,568
Liabilities and Deficit			
Current Liabilities			
Accounts Payable and Accrued Liabilities		\$ 9,182,655	\$ 10,531,143
Taxes Payable		8,085,637	6,425,700
Notes Payable		-	125,000
Inventory Finance Facility		5,432,955	766,258
Term Loans		-	3,860,000
Lease Liabilities, Current	3, 6	1,150,567	-
Financial Liabilities, Current	4	9,427,000	5,947,000
		33,278,814	27,655,101
Non-Current Liabilities			
Convertible Debentures		16,646,710	29,814,543
Royalty Debt		1,929,751	1,716,189
Lease Liabilities, Non-Current	3, 6	5,770,290	-
Financial Liabilities, Non-Current	4	6,306,000	9,485,000
Deferred Tax Liabilities	4	2,999,003	3,086,448
Total Liabilities		\$ 66,930,568	\$ 71,757,281
Deficit			
Share Capital	5	\$ 26,051,124	\$ 23,267,098
Warrants	5	25,396,721	19,916,643
Option Reserves	5	1,639,076	1,041,643
Accumulated Other Comprehensive Income		188,842	506,562
Other Reserves		(3,979,079)	(3,979,079)
Accumulated Deficit		(56,791,871)	(57,517,580)
Total Deficit		\$ (7,495,187)	\$ (16,764,713)
Total Liabilities and Shareholders' Deficit		\$ 59,435,381	\$ 54,992,568

Going Concern (Note 1)

Contingencies and Commitments (Note 6)

Subsequent Events (Note 9)

“Edward Fields”

Chief Executive Officer and Chairman

“Peter Kampian”

Chief Financial Officer

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

DionyMed Brands Inc.
Condensed Interim Consolidated Statement of Loss and Comprehensive Loss
For the Three Months Ended March 31, 2019 and May 31, 2018
(Unaudited – Expressed in U.S. Dollars)

	Note	From January 1, 2019 to March 31, 2019	From March 1, 2018 to May 31, 2018
Revenue		\$ 14,417,336	\$ 1,690,799
Direct Costs		7,910,226	1,357,797
Gross Margin		6,507,110	333,002
Expenses			
Wages and Salaries		5,880,072	1,200,035
Administrative and Other		3,773,783	1,078,824
Sales and Marketing Expense		2,041,119	321,164
Professional Fees		990,328	478,611
Amortization and Depreciation Expense		920,859	7,365
Financing Costs		913,302	-
Interest Expense		795,928	17,673
Share-Based Compensation	5	613,361	62,748
Impairment of Intangible Assets		544,350	-
Business Development Expense		507,971	-
Legal Fees		303,810	140,851
Royalties Expense		302,132	62,635
Impairment of Trade Receivables		25,267	-
Foreign Exchange Loss		78,276	13,500
Total Operating Expenses		17,690,558	3,383,406
Loss from Operations		(11,183,448)	(3,050,404)
Other Revenue and Expenses			
Fair Value Adjustment on Debt Carried at Fair Value		12,936,476	-
Fair Value Adjustment on Financial Liabilities		(801,000)	-
Net Income (Loss) before Income Taxes		\$ 952,028	\$ (3,050,404)
Deferred Tax Recovery		(87,445)	-
Net Income (Loss)		\$ 1,039,473	\$ (3,050,404)
Weighted average common shares outstanding – basic		52,072,386	39,345,680
Weighted average common shares outstanding – diluted		77,278,428	39,345,680
Net income (loss) per common share - basic	5	\$ 0.02	\$ (0.08)
Net income (loss) per common share - diluted	5	\$ 0.01	\$ (0.08)
Other Comprehensive Income (Loss)			
Foreign Exchange Loss on Translation of Financial Statement Balances		(992,697)	(61,272)
Foreign Exchange Gain on Translation of Intercompany Balances		674,977	87,385
Comprehensive Income (Loss)		\$ 721,753	\$ (3,024,291)

