SUPREME PHARMACEUTICALS INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

(Expressed in Canadian Dollars)

Management's Responsibility for Financial Reporting

To the Shareholders of Supreme Pharmaceuticals Inc. (the "Company"):

Management is responsible for the preparation and presentation of the accompanying condensed interim 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 condensed interim 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 Board of Directors and the Audit Committee is composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the condensed consolidated interim 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 issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

We draw attention to Note 1 in the condensed consolidated interim financial statements, which indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

February 29, 2016

(signed)	(signed)
/John Fowler/	/Chris Bechtel/
Director	Director

Notice of No Auditor Review of Condensed Interim Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of Supreme Pharmaceuticals Inc. (the “Company”) have been prepared by and are the responsibility of management and are approved by the Company Board of Directors.

The Company’s independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards of the Chartered Professional Accountants of Canada for a review of interim financial statements.

Supreme Pharmaceuticals Inc.

Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

As at:			December 31, 2015		June 30, 2015
ASSETS					
Current assets					
Cash		$	1,750,635	$	570,170
Receivables			47,218		42,524
Prepaid expenses			302,105		474,538
			2,099,958		1,087,232
Non-current assets					
Licence acquisition cost	3		8,396,914		8,396,914
Greenhouse facility, net	4		9,221,489		8,849,879
Office equipment, net	4		76,862		84,138
Resource exploration assets	5		-		1,700
Reclamation bonds	6		15,000		15,000
		$	19,810,223	$	18,434,863
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		$	175,986	$	146,425
Due to related parties	11		-		89,439
Flow-through share liability	10		169,527		165,367
Current portion of mortgage payable	7		3,698,849		3,636,724
			4,044,362		4,037,955
Long-term liabilities					
Convertible debt	8		621,957		809,555
			4,666,319		4,847,510
SHAREHOLDERS' EQUITY					
Share capital	9		30,417,035		26,391,482
Reserves			2,193,661		3,605,673
Accumulated deficit			(17,466,792)		(16,409,802)
Total shareholders' equity			15,143,904		13,587,353
		$	19,810,223	$	18,434,863

Nature and continuance of operations (Note 1)
Subsequent events (Note 16)

Approved and authorized by the Board of Directors on February 29, 2016:

"John Fowler" Director "Chris Bechtel" Director

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

Supreme Pharmaceuticals Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

(Expressed in Canadian Dollars)

(Unaudited)

For the six months ended December 31,	**Notes**		**Six Months Ended December 31, 2015**		**Six Months Ended December 31, 2014**		**Three Months Ended December 31, 2015**		**Three Months Ended December 31, 2014**
General and administrative expenses									
Amortization		$	9,915	$	4,860	$	4,958	$	4,860
Consulting	11		15,072		-		7,580		-
General and administrative			116,469		1,175,414		78,295		942,121
Interest, accretion, and bank charges	8		201,431		-		65,545		-
Professional fees			168,823		376,567		93,299		238,476
Promotion and marketing			47,138		-		28,358		-
Rent and facilities			125,028		-		62,365		-
Share based payments	11		26,785		1,791,197		26,785		1,308,618
Wages, management fees and benefits	11		348,558		557,012		168,763		239,932
Loss before other items			(1,059,219)		(3,905,050)		(535,948)		(2,734,007)
Other Items									
Flow-through share interest and penalties	10		(4,482)		-		(2,415)		-
Mortgage interest			-		(62,125)		-		(31,062)
Impairment of option to purchase			-		(250,000)		-		(250,000)
Other gains and losses			8,411		5,112		8,299		5,112
Write off of exploration assets			(1,700)		-		(1,700)		-
			2,229		(307,013)		4,184		(275,950)
Net loss and comprehensive loss for the period		**$**	**(1,056,990)**	**$**	**(4,212,063)**	**$**	**(531,764)**	**$**	**(3,015,069)**
Basic and Diluted Loss per common share		**$**	**(0.01)**	**$**	**(0.06)**	**$**	**(0.01)**	**$**	**(0.01)**
Weighted average number of shares			**92,951,624**		**66,854,415**		**92,951,624**		**66,854,415**

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

Supreme Pharmaceuticals Inc.

Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited)

For the six months ended December 31,		**2015**		**2014**
Operating activities:				
Net loss for the period	$	(1,056,990)	$	(4,212,063)
Items not involving cash				
Amortization		9,915		4,860
Accrued interest and accretion		201,432		62,125
Flow-through share interest and penalties		4,482		-
Share based payments		26,785		1,622,447
Impairment of option to purchase		-		250,000
Changes in non-cash working capital:				
Receivables		(4,694)		(433,175)
Prepaid expenses		42,911		(161,869)
Due to related parties		(89,439)		(320,469)
Accounts payable and accrued liabilities		29,561		420,069
		(836,037)		(2,768,075)
Investing activities:				
Acquisition of equipment		(2,638)		(71,231)
Acquisition of facilities		(309,529)		(2,934,044)
Reclamation bonds recovered				7,500
		(312,167)		(2,997,775)
Financing activities:				
Common shares issued (net of issuance costs)		667,082		4,328,135
Warrants exercised		1,394,087		502,000
Stock options		267,500		175,000
		2,328,669		5,005,135
Net change in cash		1,180,465		(760,715)
Cash, beginning of period		570,170		1,121,249
Cash, end of period	**$**	**1,750,635**	**$**	**360,534**

Supplemental disclosure with respect to cash flows (Note 12)

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

SUPREME PHARMACEUTICALS INC.
Condensed Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)
(Unaudited)

	Common Shares					Total
	Number of Shares	Share Capital	Subscription Receivable	Reserves	Deficit	Shareholders' (Deficiency) Equity
Balance, June 30, 2014	57,554,137	$ 20,121,808	$ (50,000)	$ 921,955	$ (10,617,372)	$ 10,376,391
Private Placements (net of fees)	16,018,562	4,394,375	-	-	-	4,394,375
Subscriptions collected	-	-	50,000	-	-	50,000
Warrants exercised	2,008,000	502,000	-	-	-	502,000
Shares issued for debt	300,792	111,545	-	-	-	111,545
Stock options	700,000	280,700	-	(150,700)	-	175,000
Share based payments	-	482,578	-	1,622,447	-	1,622,447
Finder’s fee	-	(116,240)	-	-	-	(116,240)
Net loss for the period	-	-	-	-	(4,212,063)	(4,212,063)
Balance, December 31, 2014	76,581,489	25,294,188	-	2,438,702	(14,829,435)	12,903,455
Private Placements	780,712	257,635	-	-	-	257,635
Finders fees	-	(58,101)	-	56,818	-	(1,283)
Share issuance costs	-	(114,544)	-	-	-	(114,544)
Convertible debt and interest	3,834,837	439,755	-	617,917	-	1,057,672
Stock options exercised	500,000	212,481	-	(42,481)	-	170,000
Shares issued for debt	1,242,754	360,068	-	-	-	360,068
Share based payments	-	-	-	534,717	-	534,717
Net loss for the period	-	-	-	-	(1,580,367)	(1,580,367)
Balance, June 30, 2015	82,939,792	$ 26,391,482	$ -	$ 3,605,673	$ (16,409,802)	$ 13,587,353
Private Placements (net of fees)	4,026,469	315,166	-	351,916	-	667,082
Warrants exercised	8,200,512	2,583,676	-	(1,189,589)	-	1,394,087
Shares issued for debt	233,313	39,664	-	-	-	39,664
Share based payments	215,000	26,875				26,875
Debenture conversion	1,716,764	218,333	-	-	-	218,333
Convertible debt equity	-	341,939	-	(341,939)	-	-
Stock options exercised	750,000	499,900	-	(232,400)	-	267,500
Net loss for the period	-	-	-	-	(1,056,990)	(1,056,990)
Balance, December 31, 2015	**98,081,850**	**30,417,035**	**-**	**2,193,661**	**(17,466,792)**	**15,143,904**

