Combined Consolidated financial statements of

Harvest One Cannabis Inc.

For the years ended June 30, 2017 and 2016

Harvest One Cannabis Inc.

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Independent Auditor's Report

To the Shareholders of Harvest One Cannabis Inc.

We have audited the accompanying combined consolidated financial statements of Harvest One Cannabis Inc., which comprise the combined consolidated statement of financial position as at June 30, 2017 and the combined consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Combined Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined consolidated financial statements based on our audit. We conducted our audit 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 combined consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined consolidated financial statements.

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

Opinion

In our opinion, the combined consolidated financial statements present fairly, in all material respects, the financial position of Harvest One Cannabis Inc. as at June 30, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the combined consolidated financial statements, which indicates that the Company has a net loss, negative operating cash outflows and an accumulated deficit. These conditions, along with other matters as set forth in Note 1, indicate the existence of material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

Other Matter

The combined financial statements of United Greeneries Holdings Limited and Satipharm AG for the year ended June 30, 2016 were audited by another auditor who expressed an unmodified opinion on those combined financial statements on April 18, 2017.

(signed) "BDO CANADA LLP"

Chartered Professional Accountants
Vancouver, Canada
September 28, 2017

Harvest One Cannabis Inc.

Combined consolidated statements of financial position

(Expressed in Canadian dollars)

	June 30 2017	June 30 2016
	$	$
Assets		
Current assets		
Cash and cash equivalents	**14,246,320**	880,337
Accounts receivable (note 5)	**180,041**	317,319
Prepaid expenses and deposits	**115,876**	20,987
Biological assets (note 6)	**110,489**	-
Inventories (note 7)	**1,213,684**	520,073
	15,866,410	1,738,716
Non-current asset		
Property, plant and equipment (note 8)	**8,225,514**	6,032,678
Intangibles	**31,165**	-
	8,256,679	6,032,678
	24,123,089	7,771,394
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	**766,948**	278,835
Notes payable (note 10)	**-**	88,633
Due to related party (note 11)	**234,390**	8,486,056
	1,001,338	8,853,524
Non-current liabilities		
Notes payable (note 10)	**-**	383,848
	1,001,338	9,237,372
Equity		
Share capital (note 12)	**33,843,668**	4,859,005
Other reserves (note 13)	**3,397,775**	197,143
Accumulated other comprehensive (loss) income	**(89,019)**	9,990
Accumulated deficit	**(14,030,673)**	(6,532,116)
	23,121,751	(1,465,978)
	24,123,089	7,771,394

Nature of operations and going concern (note 1)
Commitments (note 17)

"Jason Bednar"
Jason Bednar, Director

"Andreas Gedeon"
Andreas Gedeon, Director

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

Harvest One Cannabis Inc.

Combined consolidated statements of loss and comprehensive loss

(Expressed in Canadian dollars)

	For the year ended	
	June 30 2017	June 30 2016
	$	$
Revenue (note 16)	**75,950**	246,699
Unrealized gain on changes in fair value of biological assets (note 6)	**278,601**	-
Inventory expensed to cost of sales	**(102,180)**	(319,827)
Cost of goods sold, net of unrealized gain on changes in fair value of biological assets	**176,421**	(319,827)
Gross profit (loss)	**252,371**	(73,128)
Operating expenses		
Depreciation and amortization (note 8)	**1,095,754**	26,963
General and administration	**493,327**	335,480
Insurance	**44,775**	46,294
Marketing and investor relations	**470,608**	30,835
Professional and consulting services	**785,215**	185,151
Rent	**172,062**	172,802
Salaries, bonus and benefits	**780,396**	793,516
Share-based payments (note 13)	**1,894,356**	197,143
Regulatory	**360,043**	123,100
Travel	**406,254**	18,660
(Gain) loss relating to inventory impairment (note 7)	**(103,417)**	878,000
	6,399,373	2,807,944
Loss from operations	**(6,147,002)**	(2,881,072)
Settlement cost (note 12(b))	**-**	(375,000)
Finance costs	**(149,387)**	(123,414)
Foreign exchange loss	**(69,297)**	(19,700)
Listing fee (note 2)	**(2,097,509)**	-
Interest income	**24,970**	5,814
Net loss	**(8,438,225)**	(3,393,372)
Foreign currency translation	**(99,009)**	9,990
Comprehensive loss	**(8,537,234)**	(3,383,382)
Net loss per share – basic and diluted	**(0.16)**	(0.07)
Weighted average number of outstanding common shares	**53,797,482**	50,916,423

HARVEST ONE

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

Harvest One Cannabis Inc.

Combined consolidated statements of changes in equity

(Expressed in Canadian dollars)