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

DionyMed Brands Inc.
Condensed Interim Consolidated Statement of Changes in Shareholders' Equity
For the Three Months Ended March 31, 2019 and May 31, 2018
(Unaudited – 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)	Other Reserves	Accumulated Deficit	Shareholders' Equity
Balance - January 1, 2019		17,590,885	11,920	6,598	\$ 23,267,098	\$ 19,916,643	\$ 1,041,643	\$ 506,562	\$ (3,979,079)	\$ (57,517,580)	\$ (16,764,713)
Adjustments on Initial Application of IFRS 16		-	-	-	-	-	-	-	-	(313,764)	(313,764)
Common Shares Issued on Term Loan Repayment	5	590,353	-	-	1,884,058	-	-	-	-	-	1,884,058
Common Shares Issued for Acquisition of Cascade	5	18,960	-	-	50,000	-	-	-	-	-	50,000
Common Shares Released for Acquisition of Hometown Heart	5	100,000	-	-	159,498	-	-	-	-	-	159,498
Common Shares Issued on Acquisition Finder's Fees	5	8,088	-	-	21,494	-	-	-	-	-	21,494
Common Shares and Warrants Issued on Debenture Conversion	5	131,065	728	-	538,821	311,268	-	-	-	-	850,089
Common Shares Issued on Warrant Exercise	5	4,538	-	-	26,311	(19,228)	-	-	-	-	7,083
Warrants Issued on Inventory Finance Facility	5	-	-	-	-	5,188,038	-	-	-	-	5,188,038
Common Share Issued on Conversion of Series A Shares	5	201,400	(2,014)	-	-	-	-	-	-	-	-
Common Share Issued on Conversion of Series F Shares	5	1,500,000	-	(300)	-	-	-	-	-	-	-
Share-Based Compensation	5	-	-	-	-	-	613,361	-	-	-	613,361
Common Shares Issued on Exercise of Stock Options	5	50,000	-	-	103,844	-	(15,928)	-	-	-	87,916
OCI: Loss on translation of Financial Statement Balances		-	-	-	-	-	-	(992,697)	-	-	(992,697)
OCI: Gain on Translation of Intercompany Balances		-	-	-	-	-	-	674,977	-	-	674,977
Net Income		-	-	-	-	-	-	-	-	1,039,473	1,039,473
Balance - March 31, 2019		20,195,289	10,634	6,298	\$ 26,051,124	\$ 25,396,721	\$ 1,639,076	\$ 188,842	\$ (3,979,079)	\$ (56,791,871)	\$ (7,495,187)

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

DionyMed Brands Inc.
Condensed Interim Consolidated Statement of Changes in Shareholders' Equity
For the Three Months Ended March 31, 2019 and May 31, 2018
(Unaudited – 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)	Other Reserve	Accumulated Deficit	Shareholders' Equity
Balance - March 1, 2018		116,666	-	6,598	\$ -	\$ -	\$ 57,975	\$ 10,498	\$ (3,979,079)	\$ (452,802)	\$ (4,363,408)
Series A Private Placement		1,768,598	1,289	-	1,481,379	-	-	-	-	-	1,481,379
Convertible Promissory Note (Including Accrued Interest) Conversion		1,114,446	30,064	-	3,217,149	-	-	-	-	-	3,217,149
Common Shares Issued to Settle Shareholder Payable		560,000	-	-	439,513	-	-	-	-	-	439,513
Warrants Issued with Grenville Royalty Purchase Agreements		-	-	-	-	67,399	-	-	-	-	67,399
Share-Based Compensation		-	-	-	-	-	62,748	-	-	-	62,748
OCI: Loss on translation of Financial Statement Balances		-	-	-	-	-	-	(61,272)	-	-	(61,272)
OCI: Gain on Translation of Intercompany Balances		-	-	-	-	-	-	87,385	-	-	87,385
Net Income (Loss)		-	-	-	-	-	-	-	-	(3,050,404)	(3,050,404)
Balance - May 31, 2018		3,559,710	31,353	6,598	\$ 5,138,041	\$ 67,399	\$ 120,723	\$ 36,611	\$ (3,979,079)	\$ (3,503,206)	\$ (2,119,511)

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

DionyMed Brands Inc.
Condensed Interim Consolidated Statement of Cash Flow
For the Three Months Ended March 31, 2019 and May 31, 2018
(Unaudited – Expressed in U.S. Dollars)

