Supreme.
TSXV:FIRE

THE SUPREME CANNABIS COMPANY, INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018 and JUNE 30, 2017

(Expressed in Canadian Dollars)

Management’s Responsibility for Financial Reporting

To the Shareholders of The Supreme Cannabis Company, Inc. (the “**Company**” or **“Supreme”**):

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards (“**IFRS**”). This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of the consolidated financial statements.

The Audit Committee is composed primarily of Directors who are neither management nor employees of the Company. The Audit Committee and Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the consolidated financial statements. The Audit Committee has the responsibility of meeting with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting findings. The Audit Committee is also responsible for recommending the appointment of the Company’s external auditors.

The consolidated financial statements have been audited by MNP LLP, an external independent firm of Chartered Professional Accountants, in accordance with Canadian generally accepted auditing standards on behalf of the Shareholders. MNP LLP has full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

September 24, 2018

(signed)	(signed)
/Dimitre Naoumov/	/Colin Moore/
Chief Financial Officer	Director

Independent Auditors' Report

To the Shareholders of The Supreme Cannabis Company, Inc.:

We have audited the accompanying consolidated financial statements of The Supreme Cannabis Company, Inc., which comprise the consolidated statements of financial position as at June 30, 2018 and 2017, and the consolidated statements of comprehensive loss, cash flows and changes in shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Supreme Cannabis Company, Inc. as at June 30, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

MNP LLP

Toronto, Ontario
September 24, 2018

Chartered Professional Accountants
Licensed Public Accountants

MNP

The Supreme Cannabis Company, Inc.

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

As at:	Note	June 30, 2018	June 30, 2017
ASSETS			
Current assets			
Cash		**$ 55,895,997**	$ 57,681,554
Receivables	3	**8,467,833**	1,055,229
Prepaid expenses and deposits		**1,289,834**	110,190
Inventory	4	**4,579,118**	-
Biological assets	5	**3,283,233**	459,519
		73,516,015	59,306,492
Non-current assets			
Property, plant and equipment	6	**101,008,447**	26,638,905
Deposits on property, plant and equipment		**516,084**	472,385
Intangible Assets	7	**8,396,914**	8,396,914
Investments	8	**16,331,609**	1,073,642
Other Assets		**15,000**	15,000
		$ 199,784,069	$ 95,903,338
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**$ 22,916,874**	$ 5,110,643
		22,916,874	5,110,643
Long-term liabilities			
Convertible debt	9	**31,721,913**	31,705,456
		54,638,787	36,816,099
SHAREHOLDERS' EQUITY			
Share capital	11	**156,097,158**	65,636,030
Reserves		**34,892,067**	31,948,022
Accumulated other comprehensive income		**844,635**	844,635
Deficit		**(46,688,578)**	(39,341,448)
		145,145,282	59,087,239
		$ 199,784,069	$ 95,903,338

Commitments (Note 15)
Subsequent events (Note 16)

Approved and authorized by the Board of Directors on September 24, 2018:

"Navdeep Dhaliwal" — **Director**

"Colin Moore" — **Director**

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

The Supreme Cannabis Company, Inc.

Consolidated Statements of Comprehensive Loss

(Expressed in Canadian Dollars)

For the year ended	**Note**	**June 30, 2018**	June 30, 2017
Revenue		**$ 8,854,714**	$ -
Production costs	4, 6	**6,678,725**	-
		2,175,989	-
Fair value changes on growth of biological assets	5	**12,460,812**	459,519
Realized fair value changes on inventory sold or impaired	4, 5	**(5,712,631)**	-
		$ 8,924,170	$ 459,519
Operating expenses			
Wages and benefits	12	**$ 4,697,820**	$ 3,146,276
Rent and facilities		**1,534,238**	1,078,417
Professional fees		**1,031,280**	621,939
Sales, marketing and business development		**1,602,405**	513,455
General and administrative		**1,118,122**	463,613
Amortization of property, plant and equipment	6	**327,350**	583,567
Share based payments	10, 12	**5,554,597**	12,208,564
		15,865,812	18,615,831
Other expenses (Income)			
Finance expense, net	6, 9	**$ 363,566**	$ 175,777
Loss on disposal of property, plant and equipment	6	**1,390,739**	-
Unrealized gain on investments	8	**(2,095,860)**	-
		(341,555)	175,777
Net loss before taxes		**$ (6,600,087)**	$ (18,332,089)
Deferred tax recovery (expense)	13	**(747,043)**	3,064,914
Net loss after taxes		**$ (7,347,130)**	$ (15,267,175)
Unrealized gain on change in fair value of available for sale financial asset	8	**-**	844,635
Total loss and comprehensive loss		**$ (7,347,130)**	$ (14,422,540)
Weighted average number of shares		**223,827,154**	164,793,131
Basic and Diluted Loss per common share		**$ (0.03)**	$ (0.09)

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

The Supreme Cannabis Company, Inc.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

For the year ended	**June 30, 2018**	June 30, 2017
Operating activities:		
Net loss after taxes	**$ (7,347,130)**	$ (15,267,175)
Items not involving cash:		
Amortization	**1,171,351**	583,567
Accretion and interest expense	**86,350**	-
Flow-through share interest and penalties	**9,305**	11,182
Share based payments	**5,554,597**	12,208,564
Loss on disposal of property, plant and equipment	**1,390,739**	-
Fair value changes on growth of biological assets	**(12,460,812)**	(459,519)
Realized fair value changes on inventory sold	**5,314,748**	-
Impairment adjustment on fair value of inventory	**397,883**	
Deferred tax expense (recovery)	**747,043**	(3,064,914)
Unrealized gain on investments	**(2,095,860)**	-
Changes in non-cash working capital:		
Inventory	**(654,649)**	-
Receivables	**(7,412,604)**	(723,564)
Prepaid expenses and deposits	**(1,179,644)**	(347,360)
Accounts payable and accrued liabilities	**17,806,231**	4,227,631
	1,327,548	(2,831,588)
Investing activities:		
Additions to property, plant and equipment & capitalized cash borrowing costs	**(71,850,085)**	(15,263,079)
Investments	**(13,162,107)**	-
Proceeds on sale of short-term investment	**-**	1,200,000
Deposits on property, plant and equipment	**(43,699)**	-
	(85,055,891)	(14,063,079)
Financing activities:		
Common shares issued (net of issuance costs)	**-**	10,533,151
Warrants exercised	**42,788,095**	9,767,798
Stock options exercised	**715,938**	1,346,950
Convertible debentures issued (net of issuance costs)	**38,438,753**	52,697,753
Mortgage proceeds	**-**	4,000,000
Mortgage payable	**-**	(7,500,000)
	81,942,786	70,845,652
Net change in cash	**(1,785,557)**	53,950,985
Cash, beginning of year	**57,681,554**	3,730,569
Cash, end of year	**$ 55,895,997**	**$ 57,681,554**

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

The Supreme Cannabis Company, Inc.