	Number of shares	Share capital	Other reserves	Accumulated other comprehensive income	Accumulated losses	Total
	#	$	$	$	$	$
Balance, July 1, 2015	67,660,749	1,197,986	-	-	(3,138,744)	(1,940,758)
Settlement of transaction termination (note 12)	3,750,000	375,000	-	-	-	375,000
Convertible debenture conversion to equity in United Greeneries Holdings Ltd. (note 12)	78,795,460	3,152,642	-	-	-	3,152,642
Capital contributed on incorporation of Satipharm AG	-	133,377	-	-	-	133,377
Amalgamation merger of PhytoTech Medical Ltd. and MMJ Bioscience Inc. with the formation of United Greeneries Holdings Ltd: (note 1 and 12)	(99,206,209)	-	-	-	-	-
Share-based payments	-	-	197,143	-	-	197,143
Foreign currency translation	-	-	-	9,990	-	9.990
Loss for the year	-	-	-	-	(3,393,372)	(3,393,372)
Balance, June 30, 2016	**51,000,000**	**4,859,005**	**197,143**	**9,990**	**(6,532,116)**	**(1,465,978)**
Common shares issued for settlement of debt to parent	11,758,671	5,879,336	-	-	2,939,668	8,819,004
Reverse takeover of Harvest One Capital (note 2):						
• Common share issued to Phyto UK as acquirer of Harvest One Capital Inc.	41,574,662	-	-	-	-	-
• Elimination of United Greeneries Holdings Ltd. and Satipharm AG common shares	(51,000,000)	-	-	-	-	-
• Outstanding Harvest One Capital Inc. shares post consolidation of 1.79:1	2,286,659	1,143,330	-	-	-	1,143,330
Common shares issued for cash from private placement (note 12)	33,334,000	25,000,500	-	-	-	25,000,500
Share issue costs (note 12)	-	(3,226,727)	1,306,276	-	-	(1,920,451)
Issuance of stock options on RTO (note 13)	-	-	148,224	-	-	148,224
Exercise of stock options (note 13)	223,464	188,224	(148,224)	-	-	40,000
Share-based payments (note 13)	-	-	1,894,356	-	-	1,894,356
Foreign currency translation	-	-	-	(99,009)	-	(99,009)
Return of equity to shareholders (note 2)	-	-	-	-	(2,000,000)	(2,000,000)
Loss for the year	-	-	-	-	(8,438,225)	(8,438,225)
Balance, June 30, 2017	**89,177,458**	**33,843,668**	**3,397,775**	**(89,019)**	**(14,030,673)**	**23,121,751**

HARVEST ONE

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

Harvest One Cannabis Inc.

Combined consolidated statements of cash flows

(Expressed in Canadian dollars)

	For the year ended	
	June 30 2017	June 30 2016
	$	$
Operating activities		
Loss for the period	**(8,438,225)**	(3,393,372)
Adjustments to reconcile non-cash items		
Depreciation	**1,095,754**	26,963
Inventory impairment adjustment	**(103,417)**	878,000
Share-based payments (Note 15)	**1,894,356**	197,143
Listing expense (Note 2)	**2,097,509**	-
Interest expense	**20,516**	-
Unrealized gain on change in fair value of biological assets	**(278,601)**	-
Foreign exchange	**(99,009)**	-
Settlement costs	**-**	375,000
Other	**-**	14,162
Changes in non-cash working capital		
Accounts receivable	**36,921**	(93,137)
Inventories	**(422,082)**	(923,887)
Prepaid expenses and deposit	**(94,889)**	(20,897)
Accounts payable and accrued liabilities	**269,447**	484,019
	(4,021,720)	(2,456,006)
Investing activity		
Acquisition of property, plant and equipment	**(3,288,590)**	(3,009,455)
Acquisition of intangibles	**(31,165)**	-
Loan due from director	**-**	(100,357)
Repayment of loan to director	**100,357**	-
	(3,219,398)	(3,109,812)
Financing activities		
Repayment of borrowings	**(492,997)**	(77,452)
Proceeds from issuance of shares	**25,040,500**	133,337
Share issue costs	**(1,920,451)**	-
Distribution to MMJ	**(2,000,000)**	-
Advances from related party, net	**567,337**	6,261,216
Cash acquired at RTO	**200,615**	-
Transactions costs relating to RTO	**(787,903)**	-
	20,607,101	6,317,101
Change in cash and cash equivalents during the year	**13,365,983**	751,283
Cash and cash equivalents, beginning of year	**880,337**	129,054
Cash and cash equivalents, end of year	**14,246,320**	880,337

1. Nature of operations and going concern

Harvest One Cannabis Inc. (“Harvest” or the “Company”) was originally incorporated as Harvest One Capital Inc. on August 28, 2008 under the *British Columbia Company Act* and continues under the *Business Corporations Act of British Columbia*. The Company was classified as a Capital Pool Company (“CPC”) as defined in the TSX Venture Exchange (the “TSX-V”) Policy 2.4. Harvest is a publicly traded corporation, with its head office located at 2650 – 1066 West Hastings Street, Vancouver, BC, V7H 2J7. The Company's common shares are listed on TSX-V under the trading symbol "HVST", with MMJ PhytoTech Limited (“MMJ”) controlling 60% of the outstanding common shares.

On April 26, 2017, the Company acquired 100% of the issued and outstanding shares of United Greeneries Holdings Ltd. ("United Greeneries") and Satipharm AG (“Satipharm”) (the "Acquisition"). In connection with the Acquisition, the Company completed a $25 million private placement and, immediately prior to the closing of the Acquisition, the Company completed a share consolidation on the basis of 1.79 pre-consolidation common shares to one post-consolidation common share. The Acquisition constituted the Company's "Qualifying Transaction" within the meaning of TSX-V policies (Note 2).

United Greeneries is a Canadian ACMPR Licensed Producer of medical cannabis and was formed on July 31, 2015 by way of an amalgamation pursuant to the British Columbia *Business Corporations Act* between MMJ Bioscience Inc. (“Bioscience”), the predecessor to United Greeneries, and 1032831 BC Ltd., a wholly-owned subsidiary of PhytoTech Medical (UK) PTY Ltd. (“Phyto UK”). United Greeneries continued to operate under the name MMJ Bioscience Inc. until August 17, 2016 when it changed its name to United Greeneries Holdings Ltd. (note 12)

Satipharm is a European pharmaceutical and nutraceutical company, specialized in the development, manufacturing and production of cannabis-based health and dietary products with a focus on legally accessible Cannabidiol (“CBD”). Satipharm was incorporated on August 11, 2015, under the *Swiss Code of Obligations* (Switzerland).