	From January 1, 2019 to March 31, 2019	From March 1, 2018 to May 31, 2018
Operating Activities		
Net Income (Loss) for the Period	\$ 1,039,473	\$ (3,050,404)
Adjustment for Non-Cash Items:		
Amortization and Depreciation	920,859	7,365
Share-Based Compensation	613,361	62,748
Impairment of Intangible Assets	544,350	-
Impairment of Trade Receivables	25,267	-
Foreign Exchange Gain	636,435	-
Fair Value Adjustment on Debt Carried at Fair Value	(12,936,476)	-
Fair Value Adjustment on Financial Liabilities	801,000	-
Deferred Tax Recovery	(87,445)	-
Interest Expense	251,880	16,757
Legal and Professional Fees	21,494	-
Financing Fees	723,084	-
Accrued Royalty	178,646	-
Change in Non-Cash Working Capital Items:		
Accounts Receivables	(899,701)	(959,258)
Inventories	(728,513)	(155,416)
Prepaid Expenses	(129,785)	(2,177)
Security Deposits	(35,423)	(5,599)
Accounts Payable and Accrued Liabilities	535,570	1,183,668
Taxes Payable	1,659,937	286,624
Net cash (used in) operating activities	(6,865,987)	(2,615,692)
Investing Activities		
Purchase of Property and Equipment	(425,060)	(271,272)
Payment of Winberry Earnout	(500,000)	-
Purchase of Assets from Cascade, Net of Cash Acquired	(99,591)	-
Investment in Waterside Warehousing	(250,000)	-
Net cash (used in) investing activities	(1,274,651)	(271,272)
Financing Activities		
Proceeds from Issuance of Shares as part of Series A Round of Financing	-	1,931,693
Proceeds from Inventory Finance Facility	9,148,143	-
Repayment of Term Loan Financing	(3,860,000)	-
Repayment of Note Payable	(125,000)	-
Proceeds from Grenville Royalty Financing	-	1,447,581
Repayment of Working Capital Notes	-	(209,031)
Exercise of Warrants and Stock Options	95,417	-
Repayment of Lease Liabilities	(528,491)	-
Net cash provided by financing activities	4,730,069	3,170,243
Net increase (decrease) in cash	(3,410,569)	283,279
Cash, Beginning of Period	8,814,561	133,117
Effect of Foreign Exchange Rate Changes on Cash	(317,720)	26,113
Cash, End of Period	\$ 5,086,272	\$ 442,509

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

DionyMed Brands Inc.
Condensed Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2019 and May 31, 2018
(Unaudited – Expressed in U.S. Dollars, unless stated otherwise)

1. Going Concern and Nature of Operations

Going Concern

These condensed interim consolidated financial statements have been prepared on a going concern basis under the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. The Company's ability to continue in the normal course of operations as a going concern 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 three months ended March 31, 2019 and May 31, 2018, the Company reported a net income of \$1,039,473 (2018 – net loss of \$3,050,404), operating cash outflows of \$6,865,987 (2018 – \$2,615,692) and, as of March 31, 2019 and December 31, 2018, an accumulated deficit amounting to \$56,791,871 (2018 – \$57,517,580) and a negative working capital of \$17,141,171 (2018 – \$10,815,127). These circumstances indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and ultimately on the appropriateness of the use of accounting principles applicable to a going concern. These condensed interim 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. Such adjustments could be material.

To date, the Company has been successful in gaining access to equity and debt financing from private and public markets, however there are no guarantees that additional financing will be available in the future.

Nature of Operations

DionyMed Brands Inc. ("DionyMed Brands" or the "Company") was originally incorporated under the Canada Business Corporations Act on October 12, 2006, and on March 22, 2017 was continued into British Columbia under the British Columbia Business Corporations Act, and changed its name from Homeland Energy Group Ltd. to Sixonine Ventures Corp. The Company was a public company and its common shares were listed for trading on the NEX board of the TSX Venture Exchange under the symbol "SNX.H".

On November 28, 2018, DionyMed Brands closed its qualifying transaction (the "Transaction") with DionyMed Holdings Inc. ("DionyMed Holdings"), a multi-state, vertically integrated operating platform that designs, develops, markets and sells a portfolio of branded cannabis products in the United States.

In connection with the Transaction, the Company changed its name from "Sixonine Ventures Corp." to "DionyMed Brands Inc." and consolidated its common shares on an 8.43295184 to 1 basis.

Effective upon the closing of the Transaction, as a result of the reverse takeover of the Company by the shareholders of DionyMed Holdings and to align the fiscal years of DionyMed Holdings to that of the Company, the fiscal year of DionyMed Holdings has been changed from February 28 of each year to December 31 of each year.

Upon issuance of the final exchange bulletin of the CSE Exchange providing final acceptance of the Transaction on November 28, 2018, the Company ceased to be trading on the TSX Venture Exchange and commenced trading on the CSE Exchange on November 28, 2018 under the symbol "DYME".