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

	Number of Common Shares	Share Capital	Shares to be issued	Reserves	AOCI	Deficit	Total Shareholders' (Deficiency) Equity
Balance, June 30, 2016	**118,032,565**	**$ 32,063,452**	**$ 430,000**	**$ 10,945,375**	**$ -**	**$ (24,074,273)**	**$ 19,364,554**
Private Placements (net of fees)	28,334,688	6,627,752	(430,000)	4,335,399	-	-	10,533,151
Warrants exercised	22,070,124	11,399,120	-	(1,631,322)	-	-	9,767,798
Stock options exercised	3,085,000	2,352,396	-	(1,005,446)	-	-	1,346,950
Conversion feature on convertible debt	-	-	-	4,161,397	-	-	4,161,397
Warrants issued on convertible debt	-	-	-	4,202,744	-	-	4,202,744
Debenture conversion (April 2015)	6,038,235	705,404	-	(157,521)	-	-	547,883
Debenture conversion (Dec 2016)	11,271,515	12,487,906	-	(1,111,168)	-	-	11,376,738
Share based payments	-	-	-	12,208,564	-	-	12,208,564
Convertible debt	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	(15,267,175)	(15,267,175)
Other comprehensive income	-	-	-	-	844,635	-	844,635
Balance, June 30, 2017	**188,832,127**	**65,636,030**	**-**	**31,948,022**	**844,635**	**(39,341,448)**	**59,087,239**
Warrants exercised	**31,369,482**	**46,273,903**	**-**	**(3,485,808)**	**-**	**-**	**42,788,095**
Stock options exercised	**1,521,250**	**1,276,470**	**-**	**(560,532)**	**-**	**-**	**715,938**
Debenture conversion (Dec 2016)	**31,104,992**	**39,077,553**	**-**	**(3,050,228)**	**-**	**-**	**36,027,325**
Convertible debenture (Nov 2017)	**-**	**-**	**-**	**4,947,474**	**-**	**-**	**4,947,474**
Debenture conversions (Nov 2017)	**2,909,375**	**3,833,202**	**-**	**(461,458)**	**-**	**-**	**3,371,744**
Share based payments	**-**	**-**	**-**	**5,554,597**	**-**	**-**	**5,554,597**
Net loss for the period	**-**	**-**	**-**	**-**	**-**	**(7,347,130)**	**(7,347,130)**
Balance, June 30, 2018	**255,737,226**	**156,097,158**	**-**	**34,892,067**	**844,635**	**(46,688,578)**	**145,145,282**

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

1. Nature of Operations

Supreme is a federally incorporated Canadian medical cannabis company with its common shares publicly traded on the TSX Venture Exchange ("**TSXV**") under the symbol "**FIRE**", Over-the-Counter ("**OTCQX**") under the symbol "**SPRWF**", and on the Frankfurt Stock Exchange ("**FRA**") under the symbol "**53S1**". Supreme's primary asset, 7ACRES a Canadian corporation, is wholly owned by Supreme.

7ACRES is a Licensed Producer (as such term is defined in the Access to Cannabis for Medical Purposes Regulations ("**ACMPR**") which replaced the Marihuana for Medical Purposes Regulations (the "**MMPR**")). On May 23, 2014, Supreme purchased a 342,000 square foot facility including adjacent buildings situated on approximately sixteen acres of land located in the Bruce Energy Park, in Kincardine, Ontario, approximately 160 kilometers outside of Toronto (the "**Facility**"). The Facility was acquired for the purpose of producing medical cannabis pursuant to the ACMPR (formerly the MMPR). 7ACRES became a Licensed Producer on March 11, 2016 when it was issued a license to cultivate medical cannabis, pursuant to the MMPR (the "**License**"), at its Facility. On June 28, 2017 the Company was granted permission to sell medical cannabis.

On December 18, 2017, the Company changed its name to The Supreme Cannabis Company, Inc.

The Company's head office and registered records office is located at 178R Ossington Avenue, Toronto ON M6J 2Z7.

2. Significant Accounting Policies

a) Statement of compliance

These consolidated financial statements ("**Financial Statements**") have been prepared in accordance and in compliance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and Interpretations of the IFRS Interpretations Committee ("**IFRIC**").

These Financial Statements were authorized for issuance by the Company's Board of Directors ("Board") on September 24, 2018.

b) Basis of measurement

These Financial Statements have been prepared on a historical cost basis except for certain financial instruments and biological assets which have been measured at fair value. In addition, these Financial Statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Basis of consolidation

These Financial Statements include the accounts of the Company and its wholly-owned subsidiary, 8528934 Canada Ltd., d/b/a/, 7ACRES. All significant intercompany balances and transactions were eliminated on consolidation.

d) Functional and presentation of foreign currency

The Financial Statements are presented in Canadian dollars unless otherwise noted. The presentation currency and functional currency of the Company and its subsidiary is the Canadian dollar.

e) Revenue recognition

Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is recognized when all the following conditions have been satisfied, which are generally met once the products are shipped to customers.

(a) The Company has transferred the significant risks and rewards of ownership of the goods to the purchaser;
(b) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

2. Significant Accounting Policies (continued)

e) Revenue recognition (continued)

(c) The amount of revenue can be measured reliably;
(d) It is probable that the economic benefits associated with the transaction will flow to the entity; and
(e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Amounts disclosed as revenue are net of allowances, discounts and rebates.

f) Additional significant accounting policies, estimates and judgments

The preparation of these Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the Financial Statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Following information is disclosed throughout the notes as identified in the table below:

(a) Information on the Company's significant accounting policies;
(b) Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the amounts recognized in the consolidated financial statements; and
(c) Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements

Note	Topic	Accounting Policy	Use of Estimates	Use of Judgments
3	Accounts Receivable	X		
4	Inventory	X		
5	Biological Assets	X	X	
6	Property, Plant and Equipment	X	X	X
7	Intangible Assets	X	X	X
8	Investments	X	X	
9	Convertible Debentures	X	X	
10	Share Based Compensation	X	X	
11	Share Capital	X		
13	Income Taxes	X	X	
14	Financial Risk Management and Financial Instruments	X	X	X

g) Recent accounting pronouncements not yet adopted

i. IFRS 9

In July 2014, the IASB issued the final publication of the IFRS 9 Financial Instruments ("IFRS 9") standard. The new standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, new guidance for measuring impairment on financial assets, and new hedge accounting guidance. The Company assessed the impact of adopting IFRS 9 retrospectively and determined that the impact was not material. Commencing July 1, 2018, the Company will adopt IFRS 9 on a cumulative effective basis, with no restatement of the comparative period.