These combined consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue in the normal course of operations is dependent on its ability to achieve profitable operation or raise additional capital through debt or equity financings. While the Company has been successful in raising capital in the past, there is no assurance it will be successful in closing further financing transactions in the future and as at the date of approving these financial statements the Company has not been granted a license to sell its cannabis inventory. The Company had a combined consolidated net loss of $8,438,255 and negative operating cash flows of $4,021,720 for the year ended June 30, 2017 and an accumulated deficit of $14,030,673 as at June 30, 2017. These conditions indicate the existence of material uncertainties which that may cast significant doubt on the Company’s ability to continue as a going concern. If the going concern basis were not appropriate for these combined consolidated financial statements, then significant adjustments would be necessary to the comprehensive loss and the financial position classifications.

(Expressed in Canadian dollars)

2. Reverse take-over transaction

On April 26, 2017, pursuant to a share exchange agreement dated December 7, 2016, the Company acquired from Phyto UK, a wholly owned subsidiary of MMJ PhytoTech Limited ("MMJ"), 100% of the issued and outstanding shares of United Greeneries and Satipharm for $33,180,997 payable as follows:

a) $2,000,000 in cash;

b) 41,574,662 common shares of the Company at $0.75 per share.

For accounting purposes, the $2,000,000 in cash paid to Phyto UK was treated as a return of equity to the original shareholder.

Further, in completing this transaction, the Company issued 11,758,671 common shares of the Company to MMJ to extinguish $8,819,003 in intercompany debts. A gain of $2,939,668 was recognized in equity on settlement of this debt in accordance with IAS 1*, Presentation of Financial Statements.*

In connection with the Acquisition, the Company completed a $25 million private placement, by issuing 33,334,000 units of the Company at $0.75 per unit. Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share of the Company for an exercise price of $1.00 per share for a period of 36 months from issuance.

Immediately prior to closing of the Acquisition, the Company completed a share consolidation on the basis of 1.79 pre-consolidation common shares to one post-consolidation common share, and changed its name from Harvest One Capital Inc. to Harvest One Cannabis Inc. The Acquisition constituted the Company's Qualifying Transaction within the meaning of TSX-V policies. Further, in connection with the completion of its Qualifying Transaction, the Company obtained final approval to list its common shares on the TSX-V as a Tier 1 Industrial or Life Sciences Issuer. The common shares began trading on the TSX-V on April 28, 2017 under the symbol "HVST".

The transaction has been accounted for as a reverse take-over ("RTO") that does not constitute a business combination for accounting purposes. The Company's legal subsidiaries, United Greeneries and Satipharm, have been treated as the accounting acquirer and Harvest One, the legal parent, has been treated as the accounting acquiree.

Consideration transferred:		
Fair value of 2,286,659 post-consolidated Harvest shares	$	1,143,328
Fair value of 223,464 post-consolidation Harvest options		148,225
		1,291,553
Net assets acquired:		
Cash and cash equivalents		200,615
Accounts payable and accrued liabilities		(218,668)
		(18,053)
Excess attributed to cost of listing	**$**	**1,273,500**
Listing costs:		
Legal		497,367
Professional, consulting and other fees		326,642
		2,097,509

2. Reverse take-over transaction (continued)

For accounting purposes, these combined consolidated financial statements reflect a continuation of the financial position, operating results and cash flows from the Company's legal subsidiaries, United Greeneries and Satipharm.

3. Basis of presentation

a) *Statement of compliance*

These combined consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS")

These combined consolidated financial statements were approved by the Board of Directors and authorized for issue on September 28, 2017.

b) *Basis of measurement*

These combined consolidated financial statements are presented in Canadian dollars and are prepared on a historical cost basis, except for biological assets, inventory and certain financial instruments which are carried at fair value.

4. Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these combined consolidated financial statements, unless otherwise indicated.

a) *Basis of consolidation*

These combined consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The accounts of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Intercompany transactions, balances and unrealized gains or losses on transactions are eliminated. The table below lists the Company's subsidiaries and the ownership interests in each:

Subsidiary	Jurisdiction	% ownership	Accounting method
United Greeneries Holding Ltd.	Canada	**100%**	Consolidation
United Greeneries Ltd.	Canada	**100%**	Consolidation
United Greeneries Operations Ltd.	Canada	**100%**	Consolidation
United Greeneries Saskatchewan Ltd.	Canada	**100%**	Consolidation
Satipharm AG Switzerland	Switzerland	**100%**	Consolidation
Satipharm Canada	Canada	**100%**	Consolidation
Satipharm Australia	Australia	**100%**	Consolidation
Satipharm Europe Ltd.	U.K.	**100%**	Consolidation

The comparative figures presented in these combined consolidated financial are those of the combined financial statements of United Greeneries Holdings Ltd. and Satipharm AG Switzerland and include all entities in the above table.