DionyMed Holdings' principal activity is to brand, manufacture and distribute cannabis products within the State of California and Oregon. DionyMed Holdings is currently licensed under the laws of the State of California and Oregon to produce and sell medicinal and adult-use cannabis products within such states.

In addition to the states listed above, DionyMed Holdings also conducts pre-licensing activities in other markets including Massachusetts, New Jersey, Nevada, Colorado and Illinois. In these markets, DionyMed Holdings 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

DionyMed Brands Inc.
Condensed Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2019 and May 31, 2018
(Unaudited – Expressed in U.S. Dollars, unless stated otherwise)

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in compliance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”). The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and therefore should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 30, 2019.

Basis of Measurement

These condensed interim 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 consolidated statements of loss and comprehensive loss are presented by nature and function.

Functional and Presentation Currency

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

Basis of Consolidation

These condensed interim consolidated financial statements include the financial information of the Company, its subsidiaries and entities controlled through management services agreements and options. 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 controlled entities, and its interests in each, are presented below:

Subsidiaries	Jurisdictions	Interest
DionyMed, Inc (“DionyMed”)	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%
Herban Industries NV LLC (“Herban NV”)	Nevada, USA	100%
Controlled entities	Jurisdictions	Interest
Hometown Heart	California, USA	Controlled through management services agreement and option

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 consolidated statements of loss and comprehensive loss.

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.

3. Significant Accounting Policies

DionyMed Brands Inc.
Condensed Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2019 and May 31, 2018
(Unaudited – Expressed in U.S. Dollars, unless stated otherwise)

Critical Accounting Estimates and Judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below:

Impairment of property and equipment and intangible assets and goodwill

Management is required to use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing for impairment. Judgment is further required to determine appropriate groupings of CGUs for the level at which goodwill and any other assets requiring testing for impairment are tested for impairment. For the purpose of goodwill impairment testing, CGUs are grouped at the lowest level at which goodwill and any other assets requiring testing for impairment are monitored for internal management purposes. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

In determining the recoverable amount of a CGU or a group of CGUs, various estimates are used. The Company determines the recoverable amount by using estimates such as projected future revenues, earnings, and capital investment consistent with strategic plans presented to the Board of Directors. Discount rates are consistent with external industry information reflecting the risk associated with the specific cash flows.

Management assesses property and equipment, as well as in use intangible assets with finite lives for any indicators of impairment at least annually taking into account factors such as economic and market conditions, as well as the useful lives of assets. If there are one or more indicators of impairment, management will estimate the recoverable amounts to assess whether there is an impairment.

Impairment of internally generated assets not yet in use, intangible assets with indefinite lives, and goodwill are assessed for impairment at least annually. This assessment takes into account factors such as economic and market conditions as well as any changes in the expected use of the asset.

Recoverability of accounts receivable

Accounts receivable include trade and other receivables that are collectable within the short-term.

These balances are presented net of allowances for non-recoverability. In establishing our allowances for non-recoverability balances, significant judgment is exercised by management in determining the amount of outstanding accounts receivable that is expected to be recovered from the debtors adopting the expected credit loss methodology.

Although the accounts receivable balances are derived from determination of contractual provisions and trade transactions, the recoverability of such amounts may ultimately differ due to the potential for a debtor to become financially impaired or insolvent or for a contractual dispute over contract language or terms. Consequently, reviews of accounts receivable balances are done on a regular basis to determine if there is a need to establish an allowance for non-recoverability, the amount of expected credit loss provision to make and recoverability of slow-moving accounts. In performing this review, the Company uses judgment in assessing the credit worthiness of debtors and the expected probability of settlement.

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

Depreciation and amortization of property and equipment and intangible assets are 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 consider factors such as economic and market conditions and the useful lives of assets.

Warrants

DionyMed Brands Inc.
Condensed Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2019 and May 31, 2018
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The warrants are valued using the Black-Scholes Model. Key estimates such as the expected life of the warrants, the volatility of the Company's stock price and the risk-free interest rate are used.

Share-based compensation

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

Fair value measurements

The Company's convertible debentures are measured at fair value. In estimating fair value, the Company uses market-observable data to the extent it is available. In certain cases where Level 1 inputs are not available, the Company will engage third party qualified valuers to perform the valuation.

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as a liability is remeasured at subsequent reporting dates, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for a maximum of one year from the acquisition date.