(Expressed in Canadian Dollars)

2. Significant Accounting Policies (continued)

g) Recent accounting pronouncements not yet adopted (continued)

ii. IFRS 15

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15"). The new standard is effective for annual periods beginning on or after January 1, 2018. IFRS 15 introduces a single model for recognizing revenue from contracts with customers. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. The Company assessed the impact of adopting IFRS 15 retrospectively and determined that the impact was not material. Commencing July 1, 2018, the Company will adopt IFRS 15 on a cumulative effective basis, with no restatement of the comparative period.

iii. IFRS 16

In 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), replacing International Accounting Standards ("IAS 17"), Leases, and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019 and is to be applied retrospectively. Early adoption is permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of the new standard on its consolidated financial statements and will adopt IFRS 16 starting July 1, 2019.

3. Accounts Receivable

Accounting Policy:

The Company initially recognizes accounts receivable on the date they originate. Receivables are initially measured at fair value, and subsequently at amortized cost, with changes recognized in net income. The Company measures an impairment loss for accounts receivable as the excess of the carrying amount over the present value of future cash flows that the Company expects to derive from the receivables, if any. Amounts of overdue trade accounts receivables are discussed in Note 14. The excess is allocated to an allowance for doubtful accounts and recognized on the consolidated statement of comprehensive loss.

Explanatory Information:

The Company's accounts receivable consists of trade receivable, sales tax receivable and other receivable. The breakdown of the accounts receivable balance is as follows:

	June 30, 2018	June 30, 2017
Trade accounts receivable	$ 4,800,313	$ 111,386
Sales tax receivable	3,502,566	943,843
Other receivable	164,954	-
Total accounts receivable	**$ 8,467,833**	**$ 1,055,229**

4. Inventory

Accounting Policy:

Inventories consist of dried cannabis that is complete and available for sale. Work-in-progress consists of cannabis, after harvest, in the processing stage. Supplies and other inventory consists of consumables for use in the transformation of biological assets and other inventory used in production.

(Expressed in Canadian Dollars)

4. Inventory (continued)

Accounting Policy (continued):

Inventories of dried cannabis are initially valued at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less costs to sell at harvest which becomes the deemed cost.

Subsequently all direct and overhead post-harvest costs are capitalized to inventory to the extent that the cost is less than net realizable value. Direct and overhead costs include wages and benefits, facility costs, amortization and other costs incurred in bringing the inventory to the present location and condition. Net realizable value is determined as the estimated selling price less the estimated costs of completion and estimated selling costs. Cost is determined on an individual harvest basis.

Inventories are written down to net realizable value when the cost of inventories is determined not to be recoverable. When the circumstances that previously caused inventories to be written down no longer exist, the amount of the write-down is reversed.

Explanatory Information:

Carrying amount, June 30, 2017	**$**	**-**
Supplies and other		245,724
Work in progress		2,101,910
Finished goods		2,231,484
Carrying amount, June 30, 2018	**$**	**4,579,118**

During the year ended June 30, 2018 inventory recognized as expense was $6,698,065 (2017: $nil). Inventory recognized as expense includes the fair value changes related to biological assets previously recognized, as described in Note 5, and capitalized post-harvest costs. For the year ended June 30, 2018 a total of $985,434 (2017: $nil) has been recorded as production cost on the consolidated statement of comprehensive loss related to capitalized post-harvest costs expensed during the period as cannabis inventory is sold. Prior to being granted permission to sell from Health Canada on June 28, 2017, the Company did not capitalize inventory. Accordingly, a portion of the cannabis sold during the year ended June 30, 2018 that was harvested prior to June 28, 2017 was recorded at a carrying value of $nil.

The impairment charge on the finished goods inventory for the year ended June 30, 2018 was $397,883 (2017: $nil). The impairment charge is due to the cost of certain inventory exceeding net realizable value for the year ended June 30, 2018. The amount has been expensed through realized fair value changes on inventory sold or impaired.

5. Biological Assets

Accounting Policy:

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

The Company initially values its cannabis plants as biological assets approximately 30 days into the growing stage; cannabis plants that are approximately between day 1 and day 30 in the growth cycle are not considered to have significant fair value and consequently are carried at a fair value of nil. During day 1 to day 15 of growth, the cannabis plants are considered clones and housed in the nursery room. During day 15 to day 30, the cannabis plants are considered to be in the pre-vegetation stage and housed in the vegetation rooms. During this time the survival rates of the clones and pre-vegetation plants are inconsistent. Consequently, the Company has concluded that probable future economic benefits associated with the cannabis plants in the first 30 days of growth will not flow to the Company resulting in a carrying value of nil.

Approximately 30 days in the growth cycle, cannabis plants are moved in the flowering room where they will grow for approximately 70 days until harvest. When the cannabis plants are transferred in the flowering rooms they are sufficiently mature and do not experience significant plant loss. Growing time for a full harvest approximates 100 days.

(Expressed in Canadian Dollars)

5. Biological Assets (continued)

Accounting Policy (continued):

The company values biological assets by multiplying the expected yield, in grams, from each harvest by the selling price expected to be achieved by the Company. The value of biological assets is then reduced by the percentage of completion of the harvest and the estimated post-harvest costs. The Company estimates that fair value of the cannabis plants approximates the stage of completion of the cannabis plants based on approximately linear costs incurred during the growth stage.

All direct and overhead costs incurred during the biological transformation process and up to the point of harvest are expensed to production costs on the consolidated statement of comprehensive loss in the period the costs are incurred.

Use of Estimates:

Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions as at June 30, 2018:

(a) Selling prices – selling prices are based on the Company's actual historical average selling price per gram for the preceding nine months. Estimated selling prices average $6.00 for cannabis flower and $2.23 for cannabis trim.
(b) Post-harvest costs – the costs are based on actual processing costs incurred by drying, trimming, testing and packaging activities incurred in the period, including overhead allocations for these activities. Estimated post-harvest processing costs average $0.98 per gram.
(c) The stage of plant growth – the stage of plant growth is estimated by the number of days into the growing stage as compared to the estimated growing time for a full harvest. The estimated stage of growth of the cannabis plants as at June 30, 2018 averages 65%.
(d) Expected yield – the expected yield per plant is based on the Company’s actual historical average yield per plant. Expected yield per plant is 57 grams of cannabis trim and 106 grams of cannabis flower.

Explanatory Information:

As at June 30, 2018, the Company’s biological assets consist of cannabis plants. The changes in the fair value of biological assets are as follows:

Carrying amount, June 30, 2016	**$**	**-**
Changes in fair value less costs to sell due to biological transformation		459,519
Carrying amount, June 30, 2017		**459,519**
Changes in fair value less costs to sell due to biological transformation		12,460,812
Transferred to inventory upon harvest		(9,637,098)
Carrying amount, June 30, 2018	**$**	**3,283,233**

The Company expects that a $1 increase or decrease in the wholesale market price per gram of dried cannabis would increase or decrease the fair value of biological assets by $861,481 (2017: $91,904). A 5% increase or decrease in the estimated yield per cannabis plant would result in an increase or decrease in the fair value of biological assets by $164,162 (2017: $45,952). Additionally, an increase or decrease of 10% in the post-harvest costs would increase or decrease the fair value of biological assets by $77,669 (2017: $9,190).