4. Significant accounting policies (continued)

b) Foreign currency translation

The presentation and functional currency of the Company is the Canadian dollar. The individual financial statements of each subsidiary are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

Foreign currency transactions are translated into the individual entity's functional currency at the exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to the functional currency of the individual entity at the foreign exchange rate applicable at that date. Realized and unrealized exchange losses are recognized through combined consolidated statement of loss and comprehensive loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The assets and liabilities of foreign operations are translated in Canadian dollars at year-end exchange rates while income and expenses, and cash flows are translated into Canadian dollars using average exchange rates. Exchange differences resulting from translating foreign operations are recognized in other comprehensive loss and accumulated in equity.

c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

d) Biological assets

The Company measures biological assets consisting of medical cannabis plants at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of inventory. Seeds are measured at fair market value. Unrealized gains or losses arising from changes in fair value less costs to sell during the year are included in the results of operations of the related year.

e) Inventory

Inventories of harvested finished goods and packing materials are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value.

Inventories of purchased product are valued at the lower of cost and net realizable value.

Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4. Significant accounting policies (continued)

f) Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Depreciation is provided on a declining balance basis over the asset's useful life commencing from the time the asset is available for use.

The depreciation rates used for each class of depreciable asset are:

Plant and equipment	20%
Office equipment	20%
Buildings	4%
Leasehold improvements	Straight line over lease term

An asset's residual value and useful life are reviewed during each financial year and adjusted if appropriate. Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and recognized in the combined consolidated statement of loss and comprehensive loss.

Assets under construction are transferred to the appropriate category of property, plant and equipment when available for use and depreciation of the asset commences at that point.

g) Leases

Leases of property, plant and equipment where the Company as lessee has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the combined consolidated statement of loss and comprehensive loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term. Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the combined consolidated statement of loss and comprehensive loss on a straight-line basis over the period of the lease.

4. Significant accounting policies (continued)

h) Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and intangible assets are reviewed to determine whether there is any indication that these assets have impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset may exceed its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group 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 immediately in the combined consolidated statement of loss and 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.

i) Share capital

The Company’s common shares, warrants and options are classified as equity instruments. Incremental costs directly related to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. For equity offerings of units consisting of a common share and warrant, when both instruments are classified as equity, the Company does not bifurcate the proceeds between the common share and the other equity instrument.

j) 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:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be uncured in respect of the transaction can be measured reliably.

k) Loss per share

Basic loss per share is calculated by dividing net loss by the weighted average number of shares of common stock outstanding during the year. Diluted loss per share is calculated similarly but includes potential dilution from the exercise of common stock warrants and conversion of debt to equity, except when the effect would be anti-dilutive.

4. Significant accounting policies (continued)

l) Income taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in combined consolidated statement of loss and comprehensive loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

m) Share-based compensation

The Company measures equity settled share-based payments based on their fair value at the grant date 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 share based payments granted to non-employees the compensation expense is measured at the fair value of the good 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 re-measured until the counterparties 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 other reserves to share capital.

n) Financial instruments

Financial assets

All financial assets (including assets designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. 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.

The Company classifies its financial assets as financial assets at fair value through profit or loss 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 at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

4. Significant accounting policies (continued)

n) financial instruments (continued)

Financial liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company classifies its financial liabilities as either financial liabilities at fair value through profit or loss or other liabilities. Subsequent to initial recognition other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in the combined consolidated statement of loss and comprehensive loss.

Classification of financial instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

	Classification
Cash and cash equivalents	Fair value through profit or loss
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Notes payable	Other liabilities
Due to related party	Other liabilities

Transaction costs

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Impairment of financial assets

Financial assets, other than those classified at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period or whenever circumstances dictate. 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 affected.

o) Critical accounting estimates and judgments

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

4. Significant accounting policies (continued)

o) Critical accounting estimates and judgments (continued)

Biological assets and inventory

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

Estimated useful lives and depreciation of property, plant and equipment

Depreciation and amortization of property, plant and equipment are dependent upon estimates of useful lives and when the asset is available for use, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Share-based compensation

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

Warrants

In calculating the value of the warrants, the Company includes key estimates such as the volatility of the Company's stock price, the value of the common share, and the risk-free interest rate.

Business combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. The Company must determine whether it is the acquirer or acquiree in each acquisition. Under IFRS 3, the acquirer is the entity that obtains control of the acquiree in the acquisition. If it is not clear which company is the acquirer, additional information must be considered, such as the combined entity's relative voting rights, existence of a large minority voting interest, composition of the governing body and senior management, and the terms behind the exchange of equity interest.

p) New and revised IFRS issued but not yet effective

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. 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 becomes effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

(Expressed in Canadian dollars)

4. Significant accounting policies (continued)

p) New and revised IFRS issued but not yet effective (continued)

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 was issued by the IASB in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is 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. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied.

The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. The effective date of IFRS 9 is January 1, 2018.

IFRS 16 Leases ("IFRS 16")

IFRS 16 was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted.

The Company is assessing the impact of the new or revised IFRS standards in issue but not yet effective on its financial position and financial performance.

5. Accounts receivable

The summary of the Company's receivables is as follows:

	June 30 2017	June 30 2016
	$	$
Taxes receivable from governments	**138,422**	172,609
Loan to director	**-**	100,357
Trade and other receivables	**41,619**	44,353
	180,041	317,319

At the reporting date, none of the receivables were past due or impaired.

