Private Confidential Offering Memorandum
Aqualitas Inc.

November 25, 2019

The securities offered hereunder will be issued under exemptions from the prospectus requirements of the applicable securities laws of each of the provinces and territories of Canada, and the rules, regulations and policies thereunder and will be subject to certain resale restrictions. This offering memorandum is not, and under no circumstances is to be construed as, a prospectus, advertisement or public offering of such securities. This is a risky investment. No securities commission or similar regulatory authority in Canada has in any way passed upon the merits of the securities offered hereunder nor has it reviewed this offering memorandum and any representation to the contrary is an offence. No person is authorized to give any information or make any representation not contained in this offering memorandum in connection with the offering of the securities described herein and, if given or made, any such information or representation may not be relied upon. Marketing materials distributed with this Offering Memorandum, if any, are incorporated into this document by reference and are deemed to be incorporated by reference.

Offering Memorandum

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HOW TO READ THIS OFFERING MEMORANDUM

This offering of common shares (the "Offering") is being made by Aqualitas Inc. pursuant to an exemption (the "Offering Memorandum Exemption") from the prospectus requirements of applicable securities laws. The Offering Memorandum Exemption requires that Aqualitas Inc. ("the Company") provide investors with a prescribed form of offering memorandum. Aqualitas Inc. is not a "reporting Issuer" within the meaning of applicable securities laws and therefore it is not required to publish, disseminate or file ongoing continuous disclosure regarding its operations and affairs, except as relates to a material change in operations and as relates to required financial information.

GENERAL ADVISORY

A prospective purchaser of Offered Shares should read this entire Offering Memorandum and consult its own professional advisors to assess the income tax, legal, risks and other aspects of its investment in the Offered Shares. A prospective purchaser of Offered Shares should rely only on the information contained in this Offering Memorandum or documents specifically incorporated into this document by reference. The Company has not authorized anyone to provide prospective purchasers of Offered Shares with additional or different information.

The information contained in this Offering Memorandum is accurate only as of the date of this Offering Memorandum, regardless of the time of delivery of this Offering Memorandum or any sale of the Offered Shares.

MARKET AND INDUSTRY DATA

Unless otherwise indicated, information contained in this Offering Memorandum concerning the industry and the markets in which we seek to operate, including our general expectations, market opportunities and market share, is based on information from third party sources, industry reports and publications (including industry surveys and forecasts, websites and other publicly available information). We have footnoted those sources where relevant. Each contain subjective research opinions and viewpoints of their respective authors and, except where otherwise indicated, speak as of their respective original publication dates (and not as of the date of this Offering Memorandum) and the opinions and market data expressed therein are subject to change without notice. Unless otherwise indicated, our estimates are derived from publicly available information released by independent industry analysts and third-party sources as well as data and include assumptions made by us which we believe to be reasonable based on our knowledge of the industry and markets. While we believe the market information and other estimates included in this Offering Memorandum to be generally reliable, such information and estimates are inherently imprecise. In addition, projections, assumptions and estimates of our future performance or the future performance of the industry and markets in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described under "Cautionary Statement Regarding Forward-Looking Information" and "Risk Factors".

FINANCIAL INFORMATION

Financial Statements are presented in Canadian dollars. In this Offering Memorandum, all references to "$" are references to Canadian dollars and amounts are stated in Canadian dollars unless otherwise indicated. The Annual Financial Statements have been prepared in accordance with International Financing Reporting Standards ("IFRS") and audited in accordance with Canadian generally accepted auditing standards. The Quarterly Financial Statements are prepared by management, unaudited and have been prepared in accordance with IFRS.

CAUTIONARY STATEMENTS AND FORWARD-LOOKING STATEMENTS

This memorandum contains forward-looking information within the meaning of applicable Canadian securities legislation relating, but not limited to, the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by words such as "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", "goal," "potential," or similar words suggesting future outcomes or other expectations, plans, beliefs, objectives, assumptions, intentions or statements about future events or performance. Forward looking statements include but are not limited to those relating to the size of the offering, available funds, use of proceeds, future funding needs and availability, the Company's ability to reach production, sales and industry expectations.

This Offering Memorandum contains "forward-looking information" within the meaning of applicable Canadian securities legislation which is based upon the Company's current internal expectations, estimates, projections, assumptions and beliefs and views of future events. Forward-looking information include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance or other statements that are not statements of fact. Statements containing forward-looking information are made as of the date of this Offering Memorandum and include, but are not limited to, statements with respect to:

- the performance of the Company's business and operations;
- the Company's expectations regarding revenues, expenses and anticipated cash needs;
- the intention to grow the Company's business and operations;
- the expansion of the production and processing facility and the respective costs and timing associated
- the growth in the Company's cultivation capacity and the maintenance of minimum levels of inventory;
- the ability to obtain required certifications to export;
- the ability to expand into international markets
- future production costs;
- industry growth trends, including with respect to projected sales and number of patients;
- the number of grams of cannabis used by eachpatient in the medical market;
- the competitive conditions of the industry in which the Companyoperates;
- changes to the legalization of cannabis for adult use in Canada, including federal and provincial regulations pertaining thereto and the timing related thereof and our level of participation in such market;
- the expected timing and completion of the Company's near-term objectives;

- laws and any amendments thereto applicable to the Company;
- the competitive advantages and business strategies of the Company;
- the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis;
- the Company's future product offerings;
- the legalization of the use of cannabis for medical and/or adult use in jurisdictions outside of Canada;
- corporate governance matters.

Forward-looking information in this Offering Memorandum is based on our opinions, estimates and assumptions and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. In particular, we have made assumptions in respect of the buildout of the Corporation's production facility; our competitive advantages; the legalization of cannabis use in Canada; the growth of our business; the development of new products and product; our ability to retain key personnel; our ability to continue investing in our infrastructure to support our growth; our ability to obtain and maintain financing on acceptable terms; the impact of competition; the changes and trends in the medical cannabis industry; and changes in laws, rules and regulations. Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that we considered appropriate and reasonable as of the date such statements are made, are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual actions, events, results, performance or achievements to differ materially from what is projected in forward-looking information, including but not limited to the following risks described in greater detail under "Risk Factors":

- the Company has a licence to cultivate, process and sell cannabis and such licences are subject to ongoing compliance, reporting requirements and renewal;
- the Company may not always succeed in complying with the regulatory requirements for Licensed Producers as set out by the *Cannabis Act* and Health Canada;
- the laws, regulations and guidelines generally applicable to the medical and adult-use cannabis industry may change in ways currently unforeseen by the Company, including changes with respect to the reimbursement program established for Veterans or the cancellation thereof and changes to the *Cannabis Act*;
- future clinical research studies on the effects of medical cannabis may lead to conclusions that dispute or conflict with the Company's understanding and belief regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis;
- the medical and adult-use cannabis industry and market are relatively new in Canada, and this industry and market may not continue to exist or grow as anticipated or the Company may ultimately be unable to succeed in this new industry and market;
- the Company may compete for market share against the illicit market and with other companies, including Licensed Producers, which may have longer operating histories and more financial resources, manufacturing and marketing experience than the Company;
- the Company may be unable to attract or retain key personnel with sufficient experience in the medical cannabis industry, and may prove unable to attract, develop, and retain additional employees required for the Company's development and future success;

• significant interruption in the Company's access to certain key inputs such as raw materials, electricity, water and other utilities may impair its cannabis growing operation;
• the Company may seek to expand its business and operations into jurisdictions outside of Canada, and there are risks associated with doing so;
• the Company may enter into strategic alliances, or expand the scope of currently existing relationships with third parties with whom it believes will have a beneficial impact on its business, financial condition and results of operation and there are risks associated with such activities;
• the Company is subject to risks inherent in an agricultural aquaponics business and the failure to scale up its aquaponics prototype;
• the Company may not be able to transport its cannabis products to patients and retailers in a safe and efficient manner;
• the Company will seek to maintain adequate insurance coverage in respect of the risks faced by it, however insurance premiums for such insurance may not continue to be commercially justifiable and there may be coverage limitations and other exclusions which may not be sufficient to cover potential liabilities faced by the Company;
• if the Company is not able to comply with all safety, health and environmental regulations applicable to its operations and industry, it may be held liable for any breaches thereof;
• the Company may be subject to product liability claims;
• the Company's cannabis-based medical and adult-use products may be subject to recalls for a variety of reasons;
• the Company may not be able to successfully develop new products or find a market for their sale;
• the Company may experience breaches of security at its facilities or in respect of electronic documents and data storage and may face risks related to breaches of applicable privacy laws;
• the Company may become subject to liability arising from any fraudulent or illegal activity by its employees, contractors and consultants;
• the Company, or the medical and adult-use cannabis industry more generally, may receive unfavourable publicity or become subject to negative consumer perception;
• the Company may not be able to develop and maintain lasting consumer relationships with patients or supply chain agreements for adult-use cannabis;
• the Company may be unable to expand its operations in accordance with patient or consumer demand or to manage its operations at its anticipated scale;
• the Company may not be able to secure adequate or reliable sources of funding required to operate its business and meet patient and consumer demand for its products;
• management may not be able to successfully implement adequate internal controls over financial reporting;
• the Company may not be able to successfully identify and execute future acquisitions or dispositions, or to successfully manage the impacts of such transactions on its operations;
• conflicts of interest may arise between the Company and its directors and officers as a result of other business activities undertaken by such individuals;
• the Company may become involved in regulatory or agency proceedings, investigations and audits;
• the Company may be subject to litigation in the ordinary course of its business;
• certain events or developments in the medical and adult-use cannabis industry more generally

may impact the Company's reputation;
• third parties with whom the Company does business may perceive themselves as being exposed to reputational risk as a result of their relationship with the Company;
• the Company may be subject to risks related to the protection and enforcement of its intellectual property rights, and may become subject to allegations that the Company is in violation of intellectual property rights of third parties;
• the Company may be subject to risks related to its information technology systems, including cyber-attacks;
• the Company may face disruption in connection with labour organization efforts;
• Licensed Producers are constrained by law in their ability to market their products;
• there is currently no market for the Common Shares of the Corporation and none may develop following the Offering;
• management has indicated its plan for the use of proceeds of the Offering hereunder but will ultimately exercise its discretion in how such funds are put to use;
• holders of Common Shares may be subject to dilution resulting from future offerings of Common Shares by the Company;
• it is not anticipated that any dividends will be paid to holders of Common Shares for the foreseeable future;
• tax and accounting requirements may change in ways that are unforeseen to the Company and the Company may face difficulty or be unable to implement and/or comply with any such changes.

Although we have attempted to identify important factors that could cause actual actions, events, results, performance or achievements to differ materially from those described in forward-looking information, there may be other factors not presently known to us or that we presently believe are not material that may cause actions, events, results, performance or achievements to differ from those anticipated, estimated or intended. Should one or more of these risks or uncertainties materialize or should assumptions underlying the forward-looking information prove incorrect, actual actions, events, results, performance or achievements may vary materially from those expressed and implied by such statements contained in this Offering Memorandum. The purpose of forward-looking information is to provide the reader with a description of management's expectations, and such statements may not be appropriate for any other purpose. Accordingly, prospective purchasers of Offered Shares should not place undue reliance on forward looking information contained in this Offering Memorandum. Although the Company believes that the expectations reflected in statements containing forward-looking information are reasonable, it can give no assurance that such expectations will prove to be correct. The Company disclaims any obligation to update any forward-looking information, whether as a result of new information or future events or results, except to the extent required by applicable securities laws.

The forward-looking statements contained herein reflect the Company's current views with respect to future events and are subject to known and unknown risks, including, without limitation, risks associated with general economic conditions; changes to its licence or revocation of its licence by the regulator; adverse industry events; marketing costs; loss of markets; future legislative and regulatory developments involving medical cannabis or adult-use cannabis; inability to access sufficient capital from internal and external sources, and/or inability to access sufficient capital on favourable terms; the medical and adult-use cannabis industry in Canada generally, income tax and regulatory matters; the ability of the Company to implement its business strategies; competition; crop failure; system failure; scalability issues; currency and interest rate fluctuations and other risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance or achievements to vary from those expressed or implied by such forward-looking information. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, sought, proposed, believed, estimated or expected. Readers and prospective investors are cautioned not to place undue reliance on forward-looking information as it is inherently uncertain and no assurance can be given that the expectations reflected in such information will prove to be correct. The forward-looking information in this memorandum is made as of the date hereof and, except as required under applicable securities legislation, the Company assumes no obligation to update or revise such information to reflect new events or circumstances.

This Offering Memorandum is confidential. By their acceptance hereof, prospective investors agree that they will not transmit, reproduce or make available to anyone this Offering Memorandum or any information contained herein.

FORM 45-106F2

OFFERING MEMORANDUM FOR NON-QUALIFYING ISSUERS

Date: November 25, 2019

The Issuer:

Name: Aqualitas Inc. (“Aqualitas” or “the Company”)
Head office: Suite 310A, 1550 Bedford Highway, Bedford, NS, B4A 1E6 Phone: (902) 835-2784
Email: admin@aqualitas.ca or mokeefe@aqualitas.ca Fax: (902) 835-1486

These securities do not trade on any exchange or market.

Reporting Issuer: No
SEDAR filer: Yes

The Offering:

Securities Offered: 1,052,632 Common Shares
Price per security: $4.75 CDN
Minimum/Maximum offering: **There is no minimum offering. You may be the only purchaser.** We reserve the right to extend the offering beyond 1,052,632 shares.

Funds available under the offering may not be sufficient to accomplish our proposed objectives.

Minimum subscription amount for each investor: $10,000.00 CDN
Payment terms: The full subscription amount is payable on subscription. Payment may be made by bank draft, certified cheque, money order, or electronic transfer
Proposed closing date: **on or before December 20, 2019**
Income tax consequences: There are important tax consequences to these securities. See item 6.
Selling agent: No. *The Company may agree to pay commissions or finders fees on commercial terms in connection with any such other sales.*

Resale restrictions:

You are restricted from selling your securities for an indefinite period. See other restrictions that may affect you under item 10. The Shares are not redeemable or retractable.

Purchaser's rights:

You have 2 business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel the agreement. See item 11.

No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment. See item 8.