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

1. Nature of Operations:

Supreme is a federally incorporated Canadian medical marijuana company with its common shares publically traded on the Canadian Securities Exchange under the symbol "SL". Supreme's primary asset is 8528934 Canada Ltd. ("**Supreme MMJ**"), a wholly owned subsidiary of Supreme. Supreme MMJ is a Canadian corporation that has applied to become a Licensed Producer (as such term is defined in the *Marihuana for Medical Purposes Regulations* (the "**MMPR**")). Supreme MMJ intends to produce and sell medical marijuana from a seven-acre hybrid greenhouse facility (the "**Hybrid Greenhouse**") located in Kincardine, Ontario. On December 9, 2015 Supreme MMJ underwent a "pre-license inspection" (the "**Inspection**") conducted by Health Canada for the purpose of determining if Supreme MMJ will become a Licensed Producer. The Inspection is the culmination of a multi-year application process commenced in 2013. Subject to the grant of a license to produce medical marijuana pursuant to the MMPR, Supreme, through Supreme MMJ, shall commence the production of medical marijuana.

On May 29, 2014 Supreme acquired 100% of the total issued and outstanding shares of Supreme MMJ by issuing 18,642,213 of its shares to shareholders of Supreme MMJ pursuant to the terms of a share purchase agreement. As a result, the transaction is considered a business combination of Supreme MMJ by Supreme. For accounting purposes, Supreme is considered the acquirer and Supreme MMJ the acquiree. Accordingly, the consolidated financial statements are in the name of Supreme, and are a continuation of the financial statements of Supreme. Additional information on the transaction is disclosed in note 3.

Supreme changed its name from Supreme Resources Ltd. on February 13, 2014. To date, the Company has not yet generated revenues from its operations, has accumulated losses and a working capital deficit, and is considered to be in the development stage. These material uncertainties cast significant doubt on the ability of the Company to continue as a going concern. These financial statements do not give effect to adjustments, if any, which would be necessary should the Company be unable to continue as a going-concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in the financial statements.

The Company's head office and registered records office is located at Suite 202, 20 De Boers Drive, Toronto, Ontario, M3J 0H1.

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

2. Significant Accounting Policies:

a) Statement of compliance

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

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit or loss which have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

b) Significant accounting judgments, estimates and assumptions

The preparation of these consolidated 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 consolidated 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.

2. Significant Accounting Policies (continued)

c) Intangible Assets Valuation

The values associated with intangible assets involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These estimates and assumptions could affect the Company's future results if the current estimates of future performance and fair values change. These determinations will affect the amount of amortization expense on definite life intangible assets recognized in future periods. The Company assesses impairment by comparing the recoverable amount of an intangible asset with its carrying value. There recoverable amount is defined as the higher of value in use, or fair value less cost to sell. The determination of the recoverable amount involves management estimates.

d) New and revised IFRS in issue but not yet effective

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 was issued by the International Accounting Standards Board ("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. Management is currently evaluating the impact of IFRS 9 on its financial statements.

IFRS 15, *Revenue from Contracts and Customers* ("IFRS 15") was issued by the IASB on May 28, 2014, and will replace IAS 18, revenue, IAS 11, construction contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018.

The policies applied in these condensed interim consolidated financial statements are consistent with the policies disclosed in Notes 2 and 3 of the annual audited consolidated financial statements for the year ended June 30, 2015. These condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended June 30, 2015.

3. Acquisition of 8528934 Canada Ltd.

Effective June 1, 2014 Supreme acquired 100% of the total issued and outstanding shares of 8528934 Canada Ltd. ("Supreme MMJ") by issuing 18,642,213 of its shares to the shareholders of Supreme MMJ. The transaction is considered a business combination. For accounting purposes, Supreme is considered the acquirer and Supreme MMJ the acquiree. Accordingly, the consolidated financial statements are in the name of Supreme and are a continuation of the financial statements of Supreme.

The former shareholders of Supreme MMJ received 18,642,213 common shares in total of Supreme for their Supreme MMJ common shares held. The majority of these shares are held in escrow according to the terms of an escrow agreement and subject to a partial release every six months until the final release on June 1, 2017. In the event that a production license is not received by Health Canada to grow medical marijuana, half of these shares will be cancelled.

(Expressed in Canadian Dollars)

3. Acquisition of 8528934 Canada Ltd (Continued)

In connection with the acquisition of Supreme MMJ, 15,642,213 shares issued by the Company are held in escrow pursuant to an escrow agreement dated June 2, 2014. Pursuant to the agreement 10% of the shares were released on June 1, 2014 and 15% are to be released every 6 months thereafter. As at December 31, 2015, 7,038,996 shares are held in escrow. Shares will be released from escrow as follows:

June 1, 2016	2,346,332
December 1, 2016	2,346,332
June 1, 2017	2,346,332
	7,038,996

The acquisition of Supreme MMJ by Supreme has been accounted for under IFRS 3, Business Combinations. The transaction has been accounted for at the fair value of the equity instruments granted by Supreme to the shareholders of Supreme MMJ which is $8,388,996. As at December 31, 2015 and 2014 9,321,107 shares valued at $4,194,498 are considered contingent consideration and subject to retroactive adjustment in the event the Supreme MMJ Health Canada license is not received.

The difference between the fair value of the consideration paid $8,388,996 and the net assets of Supreme MMJ has been recognized as license acquisition cost on the statement of financial position as at June 30, 2014. Fair value of the shares issued was based on the Company's closing market price on the last business day prior to the effective day of the acquisition. Legal costs of the transaction were expensed.

The results of operations of Supreme MMJ are included in the consolidated financial statements of Supreme from the date of acquisition on June 1, 2014 to the Company's year end June 30, 2014.

The following represents management's estimate of the fair value of the net assets acquired at June 1, 2014 as a result of the acquisition:

Fair value of share consideration paid (18,642,213 @ $0.45 per share)		$ 8,388,996
Less net assets acquired:		
Cash	$ 48,849	
Office equipment	5,933	
GST receivable	597	
Due to/from related parties and shareholders	(63,297)	
Net liabilities (assets)		7,918
Excess consideration allocated to licence acquisition costs		**$ 8,396,914**

4. Property and equipment

On May 23, 2014 Supreme purchased a 342,000 square foot green house facility including adjacent buildings situated on approximately sixteen acres of land located in the Bruce Energy Park, in Kincardine, Ontario, approximately 100 miles outside of Toronto ("the Facility").

The Facility was acquired for the purpose of producing medical marijuana pursuant to the MMPR. The Facility has not yet been approved for medical marijuana cultivation. Although major construction required to prepare the Facility for medical marijuana production has been completed, it is not useable until the Facility is approved for medical marijuana production. As a result, no amortization will be recorded until the Facility, or part thereof, is approved for use.

(Expressed in Canadian Dollars)

4. Property and equipment (Continued)

	Facility – Kincardine Greenhouse	Land – Kincardine Greenhouse	Total Greenhouse Facility	Office equipment
Cost				
Balance, June 30, 2014	$ 3,571,617	$ 1,203,319	$ 4,774,936	$ 14,508
Additions	3,951,495	-	3,951,495	88,118
Interest on mortgage	92,586	30,862	123,448	-
Balance, June 30, 2015	7,615,698	1,234,181	8,849,879	102,626
Additions	309,529	-	309,529	2,638
Interest on mortgage	46,549	15,532	62,081	-
Balance, December 31, 2015	**$ 7,971,776**	**$ 1,249,713**	**$ 9,221,489**	**$ 105,264**
Accumulated Amortization				
Balance, June 30, 2014	$ -	$ -	$ -	$ 3,903
Amortization	-	-	-	14,585
Balance, June 30, 2015		-	-	18,488
Amortization	-	-	-	9,915
Balance, December 31, 2015	**$ -**	**$ -**	**$ -**	**$28,403**
Net carrying cost, June 30, 2015	$ 7,646,560	$ 1,203,319	$ 8,849,879	$ 84,138
Net carrying cost, December 31, 2015	**$ 7,971,776**	**$ 1,249,713**	**$ 9,221,489**	**$ 76,862**

5. Resource exploration assets

As at December 31, 2015, Supreme retains 8 mineral claims in the Copper Mountain and Law Camp areas of British Columbia totaling approximately 582 hectares, which have a nominal value. The Company expects to dispose of the remaining claims by way of sale, spin out or abandonment although no formal steps have been taken in furtherance of same. The Company is disposing of this asset class due to (a) its change of business and focus on the medical marijuana operations, (b) negative change in resource and resource property prices and (c) due consideration regarding the return on additional investment in the resource claims. Nominal amounts have been spent on these assets during fiscal 2014 and 2015; they have not produced any revenue and are in the exploration stage. Accordingly, the Company does not anticipate a material impact on operations from the disposition.

6. Reclamation bonds

As at December 31, 2015, total reclamation bonds of $15,000 (2014: $15,000) represent term deposits which have been pledged to the Province of British Columbia as security for reclamation obligations pursuant to the Mines Act of British Columbia. These deposits bear annual interest rates that ranged from 0.8% to prime rate less 1.95% with maturity dates from January 2016 to March 2016.

7. Mortgage Payable

The mortgage payable is for principal $3,500,000 with a two year term maturing on May 22, 2016.The mortgage bears no interest during the first year of the term and during the second year bears interest at the rate of 7% per annum, compounded monthly. Principal and interest is due on maturity. The Mortgage is open and may be repaid at anytime without notice, bonus or prepayment penalty. The mortgage is secured by first charge over the Facility as described including assignment of rents.

(Expressed in Canadian Dollars)

7. Mortgage payable (Continued)

The effective rate of interest for the life of the loan is 3.55%. Interest is accrued during the life of the loan based on the effective rate of interest. As at December 31, 2015, $199,651 (December 31, 2014: $75,401) interest has been accrued.

Long-term debt is repayable as follows:

Year due:		Principal		Interest	Total payable
2016	$	3,500,000	$	253,015	$3,753,015

8. Convertible Debentures

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 rate 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 has 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 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 29.9%. 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.

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.

Convertible debentures consist of the following:

		Proceeds		Debt		Equity component
Balance June 30, 2014	$	-	$	-	$	-
Issue of convertible debt		1,465,850		850,417		615,433
Transaction costs, cash and		(91,787)		(53,250)		(38,537)
Accretion		-		12,388		-
Balance, June 30, 2015	$	1,374,063	$	809,555	$	576,896
Accretion		-		30,735		-
Conversion		(291,850)		(218,333)		(73,517)
Balance, December 31, 2015	$	1,082,213	$	621,957	$	503,379

9. Share capital

a) Authorized:

Unlimited common shares without par value.
10,000,000 Class “A” preference shares with a par value of $10 each.
10,000,000 Class “B” preference shares with a par value of $50 each.

b) Common shares issued and outstanding:

Transactions during the period ended September 30, 2015

On July 30, 2015, the Company closed a private placement for an aggregate of $684,450. Pursuant to the private placement, the Company issued 4,026,469 units, at a price of $0.17.

On July 30, 2015, the Company issued 233,315 shares of common stock to employees of the Company at a price of $0.17 per share having a fair value of $39,663.

In September 2015, $240,000 of convertible debt principal was converted to shares at $0.17. The company issued 1,411,764 in shares in connection with this.

Transactions during the period ended December 31, 2015

On October 9, 2015 various debt holders converted $17,000 of convertible debt principal to shares at $0.17 per share. A total of 100,000 shares were issued.

On October 22, 2015 the Company issued 215,000 shares of common stock to certain Employees and Consultants of the Company at a price of $0.125 per share having a fair market value of $26,850. The debts were owing in light of reduced cash compensation accepted by such Employees and Consultants for Supreme MMJ’s pre-license operations, which were expected to have concluded in the prior period.

On December 22, 2015, 250,000 stock options were exercised generating proceeds of $62,500.

On December 23, 2015, 500,000 stock options were exercised generating proceeds of $205,000.

On December 31, 2015 various debt holders converted $34,850 of convertible debt principal to shares at $0.17 per share. A total of 205,000 shares were issued.

On December 31, 2015 the company had 98,081,850 common shares issued and outstanding.

c) Share purchase warrants:

Transactions during the period ended September 30, 2015

On July 30, 2015, the Company closed a private placement for an aggregate of $684,450. Pursuant to the private placement, the Company issued 4,026,469 purchase warrants exercisable for one common share at a price of $0.32 per share prior to July 27, 2017. All purchase warrants issued pursuant to this private placement are subject to certain acceleration provisions. The Company paid finders' fees of $17,680 and issued 103,999 finders warrants in the connection with the financing.

In August 2015, the Company extended 5,563,944 warrants with expiry dates of September 22, 2015 and October 5, 2015 to September 22, 2016 and October 5, 2016, respectively.

Transactions during the period ended December 31, 2015

On October 29, 2015 various warrant holders exercised 137,123 warrants generating proceeds of $23,311.

(Expressed in Canadian Dollars)

9. Share capital (continued)

On December 2, 2015 the Company implemented a limited time incentive program commencing December 7, 2015 to exercise 12,607,349 outstanding common share purchase warrants. Pursuant to the Incentive Program, holders who exercise such warrants before January 8, 2016 shall, in addition to the common share the holder would have received pursuant to the original terms of the Warrants, receive an additional common share purchase warrant. Each Incentive Warrant shall entitle the holder to purchase one common share of the Company at an exercise price of $0.32 before April 23, 2020, subject to accelerated expiry in certain circumstances.

On December 16, 2015 various warrant holders exercised 2,615,931 warrants generating proceeds of $444,708.27 in connection with the warrant incentive program.

On December 23, 2015 various warrant holders exercised 1,310,266 warrants generating proceeds of $222,745.22 in connection with the warrant incentive program.

On December 31, 2015 various warrant holders exercised 4,137,192 warrants generating proceeds of $703,322.64 in connection with the warrant incentive program.

On December 31, 2015 the company had 28,785,023 share purchase warrants outstanding.

During the year ended June 30, 2015 8,622,647 warrants were issued as part of the convertible debenture financing, these were valued at $329,081 less transaction costs of $20,606. In addition 3,834,837 units including 3,834,837 warrants were issued to prepay the interest on the convertible debentures.

	Warrants Outstanding		Weighted Average Exercise Price
Outstanding, June 30, 2014	3,806,400		$0.25
Granted	24,791,678		0.33
Exercised	(2,008,000)		(0.25)
Expired/cancelled	(1,798,400)		(0.25)
Outstanding, June 30,2015	24,791,678	$	0.33
Granted	12,193,857		0.32
Exercised	(8,200,512)		(0.17)
Expired/cancelled	-		-
Outstanding, December 31, 2015	**28,785,023**	**$**	**0.33**

As at December 31, 2015, the Company had outstanding warrants as follows:

Exercise Price		Expiry Date	Number of Warrants	Weighted Average Remaining Life (years)
$	0.50	July 2, 2017	3,200,000	1.76
$	0.50	September 22, 2016	4,615,744	0.98
$	0.50	October 6, 2016	948,200	1.02
$	0.50	November 5, 2016	1,529,483	1.10
$	0.50	November 17, 2016	1,342,864	1.14
$	0.50	January 23, 2017	399,150	1.32
$	0.17	April 23, 2020	4,555,725	4.57
$	0.32	April 23, 2020	8,063,389	4.57
$	0.32	July 27, 2017	4,130,468	1.58
			28,785,023	**3.45**

(Expressed in Canadian Dollars)

9. Share capital (continued)

d) Stock options:

As at December 31, 2015 and 2014, the Company had outstanding and exercisable stock options as follows:

	Options Outstanding		Weighted Average Exercise Price
Outstanding, June 30, 2014	2,400,000	$	0.25
Granted	4,500,000		0.41
Exercised	(1,200,000)		0.25
Outstanding and exercisable, June 30, 2015	**5,700,000**	**$**	**0.38**
Granted	-		
Exercised	(750,000)		0.31
Outstanding and exercisable, December 31, 2015	**4,950,000**	**$**	**0.38**

As at December 31, 2015, 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	950,000	3.60
$	0.50	July 14, 2016	400,000	0.86
$	0.41	October 14, 2016	250,000	1.04
$	0.41	October 14, 2019	3,350,000	4.04
			4,950,000	**3.59**

e) Share based payments

During the year ended June 30, 2015, the Company granted 4,500,000 stock options with a fair value of $1,600,663 or $0.356 per option. All options granted during the year vested immediately and therefore the full fair value was expensed during the period.

The options were valued using the Black-Scholes option pricing model using the following weighted average assumptions. The Company has determined that its own historical volatility is not relevant to the current business activity, due to the change in business as discussed in note 1. The Company has estimated volatility for the options issued in the current year by using the historical volatility of other companies that the Company considers comparable to its current business activities.

	2015	2014
Risk free interest rate	1.64%	1.01%
Share price	$0.44 - $0.50	$0.25
Expected dividend yield	0.00%	0.00%
Stock price volatility	120%	80%
Expected life of options	4.57 years	5 years
Forfeiture rate	-	-
Risk free rate	1.37%	1.64%

f) Reserves:

Reserves are comprised of share based payments, the equity component of convertible debt and fair value of warrants.

(Expressed in Canadian Dollars)

10. Flow-through share liability

The Company has issued flow-through common shares to finance part of its past exploration expenditures. The Company incurred a shortfall of qualifying expenditures of $276,256 to 2012. Pursuant to the terms of the flow-through share agreements, the Company had agreed to indemnify subscribers for the amount of tax benefits lost in the event the amount of qualifying expenditures renounced to subscribers was reduced. Accordingly, at June 30, 2014, the Company recorded a commitment of $120,000 related to the flow-through shares, representing the estimated amount payable to indemnify the subscribers for the reduced renouncements. The Company also made a provision of $7,875 (2014 -$37,942) in additional Part XII.6 tax and penalties relating to the shortfall. The total liability for flow-through share commitments as at December 31, 2015 is $169,527 (2014 - $157,492).

11. Related party transactions

The aggregate value of transactions and outstanding balances to related parties for the six months period ended December 31,were as follows:

Related party transactions	**2015**	2014
Management and consulting fees	$ 39,515	$ 491,216
Share based payments	26,875	1,481,978
	66,390	$ 1,973,194

Payable at December 31,	**2015**	**2014**
Share issuance liability	$ -	$ 309,150
	$ -	**$ 309,150**

12. Supplemental disclosure with respect to cash flows

The Company had the following significant non-cash transactions during the six month period ended December 31, 2015:

Issued 233,315 shares for the settlement of debt, total fair value $39,663.

Issued 215,000 shares for the settlement of debt, total fair value $26.875.

Capitalized mortgage interest of $62,081 to the greenhouse facilities.

The Company had the following significant non-cash transactions during the year ended June 30, 2015:

Issued 469,532 shares for the settlement of debt, total fair value $135,538.

Issued 999,670 shares to former Directors and consultants in settlement of contractual obligations, total fair value $307,825.

Issued 74,342 shares at $0.38 for an advertising and sponsorship agreement, fair value of $28,250.

Capitalized mortgage interest of $123,448 to the greenhouse facilities.

Fair value of the convertible debt conversion feature of $268,422.

Fair value of the warrants issued concurrently with the convertible debt of $308,474.

12. Supplemental disclosure with respect to cash flows (Continued)

Fair value of the finders' fee warrants issued in relation to the convertible debt of $41,021.

Issued shares valued at $439,755 for the prepaid interest on the convertible debt.

Fair value of the options exercised during the year of $193,181.

13. Capital management

Capital is comprised of the Company's shareholder's equity and any debt it may issue. As at December 31, 2015, the Company's shareholders' equity was $15,143,904 (December 31, 2014 - $14,829,435). 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, given the relative size of the Company, is reasonable.

The Company is dependent on external financing to fund its activities. The Company will spend its existing working capital 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 2015.

14. Financial risk management

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.

At June 30, 2014, the Company's financial instruments consist of cash, reclamation bonds, accounts payable and accrued liabilities, mortgage payable, convertible debt and due to related parties. The fair values of cash, reclamation bonds, accounts payable and accrued liabilities, and due to related parties approximate their carrying values due to the relatively short-term to maturity. The Company classifies its cash as FVTPL, reclamation bonds as loans and receivables and accounts payable and accrued liabilities, mortgage payable, convertible debt and due to related parties as other financial liabilities. The fair value of cash is based on level 1 inputs of the fair value hierarchy. The Company is exposed to a variety of financial instrument related risks. 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. To minimize the credit risk the Company places these instruments with a high credit quality financial institution of Canada.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company typically settles its financial obligations out of cash and from time to time will settle liabilities with the issuance of common shares. The ability to do this relies on the Company raising financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. As at December 31, 2015, the Company had a cash balance of $1,750,635 and current liabilities of $4,044,362. The Company's current resources are not sufficient to settle its current liabilities. Subsequent to the period, Supreme obtained additional financing and Management believes the current resources available should be sufficient to complete the licensing process, barring any unforeseen delays or complications**.** Management is confident that the mortgage will be successfully refinanced in the 2016 fiscal year as the asset value of the Hybrid Greenhouse exceeds the mortgage liability

(Expressed in Canadian Dollars)

14. Financial Risk Management (Continued)

The Company's accounts payable and accrued liabilities are due in the short term. The Company's mortgage payable is due in fiscal 2016 and any remaining convertible debt will be due in 2018.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The flow-through share commitments interest and penalties bear interest at the Canada Revenue Agency's prescribed rates. The Company's mortgage payable has a fixed rate of 7% per annum.

15. Commitments

On March 14, 2015 Supreme MMJ entered into amending agreements with certain of its Employees and Consultants whereby 290,000 shares and 465,000 options were offered in the event the Consultant or Employee, as the case may be, retains such status thirty days after Supreme MMJ becomes a Licensed Producer (as such term is defined in the MMPR).

The Company signed a lease agreement dated December 2, 2014 for office space. Under the agreement, the company is committed to pay the following amounts:

Fiscal 2016	$42,009
Fiscal 2017	$49,656
Fiscal 2018	$25,959

16. Subsequent events

On January 6, 2016 various warrant holders exercised 1,028,310 warrants generating proceeds of $174,812.70 in connection with a warrant incentive program, where by in addition to the common share the holder would have received pursuant to the original terms of the Warrants, receive an additional common share purchase warrant. Each Incentive Warrant shall entitle the holder to purchase one common share of the Company at an exercise price of $0.32 before April 23, 2020, subject to accelerated expiry in certain circumstances.

On January 7, 2016 various warrant holders exercised 150,000 warrants generating proceeds of $25,500 in connection with a warrant incentive program, where by in addition to the common share the holder would have received pursuant to the original terms of the Warrants, receive an additional common share purchase warrant. Each Incentive Warrant shall entitle the holder to purchase one common share of the Company at an exercise price of $0.32 before April 23, 2020, subject to accelerated expiry in certain circumstances.

On January 8, 2016 various warrant holders exercised 3,377,411 warrants generating proceeds of $574.159.87 in connection with a warrant incentive program, where by in addition to the common share the holder would have received pursuant to the original terms of the Warrants, receive an additional common share purchase warrant. Each Incentive Warrant shall entitle the holder to purchase one common share of the Company at an exercise price of $0.32 before April 23, 2020, subject to accelerated expiry in certain circumstances.

On January 6, 2016, 200,000 stock options were exercised generating proceeds of $50,000.

On January 8, 2016, 200,000 stock options were exercised generating proceeds of $50,000.

On January 13, 2016 the Company issued 2,135,000 of incentive options to employees, officers, directors and consultants at a price of $0.50 per share expiring on January 10, 2021.

On February 16, 2016 the Company commenced a limited time incentive program to exercise 4,130,468 outstanding common share purchase warrants issued pursuant to the Company's July 29, 2015 private placement. Pursuant to the Incentive Program, holders of the July Warrants who exercise such warrants before March 17, 2016 shall, in addition to the common share the holder would have received pursuant to the terms of the July Warrants, receive an additional common share purchase warrant. Each Incentive Warrant shall entitle the holder to purchase one common share of the Company at an exercise price of $0.55 before July 27, 2018, subject to accelerated expiry in certain circumstances.