(Expressed in Canadian dollars)

6. Biological assets

The Company's biological assets consist of seeds and medical cannabis plants. The continuity of biological assets for the years ended June 30, 2017 and 2016 was as follows:

	June 30 2017	June 30 2016
	$	$
Balance, beginning of year	**-**	-
Purchase of seeds	**20,914**	-
Changes in fair value less costs to sell due to biological transformation	**670,368**	-
Transferred to inventory upon harvest	**(580,793)**	-
Balance, end of year	**110,489**	-

As at June 30, 2017, included in the carrying amount of biological assets was $20,914 in seeds and $89,575 in live plants ($Nil in seeds and $Nil in live plants at June 30, 2016).

The significant assumptions used in determining the fair value of medical cannabis pants are as follows:

- wastage of plants based on their various stages;
- yield by strain of plant;
- percentage of costs incurred to date compared to the total costs to be incurred are used to estimate the fair value of an in-process plant; and
- percentage of costs incurred for each stage of plant growth was estimated.

On average, the growth cycle is 15 weeks. All of the plants are to be harvested as agricultural produce (i.e. medical cannabis) and as at June 30, 2017, on average, were 37% complete, compared to Nil% average stage of completion as at June 30, 2016. Mother plants, or bearer plants, are plants grown for the purpose of taking cuttings in order to grow more quantity of the same plant. Bearer plants are critical to the success of the business however, are not measured for accounting purposes. Bearer plants are plants that, once mature, are held solely to grow produce over their useful life.

Biological assets are measured using Level 3 inputs. The Company estimates the harvest yields for the plants at various stages of growth. As of June 30, 2017, it is expected that the Company's biological assets will yield approximately 92,510 grams compared to Nil grams at June 30, 2016. The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the fair value of the biological assets.

7. Inventories

Inventories consist of dry cannabis, Gelpell CBD capsules, and supplies and consumables for use in the production of inventories and the transformation of biological assets.

As at June 30, 2017, the Company held 124.79 kg of dry cannabis compared with Nil kg at June 30, 2016.

(Expressed in Canadian dollars)

7. Inventories (continued)

Inventories was comprised of the following items:

	June 30 2017	June 30 2016
	$	$
Dry cannabis finished goods	**571,919**	**-**
Supplies	**33,057**	**-**
CBD capsules	**608,708**	520,073
	1,213,684	520,073

Cost of inventory is recognized as an expense and included in cost of goods sold. Included in costs of goods sold for the year ended June 30, 2017 is a $278,601 unrealized gain on changes in the fair value of biological assets and $102,180 related to the cost of purchased CBD capsules.

During the year ended June 30, 2016, management conducted a review of inventory for the purpose of ensuring that the amount of inventory recognized on the statement of financial position is note being carried at an amount higher than its recoverable amount. Due to issues related to Government approvals and the lack of sales activities between June 2016 to December 2016, the Company impaired $878,000 of inventory for the year ended June 30, 2016. During the year ended June 30, 2017, the Company re-evaluated the inventory impairment provision, taking into account the Company's sales from January 2017 through to subsequent to year end and as a result reduced the provision by $103,417.

(Expressed in Canadian dollars)

8. Property, plant and equipment

The summary of the Company's property, plant and equipment is as follows:

	Office equipment	Plant & equipment	Land	Building	Leasehold improvements	Construction in progress	Total
	$	$	$	$	$		$
Cost							
July 1, 2015	24,373	124,449	-	1,393,600	1,916,237	-	3,458,659
Additions	64,332	1,839,390	-	-	1,105,733	-	3,009,455
June 30, 2016	**88,705**	**1,963,839**	**-**	**1,393,600**	**3,021,970**	**-**	**6,468,114**
Accumulated depreciation							
July 1, 2015	5,779	32,414	-	146,792	223,488	-	408,473
Depreciation	10,856	16,107	-	-	-	-	26,963
June 30, 2016	16,635	48,521	-	146,792	223,488	-	435,436
Net book value							
June 30, 2016	**72,070**	**1,915,318**	**-**	**1,246,808**	**2,798,482**	**-**	**6,032,678**
Cost							
July 1, 2016	88,705	1,963,838	-	1,393,600	3,021,970	-	6,468,113
Additions	122,034	219,806	431,000	2,440,381	23,618	50,581	3,287,420
Disposals	-	(2,308)	-	-	-	-	(2,308)
June 30, 2017	**210,739**	**2,181,336**	**431,000**	**3,833,981**	**3,045,588**	**50,581**	**9,753,225**
Accumulated depreciation							
July 1, 2016	16,635	48,521	-	146,792	223,489	-	435,437
Depreciation	27,680	259,317	-	43,932	763,935	-	1,094,864
Disposals	-	(2,590)	-	-	-	-	(2,590)
June 30, 2017	44,315	305,248	-	190,724	987,424	-	1,527,711
Net book value							
June 30, 2017	**166,424**	**1,876,088**	**431,000**	**3,643,257**	**2,058,164**	**50,581**	**8,255,514**

(Expressed in Canadian dollars)

8. Property and equipment (continued)

On May 18, 2017, the Company purchased the land and building it previously leased and in which its current operations reside for cash consideration of $2,862,000. The consideration was allocated between land and building as $431,000 and $2,431,000 respectively, with the amount allocated to the land being based on comparable transactions in the Duncan area. As part of the transaction the Company also repaid the lessor for an outstanding loan of $391,404 (Note 10).

9. Accounts payable and accrued liabilities

	June 30 2017	June 30 2016
	$	$
Trade payables	**495,932**	32,167
Accruals	**143,412**	198,430
Payroll payables	**120,439**	46,758
Other payables	**7,165**	1,480
	766,948	278,835

Trade payables are non-interest bearing and are normally settled on a 30-day basis. Other payables are non-interest bearing and have an average term of 30 days. All amounts are expected to be settled within twelve months.