Item 1: Use of Available Funds

1.1 Funds

		Assuming min. offering	Assuming max. offering
A.	Amount to be raised by this offering	$10,000	$5,000,000
B.	Selling commissions and fees	$ 0	$0
C.	Estimated offering costs (e.g., legal, accounting, audit.)	$50,000	$50,000
D.	Available funds: D = A - (B+C)	$ (40,000)	$4,950,000
E.	Additional sources of funding available September 30, 2019[1]	$1,153,639	$1,153,639
F.	Working capital deficiency	$0	$0
G.	Total: G = (D+E) - F	$1,113,639	$6,103,639

1.2 Use of Available Funds

Description of intended use of available funds listed in order of priority	Assuming min. offering	Assuming max. offering
Capital expenditures on GMP, building, processing, packaging,	$278,410	$4,577,729
Operating costs and reserve	$835,229	$1,525,910
Total: Equal to G in the Funds table above	$1,113,639	$6,103,639

1.3 Reallocation

We intend to spend the available funds as stated. We will reallocate funds only for sound business reasons.

1.4 Additional Funds

The additional funds are cash on account. Future financings will be required to meet the 12-24 month goals of the Company which will include production expansion outside the existing footprint, operating equipment and working capital. We anticipate $15 million plus in additional future funds. This estimate may change in the event of overages, or delays in getting our cannabis products to the medical and adult-use market or if we see fit to expedite our buildout without

[1] Cash on hand at September 30, 2019

reliance on cash flows.

Item 2: Business of Aqualitas Inc.

2.1 Structure

Aqualitas Inc. is incorporated under the Companies Act, R.S.N.S. 1989, c. 81. The Company was incorporated on October 30, 2014

The head office is located at 310A – 1550 Bedford Highway, Bedford, Nova Scotia, B4A 1E6. The Company's fiscal year-end is December 31.

2.2 Our Business

The Issuer is a licensed producer and seller of certified organically grown cannabis for medical and adult-use purposes, based in Brooklyn, Nova Scotia. Aqualitas received its license to produce cannabis under the *Access to Cannabis for Medical Purposes Regulations* (*ACMPR*) on January 18, 2018. At our 60,000 plus square foot facility, we are licensed to produce and sell dried cannabis, cannabis oil, seeds, cannabis plants. We have a licence to produce and sell new cannabis products (edibles, extracts, concentrates, topicals). Under the licence, inventory is restricted and at any given time cannot exceed a maximum storage capacity value of $150,000,000 for the level 9 vault. The licence allows for: possessing cannabis, obtaining dried cannabis, fresh cannabis, cannabis plants or cannabis plant seeds by cultivating, propagating and harvesting cannabis; producing cannabis, other than obtain it by cultivating, propagating or harvesting it; selling cannabis in accordance with subsection 11(5) of the Cannabis Regulations; the purpose of testing, to obtain cannabis by altering its chemical or physical properties by any means; producing cannabis, other than obtain it by cultivating, propagating or harvesting it; selling cannabis in accordance with subsection 17(5) of the Cannabis Regulations; and selling cannabis products in accordance with section 27 and Part 14, Division 1 of the Cannabis Regulations. The current term of the license expires on January 19, 2021. It is anticipated that Health Canada will renew the licence at the end of its term; however, the Issuer cannot provide assurances that the licence will be renewed or renewed on the same terms and conditions. See "Risk Factors".

We received our research licence from Health Canada on November 28, 2019, which allows us to partner with Acadia University, where we have made a proposal to conduct research into water-soluable powders and emulsifications and sensory profiles for cannabis-infused cannabis products. We are actively developing value added products including edibles and concentrates once the same are approved for sale under the *Cannabis Act* and we continue to sell medical cannabis products under the Aqualitas brand and adult-use products under our adult use brand Reef.

The Issuer produces high quality, standardized, organically grown cannabis under the supervision of an in-house quality control team. We currently have a potential production capacity of approximately 3,000-4,000 kg cannabis per year and anticipate a further 5,000-6,000 kg with completion of additional grow rooms anticipated by Q3 2020.

We employ ~80 employees plus casual employees, independent contractors and consultants.

Aqualitas is a differentiated cultivator. In addition to using organic soil, we have an exclusive license to grow aquaponic cannabis in Canada using the award- winning aquaponic cultivation technology developed by Finleaf Technologies, which has yet to be proven at large scale production. Finleaf was previously a wholly owned subsidiary of Aqualitas and was spun out from Aqualitas in the summer of 2018. Finleaf and Aqualitas have common directors. Aquaponics is the symbiotic production of plants and fish in a closed-loop system where fish waste is converted to nitrates and other beneficial nutrients for the plant. This process enables cannabis to be grown in a water medium rather than soil, and has lower environmental outputs and higher yields than conventional methods of growing. It also reduces operations cost of inputs.

We are 1 of 6 licensed producers in Canada with 'organically grown' certification. In July 2018, Aqualitas was the first company in Canada to receive Clean Green Certification for adherence to international standards for organic growth, fair trade and sustainable cultivation practices. According to Hill+Knowlton, 43% of Canadian adult-use and 53% of medical cannabis consumers prefer organically grown product which has resulted in pricing premium of 29% when compared to regular cannabis according to CannStandard.[2]

We have an option to expand an additional 24 acres in our current footprint. Subject to finalization of transfers, we seek to utilize remaining commercial park assets for manufacturing. The addition of our GMP building and second floor in phase 3, and will increase our square footage to approximately 80,000 square feet.

9 licences have been granted in Nova Scotia. 5 Nova Scotia companies have licences to sell cannabis. Nova Scotia has the highest per capita enrollment for medical cannabis, and the highest percentage of any province for adult-use cannabis consumption.[3] We have the 3rd largest medical market in Canada for the number of orders processed, behind only Alberta and Ontario and ahead of British Columbia and Quebec. Aqualitas has distribution contracts and or listings in five provinces Nova Scotia, New Brunswick, Prince Edward Island, Ontario and Saskatchewan. Our organic products are capturing among the highest prices in the market up to $10.26/gram wholesale for dry flower, and our leading strain, “High Seas,” consistently places among the top ranking SKUs in the marketplaces where it is sold. According to an Atlantic survey conducted by CIG, 75% of Atlantic consumers prefer to buy local products (see note 3).

Aqualitas is 1 of 8 producers in Canada to have shipped medical product to the EU. It also submitted for a permit to export product to Israel for medical research. It has also sold bulk intermediate oil for use in pharmaceutical trials.

We currently have agreements and or letters of intent to supply domestic and international markets. We are in the process of completing our euGMP certification.

Competition: There are 258 micro or standard producers as of the date of authoring this Offering Memorandum in Canada licensed to sell and/or cultivate or process cannabis. The majority of producers are in Ontario and British Columbia, with only 20 in Atlantic Canada.[4] One other Canadian Licensed Producer uses an aquaponics platform. Currently we are the only Nova Scotia company selling oils and have a full license for 2.0 products.

[2] https://cannstandard.ca/

[3] “Up in Smoke: Canadian Marijuana Use by Province,” cantech letter, Nick Waddell, March 24, 2014: http://www.cantechletter.com/2014/03/smoke-canadian-marijuana-use-province/.; https://www.newswire.ca/news-releases/new-consumer-study-of-atlantic-canadians-reveals-legal-recreational-cannabis-considered-a-key-driver-of-regional-economic-growth-864427563.html

[4] https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/industry-licensees-applicants/licensed-cultivators-processors-sellers.html#wb-auto-5

Market: The current market is for domestic production and sales of medical and adult-use cannabis within Canada, delivered from a Licensed Producer, by courier, to authorized patients with a prescription filled by a physician or nurse practitioner or to authorized distributors. Adult-use consumers do not buy direct from Licensed Producers and each Province regulates retail distribution for consumers. Some provinces distribute through public retail, others, private or a combination of both. Some Canadian Licensed Producers are also exporting to markets where medical cannabis is legal.

According to Statistics Canada, as of the 3rd quarter of fiscal year 2019, more than 5 million Canadians reported using cannabis in the previous 3 months. 33% of Nova Scotians reported using cannabis. There is increasing popularity for cannabis use among older Canadians, and the growth is bigger than it is for other groups. Seniors are more likely to obtain cannabis from a licensed source.

There were 364,000 patients enrolled under the current or former regulations, with an average prescription of 2[5] grams per day.[6]

Health Canada anticipates the market will increase to 450,000 registered patients by 2024, with annual revenue of $1.3 billion. Based on the Colorado and Oregon medical adoption rate of 2% of the population, and projections by industry analysts, it is anticipated that medical registrations will exceed Health Canada's estimates, with the number of registered medical patients increasing to approximately 715,000 by 2020.[7] Mackie Research forecasts demand by 2024 to be 230,000 kg or $2.6 billion for medical patients.[7]

On October 17, 2018, the Government of Canada's *Cannabis Act* came into force, Canada the first G7 country fully to legalize cannabis, and the second country in the world, after Uruguay. The legislation is "An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and other Acts" or the "*Cannabis Act*."[8] The main focus of the government's legislation is to balance adult-use access with public safety. From a public safety standpoint, the key issues that the *Cannabis Act* deals with include protecting youth health, restricting inducements for the use of cannabis, increasing consumer awareness about the risks cannabis poses to health, reducing the illicit market, reducing the burden on the criminal justice system that the illegality of cannabis has produced, and ensuring a monitored and safe supply of the product. Where youth are concerned, the act has age limits: no one under 18 can possess cannabis; packaging, promotion and sale of cannabis and accessories cannot be done in a way that might appeal to youth or be seen by youth (think cigarette marketing and sales); and there are new criminal code offences for giving or selling cannabis to youth or involving a youth in a cannabis transaction. For young offenders, the *Youth Criminal Justice Act* applies.

Public safety has various aspects, but a pressing concern most particularly operating a vehicle while impaired. Roadside saliva tests are being proposed. Adults are permitted a "carry" and "share" limit of 30g (equivalency based on dried cannabis), the ability to purchase cannabis from

[5] https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/research-data/medical-purpose.html#a2

[6] https://www.statista.com/topics/3194/medical-marijuana-in-canada/ and https://www150.statcan.gc.ca/n1/pub/13-610-x/13-610-x2018001-eng.htm[7]http://www.theglobeandmail.com/globe-investor/investment-ideas/research-reports/article29573050.ece/BINARY/Medical%20Marijuana_4-8-2016.pdf

[7] Mackie Research Capital Corp, The End of Prohibition – Investing in Canada's Growing Cannabis Industry, September 20, 2017

[8] http://www.parl.gc.ca/HousePublications/Publication.aspx?Language=E&Mode=1&DocId=8894959

a Licensed Producer, the ability to grow no more than four plants, and production at home of cannabis products that does not involve the use of solvents. Penalties for breaches of these rules range from tickets (fines) to 14 years incarceration, depending on the severity (eg. quantity or circumstances). Cannabis cannot be taken outside of Canada legally.

The products available under the *Act* include dried cannabis, cannabis oil, and fresh cannabis. Edibles, topicals, concentrates, and extracts are now legal to produce, and will be approved for sale in December 2019. Packaging of all cannabis products is strictly regulated for the medical and adult-use market, as is taxation. Aqualitas has filed notices with Health Canada that it anticipates selling up to 5 vape concentrates, and 2 beverages in additional to its 3 dry flower and 4 oil products. It also anticipates manufacturing topicals and other edibles some time in 2020.

Licensed cultivators and producers will continue to be regulated as the only legal source of cannabis in Canada, other than the home-growing permitted. The *Cannabis Act* leaves to provincial jurisdictions to make laws about how cannabis can be sold (eg. Dispensaries, government operated retail, pharmacies), where it can be consumed, where it can be grown by individuals, and they have the option to increase the age of legal consumption. Courier delivery remains in place for medical cannabis. Retail regulations continue to evolve for adult use.

It is projected that there are currently 5.6 million Canadians who partake in the consumption of adult-use cannabis in a variety of forms, including edibles, oils, topical, raw, and dried. This number is projected to rise to over 7 million with legalization, with a potential revenue as high as $10 billion per year.[9] The Deloitte report projects 40% of adult Canadians will consume cannabis,[10] 22% being the existing adult-use market, with the remainder being new customers partaking (this study was prior to legalization of adult-use cannabis).

2.3 Development of Business

Aqualitas received its unrestricted sales licence in March 29, 2019 and entered the recreational and medical market in May 2019. The Corporation has generated sales of approximately $2.4 million dollars to date in 2019 and has demonstrated growth month over month as we enter new markets. We have supply agreements with provincial retailers in Saskatchewan, Prince Edward Island, Ontario, New Brunswick, and Nova Scotia. We have completed our brand development for adult use under the Reef banner and medical under Aqualitas. Our premium products are selling well at pricing in the top range of the premium categories with our provincial retailers. Our product offerings include dry flower and oils, and will include concentrates, edibles and topicals.

We have signed international supply agreements in Germany, Poland and Israel, are pursuing export to Australia, the Czech Republic and the UK, and have commenced ICH GMP certification and anticipate our final certification audit in Q1 2020.

We have raised approximately $26 million in non-brokered exempt market placements and were a 2 time finalist with the Arcview Group.

[9] http://research.cibcwm.com/economic_public/download/eijan16.pdf

[10] https://www2.deloitte.com/ca/en/pages/deloitte-analytics/articles/recreational-marijuana-market.html

Health Canada regulates advertising. There are strict advertising restrictions particularly with respect to youth in the *Cannabis Act*. All sales are currently completed through e-commerce online sales or through various retail regimes as regulated province to province and in the territories.

We currently have internal and external sales staff to support our provincial listings. We also have in-house communications, graphic design and marketing support internally and with external agencies.

We currently have a Medical and Patient Advisory Board that includes healthcare providers, researchers, patients and patient advocates. This outreach provides us with the ability to access and support those individuals who require medical cannabis. We anticipate client acquisition through physician and clinic referrals and by word-of-mouth or recommendations from existing clients. We anticipate our primary medical client base initially to be women, seniors, and veterans residing in Atlantic Canada, but believe organic product will have broad appeal to all clients who prefer an organic or all-natural product, and those seeking products with enhanced taste profiles. We are also mindful of the potential to expand product offerings beyond Canada and are developing strategies for expanded distribution in anticipation of the changing regulatory landscape in Canada and internationally.

2.4 Long Term Objectives

The corporate goal is to be a recognized and preferred producer of certified organically grown cannabis (dried flower, oils, edibles, extracts, concentrates, topicals) for medical use and in a broader adult-use market. We also seek to be a leader in cannabis research and product development.