Net effect of changes in fair value of biological assets and inventory include:

Unrealized change in fair value of biological assets	$	6,748,181
Realized fair value increments on inventory sold or impaired		5,712,631

Realized fair value changes on inventory sold or impaired included on the Company’s consolidated statement of comprehensive loss is entirely comprised of the fair value previously recognized during the biological transformation process related to cannabis sold during the period and impairment changes.

(Expressed in Canadian Dollars)

5. Biological Assets (continued)

Explanatory Information (continued):

For the year ended June 30, 2018 a total of $5,712,631 (2017: $nil) has been recognized as realized fair value changes on inventory sold or impaired.

6. Property, Plant and Equipment

Accounting Policy:

Initial recognition and amortization:

The Company measures property, plant and equipment upon initial recognition at cost and begins recognizing depreciation when the asset is ready for its intended use, and when applicable, all Health Canada licensing has been received. Subsequently, property, plant and equipment is carried at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes:

(a) Cost of materials and direct labor;
(b) Costs directly associated with bringing the assets to a working condition for intended use;
(c) Borrowing costs on qualifying assets.

The Company depreciates property, plant and equipment over its estimated useful life by expensing depreciation in the consolidated statement of comprehensive loss.

The Company calculates gains and losses on the disposal of property, plant and equipment by comparing the proceeds from the disposal with the item's carrying amount and recognize the gain or loss in the consolidated statement of comprehensive loss.

The Company capitalizes development expenditures if they meet the criteria for recognition as an asset and amortize them over their expected useful lives once the assets to which they relate are available for use.

During the year ended June 30, 2018 the Company underwent a detailed analysis of all its property, plant and equipment assets and as a result, updated the useful lives of assets and the pattern of consumption of such assets. The change has been determined to meet the criteria set forth in International Accounting Standard 8 of a change in accounting estimate, consequently, the impact of the change has been accounted on a prospective basis. The impact of the change in estimate has resulted in additional amortization expense of $54,761 during the year ended June 30, 2018 and it is expected that the change in estimate will result in additional annual amortization expense of $219,044 based on the assets in use as at June 30, 2018. The changes in the estimated useful lives and pattern of consumption have been summarized below:

Asset Class		Basis		Estimated useful life	
Previous	**Current**	**Previous**	**Current**	**Previous**	**Current**
Assets under development	Assets under development	Not amortized	Not amortized	N/A	N/A
Land	Land	Not amortized	Not amortized	N/A	N/A
Furniture & fixtures	Furniture & Equipment	Declining-balance	Straight-line	20%	3-5 years
Computer software & equipment	Computer software & equipment	Declining-balance	Straight-line	55%	1-3 years
Building (Facility)	Building (Facility)	Declining-balance	Straight-line	4%	5-30 years
N/A	Grow Rooms (Facility)	N/A	Straight-line	N/A	6-20 years
N/A	Mechanical & Electrical Equipment (Facility)	N/A	Straight-line	N/A	15-30 years
N/A	Leasehold improvements	N/A	Straight-line	N/A	Over the shorter of useful life or lease terms

(Expressed in Canadian Dollars)

6. Property, Plant and Equipment (continued)

Accounting Policy (continued):

Impairment policy:

Long-lived assets, such as property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value, less costs to sell, and its value in use.

If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in the consolidated statement of comprehensive loss, by the amount by which the carrying amount of the asset exceeds the recoverable amount. 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.

Borrowing costs capitalization policy:

Borrowing costs, including non-cash accretion, attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets, until such time as the assets are substantially ready for their intended use.

Use of Estimates:

Initial recognition of costs – The Company uses estimates to determine certain costs that are directly attributable to self-constructed assets. These estimates primarily include certain internal and external direct labor, overhead, and interest costs associated with the acquisition, construction, development, or betterment of its facility.

Useful lives of property, plant and equipment – Components of an item of property, plant and equipment may have different useful lives. The Company makes significant estimates when determining depreciation rates and asset useful lives, which require considering company specific factors, such as past experience and expected use, and industry trends. The Company monitors and reviews residual values, depreciation rates, and asset useful lives at least once a year and changes them if they are different from previous estimates.

Use of Judgments:

The Company makes significant judgments in choosing methods for depreciating property, plant and equipment that the Company believes most accurately represent the consumption of benefits derived from those assets and are most representative of the economic substance of the intended use of the underlying assets.

Explanatory Information:

	Facility	Land	Furniture, equipment and leaseholds	Total Property, Plant and Equipment
Cost				
Balance, June 30, 2016	$ 9,141,109	$ 1,203,319	$ 152,292	$ 10,496,720
Additions	11,916,110	-	239,377	12,155,487
Borrowing costs	4,792,082	-	-	4,792,082
Balance, June 30, 2017	25,849,301	1,203,319	391,669	27,444,289
Additions	67,408,641	2,231,541	1,765,617	71,405,799
Disposals	(1,447,733)	-	(4,543)	(1,452,276)
Borrowing costs	5,525,833	-	-	5,525,833
Balance, June 30, 2018	**$ 97,336,042**	**$ 3,434,860**	**$ 2,152,743**	**$ 102,923,645**

(Expressed in Canadian Dollars)

6. Property, Plant and Equipment (continued)

Explanatory Information (continued):

	Facility	Land	Furniture, equipment and leaseholds	Total Property, Plant and Equipment
Accumulated Amortization				
Balance, June 30, 2016	$ 173,191	$ -	$ 48,626	$ 221,817
Amortization	507,523	-	76,044	583,567
Balance, June 30, 2017	680,714	-	124,670	805,384
Amortization	953,236	-	218,115	1,171,351
Disposals	(57,909)	-	(3,628)	(61,537)
Balance, June 30, 2018	**$ 1,576,041**	**$ -**	**$ 339,157**	**$ 1,915,198**
Net carrying cost, June 30, 2017	$ 25,168,587	$ 1,203,319	$ 266,999	$ 26,638,905
Net carrying cost, June 30, 2018	**$ 95,760,001**	**$ 3,434,860**	**$ 1,813,586**	**$ 101,008,447**

As at June 30, 2018 the Company had $63,868,045 (2017: $9,182,880) of Facility under development. Each phase of construction is considered under development until such time that it has been approved by Health Canada. Once Health Canada approval is granted the asset is amortized as it is available for use. During the year ended June 30, 2018 a total of $5,525,833 (2017: $4,792,082) of borrowing costs were capitalized. Borrowing costs include a non-cash accretion expense of $2,736,193 (2017: $1,684,490). Amortization expense of $844,001 has been recorded as production costs on the consolidated statements of comprehensive loss for the year ended June 30, 2018 (2017: $nil).

7. Intangible Assets

Accounting Policy:

Initial recognition:

Upon initial recognition, the Company measures intangible assets at cost unless they are acquired through a business combination, in which case they are measured at fair value. The Company begins recognizing amortization of intangible assets with finite useful lives when the asset is ready for its intended use. Subsequently, the asset is carried at cost less accumulated amortization and accumulated impairment losses.