Business Combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. Judgment is also required to assess whether the amounts paid on achievement of milestones represents contingent consideration or compensation for post-acquisition services. Judgment is also required to assess whether contingent consideration should be classified as equity or a liability. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Recognition of Deferred Income Tax Assets

Management continually evaluates the likelihood that its deferred tax assets could be realized. This requires management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, its assessment requires significant judgment.

Determination of Functional Currency

An area of judgment that has a significant impact on the amounts recognized in these consolidated financial statements is the determination of functional currency. The determination of the Company and its subsidiaries' functional currency often requires significant judgment where the primary economic environment in which they operate may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation methods used.

Going Concern Risk Assessment

DionyMed Brands Inc.
Condensed Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2019 and May 31, 2018
(Unaudited – Expressed in U.S. Dollars, unless stated otherwise)

The assessment of the Company's ability to continue as a going concern, raising additional debt or equity financing, attaining commercial operations, generating sufficient revenue to achieve and sustain profitability for the ensuing year, and to fund planned research and development activities, involves significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

Contingencies

Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events.

When contingencies exist, Management estimates the related financial impact to the Company based on the possible outcomes of one or more future events.

Accounting Policies

These condensed interim consolidated financial statements have been prepared following the same accounting policies used in preparation of the audited financial statements for the year ended December 31, 2018, except for the changes outlined below.

IFRS 16, Leases

Effective January 1, 2019, the Company has adopted IFRS 16, which is based on a single lessee accounting model to determine how to recognize, measure, and present leases.

Upon entering a lease arrangement, the Company will determine whether the agreement transfers the right to control the use of an identified asset within the context of the agreement, in exchange for regular payments.

The Company has elected to use the Modified Retrospective Approach under IFRS 16. Under this approach, the Company may be required to record an opening balance adjustment for leases previously recognized under IAS 17, Leases ("IAS 17") and IFRIC 4, Determining Whether an Arrangement Contains a Lease (IFRIC 4). The Company has also elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously identified under IAS 17 and IFRIC 4. Finally, on transition, the Company has elected to use the practical expedient to not include initial direct costs associated with the lease in calculating the opening right-of-use asset value.

The Company leases office space in Ontario, Oregon and California. The Company also leases cultivation, manufacturing, and distribution space in Oregon and California. In adopting IFRS 16, the Company has elected to use the short-term lease recognition exemption which is applied by class of assets. The Company has also elected to use the low dollar value practical expedient, which unlike the short-term recognition exemption, is applied on an asset-by-asset basis.

In using the Modified Retrospective approach, the Company has elected to record the right-of-use asset for any identified leases under IFRS 16 at the present value of their future lease payments on January 1, 2019. On initial transition the Company's incremental borrowing rate will be used as the discount rate in determining this value.

The Company's incremental borrowing rate will continue to be used for any leases entered into after initial transition, unless the discount rate implicit in the lease is known, in which case it will be used to determine the present value of the future lease payments. The Company has also elected to use the following practical expedients in transitioning to IFRS 16:

- Discount rates: The Company will apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Leases with a short remaining term: The Company will account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. This practical expedient is independent of the Company's accounting policy for the short-term lease recognition exemption.

Subsequent to initial recognition, the lease liability will be measured at amortized cost using the effective interest

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method. The liability can be remeasured throughout the term of the lease if any of the following would cause a significant change in the present value of the future lease payments:

- change in an index or discount rate;
- change in the Company's estimate of the amount expected to be payable under a residual value guarantee;
- changes in the Company's assessment of whether it will exercise a purchase, extension or termination option.

As for the right-of-use asset, it will subsequently be measured at its net book value. The deemed cost of the asset will be amortized over the shorter of its expected useful life and the term of the lease on a straight-line basis. These assets will be treated as property and equipment in line with the Company's accounting policy.

The Company has elected to use the Modified Retrospective approach. Under this approach, the company has elected to measure the right-of-use asset as if IFRS 16 had always been applied but using the Company's incremental borrowing rate on initial transition. The company has also elected to use the initial direct costs practical expedient. Under this practical expedient the Company will exclude any initial direct costs associated with the identified leases from the calculation of the right-of-use asset and lease liability on transition.

	January 1, 2019
Right-of-use asset	\$ 6,836,440
Lease liability	7,150,203
Accumulated deficit	(313,764)

IFRIC 23, Uncertainty over Income Tax Treatments

IFRIC 23 'Uncertainty over Income Tax Treatments' was issued by the IASB in June 2017 and specifies the interpretation to be applied to the determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. The Company has adopted IFRIC 23 on January 1, 2019 and had no significant impact.