Aqualitas has also launched Sindica (Global Institute for Research and innovation) as its research and development division. Sindica will work with industry partners and academic institutions on targeted product development and cultivation research, with a focus to identify value added strategic opportunities in medical research and product development. Aqualitas has commenced building a cannabis campus and centre of excellence through Sindica by utilizing existing manufacturing, and research infrastructure available in the Port Mersey Commercial Park.

2.5 Short Term Objectives and How We Intend to Achieve Them

What we must do and how we will do it	Target completion date or, if not known, number of months to complete	Our cost to complete
GMP Certification Process and Buildout	Q2 2020	$6,200,000
Completion of Flowering Rooms	Q3 2020	$10,250,000

2.6 Insufficient Funds

The funds available as a result of this offering will not be sufficient to accomplish all of the Company's proposed objectives and there is no assurance that alternative financing will be available. We have received approval for a $2 million interest-free loan from the Atlantic Canada Opportunities Agency for our GMP expansion. The Company is seeking additional financing in the form of rebates, research grants, loans, subsidies and credits from government departments, agencies and not-for-profit organizations that support research, innovation and community economic development. We have received some grant funds to date. We will also continue to pursue term credit facilities with lending institutions. We have 2 offers of credit pending due diligence, which we are pursuing, and financing options available from our primary suppliers. We anticipate further round(s) of financing for operational and capital costs including production equipment for the new cannabis products to be sold in December 2019. We seek to minimize shareholder dilution and have sight lines on accredited investors who wish to invest in early stage Licensed Producers not currently trading on a public stock exchange.

We can also defer the purchase of some of the packaging, laboratory and manufacturing equipment.

2.7 Material Agreements

The Company's production is in a facility in Brooklyn, Nova Scotia that is owned and operated by Nova Scotia Lands Inc. and Harbourside Commercial Park Inc., both provincial crown corporations. The Company has a 10 year interest-free lease-to-purchase agreement with the landlord that includes an option of purchasing additional land in the secure commercial park. Title to the property can be transferred at any time on or before June 2027. The current balance owing under the agreement is $385,000.

The Company has retained the services of Olympia Trust Company, Calgary, Alberta, to assist investors to place purchased Shares in a registered retirement savings plan (RRSP) or tax-free savings account (TFSA). The Company paid Olympia a review and administration fee of $1,000 and Olympia will charge a fee to individual investors if its services are retained for the transfer of Shares into an RRSP or TFSA. The Company provides investors with contact with Olympia, but investors are required to finalize all paperwork directly with Olympia.[11]

The Company currently pays Universal Properties rent in the amount $2,958/month plus HST.

The Company has a contract for sales support in place with World Wide Brands and with Fume Labs for knowhow and sales support.

The Company contracts the legal services of Stewart McKelvey in Halifax, Nova Scotia, for corporate, tax, real estate, securities and trademark matters. The Company contracts the legal services of Troutman Sanders, Washington, DC for US securities matters.

The Company reappointed KPMG LLP, 1959 Upper Water St, Halifax, NS B3J 3N2 as its auditor the

[11] https://rsp.olympiatrust.com/

annual general meeting on May 26, 2019. The Company has retained the firm of MNP LLP for accounting advice respecting the eligibility to place Shares in a TFSA or RRSP.

A shareholders' agreement was entered into by the shareholders who participated in the first share offering in December, 2014 who were issued shares as founders or key stakeholders, in exchange for their contribution of services to the Company as the application to Health Canada was prepared. In the original, nominal-value grant of shares to 13 individuals, we recognized in-kind efforts in preparing the 1,500 page application to Health Canada (which was completed prior to start-up funding), which included expert reports in engineering and security design briefs, preparation of all the Good Manufacturing Practices policies and procedures, preparation of testing Standard Operating Proceedings, Human Resource, Security, Data Retention, Record Keeping, and Information Technology policies, together with professional accounting and legal regulatory analyses associated with costing of the project, and with drafting the application in a manner that demonstrated how we would comply with a complete regulatory scheme.

In January 2015, shareholders who purchased common shares under a "Friends and Family" offering were also made parties to the shareholders' agreement.

Item 3: Interests of Directors, Management, Promoters and Principal Holders

3.1 Compensation and Securities Held

Name and municipality of principal residence	Positions held (e.g., director, officer, promoter and/or principal holder) and the date of obtaining that position	Compensation paid by Issuer or related party in the most recently completed financial year and the compensation anticipated to be paid in the current financial year	Number, type and % of securities of the Issuer held after completion of min. offering	Number, type and % of securities of the Issuer held after completion of max. offering
Myrna L. Gillis, QC Glen Haven, NS	CEO October 30, 2014 Director	Effective January 1, 2018 compensation of $18,750 per month	143,001 Common Shares 0.87%	143,001 Common Shares 0.82%
Mike O'Keefe Halifax, NS	CFO October 30, 2014 Director	Effective February 1, 2018, full time compensation of $13,333 per month. Holds 480,000 options	530,000 Common Shares 3.2%	530,000 Common Shares 3%
Barbara Darby Dartmouth, NS	VP October 30, 2014 Director	Effective January 1, 2018 $7,500 per month based on 60% time. Holds 245,000 options.	448,334 Common Shares 2.7%	448,334 Common Shares 2.57%
3290461 Nova Scotia Limited	Sole shareholder Myrna L. Gillis, QC	No compensation	5,000,000 Common Shares 30.5%	5,000,000 Common Shares 28.61%

Stock Options for key employees and consultants are authorized by our shareholders. The total number of options will not exceed 10% of the issued and outstanding shares at any given time without approval. There were 1,591,000 stock options outstanding as of December 31, 2018 of which 1,497,250 are exercisable. These stock options comprise ~9% of the issued and outstanding shares.

On May 26, 2019, the company's shareholders re-elected the directors of the Company and approved the audited financial statements. At the June 2016 AGM, the shareholders also approved the Incentive Stock Option Plan outlined in this Offering Memorandum.

3.2 Management Experience

Myrna L. Gillis, QC, LL.B. CEO & Founding Director. Lawyer, mediator and entrepreneur. Myrna has practiced primarily labour and employment law in Nova Scotia for 25 years with a special focus on providing regulatory and business advice to employers in the vulnerable persons service sector, including supports for individuals with disabilities.

Mike O'Keefe, MBA, CPA, CMA CFO & Director. 25 years' experience in financial management and direction for public and private companies, including one of the 50 Best Managed Canadian private companies, multinationals, and a TSX Venture exploration company.

Barbara Darby, LL.B., PhD VP & Director. Barbara transitioned to law after an academic career. Since 2003 she has expanded a varied legal practice that includes corporate governance, work with a First Nations community and voluntary work in regulatory oversight, including work for the College of Registered Nurses of Nova Scotia and a health authority Research Ethics Board. She operates her own legal firm in Halifax, Nova Scotia.

3.3 Penalties, Sanctions and Bankruptcy

None.

3.4 Loans

Total outstanding finance lease obligations were approximately $717,932. $385,000 with Nova Scotia Lands for land and building; ~$20,000 for a vehicle lease (1 truck) with O'Regan's Motors Limited, and ~$285,000 with Sansom Equipment Limited.

Item 4: Capital Structure

4.1 Share Capital

Description of security	Number authorized to be issued	Price per security	Number outstanding as at November 5, 2019	Number outstanding after min. offering	Number outstanding after max. offering
Common Shares	Unlimited. 1,052,632 with this offering	$4.75	16,366,509	16,376,614	17,419,141[12]
Options	10% of outstanding	$1.12 (average exercise price)	1,536,000	1,536,000	1,536,000
Warrants	N/A	$4.50 (average exercise)	1,099,900	1,099,900	1,099,900

[12] This offering may exceed 1,052,632 shares at the price of $4.75 per share.

4.2 Long Term Debt Securities

On May 31, 2019 the Corporation closed a $4,949,585 note financing secured with production facility assets. The notes are due May 31, 2021 and carry an interest rate of 12% compounded annually. The Corporation, at its option, can defer interest and principal payments until maturity of the notes. In conjunction with the note financing, note holders received warrants of the Corporation exercisable at $4.50 per share until May 31, 2021. A total of 1,099,900 warrants were issued to note holders.

4.3 Prior Sales

Date of issuance	Type of security issued	Number of securities issued	Price per security	Total funds received
November 30, 2018	Common shares	347,250	$4.50	$1,282,625
December 31, 2018	Common shares	65,670	$4.50	$295,515
June 1, 2019	Common shares (options exercised)	5,000	$2.00	$10,000

Item 5: Securities Offered

5.1 Terms of Securities

All Shares being offered have full voting rights and eligibility for dividends. No dividends have been declared to date nor have rates been set. The Shares are not redeemable or retractable.

5.2 Subscription Procedure

Subscribers that are subscribing under for Shares will complete the applicable subscription agreement.

The Shares are offered for sale to qualified purchasers in the Provinces of Alberta, British Columbia, Ontario, Manitoba, Saskatchewan, Nova Scotia, New Brunswick, Newfoundland and Labrador, Prince Edward Island and the territories of Nunavut, Yukon and Northwest Territories and such other jurisdictions as the Issuer may decide, in reliance upon exemptions from the prospectus requirements of applicable securities legislation.

You will be provided with this Offering Memorandum and a subscription agreement (the "Subscription Agreement") by the Issuer. If you wish to purchase Shares under this Offering, you must complete and sign the Subscription Agreement as set out below.

All Subscribers must complete and sign the Subscription Agreement.

Accredited Investors:

If you are an accredited investor who is an individual (i.e. a natural person), please complete and sign the Accredited Investor Questionnaire for Individuals attached to the Subscription Agreement, and, if necessary, Form 45-109F6 – Form for Individual Accredited Investors attached to the Subscription Agreement. If you are a corporation, partnership or other entity, please complete the Accredited Investor Certificate for Corporations, Partnerships and Other Entities attached to the Subscription Agreement.

Friends, Family and Business Associates:

If you are relying on the "family, friends and business associates" exemption, complete and sign the Family, Friends and Business Associates Certifications attached to the Subscription Agreement. If you are an Ontario resident you must also complete Form 45-106F2 – Ontario Risk Acknowledgement Form attached to the Subscription Agreement. If you are a Saskatchewan resident you must also complete Form 45-106F5 – Saskatchewan Risk Acknowledgement Form attached to the Subscription Agreement.

If you are NOT an Accredited Investor nor a Friend, Family or Business Associate see below and are subscribing pursuant to the Offering Memorandum exemption (not applicable to Québec purchasers):

British Columbia and Newfoundland and Labrador Subscribers:

Please complete and sign two copies of the Form 45-106F4 – Risk Acknowledgement attached to the Subscription Agreement.

Alberta, New Brunswick, Nova Scotia, Ontario and Saskatchewan Subscribers:

1. Please complete and sign the Classification of Investors Under the Offering Memorandum Exemption form attached to the Subscription Agreement, the Investment Limits for Investors Under the Offering Memorandum Exemption form attached to the Subscription Agreement, and complete and sign two copies of the Form 45-106F4 – Risk Acknowledgement attached to the Subscription Agreement.

2. If you are purchasing Shares having an aggregate subscription price of greater than $10,000 and less than $30,000 you must be an "eligible purchaser" as defined below

3. If you are purchasing Shares having an aggregate subscription price of greater than $30,000 and less than $100,000, you must be an "eligible purchaser" as defined below AND have received advice from a portfolio manager, investment dealer or exempt market dealer that the Shares are a suitable investment for you.

<u>Manitoba, Northwest Territories, Nunavut, Prince Edward Island and Yukon Subscribers:</u>

1. Please complete and sign the Classification of Investors Under the Offering Memorandum Exemption form attached to the Subscription Agreement, the Investment Limits for Investors Under the Offering Memorandum Exemption form attached to the Subscription Agreement, and complete and sign two copies of the Form 45-106F4 – Risk Acknowledgement attached to the Subscription Agreement.

2. If you are purchasing Shares having an aggregate subscription price of greater than $10,000, you must be an "eligible purchaser" as defined below.

An "eligible investor" means

a) a person whose

   (i) net assets, alone or with a spouse, in the case of an individual, exceed $400 000,

   (ii) net income before taxes exceeded $75 000 in each of the two most recent calendar years and who reasonably expects to exceed that income level in the current calendar year, or

   (iii) net income before taxes, alone or with a spouse, in the case of an individual, exceeded $125 000 in each of the two most recent calendar years and who reasonably expects to exceed that income level in the current calendar year,

b) a corporate entity/partnership/trust of which a majority of the voting securities are beneficially owned by eligible investors or a majority of the directors are eligible investors,

c) an accredited investor,

d) a person who is a family member, friends and business associates, or

e) in Manitoba, Northwest Territories, Nunavut, Prince Edward Island and Yukon, a person that has obtained advice regarding the suitability of the investment and, if the person is resident in a jurisdiction of Canada, that advice has been obtained from an eligibility adviser;

Please return the applicable completed forms, and such other documents as may be requested by the Issuer, together with a wire transfer, certified cheque or bank draft for the full subscription amount of the Shares you wish to purchase as instructed in the appropriate subscription agreement. The Issuer reserves the right to reject or allot subscriptions, in whole or in part, and to close subscriptions at any time without notice.

The Issuer undertakes to hold all subscription funds in trust until the closing and will return subscription funds to you without interest or deduction if: (a) you give notice to the Issuer of cancellation of your subscription no later than midnight on the second business day after you sign the Subscription Agreement; or (b) if the subscription is not accepted.

At the Closing the Issuer will cause to be issued Shares against receipt of the subscription proceeds from each purchaser. The Shares subscribed for will be paid for and duly issued in the name of or as directed by each purchaser. The direct registration statements representing the Common Shares will be legended to reflect the resale restrictions described herein.

There is no minimum offering. As such, you may be the only purchaser.

Item 6: Income Tax Consequences and RRSP Eligibility

6.1 You should consult your own professional advisers to obtain advice on the income tax consequences that apply to you.

Eligibility of this investment as a qualified investment for RRSP or TFSA purposes has been determined in a written opinion received by the Company for Olympia Trust from MNP LLP, Dartmouth, Nova Scotia, on June 22, 2018. This opinion was provided for the limited purpose of determining eligibility in response to specific inquires by Olympia Trust. Eligibility for the investment as an RRSP may be lost if the Company ceases to operate. If you wish to transfer funds into a RRSP or from an RRSP you must complete paperwork as required by financial institutions. Not all securities are eligible for investment in a registered retirement plan (RRSP). You should consult your own professional advisors to obtain advice on the RRSP eligibility of these securities.