The Company does not amortize intangible assets with indefinite lives, including Health Canada licenses in cases that the license is tied to a facility and land which is owned by the Company.

Impairment:

The Company tests intangible assets with finite useful lives for impairment whenever an event or change in circumstances indicates that their carrying amounts may not be recoverable. The Company tests indefinite-life intangible assets for impairment once per year as at June 30, or more frequently if indicators of impairment are identified.

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or “CGU”). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized on the statement of comprehensive loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. 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.

7. Intangible Assets (continued)

Accounting Policy (continued):

Impairment (continued):

The Company has one CGU, being the cannabis cultivation operations in Kincardine, Ontario.

Use of Estimates:

The Company uses estimates in determining the recoverable amount of intangible assets and long-lived assets. The determination of the recoverable amount for impairment testing requires the use of significant estimates, such as future cash flows and discount rates. Future cash flows are based on the Company's estimates and expected future operating results of the CGU after considering economic conditions impacting the CGU. The following inputs have been used to determine the recoverability of intangible assets and long-lived assets:

(a) Discount rate of 20%
(b) Average selling price per gram of approximately $6.30
(c) Average quantity sold per year ranging from approximately 15,000 Kilograms to 50,000 Kilograms
(d) Average cost of production and operating expenses of approximately 60% of revenue

A 20% increase or decrease in any of the above inputs individually or cumulatively will not result in an impairment of intangible assets.

Use of Judgements:

Judgment is applied when deciding to designate the Health Canada license as an asset with indefinite useful life since the Company believes the license is likely to be renewed for the foreseeable future such that there is no limit to the period over which the asset is expected to generate net cash inflows. The Company makes judgments to determine that this asset has indefinite life, analyzing all relevant factors, including the expected usage of the asset, the typical life cycle of the asset, and anticipated changes in the market demand for the products and services the asset helps generate. After review of the competitive, legal, regulatory, and other factors, it is the Company's view that these factors do not limit the useful life of the Company's Health Canada license.

Explanatory Information:

The intangible asset represents the value attributed to an in-process Health Canada application on acquisition of 7ACRES. Subsequent to acquisition, the Company was granted a license to cultivate cannabis.

ACMPR licenses are issued by Health Canada for a maximum term of 3 years and are to be renewed before expiry unless the Company has significantly breached compliance. Accordingly, the useful life of the License is considered indefinite and has not been amortized. The License is tested for impairment annually by comparing recoverable amount to its carrying value. The Company did not have any impairment losses in current year.

8. Investments

Accounting Policy:

The Company classifies its investments in companies where it does not have control or significant influence as follows:

(i) Publicly-traded companies – at fair value through profit and loss based on publicly quoted prices; and
(ii) Private companies – accounted as available-for-sale investments at fair value using implied valuations from follow-on financing grounds, third-party sale negotiations, or market-based approaches.

Use of Estimates:

The Company uses the Black-Scholes pricing model to estimate the value of its investment in BlissCo warrants. The following estimates were used as inputs into the model as at June 30, 2018:

(Expressed in Canadian Dollars)

8. Investments (continued)

Use of Estimates (continued):

	2018
Share price	$ 0.40
Expected dividend yield	0.00%
Stock price volatility	79.50%
Expected life of warrants	1.63 years
Forfeiture rate	-
Risk free rate	1.91%

Explanatory Information:

			Carrying amount, June 30, 2017	Investment	Fair value June 30, 2018	Unrealized Gain / Loss on investment	Carrying amount, June 30, 2018
Level 1 on fair value hierarchy							
BlissCo shares	Note 8A	$	-	2,221,090	4,000,000	1,778,910	4,000,000
		$	-	2,221,090	4,000,000	1,778,910	4,000,000
Level 2 on fair value hierarchy							
BlissCo warrants	Note 8A	$	-	778,910	1,095,860	316,950	1,095,860
		$	-	778,910	1,095,860	316,950	1,095,860
Level 3 on fair value hierarchy							
Trellis Solutions Inc.	Note 8B	$	1,073,642	-	1,073,642	-	1,073,642
MediGrow	Note 8C	$	-	10,162,107	10,162,107	-	10,162,107
		$	1,073,642	10,162,107	11,235,749	-	11,235,749
		$	**1,073,642**	**13,162,107**	**16,331,609**	**2,095,860**	**16,331,609**

Note 8A:

On February 26, 2018, Supreme closed an investment in BlissCo Cannabis Corp (“BlissCo”), an early stage vertically integrated distribution focused cannabis company. The Company purchased 10,000,000 units for $3,000,000. Each unit is comprised of one common share and one common share purchase warrant of BlissCo. The common share purchase warrant is exercisable until February 23, 2020 at $0.60 per common share. The Company has valued the common shares and common share purchase warrant separately. The Company does not exercise significant influence or control. The investment has been classified as a fair value through profit and loss financial instrument. The Company revalued the investment as at June 30, 2018 and adjusted the carrying value of shares to $4,000,000 which is based on the common share price of BlissCo quoted on the Canadian Securities Exchange, resulting in an unrealized gain of $1,778,910. The Company revalued the common share purchase warrants as at June 30, 2018 using the Black-Scholes pricing model to estimate the fair value of warrants at the period then ended, resulting in an unrealized gain of $316,950. The Company intends to continue as a passive shareholder.

Note 8B:

On April 22, 2016, Supreme closed an investment in Trellis Solutions Inc., a software company focused on providing enterprise resource planning solutions to the cannabis industry. The Company purchased 285,714 common shares for $100,000. The Company does not exercise significant influence or control. The investment has been classified as an available for sale financial instrument. The Company revalued the investment on June 30, 2017 and adjusted the carrying value to $1,073,642 due to follow-on financing round establishing a current fair value. During the year ended June 30, 2018 there were no adjustments necessary to the carrying value of the investment. The Company intends to continue as a passive shareholder.

Note 8C:

On March 20, 2018, Supreme closed an investment in MediGrow Lesotho (Pty) Limited, a licensed producer of medical cannabis based in the Kingdom of Lesotho.

8. Investments (continued)

Explanatory Information (continued):

Note 8C (continued):

MediGrow is focused on medical cannabis oil production for export to federally legal medical cannabis markets globally. The Company purchased 278,000 common shares for $10,074,145 and incurred $87,962 of transaction costs that have been capitalized. The Company does not exercise significant influence or control. The investment has been classified as an available for sale financial instrument. From the time of the investment to June 30, 2018 there were no adjustments necessary to the carrying value of the investment (2017: $nil). The Company intends to continue as a passive shareholder.

9. Convertible Debentures

Accounting Policy:

Compound financial instruments issued by the Company are comprised of convertible debt that can be converted to share capital at the option of the holder. The liability component of a compound financial instrument is recognized initially at the fair value which is equal to the net present value of future cash flows applying an interest rate at the date of issue of a similar liability that does not have an equity convertible option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest rate method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition. Interest, dividends, losses and gains relating to the financial liability are recognized in the consolidated statement of comprehensive loss.