4. Acquisitions

Acquisition of Assets from Cascade

On February 28, 2019, the Company through its subsidiary, Herban OR, entered an agreement to acquire certain assets of Cascade Cannabis Distribution, Inc. ("Cascade") for a total purchase price of about \$149,591. 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.

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

Accounts Receivable	\$ 91,785.00
License	331,344.00
Total Assets Acquired	423,129.00
Accounts Receivable Forgiven	(273,538.00)
Fair Value of Net Assets Acquired	149,591.00
Cash Consideration	99,591.00
Common Shares Issued	50,000.00
Fair Value of Consideration	\$ 149,591.00

5. Share Capital

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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.

Warrants

	Issue Date	Number of Warrants	Exercise Price (CAD)	Expiry Date
(1). Warrants Issued to Grenville for Royalty Debt	April 4, 2018	100,000	1.50	April 4, 2023
(2). Warrants Issued to Grenville for Royalty Debt	May 25, 2018	90,000	1.50	April 4, 2023
(3). Warrants Issued to Sixonine for Reverse Takeover	November 28, 2018	201,590	0.20	July 11, 2019
(4). Broker Warrants Units Issued for Series B Convertible Debentures Financing	November 28, 2018	423,375	2.06	November 29, 2020
(5). Broker Warrants Units Issued for Subscription Receipt Financing	November 28, 2018	493,188	4.25	November 29, 2020
(6). Warrants Issued for Inventory Finance Facility	November 28, 2018	744,000	5.31	December 5, 2021
(7). Warrants for Subscription Receipt Financing	November 28, 2018	8,115,297	6.37	November 29, 2020
(8). Warrants Issued on Debentures Conversion in December 2018	December 31, 2018	2,373,784	3.09	November 29, 2020
(9). Warrants Issued on Debentures Conversion in January 2019	January 31, 2019	70,387	3.09	November 29, 2020
(10). Warrants Issued for Inventory Finance Facility	February 5, 2019	3,670,753	4.65	February 5, 2022
(11). Series A Shares Warrants Issued on Debentures Conversion in February 2019	February 8, 2019	72,800	3.09	November 29, 2020
(12). Warrants Issued on Debentures Conversion in March 2019	March 29, 2019	60,678	3.09	November 29, 2020
Total and Weighted Average Exercise Price		16,542,064	5.17	

The fair value of the warrants issued was determined using the Black-Scholes options pricing model, using the following assumptions:

Input Data	Stock Price in CAD	Exercise Price in CAD	Number of periods to Exercise in years	Risk-Free Interest Rate	Share Volatility (annualized σ)
Warrants (1)	\$ 1.00	\$ 1.50	2	1.92%	105.00%
Warrants (2)	\$ 1.00	\$ 1.50	2	1.92%	105.00%
Warrants (3)	\$ 4.25	\$ 0.20	0.6	2.21%	105.00%
Warrants (4)	\$ 4.25	\$ 2.06	2	2.21%	105.00%
Warrants (5)	\$ 4.25	\$ 4.25	2	2.21%	105.00%
Warrants (6)	\$ 4.25	\$ 5.31	3	2.22%	105.00%
Warrants (7)	\$ 4.25	\$ 6.37	2	2.21%	105.00%
Warrants (8)	\$ 2.71	\$ 3.09	2	1.91%	105.00%
Warrants (9)	\$ 3.65	\$ 3.09	2	1.91%	105.00%
Warrants (10)	\$ 3.73	\$ 4.65	2	1.91%	105.00%
Warrants (11)	\$ 3.49	\$ 3.09	2	1.91%	105.00%
Warrants (12)	\$ 3.35	\$ 3.09	2	1.91%	105.00%

Stock Options

The following is a summary of stock options for the three-month ended March 31, 2019:

March 31, 2019

	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	8,975,035	\$ 1.29

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Granted	783,500		3.50
Forfeitures	(332,000)		2.03
Exercised	(50,000)		2.36
Outstanding, end of period	9,376,535	\$	1.29
Exercisable, end of period	3,137,912	\$	0.38

The following table summarizes the Company's stock options by exercise price:

Range of Exercise Prices	Number of Options Outstanding	Number of Options Vested	Weighted Average Remaining Life (Years)
0.10	3,505,000	2,311,250	8.30
0.15	600,000	200,000	8.60
1.00	1,072,875	455,829	8.90
2.09	2,709,160	38,333	9.40
2.36	284,000	80,000	9.70
3.30	78,000	-	9.70
3.50	350,000	-	9.70
3.33	460,000	-	9.80
3.83	200,000	-	9.80
3.60	117,500	52,500	9.90
Total	9,376,535	3,137,912	8.94

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

	March 31, 2019
Risk free interest rate	1.91% - 1.93%
Expected dividend yield	0%
Underlying share price	CAD \$3.33 - CAD\$3.83 per share
Expected volatility based on comparable companies	92%
Expected term	7 years
Black-Scholes value of each option	\$1.21 - \$2.36

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.

Basic and diluted income (loss) per share

The calculations of basic and diluted income (loss) per share for the three months ended March 31, 2019 were based on the net income (loss) and the basic and diluted weighted average number of common shares outstanding of 52,072,386 and 77,278,428 (2018 – 39,345,680 and 39,345,680).

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6. Contingencies and Commitments

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 compliant with applicable local and state regulation at March 31, 2019, 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.

Commitments

The Company has contractual obligations to make the following payments:

USD-denominated							
Lease liabilities	\$ 2,113,965	\$ 2,135,557	\$ 2,009,979	\$ 1,450,709	\$ 1,040,929	\$ 2,585,614	
Consultants and advisors	216,000	216,000	216,000	-	-	-	
Total USD-denominated	\$ 2,329,965	\$ 2,351,557	\$ 2,225,979	\$ 1,450,709	\$ 1,040,929	\$ 2,585,614	
CAD-denominated (in USD)							
Lease liabilities	\$ 77,402	\$ -	\$ -	\$ -	\$ -	\$ -	
Royalties	183,299	-	-	-	-	-	
Total CAD-denominated	\$ 260,701	\$ -	\$ -	\$ -	\$ -	\$ 293,402	

7. Financial Instruments and Financial Risk Management

Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, notes payable, inventory finance facility, financial liabilities, royalty debt, and convertible debentures. Financial liabilities and convertible debentures are carried at fair value. The carrying value of cash, accounts receivable, accounts payable and accrued liabilities, notes payable, and inventory finance facility equates to their fair value due to their short-term nature.

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

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

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

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

There have been no transfers between fair value levels during the three-month period ended March 31, 2019.

Financial Risk Management

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

Banking Risk

Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the marijuana industry.

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Consequently, businesses involved in the marijuana industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the businesses of the Company, its subsidiaries and investee companies, and leaves their cash holdings vulnerable. The Company has banking relationships in all jurisdictions in which it operates.

In addition, the Company maintains cash with various U.S. banks and credit unions with balances in excess of the Federal Deposit Insurance Corporation and National Credit Union Share Insurance Fund limits, respectively. The failure of a bank or credit union where the Company has significant deposits could result in a loss of a portion of such cash balances in excess of the insured limit, which could materially and adversely affect the Company's business, financial condition, results of operations and the market price of the Company's share capital.

Credit Risk

Credit risk arises from the risk that a customer or counterparty will fail to meet its obligations. The Company is exposed to credit risk from cash and equivalents and accounts receivable.

The Company minimizes credit risk associated with its accounts receivable by performing credit evaluation, approval, and monitoring processes. The Company applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all accounts receivables as these items do not have a significant financing component. Accounts receivable is written off when there is no reasonable expectation of recovery.

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.

Market Risk

- Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company's financial debts have fixed rates of interest and therefore expose the Company to interest rate fair value risk.

- Currency Risk

As the Company's operations are located in Canada and the United States, the Company is subject to currency transaction and translation risks.

The Company holds cash in Canadian dollars and U.S. dollars. The Company raises capital in Canadian capital markets and thus is exposed to fluctuations in the Canadian dollar relative to the U.S. dollar, specifically in relation to USD denominated liabilities.

As at March 31, 2019, the Company had no hedging agreements in place with respect to foreign exchange rates, however management monitors the Canadian and U.S. currency markets closely and continuously assesses the need to enter into currency hedging arrangements. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

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 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.

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The Company's capital is composed of equity and debt. The Company's primary uses of capital are future acquisitions and funding growth of existing operations. The Company also uses capital to finance operating losses, capital expenditures, and increases in non-cash working capital. The Company currently funds these requirements from cash raised through financings and may need to raise additional funds to reach its goals. The Company's objectives when managing capital are to ensure that the Company will continue to have enough liquidity to fund operations from which it will obtain returns on investment.

The Company monitors its capital based on the adequacy of its cash resources to fund its business plan. In order to maximize flexibility to finance growth, the Company does not currently pay a dividend to holders of its common shares. The Company did not institute any changes to its capital management strategy during the year.

8. Related Party Transactions

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

Key Management Personnel Compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. Compensation provided to key management is as follows:

	From January 1, 2019 to March 31, 2019
Salaries and bonuses	\$ 462,500
Share-based compensation	102,000
Total	564,500

Consulting Services from Daniel Fields

Daniel Fields, a shareholder of the Company, provided consulting services for the Company. During the three-month period ended March 31, 2019, the Company incurred consulting fees of \$60,000 and chargeable expenses of \$122,000, included in Legal and Professional Fees on the condensed interim consolidated statements of loss and comprehensive loss. As at March 31, 2019, \$116,000 remained payable by the Company, which is included in Accounts Payable and Accrued Liabilities on the condensed interim 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 three-month period ended March 31, 2019, the Company incurred related expenses to ByProxie of \$172,000 for ByProxie services in addition to \$315,000 in reimbursements for payments made by ByProxie to third party vendors, included in Sales and Marketing Expenses on the condensed interim consolidated statements of loss and comprehensive loss. As at March 31, 2019, \$209,000 remained payable by the Company, which is included in Accounts Payable and Accrued Liabilities on the condensed interim consolidated statements of financial position.

WestField Partners, LLC and WestField Aviation Partners, LLC

The Company's Chief Executive Officer has control over WestField Partners, LLC, a management services company, and WestField Aviation Partners, LLC, an aviation services company. WestField Partners, LLC and WestField Aviation Partners, LLC are not consolidated with the Company because the Company is not entitled to their variable returns. WestField Partners, LLC entered into a management services agreement with the Company to provide rent and employee services on March 1, 2016, and WestField Aviation Partners, LLC is engaged as needed. During the three-month period ended March 31, 2019, the Company incurred rent and employee expenses of \$153,000 which are included in Administrative and Other Expenses and

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aviation expenses of \$167,000 which are included in Business Development Expenses on the condensed interim consolidated statements of loss and comprehensive loss. As at March 31, 2019, \$29,000 remained payable by the Company, which is included in Accounts Payable and Accrued Liabilities on the condensed interim consolidated statements of financial position.

9. Subsequent Events

Definitive Agreement with Premium Manufacturer and Indoor Craft Cultivator Waterside Warehousing

On April 2, 2019, the Company signed a definitive agreement with an irrevocable option to acquire Waterside Warehousing (“Waterside”), a premium manufacturer and indoor craft cultivator located in Oakland, California. The Company agreed to provide \$1 million up front, which the Company can finance using its credit facility, with the option to acquire Waterside for an additional \$5 million. If the Company exercises its option to acquire Waterside, the Company may draw upon its credit facility, issue stock or raise new equity to complete the acquisition.

Letter of Intent to Acquire Virginia’s Kitchen, LLC dba Blue Kudu

On April 5, 2019, the Company signed a Letter of Intent with Virginia’s Kitchen, LLC d/b/a Blue Kudu, an award-winning edibles brand and wholesale platform based in Denver, Colorado. The total consideration for the deal is expected to be US\$5,500,000, consisting of US\$5,000,000 at close comprised of \$4,000,000 in cash and \$1,000,000 in DionyMed subordinated voting shares and the remaining \$500,000 subject to certain performance conditions.

Equity Bought Deal Financing

On April 15, 2019, the Company entered into an agreement with a syndicate of agents co-led by Canaccord Genuity Corp. and Cormark Securities Inc (collectively, the “Underwriters”), which have agreed to purchase on a bought deal private placement basis, 3,636,364 units of the Company at a price of C\$2.75 per Unit for aggregate gross proceeds to DionyMed of C\$10,000,001 with an option to purchase up to an additional 3,636,364 Units at the Issue Price for additional gross proceeds to DionyMed of up to C\$10,000,001.

Each unit is comprised of one subordinate voting share and one subordinate voting share purchase warrant exercisable into one Subordinate Voting Share at price of C\$3.80 per Warrant Share for a period of 36 months following the closing of the offering. The net proceeds from the Offering will be used primarily towards the Company's strategic growth initiatives and for general working capital purposes.

Net proceeds in the amount of C\$9,633,746 were received by the Company, net of C\$366,255 in capitalized transaction costs.