Item 7: Compensation Paid to Sellers and Finders

Olympia Trust Company has been paid an administrative fee and review fee for providing the service of transferring shares into an RRSP or TFSA, but individuals must determine for themselves if they are RRSP or TFSA eligible. The current fee for this service to individual shareholders must be paid by the shareholder and not the Company and is $150.00 plus tax (new accounts) annually and $75.00 plus tax (contribution in kind). Olympia fees may be subject to change. Please refer to Olympia's website: https://rsp.olympiatrust.com.

There has been no fee or commission paid to sellers or finders and there are no sellers or finders at this time. *The Company may sell additional shares to accredited investors or other investors other than through this offering memorandum, on terms similar to this offering. The Company may agree to pay commissions or finders fees on commercial terms in connection with any such other sales.*

Item 8: Risk Factors

Any investment in the Issuer's Offered Shares hereby is speculative and involves a high degree of risk. You should carefully consider the following information about these risks together with the other information contained in this Offering Memorandum before you decide whether to buy such securities. If any of the following risks actually occur, the Issuer's business, results of operations, and financial condition could suffer significantly and you may lose all or part of your investment.

Canadian federal and provincial tax aspects and local and individual tax aspects should be considered prior to investing in the shares. The return on a shareholder's investment, and the tax consequences of holding or disposing of the shares, may be affected by changes in the Canadian federal, provincial and local tax laws.

Prospective Subscribers should seek independent professional advice regarding the tax consequences of acquiring the shares in an RRSP or TFSA. Investors are responsible for preparing and filing their own tax returns in respect of this investment and are urged to consult their own tax advisors prior to investing in the Company with respect to the specific tax consequences to them from the acquisition of shares.

Reliance on Licensing

The ability of the Issuer to continue its business of growth, storage and potential distribution of cannabis is dependent on the good standing of all licences and adherence to all regulatory requirements related to such activities. Any failure to comply with the terms of a licence, or to renew the licence after its expiry date, would have a material adverse impact on the financial condition and operations of the business of the Issuer. Although the Issuer believes that it will meet the requirements of the Health Canada for future extensions or renewals of licences, there can be no assurance that Health Canada will extend or renew the licence, or if extended or renewed, that they will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew a licence or should it renew a licence on different terms, the business, financial condition and operating results of the Issuer would be materially adversely affected.

Change in Law, Regulations and Guidelines

The Issuer's business is subject to a variety of laws, regulations and guidelines relating to marketing, acquisition, manufacture, management, transportation, storage, sale and disposal of cannabis but also laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Changes to such laws, regulations and guidelines may cause adverse effects to the Issuer's operations.

Notwithstanding legalization in October 2018 and legalization of new classes of cannabis products in October 2019, legalization could be challenged by three international treaties that criminalize the possession and production of non-medical cannabis. A change of government entirely or a change in government policy could significantly affect the manner in which Licensed Producers are profitable or whether they are licensed at all, or affect how any producer participates in this industry. For instance, should cannabis legalization be subject to international legal challenge, legalization could be jeopardized and production limited to medical cannabis; the projected revenue from an adult-use cannabis market will not occur.

Cannabis dispensaries and online platforms have been operating illegally in Canada. Market share gains for Licensed Producers could continue to be impacted by dispensaries. The nature of the enforcement of regulations of commercial sales of legalized adult-use cannabis by provincial governments has not been resolved. . There are differences in how provinces regulate the sale of adult-use cannabis and their models include private sellers, government-authorized sellers, or a combination of the two. The Company must comply with provincial regulators for sale of product in each jurisdiction and there is a risk that it will not be able to sell product in all jurisdictions for the adult-use market. Taxation regimes in each province also vary.

Regulatory Risk

Achievement of the Issuer's business objectives are contingent, in part, upon compliance with the regulatory requirements, including those imposed by Health Canada, enacted by government authorities and obtaining all regulatory approvals, where necessary, for the production and sale of its products. The Issuer cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by government authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the Issuer's business, results of operation and financial condition.

Limited Operating History and No Assurance of Profitability

Aqualitas Inc. was incorporated under the Nova Scotia Corporations Act, and the business of the Issuer began operations in 2014 and started physical plant remediation in the summer of 2017. The issuer is not yet cash flow positive. The Issuer is subject to all of the business risks and uncertainties associated with any early-staged enterprise, including under-capitalization, cash shortages, limitation with respect to personnel, financial and other resources, and lack of revenues.

The Issuer has incurred operating losses in recent periods. The Issuer may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Issuer expects to continue to increase operating expenses as it implements initiatives to grow its business. If the Issuer's revenues do not increase to offset these expected increases in costs and operating expenses, the Issuer will not be profitable. There is no assurance that the Issuer will be successful in achieving a return on shareholders' investments and the likelihood of success must be considered in light of the early stage of operations.

Unfavourable Publicity or Consumer Perception

The success of the cannabis industry may be significantly influenced by the public's perception of cannabis as a medical product or as a legalized recreational product. Medical cannabis is a controversial topic, and there is no guarantee that future scientific research, publicity, regulations, medical opinion and public opinion relating to medical cannabis will be favourable. The medical and adult-use cannabis industries are early-stage businesses that are constantly evolving with no guarantee of viability. The market for cannabis is uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion relating to the consumption of cannabis may have a material adverse effect on our operational results, consumer base and financial results.

Ability to Raise Capital

The Issuer will continue to require significant additional financing beyond the proceeds of this Offering in order to sustain its business operations. There can be no assurances that the Issuer will be successful in obtaining additional financing. If the Issuer is unable to raise the necessary capital resources to meet its liabilities and to fund growth, the Issuer will at some point have to further reduce or curtail its operations or reconsider its growth, which would have a material adverse effect on the Issuer.

Competition

The number of licences issued by Health Canada is outlined above. The Issuer expects significant competition from other companies. A large number of companies are applying for production and sales licences, some of which may have significantly greater financial, technical, marketing and other resources, may be able to devote greater resources to the development, promotion, sale and support of their products and services, and may have more extensive customer bases and broader customer relationships

Patient or consumer demand or growth may be higher or lower than industry estimates which may affect the overall market. If demand were to be significantly lower than forecast, the market may experience an over-supply situation, creating pricing pressure for producers. Conversely, if demand were to exceed expectations, the market may be constrained which could have a positive impact on prices. Over-production by all Licensed Producers could result in lower prices; under-production could result in higher prices. Competition from other producers is also a risk.

Medical and adult-use cannabis is largely perceived as a commodity product; currently, there is initially little to differentiate the products of various producers in terms of unique features or benefits. Companies are competing aggressively in terms of product quality, variety and price. In addition, companies are also maintaining a focus on client services to retain a solid and sustainable patient or consumer base as well as a position in the market.

Should the size of the cannabis market increase as projected, the demand for products will increase as well, and in order for the Issuer to be competitive it will need to invest significantly in research and development, marketing, production expansion, new client identification, and client support. If the Issuer is not successful in achieving sufficient resources to invest in these areas, the Issuer's ability to compete in the market may be adversely affected, which could materially and adversely affect the Issuer's business, its financial conditions and operations.

Realization of Growth Targets

The Issuer's ability to continue production and sale of cannabis, at the same pace as of the date of this Offering Memorandum or at all, is affected by a number of factors, including plant design errors, non-performance by third party contractors, increases in materials or labour costs, construction performance falling below expected levels of output or efficiency, environmental pollution, contractor or operator errors, breakdowns, aging or failure of equipment or processes, labour disputes, as well as factors specifically related to indoor agricultural and aquaponics practices, such as reliance on provision of energy and utilities to the facility, and potential impacts of major incidents or catastrophic events on the facility, such as fires, explosions, earthquakes or storms.

Uninsured or Uninsurable Risk

The Issuer may be subject to liability for risks against which it cannot insure or against which the Issuer may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for the Issuer's usual business activities. Payment of liabilities for which the Issuer does not carry insurance may have a material adverse effect on the Issuer's financial position and operations.

Key Personnel

The Issuer's success will depend on its directors' and officers' ability to develop and execute on the Issuer's business strategies and manage its ongoing operations, and on the Issuer's ability to attract and retain key quality assurance, scientific, sales, public relations and marketing staff or consultants now that production and selling operations have begun. The loss of any key personnel or the inability to find and retain new key persons could have a material adverse effect on the Issuer's business. Competition for qualified technical, sales and marketing staff, as well as officers and directors can be intense and no assurance can be provided that the Issuer will be able to attract or retain key personnel in the future, which may adversely impact the Issuer's operations.

Litigation

The Issuer may become party to litigation, mediation and/or arbitration from time to time in the ordinary course of business which could adversely affect its business. Monitoring and defending against legal actions, whether or not meritorious, can be time-consuming, divert management's attention and resources and cause the Issuer to incur significant expenses. In addition, legal fees and costs incurred in connection with such activities may be significant and we could, in the future, be subject to judgments or enter into settlements of claims for significant monetary damages. While the Issuer has insurance that may cover the costs and awards of certain types of litigation, the amount of insurance may not be sufficient to cover any costs or awards. Substantial litigation costs or an adverse result in any litigation may adversely impact the Issuer's business, operating results or financial condition.

Agricultural Operations

Since the Issuer's business will revolve mainly around growing an agricultural product, and using aquaponics technology, the risks inherent with agricultural businesses will apply. Such risks may include disease and insect pests, among others. Although the Issuer expects to grow its product in a climate controlled, monitored, indoor location, there is no guarantee that changes in outside weather and climate will not adversely affect production. Further, any rise in energy costs may have a material adverse effect on the Issuer's ability to produce cannabis.

Although the Issuer has committed to organic production of its product without the use of pesticides, in the United States, the cannabis industry has had major contamination issues due to pesticides (chemicals) used to control bugs and mold. Canada has strictly regulated pesticide use but as of March 13, 2017, two Licensed Producers have voluntarily recalled product due to prohibited pest control methods and litigation is pending. As of this document, there are 22 pest control products approved by the Pest Management Regulatory Agency for use on cannabis that is produced commercially indoors.[13]

Transportation Disruptions

The Issuer will depend on fast, cost-effective and efficient courier services to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Issuer. Rising costs associated with the courier service used by the Issuer to ship its products may also adversely impact the business of the Issuer and its ability to operate profitably.

Product Returns and Oversupply

The issuer may be required to credit or return funds to Provincial distributors for expired or slow moving products.

Fluctuating Prices of Raw Materials

The Issuer's revenues, if any, are expected to be in large part derived from the production, sale and distribution of cannabis. The price of production, sale and distribution of cannabis will fluctuate widely due to how young the cannabis industry is and is affected by numerous factors beyond the Issuer's control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new production and distribution

[13] https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/licensed-producers/policies-directives-guidance-information-bulletins/testing-cannabis-medical-purposes-unauthorized-pest-control-products.html

developments and improved production and distribution methods. The effect of these factors on the price of product produced by the Issuer and, therefore, the economic viability of any of the Issuer's business, cannot accurately be predicted.

Environmental and Employee Health and Safety Regulations

The Issuer's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land; the handling and disposal of hazardous and nonhazardous materials and wastes, and employee health and safety. The Issuer will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to obtain an Environmental Compliance Approval or otherwise comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Issuer's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Issuer.

Political and Economic Instability

The Issuer may be affected by possible political or economic instability. The risks include, but are not limited to, terrorism, military repression, extreme fluctuations in currency exchange rates and high rates of inflation. Changes in medicine and agriculture development or investment policies or shifts in political attitude in certain countries may adversely affect the Issuer's business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, distribution, price controls, export controls, income taxes, expropriation of property, maintenance of assets, environmental legislation, land use, land claims of local people and water use. The effect of these factors cannot be accurately predicted.

Facility Expansion

The construction of the Issuer's facility is subject to various potential problems and uncertainties, and may be delayed or adversely affected by a number of factors beyond our control, including the failure to obtain regulatory approvals, permits, delays in the delivery or installation of equipment by our suppliers, difficulties in integrating new equipment with our existing facilities, shortages in materials or labor, defects in design or construction, diversion of management resources, or insufficient funding or other resource constraints. Moreover, actual costs for construction may exceed our budgets. As a result of construction delays, cost overruns, changes in market circumstances or other factors, we may not be able to achieve the intended economic benefits from the construction of the new facility, which in turn may materially and adversely affect our business, prospects, financial condition and results of operations.

No Market for Securities

There is currently no market through which any of the common shares of the Issuer may be sold and there is no assurance that such securities of the Issuer will be listed for trading on a stock exchange, or if listed, will provide a liquid market for such securities. Until the common shares are listed on a stock exchange, holders of the common shares may not be able to sell their common shares. Even if a listing is obtained, there can be no assurance that an active public market for the common shares will develop or be sustained after completion of the Offering. The offering price determined by the Issuer is based upon several factors, and may bear no relationship to the price that will prevail in the public market. The holding of common shares involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Common shares should not be purchased by persons who cannot afford the possibility of the loss of their entire investment.

Global Economy Risk

An economic downturn of global capital markets has been shown to make the raising of capital by equity or debt financing more difficult. The Issuer will be dependent upon the capital markets to raise additional financing in the future, while it establishes a user base for its products. As such, the Issuer is subject to liquidity risks in meeting its development and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the Issuer's ability to raise equity or obtain loans and other credit facilities in the future and on terms favorable to the Issuer and its management.

Dividend Risk

Although the Company may pay dividends on the shares, it may only do so if it receives a licence to sell and has sufficient income and profits and it has not paid dividends in the past nor does it expect to pay dividends in the near future. The Company will reinvest money back into the Company for at least five years. There are no assurances that the Company will earn sufficient profits or that it will have sufficient funds to pay dividends to shareholders. There is no assurance that an investment in the Company will earn a specified rate of return.

Item 9: Reporting Obligations

9.1 As of the date of this Offering Memorandum, shareholders purchasing pursuant to this Offering Memorandum will be provided with audited financial statements on an annual basis and notice of the use of proceeds. Shareholders will be provided with notice within 10 days of a discontinuance of the Company's business, a change in its business, or a change in control of the business. Shareholders will be provided with notice of the date the Company becomes a reporting Issuer in any jurisdiction in Canada and the date the Company ceases to carry on business.

If the Company changes its financial year end by more than 14 days, it will make reasonably available to each Shareholder a notice containing the information as soon as practicable and no later than the earlier of the deadline, based on the Company's old financial year end for the next annual financial statements or the deadline, based on the Company's new financial year end, for the next annual financial statements. This notice will indicate the decision to change, the reason for the change, the old financial year end, the new financial year end, the length and date of the periods including the comparative periods of the annual financial statements for the Company's transition year and the new financial year and the filing deadline for the annual financial statement for the Company's Issuer's transition year including all information required where the transition year is less than nine months in length.

9.2 There is information about Licensed Producers available at Health Canada's website: https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/industry-licensees-applicants/licensed-cultivators-processors-sellers.html
We are currently a SEDAR filer:
http://sedar.com/DisplayProfile.do?lang=EN&IssuerType=03&IssuerNo=00039520

Item 10: Resale Restrictions

10.1 General Statement - For trades in Alberta, British Columbia, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Ontario, Prince Edward Island, Québec and Saskatchewan, and Yukon: these securities will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the securities unless you comply with an exemption from the prospectus and registration requirements under securities legislation.

10.2 Restricted Period - For trades in Alberta, British Columbia, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Ontario, Prince Edward Island, Québec and Saskatchewan, and Yukon: unless permitted under securities legislation, you cannot trade the securities before the date that is four months and a day after the date the Company becomes a reporting Issuer in any province or territory of Canada.

10.3 Manitoba Resale Restrictions - For trades in Manitoba, if the Issuer will not be a reporting Issuer in a jurisdiction at the time the security is acquired by the purchaser: unless permitted under securities legislation, you must not trade the securities without the prior written consent of the regulator in Manitoba unless (a) the Company has filed a prospectus with the regulator in Manitoba with respect to the securities you have purchased and the regulator in Manitoba has issued a receipt for that prospectus, or (b) you have held the securities for at least 12 months. The regulator in Manitoba will consent to your trade if the regulator is of the opinion that to do so is not prejudicial to the public interest.

Item 11: Subscribers' Rights

If you purchase these securities you will have certain rights, some of which are described below. For information about your rights you should consult a lawyer.

(1) Two Day Cancellation Right. You can cancel your agreement to purchase these securities. To do so, you must send a notice to us by midnight on the 2nd business day after you sign the agreement to buy the securities.

(2) Purchasers' Rights of Action in the Event of a Misrepresentation

Securities legislation in certain of the provinces of Canada provides purchasers with a statutory right of action for damages or rescission in cases where an offering memorandum or any amendment thereto contains an untrue statement of a material fact or omits to state a material fact that is required to be stated or is necessary to make any statement contained therein not misleading in light of the circumstances in which it was made (a "misrepresentation"). These rights, or notice with respect thereto, must be exercised or delivered, as the case may be, by purchasers within the time limits prescribed and are subject to the defenses and limitations contained under the applicable securities legislation. Purchasers of securities resident in provinces of Canada that do not provide for such statutory rights will be granted a contractual right similar to the statutory right of action and rescission described below for purchasers resident in Ontario and such right will form part of the subscription agreement to be entered into between each such purchaser and the Issuer in connection with this Offering.

Cautionary Note

The following summaries are subject to the express provisions of the securities legislation applicable in each of the provinces and territories of Canada and the regulations, rules and policy statements thereunder. Purchasers should refer to the securities legislation applicable in their province or territory along with the regulations, rules and policy statements thereunder for the complete text of these provisions or should consult with their legal advisor. The contractual and statutory rights of action described in this Offering Memorandum are in addition to and without derogation from any other right or remedy that a purchaser may have at law.

Statutory Rights

British Columbia, Alberta, Manitoba, or Newfoundland and Labrador: If you are a resident of British Columbia, Alberta, Manitoba or Newfoundland and Labrador, and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

(a) the Issuer to cancel your agreement to buy these Units, or

(b) for damages against the Issuer, every person who was a director of the Issuer at the date of this Offering Memorandum and every other person who signed this Offering Memorandum.

Prince Edward Island, the Northwest Territories, New Brunswick, Nunavut and Yukon: If you are a resident of Prince Edward Island, the Northwest Territories, Nunavut or Yukon, and there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

(a) the Issuer to cancel your agreement to buy these Units, or

(b) for damages against the Issuer, the selling security holder on whose behalf the distribution is made, every person who was a director of the Issuer at the date of this Offering Memorandum and every other person who signed this Offering Memorandum.

Saskatchewan: If you are a resident of Saskatchewan and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

(a) the Issuer to cancel your agreement to buy these Units, or

(b) for damages against the Issuer, every promoter of the Issuer, every person who was a director of the Issuer at the date of this Offering Memorandum and every other person who signed this Offering Memorandum, every person whose consent has been filed in respect of the Offering Memorandum, but only with respect to reports, opinions or statements made by them. and every person or company that sells these Units on behalf of the Issuer.

Nova Scotia: If you are a resident of Nova Scotia and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

(a) the seller to cancel your agreement to buy these Units, or

(b) for damages against the Issuer, every person who was a director of the Issuer at the date of this Offering Memorandum and every other person who signed this Offering Memorandum.

Ontario: If you are a resident of Ontario and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to:

(a) sue for damages against the Issuer and a selling security holder on whose behalf the distribution is made; or

(b) sue the Issuer or the selling security holder on whose behalf the distribution is made to cancel your agreement to buy these Units.

These statutory rights are available to you whether or not you relied on the misrepresentation. However, there are various defences available to the Issuer, persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the Units. In an action for damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

In Ontario, these rights are not available for a purchaser that is: (a) a Canadian financial institution, meaning either: (i) an association governed by the Cooperative Credit Associations Act (Canada) or a central cooperative credit society for which an order has been made under section 473(1) of that Act; or (ii) a bank, loan corporation, trust company, trust corporation, insurance company, treasury branch, credit union, caisse populaire, financial services cooperative, or league that, in each case, is authorized by an enactment of Canada or a province or territory of Canada to carry on business in Canada or a province or territory of Canada; (b) a Schedule III bank, meaning an authorized foreign bank named in Schedule III of the Bank Act (Canada); (c) the Business Development Bank of Canada incorporated under the Business Development Bank of Canada Act (Canada); or (d) a subsidiary of any person referred to in clauses (a), (b) or (c), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

If you intend to rely on the rights described above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the Units.

In British Columbia, Alberta, Prince Edward Island, Newfoundland and Labrador, Ontario, the Northwest Territories, Nunavut and Yukon, you must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three years after the date you purchased the Units.

In Saskatchewan and New Brunswick, you must commence your action for damages within the earlier of one year after you first had knowledge of the facts giving rise to the cause of action and six years after the date you purchased the Units.

In Manitoba, you must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and two years after the date you purchased the Units.

In Nova Scotia, you must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three years after the date you purchased the securities. Furthermore, no action shall be commenced to enforce the right of action discussed above unless an action is commenced to enforce that right not later than 120 days after the date on which payment was made for the securities or after the date on which the initial payment for the securities was made where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to, or concurrently with, the initial payment.

Item 12: Financial Statements

Included below.

AQUALITAS INC.

Financial Statements

For the years ended December 31, 2018 and 2017

(Canadian dollars)

KPMG LLP
1959 Upper Water Street, Suite 1500
Halifax NS B3J 3N2
Canada
Telephone 902-492-6000
Fax 902-492-1307

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Aqualitas Inc.

Opinion

We have audited the financial statements of Aqualitas Inc. (the Entity), which comprise:

- the statements of financial position as at December 31, 2018 and December 31, 2017
- the statements of comprehensive loss for the years then ended
- the statements of changes in equity for the years then ended
- the statements of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018 and December 31, 2017, and its results of operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
The engagement partner on the audit resulting in this auditors' report is Douglas Reid.
Halifax, Canada
April 30, 2019

AQUALITAS INC.

Statements of Financial Position
(Canadian dollars)

	Notes	December 31, 2018	December 31, 2017
ASSETS			
Current assets:			
Cash		$ **756,686**	$ 3,489,396
Restricted cash	**12**	**240,598**	3,647,925
Receivables		**705,014**	397,168
Biological assets	**6**	**452,456**	-
Inventory	**7**	**691,784**	-
Prepaid expenses		**153,636**	94,582
Total current assets		**3,000,174**	7,629,071
Property, plant and equipment	**8**	**16,731,128**	3,235,611
		16,731,128	3,235,611
TOTAL ASSETS		**$ 19,731,302**	$ 10,864,682
LIABILITIES			
Current liabilities:			
Trade and other payables	**14**	$ **800,768**	$ 737,361
Current portion of obligations under finance leases	**9**	**166,027**	77,064
Total current liabilities		**966,795**	814,425
Obligations under finance leases	**9**	**487,914**	419,585
		487,914	419,585
TOTAL LIABILITIES		$ **1,454,709**	$ 1,234,010
SHAREHOLDERS' EQUITY			
Share capital	**12**	$ **22,758,445**	$ 10,704,762
Contributed surplus	**13**	**2,245,311**	1,236,978
Deficit		**(6,727,163)**	(2,311,068)
TOTAL SHAREHOLDERS' EQUITY		$ **18,276,593**	$ 9,630,672
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ **19,731,302**	$ 10,864,682

Commitments (Note 21)
Subsequent events (Note 22)

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board:

Signed "Myrna Gillis"
____________________________ Director

Signed "Michael O'Keefe"
____________________________ Director

AQUALITAS INC.

Statements of Comprehensive Loss
(Canadian dollars)

	Notes	For the years ended December 31 2018	2017
Expenses			
General and administrative	16	**$ 2,515,100**	$ 1,104,866
Research and development		**303,368**	215,186
Production facility and other	17	**2,123,239**	462,806
Foreign exchange loss (gain)		**19,839**	(7,713)
		4,961,546	1,775,145
Finance expense		**25,399**	11,217
Miscellaneous income	18	**(15,362)**	(64,890)
Fair value adjustment on biological assets	6	**(471,070)**	-
Net loss from continuing operations		**$ 4,500,513**	$ 1,721,472
Net loss (income) from discontinued operations	5	**$ 3,511**	$ (28,080)
Total comprehensive loss		**$ 4,504,025**	**$ 1,693,392**
Basic and diluted loss per share		**$ 0.29**	$ 0.20
Basic and diluted weighted average number of shares outstanding		**15,427,677**	8,745,933

The accompanying notes are an integral part of these financial statements.

AQUALITAS INC.

Statements of Changes in Equity for the years ended December 31, 2018 and 2017
(Canadian dollars)

	Notes	Number of shares	Share capital	Contributed surplus	Deficit	Total equity
Balance at January 1, 2017		7,385,001	$ 1,026,002	$ 276,875	$ (617,676)	$ 685,201
Total comprehensive loss for the period:						
Net loss		-	-	-	(1,693,392)	(1,693,392)
Private placement, net of share issue costs	12	5,735,201	9,678,760	-	-	9,678,760
Share-based compensation	13	-	-	960,103	-	960,103
Total transactions with owners		5,735,201	9,678,760	960,103	-	10,638,863
Balance at December 31, 2017		13,120,202	$ 10,704,762	$ 1,236,978	$ (2,311,068)	$ 9,630,672
Balance at January 1, 2018		**13,120,202**	**$ 10,704,762**	**$ 1,236,978**	**$ (2,311,068)**	**$ 9,630,672**
Total comprehensive loss for the period:						
Net loss		**-**	**-**	**-**	**(4,504,024)**	**(4,504,024)**
Distribution of shares of Finleaf Technologies Inc.	**5**	**-**	**-**	**-**	**87,929**	**87,929**
Private placements, net of share issue costs	**12**	**3,489,227**	**11,893,373**	**-**	**-**	**11,893,373**
Exercise of options		**170,000**	**160,310**	**(75,310)**	**-**	**85,000**
Share-based compensation	**13**	**-**	**-**	**1,083,643**	**-**	**1,083,643**
Total transactions with owners		**3,659,227**	**12,053,683**	**1,008,333**	**-**	**13,062,016**
Balance at December 31, 2018		**16,779,429**	**$ 22,758,445**	**$ 2,245,311**	**$ (6,727,163)**	**$ 18,276,593**

The accompanying notes are an integral part of these financial statements.

AQUALITAS INC.

Statements of Cash Flows
(Canadian dollars)

	Notes		For the years ended December 31 2018	2017
Cash flows from operating activities:				
Net loss		$	**(4,504,024)**	$ (1,693,392)
Items not involving cash:				
Share-based compensation	**13**		**1,083,643**	960,103
Depreciation			**569,442**	30,413
Unrealized gain on change in fair value of biological assets	**6**		**(471,070)**	-
Change in non-cash working capital	**19**		**(1,220,477)**	(432,200)
Cash flows from operating activities			**(4,542,486)**	(1,135,076)
Cash flows from financing activities:				
Issue of common shares for cash, net of issue costs	**12**		**11,893,373**	9,678,760
Exercise of stock options			**85,000**	-
Payment of finance lease liabilities			**(111,060)**	(40,540)
Cash flows from financing activities			**11,867,313**	9,638,220
Cash flows from investing activities:				
Expenditures on property, plant & equipment, net of finance leases			**(13,440,295)**	(2,168,169)
Cash flows from investing activities			**(13,440,295)**	(2,168,169)
Cash (decrease) increase from discontinued operations	**5**		**(24,569)**	-
Increase in cash and restricted cash			**(6,140,037)**	6,334,975
Cash and restricted cash, beginning of year			**7,137,321**	802,346
Cash and restricted cash, end of year		$	**997,284**	$ 7,137,321

The accompanying notes are an integral part of these financial statements.

1. Nature of operations

Aqualitas Inc. (the "Corporation") was incorporated under the laws of Nova Scotia, Canada on October 30, 2014. The address of the Corporation's registered office is 310-1550 Bedford Highway, Bedford, Nova Scotia, B4A 1E6. The principal focus of the Corporation is to produce and sell high quality organically grown cannabis under the Cannabis Act.

The Corporation is a start-up company and received its license to cultivate medical cannabis under section 35 of the ACMPR on January 19, 2018, which as of October 17, 2018 converted to the Cannabis Act. Renewal of the Corporation's license is expected at the end of its three-year term so long as the Corporation remains in compliance with Cannabis Act regulations. The Corporation began commercial production in the third quarter of 2018. The Corporation was granted its oil processing license on February 15, 2019 and its full unrestricted sales license for dry flower under the Cannabis Act on March 29, 2019. There is no guarantee the Corporation can raise the remaining capital required to complete expansion and operate a production facility or secure the clients and/or supply agreements required to generate sufficient revenues to produce positive cash flows.

2. Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were authorized for issue by the Board of Directors on April 30, 2019.

b) Basis of presentation

The financial statements have been prepared on the historical cost basis except for biological assets and certain financial instruments, which are measured at fair value as described below.

The financial statements are presented in Canadian dollars, which is the functional currency of the Corporation.

c) Use of estimates and judgments

The preparation of the financial statements in accordance with IFRS requires the Corporation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results may differ from these estimates. The most significant areas requiring the use of management's estimates and assumptions are discussed below.

Biological assets and inventory

In calculating the value of the biological assets, management is required to make a number of judgements and estimates, including estimating the stage of growth of the cannabis plants up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for cannabis plants. In calculating inventory values, management is required to determine an estimate of the obsolete inventory and compare the inventory cost to the estimated net realizable value.

2. Basis of preparation (continued)

Share-based payments

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured.

The Corporation makes assumptions in applying valuation techniques including estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee behaviors and corporate performance. Such assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Estimated useful lives and valuation of property, plant and equipment

Amortization of property, plant and equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgement. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions, the useful lives of assets and management's ability to execute on the business plan to cultivate medical cannabis.

3. Significant accounting policies

Biological assets

The Corporation measures biological assets consisting of cannabis plants at fair value less costs to sell up to the point of harvest. Production costs related to the transformation of biological assets to the point of harvest are capitalized and included in the fair value measurement of biological assets. Agricultural produce consisting of cannabis is measured at fair value less costs to sell at the point of harvest, which becomes the basis for the cost of harvested goods inventories after harvest.

Gains or losses arising from changes in fair value less costs to sell during the years, exclusive of capitalized production costs, are included in gross profit under fair value adjustments within the results of operations of the related year. Upon harvest, capitalized production costs are transferred to finished harvest and are included in the fair value adjustments on inventory sold within the results of operations during the year in which the harvested cannabis is sold and revenue recognized. Fair value adjustments relating to the net recoverable value of inventory at the end of the year is included in the fair value adjustments on carrying amount of inventory within the results of operations during the year.

The Corporation determines the fair value of biological assets using a model-based approach that incorporates interdependent estimates and assumptions including the average selling price, the stage of growth, estimated wastage, expected yields, estimated post-harvest costs, and the estimated equivalency.

3. Significant accounting policies (continued)

Inventory

Inventories, consisting of harvested goods and packaging, are measured at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less costs to sell at harvest, which becomes deemed cost. Cost is determined using the weighted average method. Any subsequent post-harvest costs are capitalized to inventories to the extent that cost is less than net realizable value. Net realizable value is the estimated average selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Production costs relating to inventory sold represent all cost of inventories recognized as expense in the years, except deemed costs of inventory that arise from the fair value measurement of biological assets transferred to finished harvest inventory. Fair value adjustments on inventory sold represents the deemed costs of inventory sold that arises from the fair value measurement of biological assets, exclusive of any capitalized costs.

Property, plant and equipment

All items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to working condition for their intended use.

Depreciation of property, plant and equipment is recognized on a straight-line basis over their estimated useful lives from the date they are available for use. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate. The estimated useful lives are as follows:

Asset	Years
Software & computers	3
Equipment, furniture & fixtures	5
Production equipment	5
Building	25
Leasehold improvements	Term of lease

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain the Corporation will obtain ownership by the end of the lease term.

Property, plant, and equipment’s residual value, useful life and amortization method are reviewed at the end of each reporting period and adjusted if necessary. When parts of an item of property, plant, and equipment have different useful lives, they are accounted for as separate components of property, plant, and equipment.

3. Significant accounting policies (continued)

Impairment of property, plant and equipment

Property, plant, and equipment are tested for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Events or changes in circumstances which may indicate impairment include: a significant change to the Corporation's operations; a significant decline in performance or a change in market conditions which adversely affects the Corporation. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset). Impairment losses are recognized through profit and loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously. A reversal of an impairment loss is recognized through profit and loss

Research and development

Research costs are expensed as incurred. Development costs are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Corporation intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized through profit and loss as incurred. To date, no development costs have been capitalized.

The Corporation claims investment tax credits as a result of incurring scientific research and experimental development expenditures. Investment tax credits are recognized when there is reasonable assurance of their realization.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

3. Significant accounting policies (continued)

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Share-based compensation

Equity-settled share-based awards to employees are measured at fair value of the equity instruments at the date of grant. Fair value is measured using the Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed as services are rendered over the vesting period, based on the Corporation's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no-true-up for differences between expected and actual outcomes.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Earnings/loss per share

The Corporation presents basic and diluted earnings (loss) per share for its common shares. Basic earnings (loss) per share is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential common shares. When the effect of all outstanding options are anti-dilutive during a year when the Corporation incurs a loss or when the exercise price exceeds market price, diluted earnings (loss) per share does not differ from basic earnings (loss) per share. All share options are currently anti-dilutive. As a result, basic and diluted earnings per share are the same.

Share issuance costs

Costs directly attributable to the raising of capital are charged against the related share capital. Costs related to shares not yet issued are recorded as deferred share issuance costs. These costs are deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related share capital or charged to operations if the shares are not issued.

Government grants

Government grants are recognized when there is reasonable assurance the grant will be received, and the Corporation will comply with all attached conditions. When the government grant relates to an expense item, it is recognized in profit or loss as miscellaneous income over the period necessary to match the government grant on a systematic basis in the period in which the expenses are recognized.

3. Significant accounting policies (continued)

New standards, interpretations and amendments adopted by the Company during the year

IFRS 15 – Revenue from contracts with customers (“IFRS 15”)

IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. On April 12, 2016, the IASB published final clarifications to IFRS 15 with respect to identifying performance obligations, principal versus agent considerations, and licensing. IFRS 15 became effective for annual periods beginning on or after January 1, 2018. The Corporation adopted the standard retrospectively on January 1, 2018 but given the Corporation did not have its sales license and therefore recorded no sales, there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard.

The Corporation’s accounting policy for revenue recognition under IFRS 15 is as follows:

To determine the amount and timing of revenue to be recognized, the Company will follow the five-step model:

(a) Identifying the contract with a customer.

(b) Identifying the performance obligations.

(c) Determining the transaction price.

(d) Allocating the transaction price to the performance obligations.

(e) Recognizing revenue when/as performance obligations are satisfied.

Revenue from the direct sale of cannabis and cannabis oil for a fixed price will be recognized when the Corporation transfers control of the goods to the purchaser and the collectability is reasonably assured. This is generally at the point of shipment for medical cannabis and at the point of delivery for recreational cannabis. Revenue that will be earned in Canada includes excise taxes, which the Corporation will pay as principal, but excludes duties and taxes collected on behalf of third parties. Revenue will also include the net consideration to which the Corporation expects to be entitled. Therefore, revenue is stated net of expected price discounts, allowances for customer returns and certain promotional activities and similar items. Generally, payment of the transaction price is due within credit terms that are consistent with industry practices, with no element of financing.

IFRS 9 Financial Instruments (“IFRS 9”)

In July 2014, the IASB issued IFRS 9 to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a new concept for classification and measurement of financial assets as well as a new impairment model.

3. Significant accounting policies (continued)

Summary of the new requirements

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss (“FVTPL”). IFRS 9 eliminated the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. The classification of debt financial assets in IFRS 9 is generally based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The assessment of the contractual cash flow characteristics addresses whether the contractual terms of a financial asset give rise on specific dates to cash flows that consist of solely payments of both principal and interest on the principal outstanding, often referred to as “SPPI test”.

Based on the business model and the SPPI test results, financial assets are measured at:

- amortized cost,
- fair value through other comprehensive income or
- fair value through profit or loss.

A financial asset is measured at amortized cost if it:

(i) is held in a business model with the objective of collecting the contractual cash flows of the financial asset; and

(ii) passes the SPPI test.

A financial asset is measured at fair value through other comprehensive income if it:

(i) is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

(ii) passes the SPPI test.

In all other situations, including when an entity chooses to irrevocably designate to eliminate an accounting mismatch, a debt financial asset is measured at fair value through profit or loss, unless the Corporation makes an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in fair value in other comprehensive income.

Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss and amortized cost.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead the hybrid financial instruments as a whole is assessed for classification. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

All debt financial assets measured at either amortized cost or fair value through other comprehensive income fall under the new expected credit loss model introduced by IFRS 9.

The standard is effective for annual periods beginning on January 1, 2018.

3. Significant accounting policies (continued)

The Corporation's financial instruments are accounted for as follows under IFRS 9 as compared to the previous policy in accordance with IAS 39:

Financial Assets	**IAS 39**	**IFRS 9**
Cash and restricted cash	Fair value	Amortized cost
Receivables	Loans and receivables, at amortized cost	Amortized cost
Financial Liabilities		
Trade and other payables and obligations under finance leases	Other liabilities at amortized cost	Amortized cost

IFRS 2 – Share-based payments

On June 20, 2016, the IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight.

The amendments provide requirements on the accounting for: 1) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; 2) share-based payment transactions with a net settlement feature for withholding tax obligations; and 3) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Corporation has adopted the amendments on a prospective basis with no impact on the consolidated financial statements.

4. Future changes in accounting policies

The following new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2018, and have not been applied in preparing these statements:

IFRS 16 - Leases

On January 13, 2016 the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

5. Distribution of Finleaf Technologies Inc.

In June 2018, the shareholders of the Corporation voted in favour of a spin-out of the previously wholly-owned subsidiary, Finleaf Technologies Inc ("Finleaf"). All shareholders who held shares in Aqualitas as at June 24, 2018 were granted the equivalent number of shares in Finleaf.

As a result of this transaction, the financial statements are no longer prepared on a consolidated basis and the following operational results related to Finleaf have been presented as a distribution of Finleaf Technologies Inc. in the Statement of Comprehensive Loss:

		December 31, 2018		December 31, 2017
Revenue	$	22,771	$	25,000
Expenses				
General and administrative expenses		3,273		(1,080)
Production facility and other		23,009		(2,000)
	$	**(3,511)**	**$**	**28,080**

The results of discontinued operations included in the statements of cash flows for the years ended December 31, 2018 and 2017 were as follows:

Cash flow (used in) from:		**December 31, 2018**		**December 31, 2017**
Operating activites before working capital changes	$	(3,511)	$	28,080
Changes in net working capital		28,080		-
Cash flow from operating activities		24,569		28,080
Cash flow from investing activities		-		-
Net decrease in cash from discontinued operations	**$**	**24,569**	**$**	**28,080**

6. Biological assets

As at December 31, 2018, the Company's biological assets consists of seeds and cannabis plants. The changes in the carrying value of biological assets are as follows:

		Capitalized cost		**Biological asset fair value adjustment**		**Amount**
Balance, December 31, 2017	**$**	**-**	**$**	**-**	**$**	**-**
Purchase of clones and seeds		43,584		-		43,584
Changes in fair value less costs to sell due to biological transformation		-		471,070		471,070
Production costs capitalized		486,314		-		486,314
Transferred to inventory upon harvest		(244,912)		(303,600)		(548,512)
Balance, December 31, 2018	**$**	**284,986**	**$**	**167,470**	**$**	**452,456**

6. Biological assets (continued)

The Company measures its biological assets at their fair value less costs to sell. The Company's estimates, by their nature, are subject to changes that could result from volatility of prices, unanticipated regulatory changes, harvest yield, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value.

The following significant unobservable inputs, all of which are classified as level three on the fair value hierarchy, were used by management as part of this model:

- Estimated selling price per gram – calculated as the expected approximate future per gram selling prices of the Company's cannabis products. With no prior history of sales, the Company evaluated industry data which is expected to closely approximate the Company's expected selling prices.
- Stage of growth – represents the weighted average number of weeks out of the 12 to 14 estimated week growing cycle that biological assets have reached as of the measurement date based on historical experience. The Company accretes fair value on a straight-line basis according to the stage of growth and estimated costs to complete cultivation.
- Wastage – represents the weighted average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested.
- Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant based on historical experience.
- Post-harvest costs – calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post-harvest, consisting of the cost of direct and indirect materials and labour related to drying, labelling and packing.
- Equivalency – calculated as the ratio of dry cannabis flower to litres of finished cannabis oil produced.

The inter-relationship between these aforementioned unobservable inputs and the fair-value of the biological assets is such that the carrying value of the biological assets as at December 31, 2018 would increase (decrease) if any of these inputs were to be higher (lower).

The following table quantifies each significant unobservable input, and provides the impact of a 10% increase or decrease in each input would have on the fair value of biological assets:

	Decemer 31, 2018	Impact of 10% change on the carrying amount as at December 31, 2018
Estimated selling price per gram	$5.50 to $9.00	$ 59,600
Estimated stage of growth	5.75 weeks	77,800
Estimated wastage	25% to 30%	14,500
Estimated yield of agricultural produce by plant (1)	70 to 90 grams	40,900
Estimated post-harvest costs	$1.50 to $2.50	18,700
Estimated equivalency	4.0 to 4.5	18,700

(1) The estimated yield varies based on the Company's different cannabis strains.

7. Inventory

Inventory is comprised of the following:

		December 31, 2018
Dried Cannabis		
Work in progress	$	640,977
Packaging and supplies		50,807
Total inventory	**$**	**691,784**

The fair value changes in biological assets included in inventory are $303,600

8. Property, plant and equipment

	Land and Building	Construction in progress	Equipment, furniture & fixtures	Production Equipment	Bearer Plants	Software & computers	Total
Cost							
Balance, December 31, 2017	$ 507,224	$ 1,915,543	$ 749,622	$ -	$ -	$ 93,635	3,266,024
Additions	669,530	7,146,995	2,102,227	3,969,972	21,879	154,356	14,064,959
Transfers	8,689,661	(8,689,661)	-	-	-	-	-
Balance, December 31, 2018	**$ 9,866,415**	**$ 372,877**	**$ 2,851,849**	**$ 3,969,972**	**$ 21,879**	**$ 247,991**	**$17,330,983**
Depreciation & amortization							
Balance, December 31, 2017	$ 26,466	$ -	$ 3,413	$ -	$ -	$ 534	30,413
Depreciation	267,094	-	123,417	141,182	-	37,749	569,442
Balance, December 31, 2018	**$ 293,560**	**$ -**	**$ 126,830**	**$ 141,182**	**$ -**	**$ 38,283**	**$ 599,855**
Carrying amounts							
At December 31, 2017	$ 480,758	$ 1,915,543	$ 746,209	$ -	$ -	$ 93,101	$ 3,235,611
At December 31, 2018	**$ 9,572,855**	**$ 372,877**	**$ 2,725,019**	**$ 3,828,790**	**$ 21,879**	**$ 209,708**	**$16,731,128**

Transfers during 2018 include additions and improvements to the areas of the manufacturing facility that are now operational. Additions remaining in Construction in progress relate to the next phase of expansion which is still under construction.

9. Finance leases

Finance lease liabilities are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	December 31, 2018			December 31, 2017		
Less than 1 year	**$ 194,462**	**$ 28,435**	**$ 166,027**	$ 95,660	$ 18,596	$ 77,064
Between 1 and 5 years	**425,272**	**50,388**	**$ 374,884**	316,205	53,512	262,693
Later than 5 years	**118,406**	**5,376**	**$ 113,030**	168,940	12,048	156,892
Total	**$ 738,140**	**$ 84,199**	**$ 653,941**	$ 580,805	$ 84,156	$ 496,649

The Corporation has three finance leases. The first is for a vehicle, had a balance of $18,190 at December 31, 2018 (2017 – $27,687), carries an interest rate of 6.6% and matures September 2020. The second lease is for land and building for the Corporation's production facility in Brooklyn, Nova Scotia, which had a balance of $401,395 at December 31, 2018 (2017 – $468,962), carries an imputed interest rate of 3.75% and matures May 2027. Additionally, the Corporation entered into a lease agreement during 2018 for a generator to be used at the production facility described above. The lease had a balance of $234,356 at December 31, 2018 (2017 – Nil), carries an interest rate of 7% and matures July 2021.

10. Income taxes

The Corporation's provision for income taxes differs from the amount computed by applying the combined Canadian federal and provincial rates to loss before income taxes as a result of the following:

	December 31, 2018	December 31, 2017
Loss from continuing operations before income taxes	**$ 4,500,513**	$ 1,693,392
Statutory tax rates	**31%**	31%
Income tax recovery computed at the statutory rates	**$ 1,395,159**	$ 524,952
Permanent differences	**(343,338)**	(293,704)
Change in unrecognized temporary differences	**(1,018,804)**	(226,745)
Other	**(33,017)**	(4,503)
	$ -	$ -

The Corporation has recognized the following deferred tax assets and liabilities:

	December 31, 2018	December 31, 2017
Biological assets	**$ (51,916)**	$ -
Inventory	**$ (94,101)**	$ -
Non-capital losses	**$ 146,017**	$ -
	$ -	$ -

10. Income taxes (continued)

The following deductible temporary differences and non-capital losses have not been recognized in the financial statements:

	December 31, 2018	December 31, 2017
Non-capital losses	**$ 3,848,941**	$ 1,052,586
Share issuance costs	**53,206**	49,843
Property, plant and equipment	**430,254**	-
SR&ED carryforward	**183,959**	41,634
	$ 4,516,360	$ 1,144,063

The non-capital losses expire between 2034 and 2038.

11. Capital management

The Corporation's objective when managing its capital is to safeguard its ability to continue as a going concern so that it can secure a license to sell medical cannabis. The Corporation defines capital as its obligations under finance leases and its shareholders' equity.

The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets and the Corporation's working capital requirements. In order to maintain or adjust the capital structure, the Corporation (upon approval from its Board of Directors, as required) may issue additional capital, primarily through equity financings. The Board of Directors reviews and approves any material transaction out of the ordinary course of business, including major investments, as well as annual capital and operating budgets. The Corporation is not subject to externally imposed capital requirements.

12. Share Capital

The Corporation has an unlimited number of common shares authorized for issue without par value. The changes in share capital during the years ended December 31, 2018 and 2017 were as follows:

	2018		**2017**	
	Shares	**$**	Shares	$
Issued and outstanding at January 1	**13,120,202**	**10,704,762**	7,385,001	1,026,002
Issued for cash	**3,489,227**	**11,893,373**	5,735,201	9,678,760
Options exercised	**170,000**	**160,310**	-	-
Issued and outstanding at December 31	**16,779,429**	**22,758,445**	13,120,202	10,704,762

During the year ended December 31, 2018 the Corporation issued 3,489,227 common shares in non-brokered private placements and 170,000 stock options were exercised. Total consideration raised in 2018 was $12,074,331. Share issuance costs associated with these issuances was $20,648. At December 31, 2018 $130,500 was held in trust by Stewart McKelvey, and $110,098 by Olympia Trust Company. These funds held in trust represented subscription proceeds related to financings from the fourth quarter of 2018 and were received subsequent to year end.

12. Share capital (continued)

During the year ended December 31, 2017 the Corporation issued 5,735,201 common shares in private placements. Total consideration raised in 2017 was $9,730,648. Share issuance costs associated with these issuances was $51,888. At December 31, 2017 $3,647,925 was held in trust by Wickstrom Law and represented subscription proceeds related to a financing which closed on December 29, 2017 and was received subsequent to year end.

13. Stock options

The Corporation has an incentive stock option plan (the "Plan") under which options to purchase common shares of the Corporation may be granted to directors, officers, employees and consultants of the Corporation. Under the Plan, the terms and conditions of each grant of options are determined by the Board of Directors of the Corporation. If there are no terms specified upon grant, options vest immediately on the grant date. The number of common shares subject to options granted under the Plan is limited to 10% of the issued and outstanding common shares of the Corporation and no one person may receive in excess of 5% of the outstanding common shares of the Corporation at the time of grant (on a non-diluted basis).

The changes in stock options during the years ended December 31, 2018 and 2017 were as follows:

	December 31, 2018		**December 31, 2017**	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Outstanding at January 1	**1,312,000**	**$ 0.76**	625,000	$ 0.50
Granted	**464,000**	**2.00**	687,000	1.00
Exercised	**(170,000)**	**0.50**	-	-
Forfeited	**(15,000)**	**0.67**	-	-
Outstanding at December 31	**1,591,000**	**$ 1.15**	1,312,000	$ 0.76
Exercisable at December 31	**1,497,250**	**$ 1.10**	1,312,000	$ 0.76

Of the 464,000 stock options granted in 2018, there are 370,250 which vest immediately, and 93,750 which vest in various stages over the following 24 months. All options granted in 2018 have a five-year term.

The following table summarizes information concerning outstanding options, of which 1,497,250 are exercisable at December 31, 2018:

	Outstanding	
Expiry date	**Number of Options**	**Exercise price**
October 9, 2020	445,000	0.50
February 28, 2022	175,000	1.00
September 30, 2022	220,000	1.00
December 31, 2022	287,000	1.00
January 10, 2023	20,500	2.00
April 2, 2023	26,500	2.00
June 1, 2023	201,000	2.00
December 1, 2023	216,000	2.00
	1,591,000	**$ 1.15**

13. Stock options (continued)

The fair value of each option granted is estimated at the time of grant using the Black-Scholes option pricing model with weighted-average assumptions for grants as follows:

		Year Ended December 31, 2018
Share price at grant date	$	4.30
Exercise price	$	1.15
Risk-free interest rate		2.2%
Expected life		5.0 years
Expected volatility		70%
Expected dividends		0.0%
Weighted average grant date fair value	$	3.18

Expected volatility is estimated by considering historic average share price volatility for a group of peer companies traded publicly in Canada.

14. Trade and other payables

	December 31,			
		2018		2017
Trade and other payables	$	800,768	$	699,086
Due to related parties		-		38,275
	$	800,768	$	737,361

At December 31, 2018, the Corporation did not have any amounts owing to related entities (2017 - $38,275). At December 31, 2017, the Corporation did not have any accrued compensation for key personnel that would have settled in 2018 (2017 - $114,000).

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

15. Financial instruments

Liquidity Risk:

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities. As of December 31, 2018, the Corporation had current liabilities of $966,795 (2017 - $814,425) and cash, restricted cash, and receivables of $1,702,298 (2017 - $7,534,489) to meet its current obligations. The Corporation will require additional financing to meet capital needs to complete the expansions to its production facility.

15. Financial instruments (continued)

Interest rate risk:

As of December 31, 2018, the Corporation has no interest-bearing debt and is not exposed to any significant interest rate risk.

Credit Risk:

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying Amount December 31, 2018	2017
Cash and restricted cash	**$ 997,284**	$ 7,137,321
Receivables	**705,014**	397,168
	$ 1,702,298	$ 7,534,489

The Corporation manages credit risk by holding the majority of its cash with Canadian Tier 1 financial institutions where management believes the risk of loss to be low.

Receivables include HST from Revenue Canada in the amount of $445,186 (2016 – $397,168) and amounts owing from Finleaf Technologies Inc. of $259,828 (2017 - $Nil) where credit risk is considered to be low.

Market Risk:

The Company operates in an industry regulated by the Cannabis Act. Changes in legislation could have a significant impact on the Company's operations.

16. General and administrative expenses

	For the years ended December 31, 2018	2017
Management and administrative services	**$ 739,413**	$ 265,329
Office and sundry	**206,581**	51,476
Investor relations and marketing	**364,034**	70,700
Professional fees	**370,009**	84,698
Share-based compensation	**664,544**	568,418
Travel and accommodations	**170,519**	64,245
	$ 2,515,100	$ 1,104,866

17. Production facility and other

	For the years ended December 31, 2018	2017
Salaries, contract services and related	**$ 420,395**	$ 107,338
Depreciation	**472,538**	30,413
Share-based compensation	**238,124**	283,815
Production materials and equipment rental	**324,617**	-
Facility admin and sundry	**667,565**	41,240
	$ 2,123,239	$ 462,806

18. Miscellaneous income

Included in miscellaneous income is $Nil (2017 - $64,890) in Scientific Research & Experimental Development tax incentives and $15,362 (2017 - $Nil) in interest income.

19. Supplemental cash flow information

Changes in non-cash working capital:

	For the years ended December 31, 2018	2017
Receivables	**$ (195,348)**	$ (377,783)
Prepaid expenses	**(59,054)**	(91,878)
Inventory	**(388,184)**	-
Capitalized cost of biological asset	**(284,986)**	-
Trade and other payables	**(292,905)**	37,461
	$ (1,220,477)	$ (432,200)

Included in the change in Trade and other payables is $356,312 (2017 - $560,665) related to the purchase of property, plant and equipment.

20. Related parties

The total remuneration of key management personnel was as follows:

	For the years ended December 31, 2018	2017
Salaries and short-term incentives	**$ 481,156**	$ 252,000
Share-based compensation	**179,745**	453,118
	$ 660,901	$ 705,118

The Corporation was charged $Nil (2016 - $78,275) for legal services by an entity related to the CEO and the Vice President.

21. Commitments

The Corporation is committed to incur capital expenditures of approximately $404,000 (2017 – $2.5 million) to be settled in 2019.

22. Subsequent events

a) On March 13, 2019, the Corporation issued $2,000,000 in promissory notes for cash proceeds. The promissory notes bear interest at 12% per annum and are payable on demand.

b) On March 29, 2019, the Corporation issued its unrestricted sales license for the sale of cannabis in the adult-use and recreational markets under the Cannabis Act. The license is valid for three years until January 19, 2021.

AQUALITAS INC.

Condensed Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Canadian dollars)
(Unaudited)

Prepared by Management – See Notice to Reader

NOTICE TO READER

These unaudited condensed interim financial statements have been prepared by management of the Corporation. Management have compiled the unaudited condensed interim statement of financial position of Aqualitas Inc. as at September 30, 2019 and December 31, 2018 and the unaudited condensed interim statements of loss, changes in equity and cash flows for the three and nine months ended September 30, 2019 and 2018. The Corporation's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the September 30, 2019 and 2018 condensed interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

AQUALITAS INC.

Condensed Interim Statements of Financial Position
(Canadian dollars)
(Unaudited)

	Notes		September 30, 2019		December 31, 2018
ASSETS					
Current assets:					
Cash		$	**1,153,639**	$	756,686
Restricted cash			**-**		240,598
Receivables			**495,967**		705,014
Biological assets	**3**		**1,104,695**		452,456
Inventory	**4**		**2,702,283**		691,784
Prepaid expenses			**67,133**		153,636
			5,523,717		3,000,174
Non-current assets:					
Property, plant and equipment	**5**		**17,617,971**		16,731,128
TOTAL ASSETS		**$**	**23,141,688**	$	19,731,302
LIABILITIES					
Trade and other payables		$	**1,010,580**	$	800,768
Current portion of obligations under finance leases	**6**		**255,494**		166,027
			1,266,074		966,795
Non-current liabilities:					
Note payable	**7**		**3,375,873**		-
Obligations under finance leases	**6**		**516,034**		487,914
			3,891,907		487,914
TOTAL LIABILITIES		$	**5,157,981**	$	1,454,709
EQUITY					
Share capital	**8**	$	**22,785,225**	$	22,758,445
Contributed surplus	**7/9**		**4,412,905**		2,245,311
Deficit			**(9,214,423)**		(6,727,163)
TOTAL EQUITY		$	**17,983,707**	$	18,276,593
TOTAL LIABILITIES AND EQUITY		$	**23,141,688**	$	19,731,302

Subsequent events (Note 12)

The following notes are in integral part of these condensed interim financial statements

AQUALITAS INC.

Condensed Interim Statements of Loss
(Canadian dollars)
(Unaudited)

	Notes	For the three months ended September 30, 2019	2018	For the nine months ended September 30, 2019	2018
Gross revenue		**$ 1,380,921**	$ -	**$ 1,997,466**	$ -
Excise taxes		**159,558**	-	**192,463**	-
Net revenue		**$ 1,221,363**	$	**$ 1,805,003**	$ -
Cost of sales					
Cost of sales before fair value adjustments		**847,967**	-	**1,315,187**	-
Gross profit before fair value adjustments		**373,396**	-	**489,816**	-
Unrealized change in fair value of biological assets		**735,402**	-	**2,025,013**	-
Gross profit		**1,108,798**	-	**2,514,829**	-
Expenses					
General and administrative	11	**$ 569,770**	$ 464,029	**$ 1,615,551**	$ 1,684,423
Research and development		**45,885**	22,329	**95,274**	126,186
Production facility and other		**1,181,264**	602,754	**3,059,827**	1,256,849
Foreign exchange loss (gain)		**6,023**	22,592	**(958)**	30,648
Total Expenses		**1,802,942**	1,111,703	**4,769,694**	3,098,106
Other (income) expense					
Finance expense		**352,293**	(1,329)	**550,119**	7,331
Other income		**(233,940)**	-	**(317,724)**	-
Total Other (income) expense		**118,354**	**(1,329)**	**232,395**	**7,331**
Net (loss) gain and comprehensive (loss) gain		**$ (812,496)**	$ **(1,110,375)**	**$ (2,487,260)**	$ **(3,105,437)**
Basic and diluted (loss) gain per share		**$ (0.048)**	$ (0.074)	**$ (0.148)**	$ (0.206)
Basic and diluted weighted average number of shares outstanding		**16,782,195**	15,065,973	**16,782,195**	15,065,973

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

AQUALITAS INC.

Condensed Interim Statements of Changes in Equity
(Canadian dollars)
(Unaudited)

	Notes	Number of shares	Share capital	Contributed surplus	Deficit	Total equity
Balance at January 1, 2018		13,120,202	$ 10,704,762	$ 1,236,978	$ (2,311,068)	$ 9,630,672
Total comprehensive loss for the period:						
Net loss		-	-	-	(3,105,437)	(3,105,437)
Private placement, net of share issue costs		3,146,307	10,365,260	-	-	10,365,260
Issued on the exercise of options		100,000	94,300	(44,300)		50,000
Share-based compensation		-	-	394,952	-	394,952
Total transactions with owners		3,246,307	10,459,560	350,652	-	10,810,212
Balance at September 30, 2018		16,366,509	$ 21,164,322	$ 1,587,630	$ (5,416,505)	$ 17,335,447
Balance at January 1, 2019		**16,779,429**	**$ 22,758,445**	**$ 2,245,311**	**$ (6,727,163)**	**$ 18,276,593**
Total comprehensive loss for the period:						
Net loss		**-**	**-**	**-**	**(2,487,260)**	**(2,487,260)**
Private placement, net of share issue costs		**-**	**-**	**-**	**-**	**-**
Warrants, net of issue costs	**7**	**-**	**-**	**2,045,814**	**-**	**2,045,814**
Issued on the exercise of options		**5,000**	**26,780**	**(16,780)**	**-**	**10,000**
Share-based compensation	**9**	**-**	**-**	**138,560**	**-**	**138,560**
Total transactions with owners		**5,000**	**26,780**	**2,167,594**	**-**	**2,194,374**
Balance at September 30, 2019		**16,784,429**	**$ 22,785,225**	**$ 4,412,905**	**$ (9,214,423)**	**$ 17,983,707**

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

AQUALITAS INC.

Condensed Interim Statements of Cash Flows
(Canadian dollars)
(Unaudited)

	Notes		For the nine months ended September 30, 2019		2018
Cash flows from operating activities:					
Net loss		**$**	**(2,487,260)**	$	(3,105,437)
Items not involving cash:					
Share-based compensation			**138,560**		394,952
Depreciation	**5**		**1,744,638**		22,139
Unrealized gain on change in FV of biological assets			**(1,553,943)**		-
Financing costs	**7**		**472,102**		-
Change in non-cash working capital			**(603,434)**		110,873
Cash flows from operating activities			**(2,289,337)**		(2,577,473)
Cash flows from financing activities:					
Issue of common shares for cash, net of issue costs			**-**		10,365,260
Proceeds from exercise of stock options			**10,000**		50,000
Proceeds from finance lease, net			**117,587**		(18,972)
Proceeds from note payable	**7**		**2,903,771**		-
Proceeds from warrant	**7**		**2,045,814**		-
Cash flows from financing activities			**5,077,172**		10,396,288
Cash flows from investing activities:					
Expenditures on property, plant & equipment			**(2,631,480)**		(3,868,632)
Cash flows from investing activities			**(2,631,480)**		(3,868,632)
Increase (decrease) in cash			**156,355**		3,950,183
Cash and restricted cash, beginning of year			**997,284**		7,137,321
Cash, end of period		**$**	**1,153,639**	$	11,087,504

The following notes are an integral part of these condensed interim financial statements.

1. Nature of operations

Aqualitas Inc. (the "Corporation") was incorporated under the laws of Nova Scotia, Canada on October 30, 2014. The address of the Corporation's registered office is 310-1550 Bedford Highway, Bedford, Nova Scotia, B4A 1E6. The principal focus of the Corporation is to produce and sell high quality organically grown cannabis under the *Cannabis Ac*t.

The Corporation is a start-up company and received its license to cultivate medical cannabis under section 35 of the *ACMPR* on January 19, 2018, which as of October 17, 2018 converted to the *Cannabis Act*. Renewal of the Corporation's license is expected at the end of its nine-year term so long as the Corporation remains in compliance with *Cannabis Act* regulations. The Corporation began commercial production in the third quarter of 2018. The Corporation was granted its oil processing license on February 15, 2019 and its full unrestricted sales license for dry flower under the *Cannabis Act* on March 29, 2019, and full unrestricted sales license for cannabis extracts, topicals and edibles on October 23, 2019. There is no guarantee the Corporation can raise the remaining capital required to complete expansion and operate a production facility or secure the clients and/or supply agreements required to generate sufficient revenues to produce positive cash flows.

2. Basis of presentation

Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting ("IAS 34").

These financial statements were prepared using the same accounting policies and methods of computation, and are subject to the same use of estimates and judgments, as the Corporations financial statements for the year ended December 31, 2018. They do not include all the disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Corporation's 2018 annual financial statements which have been prepared in accordance with IFRS.

The financial statements were authorized for issue by the Board of Directors on November 22, 2019.

3. Biological assets

As at September 30, 2019, the Company's biological assets consists of seeds and cannabis plants. The changes in the carrying value of biological assets are as follows:

	Capitalized cost	Biological asset fair value adjustment	Amount
Balance, December 31, 2018	**$ 284,986**	**$ 167,470**	**$ 452,456**
Purchase of clones and seeds	-	-	-
Changes in fair value less costs to sell due to biological transformation	-	2,025,011	2,025,011
Production costs capitalized	1,446,669	-	1,446,669
Transferred to inventory upon harvest	(979,215)	(1,840,226)	(2,819,441)
Balance, September 30, 2019	**$ 752,440**	**$ 352,255**	**$ 1,104,695**

3. Biological assets (continued)

The following table quantifies each significant unobservable input, and provides the impact of a 10% increase or decrease in each input would have on the fair value of biological assets:

	September 30, 2019	Impact of 10% change on the carrying amount as at September 30, 2019	
Estimated selling price per gram	$5.50 to $9.00	$	145,000
Estimated stage of growth	10.67 weeks		780,000
Estimated wastage	25% to 30%		249,000
Estimated yield of agricultural produce by plant (1)	70 to 90 grams		106,000
Estimated post-harvest costs	$1.50 to $2.50		39,000
Estimated equivalency	4.0 to 5.0		30,000

(1) The estimated yield varies based on the Company's different cannabis strains

4. Inventory

Inventory is comprised of the following:

		September 30, 2019
Cannabis products		
Work in progress	$	2,410,216
Finished goods	$	104,363
Packaging and supplies		187,703
Total inventory	**$**	**2,702,283**

The fair value changes in biological assets included in inventory are $1,374,255.

5. Property, plant and equipment

	Land and Building	Construction in progress	Equipment, furniture & fixtures	Production Equipment	Software & computers	Total
Cost						
Balance, January 1, 2019	$ 9,866,415	$ 372,877	$ 2,851,849	$ 3,991,851	$ 247,991	$17,330,983
Additions	1,640,496	-	842,819	117,723	30,443	2,631,481
Balance, September 30, 2019	$11,506,911	$ 372,877	$ 3,694,668	$ 4,109,574	$ 278,434	$19,962,464
Depreciation & amortization						
Balance, January 1, 2019	$ 293,560	$ -	$ 126,830	$ 141,182	$ 38,283	$ 599,855
Depreciation	816,677	-	441,518	418,120	68,323	1,744,638
Balance, September 30, 2019	$ 1,110,237	$ -	$ 568,348	$ 559,302	$ 106,606	$ 2,344,493
Carrying amounts						
At January 1, 2019	$ 9,572,855	$ 372,877	$ 2,725,019	$ 3,850,669	$ 209,708	$16,731,128
At September 30, 2019	$10,396,674	$ 372,877	$ 3,126,320	$ 3,550,272	$ 171,828	$17,617,971

Additions remaining in Construction in progress relate to the next phase of expansion which is still under construction.

6. Finance leases

Finance lease liabilities are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	September 30, 2019			**December 31, 2018**		
Less than 1 year	**$ 290,749**	**$ 35,255**	**$ 255,494**	$ 194,462	$ 28,435	$ 166,027
Between 1 and 5 years	**480,432**	**46,491**	**433,941**	425,272	50,388	374,884
Later than 5 years	**81,660**	**2,619**	**79,041**	118,406	5,376	113,030
Total	**$ 852,841**	**$ 84,365**	**$ 768,476**	$ 738,140	$ 84,199	$ 653,941

The Corporation has five finance leases. The first is for a vehicle, which has a balance of $10,649 at September 30, 2019 (December 31, 2018 – $18,190), carries an interest rate of 6.6% and matures March 2020. The second lease is for land and building for the Corporation's production facility in Brooklyn, Nova Scotia, which has a balance of $349,033 at September 30, 2019 (December 31, 2018 – $401,395), carries an imputed interest rate of 3.75% and matures May 2027. The third is a lease for a vehicle, which has a balance of $24,263 at September 30, 2019 (December 31, 2018 – nil), carries an interest rate of 6.9% and matures April 2023. The last two leases are for generators with a balance of $170,612 and $216,915 at September 30, 2019 (December 31, 2018 - $234,356 and $nil), carrying an interest rate of 7% and maturing in July 2021 and January 2022, respectively.

7. Note payable

During the period the Corporation issued Notes Payable under a Note Purchase Agreement for a total of $4,949,585 and 1,099,900 warrants, exercisable at $4.50/share until May 2021. The fair values assigned to the notes payable and warrants are $2,903,771 and $2,045,814, respectively, using the Black-Scholes pricing model. The notes payable accrue interest annually at 12%, with $472,102 in interest and accretion expense being accrued at September 30, 2019 (December 31, 2018 - $nil).

8. Share capital

During the period ended September 30, 2019 5,000 stock options were exercised for total consideration of $10,000.

9. Stock options

The Corporation has an incentive stock option plan (the "Plan") under which options to purchase common shares of the Corporation may be granted to directors, officers, employees and consultants of the Corporation. Under the Plan, the terms and conditions of each grant of options are determined by the Board of Directors of the Corporation. If there are no terms specified upon grant, options vest immediately on the grant date. The number of common shares subject to options granted under the Plan is limited to 10% of the issued and outstanding common shares of the Corporation and no one person may receive in excess of 5% of the outstanding common shares of the Corporation at the time of grant (on a non-diluted basis).

9. Stock options (continued)

The changes in stock options during the nine months ended September 30, 2019 and year ended December 31, 2018 were as follows:

	September 30, 2019			December 31, 2018		
	Number of options	**Weighted average exercise price**		**Number of options**	**Weighted average exercise price**	
Outstanding at January 1	**1,591,000**	**$**	**1.15**	1,312,000	$	0.76
Granted	**-**		**-**	464,000		2.00
Exercised	**(5,000)**		**-**	(170,000)		0.50
Forfeited	**(50,000)**		**2.00**	(15,000)		0.67
Outstanding at September 30	**1,536,000**	**$**	**1.12**	1,591,000	$	1.15
Exercisable at September 30	**1,493,500**	**$**	**1.04**	1,497,250	$	1.10

The following table summarizes information concerning outstanding options, of which 1,493,500 are exercisable at September 30, 2019:

	Outstanding	
Expiry date	**Number of Options**	**Exercise price**
2020	445,000	0.50
2022	682,000	1.00
2023	409,000	2.00
	1,536,000	**$ 1.12**

The fair value of each option granted is estimated at the time of grant using the Black-Scholes option pricing model with weighted-average assumptions for grants as follows:

	Period ended September 30, 2019		**Year Ended December 31, 2018**	
Share price at grant date	**$**	**4.30**	**$**	**4.30**
Exercise price	**$**	**1.12**	**$**	**1.15**
Risk-free interest rate		**2.2%**		**2.2%**
Expected life		**5.0 years**		**5.0 years**
Expected volatility		**70%**		**70%**
Expected dividends		**0.0%**		**0.0%**
Weighted average grant date fair value	**$**	**3.18**	**$**	**3.18**

Expected volatility is estimated by considering historic average share price volatility for a group of peer companies traded publicly in Canada.

10. Financial instruments

Liquidity Risk:

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. As of September 30, 2019, the Corporation has current assets of $1,552,601 (2018 – $1,442,470) to settle current liabilities of $1,266,074 (2018 - $966,795). The Corporation has sufficient working capital to meet all general and administrative needs for 2019 but requires additional financing to meet capital needs to complete the renovations to its production facility and purchase of growing and processing equipment.

Credit Risk:

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying Amount September 30, 2019	Carrying Amount December 31, 2018
Cash and restricted cash	**$ 1,153,639**	$ 997,284
Receivables	**495,967**	705,014
	$ 1,649,606	$ 1,702,298

The Corporation manages credit risk by holding the majority of its cash and restricted cash with Canadian Tier 1 financial institutions where management believes the risk of loss to be low.

Receivables include HST from Revenue Canada in the amount of $23,739 (2018 – $445,186) where credit risk is considered to be low. Subsequent to September 30, 2019 the receivable from Revenue Canada was received.

11. Corporate and administrative expenses

	For the three months ended September 30		For the nine months ended September 30	
	2019	**2018**	**2019**	**2018**
Investor relations and marketing	**$ 43,325**	$ 89,004	**$ 138,988**	$ 281,784
Management and administrative services	**251,311**	198,275	**723,849**	485,054
Office and sundry	**104,729**	56,927	**223,188**	133,783
Professional and consulting fees	**143,142**	66,245	**420,439**	334,257
Share-based compensation	**-**	-	**41,399**	324,711
Travel and accommodations	**27,263**	53,578	**67,688**	124,834
	569,770	464,029	**1,615,551**	1,684,423

12. Subsequent events

a) On October 23, 2019 the Corporation received its license from Health Canada for the sale of cannabis extracts, cannabis topicals and edible cannabis products.

Item 13: Date and Certificate

This Offering Memorandum does not contain a misrepresentation.

Dated November 26, 2019

Myrna L. Gillis, QC, CEO and Director

Mike O’Keefe, CFO and Director

Barbara Darby, VP and Director

AQUALITAS INC.
310A – 1550 BEDFORD HIGHWAY, BEDFORD,
NS B4A 1E6

TEL: 902-835-2784 FAX: 902-835-1486
ADMIN@AQUALITAS.CA