10. Notes payable

	June 30 2017	June 30 2016
	$	$
Current	**-**	88,633
Non-current	**-**	383,848
	-	472,481

In April 2014, the Company issued a promissory note for $650,000 to Elk Valley Properties in connection with leasehold improvements and renovations undertaken at the Duncan Facility. The unsecured promissory note bears interest at 5% per annum and is repayable monthly at $9,186 per month for 84 months. The Company repaid the outstanding balance of the note of $391,404 on May 26, 2017 in conjunction with the purchase of the Duncan Facility (Note 8).

11. Due to related party

	June 30 2017	June 30 2016
	$	$
Due to related party	**234,390**	8,486,056

(Expressed in Canadian dollars)

11. Due to related party (continued)

For the year ended June 30, 2016, the operational and funding requirements of the Company were supported by the Company's parent, MMJ prior to the RTO. As part of the RTO, the Company repaid $8,819,004 to MMJ through the issuance of 11,758,671 common shares (Note 2). The Company recognized a gain on settlement of debt of $2,939,668 which was recorded in equity in accordance with IAS 1, as the substance of the settlement is a transaction with a shareholder acting in their capacity as a shareholder. The amount due to the related party at June 30, 2017 is unsecured and interest free.

12. Share capital

a) *Authorized*

The Company has an unlimited number of authorized common shares with no par value.

b) *Issued capital*

<u>For the year ended June 30, 2017:</u>

Immediately prior to the completion of the RTO on April 26, 2017, the Company completed a consolidation of its common shares on the basis of 1.79 pre-consolidation share to one post-consolidation common share for a pre-RTO balance of 2,286,659 common shares outstanding in the Company (note 2).

Upon completion of the RTO (note 2), the Company issued a total of 41,474,662 common replacement shares to the previous shareholders of United Greeneries Holdings Inc. and Satipharm AG.

Concurrently with the completion of the RTO transaction, the Company settled $8,819,004 of outstanding debt (principal and interest), due from United Greeneries and Satipharm to MMJ, through the issuance of 11,758,671 common shares. The fair value of the shares issued was estimated based on the valuation of units issued during private placement; comprised of one common share and one-half warrant. A residual fair-value method was used to determine the fair value of one common share resulting in $5,879,336 of shares being issued and a gain on debt settlement of $2,939,668 being recorded in equity in accordance with IAS 1 as the substance of the settlement is a transaction with a shareholder acting in their capacity as a shareholder (Note 11). The assumptions applied in calculating the fair value of the warrants were as follows:

	June 30 2017
Risk-free interest rate	**0.80%**
Expected life of options (years)	**3.00**
Expected annualized volatility	**129.00%**
Expected dividend yield	**Nil**

Further, the Company completed a private placement and issued 33,334,000 units at $0.75 per unit for gross proceeds of $25,000,500. Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share of the Company for an exercise price of $1.00 per warrant for a period of 36 months from issuance (Note 2).

(Expressed in Canadian dollars)

12. Share Capital (continued)

b) Issued capital (continued)

For the year ended June 30, 2016:

United Greeneries was formed on July 31, 2015 by way of an amalgamation pursuant to the British Columbia *Business Corporations Act* between Bioscience and a wholly-owned subsidiary of Phyto UK ("the Merger").

Immediately preceding and as a condition of the Merger, outstanding convertible debentures in Bioscience Inc. of $3,152,642 were settled through the issuance of 78,795,460 common shares of Bioscience. Concurrently, 99,206,209 shares of PhytoTech Medical Ltd. and MMJ Bioscience Inc. were amalgamated with 51,000,000 shares of the newly formed United Greeneries Holdings Ltd. being issued to MMJ.

On July 2, 2015, United Greeneries issued 3,750,000 common shares to a non-related entity for the termination of an agreement previously entered into for the acquisition of United Greeneries and Satipharm. The fair value of the shares issued pursuant to the agreement was $375,000 and was expensed through the combined consolidated statement of loss and comprehensive loss.

13. Other reserves

Other reserves activity during the year is summarized as follows:

	Stock Options	Brokers' Warrants	Contributed Surplus	Total
	$	$	$	$
July 1, 2015	-	-	-	-
Share-based payments (options issued by MMJ)	-	-	197,143	197,143
June 30, 2016	-	-	197,143	197,143
Options issued	1,601,811	-	-	1,601,811
Share-based payments (options issued by MMJ)	-	-	292,545	292,545
Warrants issued	-	1,306,276	-	1,306,276
June 30, 2017	1,601,811	1,306,276	489,688	3,397,775

(Expressed in Canadian dollars)

13. Other reserves (continued)

a) Stock options and share-based payments

The Company has established a share purchase option plan whereby the Company's directors may from time to time grant share options to employees and non-employees. The maximum number of shares that maybe reserved for issuance under the Plan is 10% of the issued common shares of the Company. Vesting is determined by the Board of Directors.