Use of Estimates:

Market rate of interest – The market rate of interest is estimated by assessing market conditions and other internal and external factors. The market rate of interest used to calculate the fair value of the debt component is 19.9%.

Explanatory Information:

April 2015 Convertible Debenture:

During the year ended June 30, 2015, the Company received proceeds of $1,465,850 from a private placement issuance of 10% coupon, unsecured debentures, which are convertible into common shares at a conversion price of $0.17 per share at any time and mature April 23, 2018. Concurrently, the lenders received 8,622,647 warrants exercisable at $0.17 to April 23, 2020, subject to accelerated expiry in some circumstances.

The Company prepaid the 10% coupon interest on the debentures by the issuance of 3,834,837 units, where each unit is comprised of a common share and a warrant exercisable at $0.17 for a period of 5 years. The units were valued at the amount of interest obligation settled, $439,755, and included in prepaid expenses. The amount will be expensed over the term of the debentures, and if converted or settled early any remaining balance will be expensed.

The Company incurred cash finders' fees of $50,766 and issued 298,753 finders' warrants valued at $41,021. These transaction costs have been allocated to the liability and equity components based on their pro-rata fair values.

On September 9, 2016 all outstanding convertible debt was converted to shares of the Company.

(Expressed in Canadian Dollars)

9. Convertible Debentures (continued)

Explanatory Information (continued):

December 2016 Convertible Debenture:

On December 13, 2016, the Company received gross proceeds of $55,000,000 from a brokered private placement issuance of 10% coupon, unsecured debentures, which are convertible into common shares at a conversion price of $1.30 per share at any time and mature December 31, 2019. Concurrently, the lenders received 42,350,000 warrants exercisable at $1.70 to December 13, 2019, subject to accelerated expiry in some circumstances. The effective interest rate used to value the convertible debenture is 20.6%. The proceeds were primarily used for the construction of the Company's Facility, resulting in the capitalization of borrowing costs.

The Company incurred cash finders' fees of $1,807,125, share issue fees of $495,122 and issued 1,273,965 finders' warrants valued at $857,669. These transaction costs have been allocated to the liability and equity components based on their pro-rata fair values. On January 22, 2018, the Company exercised its accelerated condition included in the indenture relating to the December 2016 Convertible Debenture resulting in all the outstanding convertible debentures being exercised and converted to common shares of the Company. As at June 30, 2018, the principal amount outstanding of December 2016 Convertible Debentures was $nil (June 30, 2017: $40,314,000).

November 2017 Convertible Debenture:

On November 14, 2017, the Company received gross proceeds of $40,250,000 from a brokered private placement issuance of 8% coupon, unsecured debentures, which are convertible into common shares at a rate of $1.60 per share at any time and mature on November 14, 2019. Concurrently, the lenders received 12,598,250 warrants exercisable at $1.80 till November 14, 2020. Both the unsecured debentures and the warrants are subject to accelerated expiry in some circumstances. The effective interest rate used to value the convertible debenture is 20.6%.

The Company incurred expenses of $1,594,111 related to the private placement and $217,136 of legal and regulatory fees. These transaction costs have been allocated to the liability and equity components based on their pro-rata fair values. As at June 30, 2018, the principal amount outstanding of November 2017 Convertible Debentures was $35,595,000 (June 30, 2017: $nil). The decrease of the outstanding amount from the November 2017 Convertible Debenture is due to conversions occurring during the year ended June 30, 2018.

All convertible debentures were determined to be compound instruments, comprising liability, conversion feature, and warrants. As the debentures are convertible into common shares, the liability and equity components are presented separately. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at a market interest rate of 19.9%. Using the residual method, the carrying amount of the conversion feature and the warrants issued is the difference between the principal amount and the initial carrying value of the financial liability. The equity component, and warrants are recorded in reserves on the statement of financial position. The debentures, net of the equity components and issue costs are accreted using the effective interest rate method over the term of the debentures, such that the carrying amount of the financial liability will equal the principal balance at maturity.

Convertible debentures consist of the following:

	Proceeds	Debt component	Equity component conversion option
Balance June 30, 2016	**$ 1,374,063**	**$ 536,700**	**$ 157,520**
Issue of convertible debt, net of tax and transaction costs	51,840,084	41,397,705	4,161,397
Accretion and unpaid interest (April 2015 Debentures)	-	11,184	-
Accretion and unpaid interest (Dec 2016 Debentures)	-	1,684,490	-
Conversion (April 2015 Debentures)	-	(547,885)	(157,521)
Conversion (Dec 2016 Debentures)	-	(11,376,738)	(1,111,168)
Balance, June 30, 2017	**$ 53,214,147**	**$ 31,705,456**	**$ 3,050,228**

(Expressed in Canadian Dollars)

9. Convertible Debentures (continued)

Explanatory Information (continued):

	Proceeds	Debt component	Equity component conversion option
Balance, June 30, 2017	**$ 53,214,147**	**$ 31,705,456**	**$ 3,050,228**
Conversion (Dec 2016 Debentures)	-	(32,873,148)	(3,050,228)
Accretion (Dec 2016 Debentures)	-	1,167,692	-
Issue of convertible debt, net	38,438,753	31,566,984	4,947,474
Conversion (Nov 2017 Debentures)	-	(3,764,962)	(461,458)
Accretion and unpaid interest (Nov 2017 Debentures)	-	3,919,891	-
Balance, June 30, 2018	**$ 91,652,900**	**$ 31,721,913**	**$ 4,486,016**

10. Share Based Compensation

Accounting Policy:

The Company has an employee stock option plan. The Company measures equity settled share-based payments based on their fair value at the grant date using the Black-Scholes option pricing model, and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate.

For stock options granted to non-employees, the compensation expense is measured at the fair value of the goods and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted.

The fair value of share-based compensation to non-employees is periodically remeasured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments.

Consideration paid by employees or non-employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from share-based reserve to share capital.

During the fiscal year, the Board, shareholders and TSX.V approved the adoption of the restricted share unit plan. As at June 30, 2018 there have been no restricted share units issued.

Use of Estimates:

Significant estimates are used to determine the fair value of stock options, the table below shows the range of estimates and assumptions used in applying the Black-Scholes option pricing model:

	2018	2017
Share price	$ 1.43 - 3.04	$ 0.67 - 1.66
Expected dividend yield	0.00%	0.00%
Stock price volatility	81% - 87.1%	89% - 91%
Expected life of options	5 years - 10 years	5 years - 10 years
Forfeiture rate	-	-
Risk free rate	1.8% - 2.31%	0.68% - 1.83%

Explanatory Information:

During the year ended June 30, 2018, 1,521,250 stock options were exercised generating proceeds of $715,938 and a total of 1,205,000 stock options were forfeited.

(Expressed in Canadian Dollars)

10. Share Based Compensation (continued)

Explanatory Information (continued):

As at June 30, 2018, the Company had outstanding, and exercisable stock options of 24,107,533 as follows:

	Options Outstanding	Weighted Average Exercise Price
Outstanding, June 30, 2016	7,385,000	$ 0.47
Granted	11,553,783	1.54
Exercised	(3,085,000)	(0.44)
Expired	(430,000)	(0.49)
Outstanding and exercisable, June 30, 2017	15,423,783	$ 1.28
Granted	11,410,000	1.76
Exercised	(1,521,250)	(0.47)
Expired / Forfeited	(1,205,000)	(1.58)
Outstanding and exercisable, June 30, 2018	**24,107,533**	**$ 1.54**

As at June 30, 2018, the Company had outstanding, and exercisable stock options as follows:

Exercise Price	Expiry Date	Number of Options	Weighted Average Remaining Life (years)
$ 0.25	May 5, 2019	50,000	0.85
$ 0.41	October 14, 2019	800,000	1.29
$ 0.50	January 10, 2021	935,000	2.53
$ 0.75	April 25, 2021	800,000	2.82
$ 0.75	August 29, 2021	3,687,533	3.17
$ 1.45	September 25, 2022	2,935,000	4.24
$ 2.00	December 15, 2026	6,500,000	8.47
$ 3.05	January 5, 2023	500,000	4.52
$ 2.05	March 5, 2023	200,000	4.68
$ 1.80	May 15, 2023	300,000	4.88
$ 1.70	June 25, 2023	400,000	4.99
$ 1.80	March 29, 2028	7,000,000	9.75
		24,107,533	**7.47**

During the year ended June 30, 2018 the Company made the following six incentive option grants to employees, officers and directors as follows:

Grant Date	# of options	Expiry Date	Exercise price	Vesting Period
September 25, 2017	3,010,000	September 25, 2022	$ 1.45	Immediately
January 5, 2018	500,000	January 5, 2023	$ 3.05	Immediately
March 5, 2018	200,000	March 5, 2023	$ 2.05	3 years (1/3rd vesting each of the first 3 years)
March 29, 2018	7,000,000	March 29, 2028	$ 1.80	3 years (1/3rd vesting each of the first 3 years)
May 15, 2018	300,000	May 15, 2023	$ 1.80	3 years (1/3rd vesting each of the first 3 years)
June 25, 2018	400,000	June 25, 2023	$ 1.70	3 years (1/3rd vesting each of the first 3 years)

(Expressed in Canadian Dollars)

11. Share Capital

Accounting Policy:

Loss per share – The Company presents basic and diluted loss per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which comprise warrants and share options issued. Items with an anti-dilutive impact are excluded from the calculation.

Explanatory Information:

Authorized share capital:

Unlimited number of voting common shares
10,000,000 Class "A" preference shares
10,000,000 Class "B" preference shares

Share Capital: Common shares issued and outstanding

During the year ended June 30, 2018, $44,969,000 of the Company's outstanding convertible debt was converted to common shares. A total of 34,014,367 common shares were issued on conversion.

Additionally, 31,369,482 and 1,521,250 common shares were issued during the year ended June 30, 2018 as a result of warrants and options exercised, respectively. On June 30, 2018 the Company had 255,737,226 common shares issued and outstanding.

Share Capital: Share purchase warrants

During the year ended June 30, 2018, various warrant holders exercised 31,369,482 warrants generating proceeds of $42,788,095.

On November 14, 2017, related to the November 2017 issuance of convertible debentures, the Company issued 12,598,250 warrants exercisable at $1.80 and expiring November 14, 2020.

During the year ended June 30, 2018, a total of 3,574,587 share purchase warrants expired.

On June 30, 2018, the Company had 65,351,781 share purchase warrants outstanding as follows:

	Warrants Outstanding	Weighted Average Exercise Price
Outstanding, June 30, 2016	38,075,419	$ 0.44
Granted	72,614,303	1.22
Exercised	(22,070,124)	(0.44)
Expired / Cancelled	(921,998)	(0.50)
Outstanding, June 30,2017	87,697,600	$ 1.09
Granted	12,598,250	1.80
Exercised	(31,369,482)	(1.36)
Expired	(3,574,587)	(0.48)
Outstanding, June 30, 2018	**65,351,781**	**$ 1.12**

(Expressed in Canadian Dollars)

11. Share Capital (continued)

Explanatory Information (continued):

Share Capital: Share purchase warrants (continued)

As at June 30, 2018, the Company had outstanding warrants as follows:

Exercise Price		Expiry Date	Number of Warrants	Weighted Average Remaining Life (years)
$	0.50	June 20, 2019	7,979,557	0.97
$	0.32	April 23, 2020	4,979,321	1.82
$	0.55	July 27, 2018	1,141,175	0.07
$	0.50	July 15, 2019	869,593	1.04
$	0.50	August 30, 2019	16,834,186	1.17
$	1.70	December 13, 2019	20,980,999	1.45
$	1.80	November 14, 2020	12,566,950	2.38
			65,351,781	**1.67**

On November 14, 2017, the Company issued 12,598,250 share purchase warrants expiring on November 14, 2020. The share purchase warrants were valued using the Black-Scholes option pricing model using the following assumptions.

	2018	2017
Share price	$ 1.61	$ 0.41 - 1.82
Expected dividend yield	0.00%	0.00%
Stock price volatility	62%	89% - 90%
Expected life of warrants	1 year	1 year - 3 years
Forfeiture rate	-	-
Risk free rate	1.44%	0.56% - 0.75%

Reserves:

Reserves are comprised of share-based payments, the equity component of convertible debt and initial fair value of warrants, offset by the exercise of these instruments.

12. Related Party Transactions

The remuneration awarded to directors and executives for the year ended June 30, 2018, includes the following:

	2018	2017
Share based payments	$ 5,147,227	$ 10,395,242
Salaries and wages	1,225,838	602,504
	$ 6,373,065	**$ 10,997,746**

As at June 30, 2018, directors and executives of the Company held a combined $85,000 of convertible debentures. The convertible debentures issued to related parties are at arm's length terms and generate 8% interest with payments due December 31, 2018, June 30, 2019 and November 14, 2019. The interest payment due to related parties as at June 30, 2018 is $4,288.

(Expressed in Canadian Dollars)

13. Income Taxes

Accounting Policy:

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Use of Estimates:

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Explanatory Information:

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2017 – 26.5%) to the effective tax rate is as follows:

	2018	**2017**
Net Income (Loss) before recovery of income taxes	**$ (6,600,087)**	$ (18,332,089)
Expected income tax (recovery) expense	**$ (1,749,020)**	$ (4,858,000)
Tax rate changes and other adjustments	**(13,760)**	-
Share based compensation and non-deductible expenses	**1,569,553**	3,235,270
Share issuance costs and other	**(459,630)**	(1,107,844)
Convertible debenture	**(1,159,300)**	3,180,350
Tax Rate difference	**(277,700)**	-
Change in tax benefits not recognized	**2,836,900**	(3,514,690)
Income tax (recovery) expense	**$ 747,043**	$ (3,064,914)
The Company's income tax (recovery) is allocated as follows:		
Deferred tax (recovery) expense	**747,043**	(3,064,914)
	$ 747,043	$ (3,064,914)

Deferred tax:

The following table summarizes the components of deferred tax:

	2018	**2017**
Deferred Tax Assets		
Non-capital losses carried forward	**$ 4,955,120**	$ 4,147,745
Capital losses carried forward	**-**	33,125

(Expressed in Canadian Dollars)

13. Income Taxes (continued)

Explanatory Information (continued):

	2018	2017
Deferred Tax Liabilities		
Property, plant and equipment	**(1,117,840)**	(1,066,330)
Short term investments	**(406,700)**	(129,008)
Biological assets	**(1,910,040)**	(121,773)
Convertible debt	**(1,520,540)**	(2,863,759)
Net deferred tax Asset	**$ -**	$ -

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in net deferred tax liabilities:

	2018	2017
Balance at the beginning of the year	**$ -**	$ -
Recognized in profit/loss	**747,043**	(3,064,914)
Recognized in OCI	**-**	129,007
Recognized in equity	**(747,043)**	2,935,907
Balance at the end of the year	**$ -**	$ -

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2018	2017
Property, plant and equipment	**$ 8,150**	$ -
Share issuance costs	**3,639,430**	2,262,760
Capital losses carried forward	**250,000**	-
Non-capital losses carried forward - Canada	**8,302,230**	2,844,310
Resource pools - Mineral Properties	**851,560**	845,097

The Company's Canadian non-capital income tax losses expire as follows:

For the fiscal year ending June 30,	
2027	**203,940**
2028	**26,560**
2029	**110,250**
2030	**159,520**
2031	**323,230**
2032	**195,050**
2033	**196,530**
2034	**1,318,440**
2035	**3,344,020**
2036	**2,575,090**
2037	**9,872,240**
2038	**10,210,690**
	$ 28,535,560

14. Financial Risk Management and Financial Instruments

Accounting Policy:

Recognition and derecognition:

The Company initially recognizes cash, bank advances, accounts receivable, debt securities, and accounts payable and accrued liabilities on the date they originate. All other financial assets and financial liabilities are initially recognized on the trade date when we become a party to the contractual provisions of the instrument.

14. Financial Risk Management and Financial Instruments (continued)

Accounting Policy (continued):

Recognition and derecognition (continued):

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Classification and measurement:

The Company measures financial instruments by grouping them into classes upon initial recognition, based on the purpose of the individual instruments. The Company initially measures all financial instruments at fair value plus, in the case of financial instruments not classified as fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial instruments. The classifications and methods of measurement subsequent to initial recognition of our financial assets and financial liabilities are as follows:

The Company classifies its financial assets as financial assets at fair value through profit and loss (“FVTPL”), held to maturity, available for sale or loans and receivables. A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition.

Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company’s risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

The Company classifies its financial liabilities as other financial liabilities. Subsequent to initial recognition other liabilities are measured at amortized cost using the effective interest method.

Cash is classified as FVTPL, accounts receivables as loan and receivables, investments as available for sale or FVTPL. Accounts payable, accrued liabilities and convertible debt are classified as other financial liabilities.

Impairment of financial assets

Financial assets, other than those carried at fair value, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been negatively affected.

The amount of the impairment loss recognized is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account.

Offsetting financial assets and financial liabilities

The Company offsets financial assets and financial liabilities and presents the net amount on the consolidated statements of financial position when the Company has a legal right to offset them and intend to settle on a net basis or realize the asset and liability simultaneously.

Use of Estimates:

Financial instruments measured at fair value are classified into one of the levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

14. Financial Risk Management and Financial Instruments (continued)

Use of Estimates (continued):

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data

Use of Judgments:

The Company makes judgements related to the classification of financial instruments and whether impairment indicators exist for financial instruments not carried at fair value. The judgements are based on the Company's expected use of the financial instrument and internal and external factors with respect to impairment indicators.

Explanatory Information:

For the year ended June 30, 2018 the Company has recognized an unrealized gain from investments of $2,095,860 (2017: $844,635) due to the changes in fair value. The unrealized gain was determined using Level 1 and Level 2 inputs.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk:

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and receivables. To minimize the credit risk the Company places cash with a high credit quality financial institution of Canada, for receivables, the Company evaluates the credit worthiness of the counterparty before credit is granted. As at June 30, 2018 a total of $669,219 (2017: $nil) of accounts receivables were considered overdue. No impairment charge has been recorded, as the counter parties are not considered to be a credit risk.

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company typically settles its financial obligations out of cash and occasionally will settle liabilities with the issuance of common shares. The ability to settle obligations with cash relies on the Company raising funds in a timely manner and by maintaining sufficient cash in excess of anticipated needs. As at June 30, 2018, the Company had a cash balance of $55,895,997 and current liabilities of $22,916,874.

The Company's current resources are sufficient to settle its current liabilities. All the Company's liabilities are due within one year, other than convertible debt which is due in November 2019.

Interest rate risk:

The Company is not subject to interest rate risk on future cash flows, as all its instruments bear fixed rates of interest.

Capital management:

Capital is comprised of the Company's shareholders' equity and any debt it may issue, other than trade payables in the normal course of operations. As at June 30, 2018, the Company's shareholders' equity was $145,145,282 (June 30, 2017: $59,087,239) and liabilities other than trades payable and accruals were $31,721,913 (June 30, 2017: $31,705,456). The Company's objective when managing capital is to safeguard its accumulated capital in order to provide adequate return to shareholders by maintaining a sufficient level of funds in order to support its ongoing activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable.

(Expressed in Canadian Dollars)

14. Financial Risk Management and Financial Instruments (continued)

Explanatory Information (continued):

Capital management (continued):

The Company is dependent on external financing to fund its activities. The Company will spend its existing working capital on operations, development of the Facility and raise additional amounts as needed. The Company is not subject to any externally imposed capital requirements. There have been no changes in the Company's approach to capital management during the year ended June 30, 2018.

15. Commitments

The Company has operating leases under which it is committed to pay the following amounts:

For the fiscal year ending June 30,	
2019	536,401
2020	429,728
2021	429,728
2022	429,728
2023 and beyond	2,743,648
	$ 4,569,233

16. Subsequent Events

Subsequent to June 30, 2018, convertible debentures of $1,725,000 were converted in exchange for 1,078,125 common shares of the Company.

Subsequent to June 30, 2018, various warrant holders exercised 3,474,372 warrants for total proceeds of $3,900,721.

Subsequent to June 30, 2018, the Company issued 375,000 incentive stock options to employees and directors of the Company. The exercise price of the incentive stock options is $1.50 and expire on August 23, 2023. The incentive stock options issued are subject to vesting periods.