The Company’s stock options at June 30, 2017 and changes for the year ended are as follows:

	Number outstanding	Weighted average exercise price
		$
June 30, 2015 and 2016	**-**	-
Options acquired on RTO (note 2)	**40,000**	0.179
Granted	**8,050,000**	0.75
Options exercised	**(40,000)**	(0.179)
June 30, 2017	**8,050,000**	0.75

The following table discloses the number of options and vested options at June 30, 2017:

Exercise price	Number of options outstanding	Weighted average exercise price	Number of options exercisable	Expiry date
$	#	$	#	
0.75	8,050,000	0.75	1,830,000	April 27, 2022

The Company recorded $1,601,811 for the year ended June 30, 2017 (for the year ended June 30, 2016 - $Nil) in share-based compensation expense related to options.

In determining the amount of share-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of options granted during the year ended June 30, 2017 and 2016 by applying the following assumptions:

	June 30 2017
Risk-free interest rate	**0.80%**
Expected life of options (years)	**3.59**
Expected annualized volatility	**128.23%**
Expected dividend yield	**Nil**

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

(Expressed in Canadian dollars)

13. Other reserves (continued)

b) Brokers' warrants

In connection with the private placement (Note 12(b)(1)), the Company issued 2,000,040 warrants to the Brokers ("Brokers' Warrants") with an exercise price of $0.75 per warrant and which expire 36 months from the date of issue. Upon exercise of the Brokers Warrants, the Company will issue one common share and one-half common share purchase warrant ("Secondary Warrant"). Each whole Secondary Warrant will be exercisable into one common share of the Company with an exercise price of $1.00 warrant and expire 36 months from the issuance of the Secondary Warrant. The following table discloses the number of warrants at June 30, 2017:

Exercise price	Number of Brokers' warrants outstanding	Weighted average exercise price	Expiry date
$	#	$	
0.75	2,000,040	0.75	April 27, 2020

The Company valued the warrants at $1,306,276 for the year ended June 30, 2017 (for the year ended June 30, 2016 - $Nil) using the Black-Scholes option pricing model to establish the fair value of the Brokers' warrants granted by applying the following assumptions:

	June 30 2017
Risk-free interest rate	**0.80%**
Expected life of warrant (years)	**3.00**
Expected annualized volatility	**129%**
Expected dividend yield	**Nil**

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

c) Other

During the year ended June 30, 2017, the Company recorded $292,545 (2016 - $197,143) in stock based compensation expense as a result of vesting of stock options from the Company's parent, MMJ, issued to employees of Harvest, UG and Satipharm in previous years, whereby the Company incurred the expense as it is the primary recipient of the services provided.

(Expressed in Canadian dollars)

14. Related parties

In addition to related party transactions described elsewhere in the notes to the financial statements, the Company had the following related party transactions:

(a) *Compensation of key management personnel*

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

	June 30 2017	June 30 2016
	$	$
Salaries and benefits	**163,404**	558,413
Consulting fees	**105,422**	-
Directors' fees	**34,000**	-
Share-based compensation	**1,226,761**	93,856
Total	**1,529,587**	652,269

(b) *Related parties*

At June 30, 2017, there was $22,000 directors' fees owing (June 30, 2016 - $Nil) included in trade and other payables.

During the year ended June 30, 2017, the Company paid $28,581 to a company associated with a director of the Company.

During the year ended June 30, 2016, the Company paid $243,402 to a company associated with a director of the Company's subsidiary, Satipharm, in relation to the processing and manufacturing of the Company's CBD capsules.

(c) *Loans to/from related parties*

There were no loans made to directors and other key management personnel of the Company, including their personally related parties during the year ended June 30, 2017. As at June 30, 2016, the Company had a loan receivable from a director of the Company for $100,357, which included $5,810 of interest receivable. The loan was unsecured and incurred interest at a rate of 8% per annum. The loan was repaid during the year ended June 30, 2017.

(Expressed in Canadian dollars)

15. Income tax

		June 30, 2017		June 30, 2016
Loss before income taxes	**$**	**(8,438,225)**	$	(3,393,372)
Statutory tax rates		**26.00%**		26.00%
Recovery based on the statutory rates		**(2,194,000)**		(882,000)
Difference in foreign tax rates		**174,000**		(22,000)
Non-deductible expenses		**822,000**		--
Financing costs		**(839,000)**		-
Foreign exchange exception		**32,000**		-
Change in unrecognized deferred tax assets		**2,005,000**		904,000
Deferred income tax recovery	**$**	**-**	$	-

Effective June 30, 2017, both the Federal and British Columbia Provincial corporate tax rate remain the same at 15% and 11%. The tax rate for Australia is 30.00% and the Swiss Federal rate is 8.50%.

The nature and tax effect of the taxable temporary differences giving rise to deferred tax assets are summarized as follows:

		June 30, 2017		June 30, 2016
Non-capital loss carry-forwards	**$**	**2,131,000**	$	1,014,000
Financing costs		**717,000**		69,000
Capital assets and other		**582,000**		343,000
		3,431,000		1,426,000
Offset against deferred tax liabilities		**-**		-
Unrecognized deferred tax asset		**(3,431,000)**		(1,426,000)
Deferred tax assets		**-**		-

The Company has Canadian accumulated non-capital losses of $8,152,000 the year ended June 30, 2017 (2016 - $3,898,000) for income tax purposes, which may be deducted in the calculation of taxable income in future years. These losses will be expiring between 2032 and 2037. For Australian tax purposes, the Company has losses of $39,000 incurred in the current year.

(Expressed in Canadian dollars)

16. Segmented information

The Company has three reportable segments, cultivation, processing and distribution and corporate, which is the way the Company reports information to its Board of Directors.

The cultivation segment includes the legal cultivation and distribution of cannabis under the federally regulated MMPR license issued by Health Canada. Segment assets include cash, cannabis biological assets, inventories, property, plant and equipment and intangible assets relating to the Company's cultivation facility in Canada.

The processing and distribution segment includes the processing, manufacturing and distribution of cannabis-based food supplement products through Europe. Segment assets include cash, inventories and key agreements with international partnerships for the production and distribution of its cannabinoid-based products.

The corporate segment includes our corporate growth activities, administration, financial and other support to our business units.

The operating segments for the year ended June 30, 2017 are as follows:

	Cultivation	Processing and distribution	Corporate	Total
	$	$	$	$
Revenue	-	75,950	-	75,950
Unrealized gain on changes in fair value of biological assets (note 6)	278,601	-	-	278,601
Inventory expensed to cost of sales	-	(102,180)	-	(102,180)
Cost of goods sold (recovery to cost of goods sold), net of unrealized gain on changes in fair value of biological assets	278,601	(102,180)	-	176,421
Gross profit (loss)	278,601	(26,230)	-	252,371
Other operating expenses	(3,098,651)	(955,885)	(2,344,837)	(6,399,373)
Loss from operations	(2,820,050)	(982,115)	(2,344,837)	(6,147,002)
Net finance gain (expense)	(138,407)	(1,472)	15,462	(124,417)
Listing fee	-	-	(2,097,509)	(2,097,509)
Non-operating expenses	-	(69,297)	-	(69,297)
Net loss	(2,958,457)	(1,052,884)	(4,426,884)	(8,438,225)
Total assets	22,982,446	839,094	301,549	24,123,089
Total liabilities	(778,261)	(66,465)	(156,612)	(1,001,338)

(Expressed in Canadian dollars)

16. Segmented information (continued)

The operating segments for the year ended June 30, 2016 are as follows:

	Cultivation	Processing and distribution	Corporate	Total
	$	$	$	$
Revenue	-	246,699	-	246,699
Cost of goods sold	-	(319,827)	-	(319,827)
Gross profit (loss)	-	(73,128)	-	(73,128)
Other operating expenses	(1,553,624)	(1,254,320)	-	(2,807,944)
Loss from operations	(1,553,624)	(1,327,448)	-	(2,881,072)
Net finance expense (gain)	(117,600)	-	-	(117,600)
Non-operating expenses	(394,700)	-	-	(394,700)
Net loss	(2,065,924)	(1,327,448)	-	(3,393,372)
Total assets	6,985,092	786,302	-	7,771,394
Total liabilities	(6,973,418)	(2,263,954)	-	(9,237,372)

17. Commitments

On March 8, 2017, the Company entered into a 10-year lease agreement for a ground lease on the property adjacent to the Company's current operations in Duncan, BC. Commencing March 1, 2017, the Company will pay monthly rent at a rate of $2,275 for the first five years and $2,616 for the remaining 5 years.

On May 31, 2017, the Company entered into an agreement with GelPell AG for the exclusive marketing, distribution and sale of the GelPell capsules worldwide. As part of this agreement, the Company has yearly minimum purchase commitments.

On May 25, 2017 the Company entered into a lease five year lease agreement for office space in Vancouver, BC, commencing on February 28, 2017 the Company will pay monthly rent at a rate of $13,038.

As at June 30, 2017, the Company's commitments that have not been disclosed elsewhere in the combined consolidated financial statements were as follows:

	Within 1 year	2-4 years	Over 4 years	Total
	$	$	$	$
Operating lease commitments	201,250	551,250	132,965	885,465
Purchase commitments	562,461	2,161,055	802,672	3,526,188
	763,711	2,712,305	935,637	4,411,653

18. Financial instruments and risk

The Company thoroughly examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include foreign exchange risk, credit risk, interest rate risk, and liquidity risk. Where material, these risks are reviewed and monitored by the Board of Directors.

The Board of Directors has overall responsibility for the determination of the Company’s risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company’s competitiveness and flexibility.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. As at June 30, 2017, the Company is exposed to foreign currency risk through its bank accounts denominated in Swiss Francs (‘CHF”). A 10% appreciation (depreciation) of the CHF against the CAD, with all other variables held constant, would result in an immaterial change in the Company’s loss and comprehensive loss for the year.

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 Company’s cash and cash equivalents and accounts receivable are exposed to credit risk. The Company reduces its credit risk on cash and cash equivalents by placing these instruments with financial institutions of high credit worthiness. The Company’s accounts receivable are primarily receivable from government agencies. As at June 30, 2017, the Company is not exposed to any significant credit risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Included in the loss for the period in the financial statements is interest expense on loans payable and interest income on Canadian dollar cash. As at June 30, 2017, the Company is not exposed to any significant interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities have maturities of 30 days or less or are due on demand, and are subject to normal trade terms. The Company has working capital of $15,529,119. The Company addresses its liquidity through equity financing obtained through the sale of common shares. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

Fair value

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and due to related party approximate their fair value due to their short-term maturity.

18. Financial instruments and risk (continued)

Fair value hierarchy

Financial instruments measured at fair value are classified into one of three 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:

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.

During the year, there were no transfers of amounts between levels.

Cash and cash equivalents are classified as Level 1 financial instruments. Due to related party is classified as Level 2 financial instruments.

The Company's other financial instruments, including accounts receivable and accounts payable and accrued liabilities, are carried at cost which approximates fair value due to the relatively short maturity of those instruments.

19. Capital management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of the components of shareholders' equity.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements.