SUPREME PHARMACEUTICALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 and 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 consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards ("IFRS"). This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

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

The 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 consolidated financial statements. The Audit Committee has the responsibility of meeting with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

October 26, 2016

(signed)

/John Fowler/
Director

(signed)

/Scott Walters/
Director

Independent Auditors' Report

To the Shareholders of Supreme Pharmaceuticals Inc.:

We have audited the accompanying consolidated financial statements of Supreme Pharmaceuticals Inc. and its subsidiary, which comprise the consolidated statement of financial position as at June 30, 2016, and the consolidated statements of comprehensive loss, changes in shareholders' 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the statement of financial position of Supreme Pharmaceuticals Inc. as at June 30, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of the Company and its subsidiary, for the year ended June 30, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on October 28, 2015.

MNP LLP

October 26, 2016
Toronto, Ontario

Chartered Professional Accountants
Licensed Public Accountants

MNP LLP

Supreme Pharmaceuticals Inc.

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at:	**Note**		**June 30, 2016**		June 30, 2015
ASSETS					
Current assets					
Cash		$	3,730,569	$	570,170
Short term investments	2		1,200,000		-
Receivables			331,665		42,524
Prepaid expenses			235,215		474,538
			5,497,449		1,087,232
Non-current assets					
Property, plant & equipment	4		10,274,903		8,934,017
Intangible Assets	3		8,396,914		8,396,914
Investments	6		100,000		-
Other Assets	5		15,000		16,700
		$	24,284,266	$	18,434,863
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued liabilities	10	$	883,012	$	311,792
Due to related parties	11		-		89,439
Mortgage payable	7		3,500,000		3,636,724
			4,383,012		4,037,955
Long-term liabilities					
Convertible debt	8		536,700		809,555
			4,919,712		4,847,510
SHAREHOLDERS' EQUITY					
Share capital	9		32,063,452		26,391,482
Reserves			10,945,375		3,605,673
Shares to be issued			430,000		-
Accumulated deficit			(24,074,273)		(16,409,802)
Total Shareholders' Equity			19,364,554		13,587,353
		$	24,284,266	$	18,434,863

Subsequent events (Note 16)

Approved and authorized by the Board of Directors on October 26, 2016:

"John Fowler" Director "Scott Walters" Director

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

Supreme Pharmaceuticals Inc.

Consolidated Statements of Comprehensive Loss

(Expressed in Canadian Dollars)

For the year ended June 30,

	Notes		2016		2015
Operating Expenses					
Amortization	4	$	203,329	$	14,585
Consulting			25,623		980,598
General and administrative			264,056		290,233
Interest, accretion, and bank charges	8		81,490		41,757
Professional fees			508,599		616,196
Marketing			292,943		560,260
Rent and facilities			370,731		255,341
Share based payments	11		1,673,860		2,202,164
Wages and benefits			955,821		561,437
Loss before other items			(4,376,452)		(5,522,571)
Other Items					
Flow-through share interest and penalties	10		(8,747)		(7,875)
Impairment of option to purchase			-		(250,000)
Other gains and losses			112		12,280
Write down of exploration assets	5		(1,700)		(24,264)
			(10,335)		(269,859)
Net loss and comprehensive loss for the year		**$**	**(4,386,787)**	**$**	**(5,792,430)**
Basic and Diluted Loss per common share		**$**	**(0.05)**	**$**	**(0.08)**
Weighted average number of shares			**97,413,831**		**73,529,936**

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

Supreme Pharmaceuticals Inc.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

For the year ended June 30,		2016		2015
Operating activities:				
Net loss for the year	$	(4,386,787)	$	(5,792,430)
Items not involving cash				
Amortization		203,329		14,585
Accrued interest and accretion		78,688		15,505
Flow-through share interest and penalties		8,747		7,875
Share based payments		1,673,860		2,202,164
Impairment of option to purchase		-		250,000
Write down of exploration assets		1,700		24,264
Expenses settled with shares		39,664		471,613
Changes in non-cash working capital:				
Receivables		(289,141)		16,404
Prepaid expenses		239,323		1,434
Due to related parties		(89,439)		(231,030)
Accounts payable and accrued liabilities		318,244		(201,227)
		(2,201,812)		(3,220,843)
Investing activities:				
Acquisition of equipment		(49,666)		(88,118)
Facility under development		(1,410,547)		(3,951,495)
Short term investment		(1,200,000)		-
Investment		(100,000)		-
Reclamation bonds recovered		-		7,500
Exploration and evaluation assets		-		(6,464)
		(2,760,213)		(4,038,577)
Financing activities:				
Common shares issued (net of issuance costs)		4,117,687		5,221,943
Subscriptions collected		430,000		50,000
Convertible debt issued (net of issuance costs)		-		1,436,398
Warrants exercised		3,182,237		-
Stock options		392,500		-
		8,122,424		6,708,341
Net change in cash		3,160,399		(551,079)
Cash, beginning of year		570,170		1,121,249
Cash, end of year	**$**	**3,730,569**	**$**	**570,170**

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

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

	Common Shares					
	Number of Shares	**Share Capital**	**Shares to be Issued**	**Reserves**	**Deficit**	**Total Shareholders' (Deficiency) Equity**
Balance, June 30, 2014	57,554,137	$ 20,071,808	$ -	$ 921,955	$ (10,617,372)	$ 10,376,391
Private Placements	16,799,274	4,652,010	-	-	-	4,652,010
Warrants exercised	2,008,000	552,000	-	-	-	552,000
Convertible debt and interest	3,834,837	439,755	-	617,917	-	1,057,672
Share issuance costs	-	(114,544)	-	-	-	(114,544)
Shares issued for debt	1,543,544	471,613	-	-	-	471,613
Stock options	1,200,000	493,181	-	(193,181)	-	300,000
Share based payments	-	-	-	2,202,164	-	2,202,164
Finder's fee	-	(174,341)	-	56,818	-	(117,523)
Net loss for the year	-	-	-	-	(5,792,430)	(5,792,430)
Balance, June 30, 2015	82,939,792	26,391,482	-	3,605,673	(16,409,802)	13,587,353
Private Placements (net of fees)	13,066,169	2,156,593	-	1,961,095	-	4,117,688
Shares to be issued	-	-	430,000	-	-	430,000
Warrants exercised	15,923,879	1,595,438	-	1,586,799	-	3,182,237
Warrant modification	-	-	-	3,277,684	(3,277,684)	-
Shares issued for debt	233,313	39,664	-	-	-	39,664
Share based payments	2,035,000	736,675	-	937,185	-	1,673,860
Debenture conversion	2,584,412	439,350	-	(111,311)	-	328,039
Stock options exercised	1,250,000	704,250	-	(311,750)	-	392,500
Net loss for the year	-	-	-	-	(4,386,787)	(4,386,787)
Balance, June 30, 2016	**118,032,565**	**$ 32,063,452**	**$430,000**	**$ 10,945,375**	**$ (24,074,273)**	**$ 19,364,554**

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

1. Nature of Operations:

Supreme is a federally incorporated Canadian company with its common shares publicly traded on the Canadian Securities Exchange under the symbol “SL”. Supreme is focused on developing businesses in the emerging cannabis market, with a specific focus on the wholesale sector of the medical cannabis market in Canada. Supreme’s primary asset is 8528934 Canada Ltd. d/b/a 7 ACRES (“**7 ACRES**”)[1], a Canadian corporation, and wholly owned subsidiary of Supreme. 7 ACRES is a Licensed Producer (as such term is defined in the *Access to Cannabis for Medical Purposes Regulations* (the “**ACMPR**”), formerly the *Marihuana for Medical Purposes Regulations* (the “**MMPR**”)) meaning it has obtained a federal license to produce medical cannabis pursuant to the ACMPR. 7 ACRES became a Licensed Producer on March 11, 2016 when it was issued a license to cultivate medical cannabis at its seven acre (342,000 sq. ft.) hybrid greenhouse (the “**Hybrid Greenhouse**”) facility in Kincardine, Ontario. Management believes the Hybrid Greenhouse is the first of its kind in the world, combining the quality and yield benefits of indoor cannabis cultivation with the cost savings and sustainability of a greenhouse: the best of both worlds. As a result, Supreme (via 7 ACRES) is uniquely positioned to produce large quantities of high quality, low cost cannabis.

To date, the Company has not yet generated significant revenues from its operations, has accumulated losses and a working capital deficit, and is considered to be in the development stage.

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

2. Significant Accounting Policies:

a) Statement of compliance

These consolidated financial statements have been prepared in accordance and compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board “IASB”.

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) Basis of consolidation

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

c) Functional and presentation of foreign currency

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

d) 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.

[1] 8528934 Canada Ltd. continues to operate as Advanced Medical Marihuana Canada (“AMMCan”) and will continue to do so until such time as Health Canada approves its new trade name, 7 ACRES.

2. Significant Accounting Policies (continued)

d) Significant accounting judgments, estimates and assumptions

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets or liabilities in the event that actual results differ from the assumptions made, relate to, but are not limited to the following:

i) The inputs used in accounting for share based payments in the statements of operations and comprehensive loss and the inputs associated with the initial and subsequent valuation of warrants in the statement of equity

ii) The inputs used in assessing the recoverability of deferred tax assets to the extent that the deductible temporary differences will reverse in the foreseeable future and that the Company will have future taxable income;

iii) The bifurcation of the convertible debt into liability and equity components and the determination of a market rate of interest; and

iv) The amounts recorded related to flow-through share commitments are based on management's assessment of eligible expenditures which qualify for renouncement under the applicable income tax legislation and are subject to review by the Canadian Revenue Agency ("CRA").

v) Judgement involved in determining whether an intangible assets useful life is finite or indefinite.

The inputs used in assessing the potential impairment of indefinite life intangibles. Significant judgments used in the preparation of these financial statements include, but are not limited to those relating to the assessment of the Company's ability to continue as a going concern, impairment of assets and useful life of the greenhouse facility, equipment and the license.

e) Property, Plant and Equipment

Equipment is measured at cost less accumulated amortization and impairment losses. Amortization is provided using the following terms and method:

Computer software and equipment	Straight-line 3 years
Office equipment	Straight-line 5 years
Building	Straight-line 25 years
Land	Not amortized
Facility under Development	Not amortized

An asset's residual value, useful life and amortization method are reviewed at each financial year end and adjusted if appropriate. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount of the equipment and are recognized in profit or loss.

Amortization of Facility under Development commences when the area is Licensed by Health Canada for cultivation and therefore available for use.

f) Impairment of long-lived assets

Long-lived assets, including equipment, building, land, and finite life intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. Long-lived assets that are not amortized are subject to an annual impairment test or earlier if there is an indication that the asset may be impaired.

2. Significant Accounting Policies (continued)

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or “CGU”). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or 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. The Company has one CGU being the medical cannabis cultivation operations in Kincardine, Ontario.

g) Income taxes

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

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

Deferred 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 profit or 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.

h) Share-based compensation

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

For stock options granted to non-employees the compensation expense is measured at the fair value of the goods and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. The fair value of share-based compensation to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments.

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

i) Earnings per share

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

2. Significant Accounting Policies (continued)

j) Revenue recognition

Revenue is recognized at the fair value consideration received or receivable. Revenue from the sale of goods is recognized when the Company has transferred the significant risks and rewards of ownership to the buyer and it is probable that the Company will receive the previously agreed upon payment. Significant risks and rewards are generally considered to be transferred when the Company has shipped the product to customers, per the agreed upon shipping terms.

k) 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.

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 financial assets or liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Company initially recognizes financial assets at fair value on the date that they are acquired, adjusted for transaction costs, if applicable. 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. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company classifies its financial assets as financial assets at fair value through profit and loss, available for sale or loans and receivables. A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

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 adjusted fair value, adjusted for applicable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial instrument, or, where appropriate, a shorter period.

Financial assets classified as available for sale are recognized initially at fair value plus transaction costs and are subsequently carried at fair value with the changes in fair value recorded in other comprehensive income, except where the fair value is not reasonably determinable. In such cases, cost may be the best estimate of fair value.

Financial assets include short term investments with maturity terms greater than 90 days.

2. Significant Accounting Policies (continued)

Financial liabilities

The Company initially recognizes financial liabilities at fair value on the date that they are originated, and are adjusted for transaction costs, if applicable. 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 or cancelled or expire.

The Company classifies its financial liabilities as either financial liabilities at fair value through profit and 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 profit or loss.

Impairment of financial assets

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

l) Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a previous event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation. The amount recognized is the best estimate of the expenditure required to settle the present
obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligations. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the expected future cash flows.

m) Convertible Debt

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

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

n) Borrowing Costs

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

o) 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.

2. Significant Accounting Policies (continued)

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

IFRS 9, Financial Instruments 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 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.

In January 2016, the IASB issued IFRS 16, *Leases*, was issued in January 2016, and is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have also adopted IFRS 15. IFRS 16 provides a comprehensive model for the measurement, presentation and disclosure of leases and supersedes IAS 17, Leases. The adoption of IFRS 16 will result in substantially all lessee leases being recorded on the balance sheet as an asset with a corresponding liability with both current and long-term portions.

The Company is currently assessing the impact of these standards.

3. Intangible Assets

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

ACMPR licenses are issued by Health Canada for a 1-year term and to be renewed annually unless the Company has significantly breached compliance. Accordingly, the useful life of the License is considered indefinite and has not been amortized. At a minimum, the License is tested for impairment annually by comparing recoverable amount to its carrying value.

As the Company has not yet achieved commercial sales, management performed a value in use analysis based on the following key assumptions: a discount rate of 15%, sales price of $3500/kg, and an average cost per gram of $2.50 currently, decreasing to $1 in 2020.

4. Property, Plant 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 cannabis pursuant to the MMPR (now the ACMPR). On March 11, 2016, Supreme's wholly owned subsidiary 7 ACRES, was issued the License to cultivate medical cannabis pursuant to the MMPR (now the ACMPR). Although major construction is still required to prepare the Facility for additional capacity of medical cannabis production, the components of the Facility currently completed and approved for medical cannabis production are being amortized.

(Expressed in Canadian Dollars)

4. Property, Plant and Equipment (continued)

	Facility – Kincardine Greenhouse	Land – Kincardine Greenhouse	Equipment	Total Property, Plant & Equipment
Cost				
Balance, June 30, 2014	$ 3,571,617	$ 1,203,319	$ 14,508	$ 4,789,444
Additions	3,951,495	-	88,118	4,039,613
Borrowing costs	123,448	-	-	123,448
Balance, June 30, 2015	7,646,560	1,203,319	102,626	8,952,505
Additions	1,134,284	-	49,666	1,183,950
Borrowing costs	360,265	-	-	360,265
Balance, June 30, 2016	**$ 9,141,109**	**$ 1,203,319**	**$ 152,292**	**$ 10,496,720**
Accumulated Amortization				
Balance, June 30, 2014	$ -	$ -	$ 3,903	$ 3,903
Amortization		-	14,585	14,585
Balance, June 30, 2015	-	-	18,488	18,488
Amortization	173,191	-	30,138	203,329
Balance, June 30, 2016	**$ 173,191**	**$ -**	**$ 48,626**	**$221,817**
Net carrying cost, June 30, 2015	$ 7,646,560	$ 1,203,319	$ 84,138	$ 8,934,017
Net carrying cost, June 30, 2016	**$ 8,967,918**	**$ 1,203,319**	**$ 103,666**	**$ 10,274,903**

As at June 30, 2016 the Company had $480,254 of Facility under Development for the Phase 1 expansion. Each phase is considered under development until such time that it has been approved by Health Canada. Once Health Canada approval is granted the asset is amortized as it is available for use.

5. Other Assets

As at June 30, 2016, 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 expects to dispose 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 2016 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.

As at June 30, 2016, total reclamation bonds of $15,000 (2015: $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 range from 0.55% to prime rate less 2.00% with maturity dates from April 2017 to May 2017.

(Expressed in Canadian Dollars)

6. Investments

On April 22, 2016 Supreme closed an investment in CannSoft Inc. ("**CannSoft**") a development stage software company focused on providing enterprise resource planning ("**ERP**") solutions to the cannabis industry. The company purchased 285,714 common shares for $100,000. The Company does not exercise significant influence or control. The investment has been classified as an available for sale financial instrument. As these financial instruments do not have a quote market price, there may be significant variability in the range of reasonable fair values. Accordingly, the investment is therefore carried at cost, and management has determined there is no impairment in value. The Company considers this a strategic investment since ERP solutions are new for the cannabis industry. The Company intends to continue as a passive shareholder and dispose of this investment by way of a liquidity event such as an Acquisition or Public Listing, if possible. Disposition of this investment and a liquidity event is out of the Company's control.

7. Mortgage Payable

The mortgage payable is for principal $3,500,000 with an amended 26 month term maturing on July 31, 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 land and Facility as described including assignment of rents.

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 June 30, 2016, all accrued interest has been paid (June 30, 2015: $136,724).

During the year ended June 30, 2016, $124,202 of interest and accretion was capitalized to the Facility.

Long-term debt is repayable as follows:

Year due:		**Principal**		**Interest**	**Total payable**
2016	$	3,500,000	$	-	$3,500,000

The mortgage was discharged subsequent to year end. See note 16.

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.

(Expressed in Canadian Dollars)

8. Convertible Debentures (continued)

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 component		Equity component
Balance June 30, 2014	$	-	$	-	$	-
Issue of convertible debt		1,465,850		850,417		615,433
Transaction costs, cash and warrants		(91,787)		(53,250)		(38,537)
Accretion		-		12,388		-
Balance, June 30, 2015	$	1,374,063	$	809,555	$	576,896
Accretion		-		55,184		-
Conversion		(439,349)		(328,039)		(111,310)
Balance, June 30, 2016	$	934,714	$	536,700	$	465,586

During the year ended June 30, 2016, $236,063 of interest and accretion was capitalized to the Facility.

9. Share capital

Authorized share capital:

Unlimited common shares without par value.
10,000,000 Class "A" preference shares.
10,000,000 Class "B" preference shares.

9a. Share Capital: Common shares issued and outstanding

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. The Company paid finders' fees of $17,680 and issued 103,999 finders warrants in the connection with the financing.

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 common shares at $0.17. The company issued 1,411,764 in shares.

On October 9, 2015 various debt holders converted $17,000 of convertible debt principal to common shares at $0.17 per share. A total of 100,000 common 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 owed in light of reduced cash compensation accepted by such Employees and Consultants for 7 Acres pre-license operations, which were expected to have concluded in the prior period.

In December 2015, 750,000 stock options were exercised generating proceeds of $267,500.

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

In January 2016, 400,000 stock options were exercised generating proceeds of $100,000.

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.

9a. Share Capital: Common shares issued and outstanding (continued)

In January 2016, debt holders converted $46,500 of convertible debt principal to common shares at $0.17 per share. A total of 273,530 common shares were issued.

On February 3, 2016, debt holders converted $30,000 of convertible debt principal to common shares at $0.17 per share. A total of 176,471 common shares were issued.

On March 2, 2016, debt holders converted $51,000 of convertible debt principal to common shares at $0.17 per share. A total of 300,000 common shares were issued.

On March 8, 2016, 100,000 stock options were exercised generating proceeds of $25,000.

On March 18, 2016 the Company issued 1,470,000 shares of common stock to certain Employees and Consultants of the Company at a price of $0.39 per share having a fair market value of $573,300 to fill success based contracts upon the granting of the License.

On April 25, 2016 Supreme issued 800,000 options to purchase common shares of the Company to certain directors pursuant to the terms of the Company's Option Plan at a price of $0.75 per common share expiring on April 25, 2021.

On April 25, 2016 the Company issued an additional 350,000 shares of common stock to certain Employees and Consultants of the Company in relation to the March 18, 2016 share issuance to fill success based contracts upon the granting of the License, at a price of $0.39 per share having a fair market value of $136,500.

On June 20, 2016, the Company closed a private placement for an aggregate of $3,615,880. Pursuant to the private placement, the Company issued 9,039,700 units with each unit comprised of 1 common share and 1 purchase warrant exercisable for one common share at a price of $0.50 per share prior to June 20, 2019. The Company paid finders' fees of $100,280 and issued 250,700 finders warrants in the connection with the financing.

On June 24, 2016, debt holders converted $20,000 of convertible debt principal to common shares at $0.17 per share. A total of 117,647 common shares were issued.

On June 30, 2016 the company had 118,032,565 common shares issued and outstanding.

9b. Share Capital: Share purchase warrants

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.

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

On December 2, 2015 the Company implemented a limited time warrant incentive program ("**Warrant Inventive Program 1**") 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.

In December 2015 various warrant holders exercised 8,063,389 warrants generating proceeds of $1,370,776 in connection with Warrant Incentive Program 1.

In January 2016 various warrant holders exercised 4,555,721 warrants generating proceeds of $774,472 in connection with Warrant Incentive Program 1.

(Expressed in Canadian Dollars)

9b. Share Capital: Share purchase warrants (continued)

On February 9, 2016 the Company implemented a limited time warrant incentive program ("**Warrant Inventive Program 2**") commencing February 16, 2016 to exercise 4,130,468 outstanding common share purchase warrants. Pursuant to the Incentive Program, holders who exercise such warrants before March 17, 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 $0.55 before July 27, 2018, subject to accelerated expiry in certain circumstances.

On March 18, 2016 various warrant holders exercised 3,167,646 warrants generating proceeds of $1,013,678 in connection with a Warrant Incentive Program 2.

On June 20, 2016, the Company closed a private placement for an aggregate of $3,615,880. Pursuant to the private placement, the Company issued 9,039,700 purchase warrants exercisable for one common share at a price of $0.50 per share prior to June 20, 2019. The Company paid finders' fees of $100,280 and issued 250,700 finders warrants in the connection with the financing.

On June 30, 2016 the company had 38,075,419 share purchase warrants outstanding.

	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	29,207,624		0.38
Exercised	(15,923,883)		(0.20)
Expired / Cancelled	-		-
Outstanding, June 30, 2016	**38,075,419**	**$**	**0.44**

As at June 30, 2016, 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	1.01
$	0.50	September 22, 2016	4,615,744	0.23
$	0.50	October 6, 2016	948,200	0.27
$	0.50	November 5, 2016	1,529,483	0.35
$	0.50	November 17, 2016	1,342,864	0.38
$	0.50	June 20, 2019	9,290,400	2.97
$	0.50	January 23, 2017	399,150	0.57
$	0.32	April 23, 2020	12,619,110	3.82
$	0.32	July 27, 2017	962,822	1.07
$	0.55	July 28,2018	3,167,646	2.08
			38,075,419	**2.34**

(Expressed in Canadian Dollars)

9b. Share Capital: Share purchase warrants (continued)

The warrants 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. The company has estimated volatility for the warrants issued in the current year by using the historical volatility of other companies that the Company considers comparable to its current business activities:

	2016	2015
Share price	$0.32 - $0.47	$0.44 - $0.50
Expected dividend yield	0.00%	0.00%
Stock price volatility	91 - 103%	120%
Expected life of options	2 – 4.25 years	4.57 years
Forfeiture rate	-	-
Risk free rate	0.54 – 0.82%	1.37%

9c. Share Capital: Stock options

As at June 30, 2016 and 2015, 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**	**$**	**0.38**
Granted	2,935,000		0.48
Exercised	(1,250,000)		0.31
Outstanding and exercisable, June 30, 2016	**7,385,000**	**$**	**0.47**

As at June 30, 2016, 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	450,000	2.85
$	0.50	July 14, 2016	400,000	0.04
$	0.41	October 14, 2016	250,000	0.29
$	0.41	October 14, 2019	3,350,000	3.29
$	0.50	January 10, 2021	2,135,000	4.53
$	0.75	April 25, 2021	800,000	4.82
			7,385,000	**3.65**

9d. Share Capital: Share based payments

During the year ended June 30, 2016, the Company granted 2,035,000 common shares with a fair value of $736,675 to various employees and directors.

During the year ended June 30, 2016, the Company granted 2,935,000 stock options with a fair value of $937,185. All options granted during the year vested immediately and therefore the full fair value was expensed during the year.

(Expressed in Canadian Dollars)

9d. Share Capital: Share based payments (continued)

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. The company has estimated volatility for the options issued in the current year by using the historical volatility of other companied that the Company considers comparable to its current business activities:

	2016	2015
Share price	\$0.39 - \$0.47	\$0.44 - \$0.50
Expected dividend yield	0.00%	0.00%
Stock price volatility	90 - 134%	120%
Expected life of options	4.8 years	4.57 years
Forfeiture rate	-	-
Risk free rate	0.51% - 1.43%	1.37%

9e. Reserves:

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

10. Flow-through share liability

The Company issued flow-through common shares to finance part of 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 $ 8,424 (2015 - $7,875) in additional Part XII.6 tax, penalties and interest relating to the shortfall. The total liability for flow-through share commitments as at June 30, 2016 is $173,792 (2015 - $165,367).

11. Related party transactions

The aggregate value of transactions and outstanding balances to related parties for the year ended June 30, were as follows:

Related party transactions		**2016**		**2015**
Management and consulting fees	$	60,814	$	718,754
Share based payments		981,742		1,251,629
Salaries and wages		581,901		329,870
Accounting fees		-		48,000
		1,624,457	**$**	**2,348,253**

Payable at June 30,		**2016**		**2015**
Management and consulting fees	**$**	-	**$**	29,650
Expenses payable		-		12,687
Salaries and wages		-		47,102
	$	**-**	**$**	**89,439**

(Expressed in Canadian Dollars)

12. Income taxes

The following table reconciles the expected income taxes (expense) recovery at the Canadian statutory income tax rates to the amounts recognized in the statements of operations for the years ended June 30, 2016 and 2015:

		2016		2015
Earnings (loss) for the year	$	(4,386,787)	$	(5,792,432)
Expected income tax (recovery) at 26.5% (2015 – 26%)		(1,162,500)		(1,506,032)
Non-deductible expenses		479,659		643,136
Non capital losses expired		-		31,385
Undeducted share issue costs and other		196,694		-
Change in unrecognized deductible temporary differences		486,147		831,511
Total income tax expense (recovery)	**$**	**-**	$	-

The significant components of the Company's unrecorded deferred tax assets are as follows:

		2016		2015
Deferred Tax Assets (liabilities)				
Exploration and evaluation assets	$	223,936	$	221,236
Equipment		(38,826)		5,371
Convertible debt		(129,797)		(170,638)
Share issue costs		78,656		61,152
Allowable capital losses		33,125		281,922
Non-capital losses available for future period		2,306,806		1,605,214
		2,473,900		2,004,257
Unrecognized deferred tax assets		(2,473,900)		(2,004,257)
Net deferred tax assets	**$**	**-**	$	-

The Company has non-capital loss carry-forwards of approximately $8,724,000 (2015 - $6,174,000) which may be carried forward to apply against income for Canadian tax purposes, subject to the final determination by taxation authorities, expiring as follows:

2026		278,000
2027		204,000
2028		27,000
2029		110,000
2030		160,000
2031		323,000
2032		195,000
2033		192,000
2034		1,323,000
2035		3,344,000
2036		2,568,000
	$	8,724,000

The deferred tax assets have not been recognized because at this stage of the Company's development, it is not determinable that future taxable profits will be available against which the Company can utilize such deferred tax assets.

13. Capital management

Capital is comprised of the Company's shareholder's equity and any debt it may issue, other than trade payables in the normal course of operations. As at June 30, 2016, the Company's shareholders' equity was $19,364,554 (June 30, 2015 - $13,587,353) and debt was $4,036,700. 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 on operations, further develop the Facility and raise additional amounts as needed. The Company is not subject to any externally imposed capital requirements, except as noted in Note 10. There have been no changes in the Company's approach to capital management during the year ended June 30, 2016.

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, 2016, the Company's financial instruments consist of cash, short term investments, reclamation bonds, investment, accounts payable and accrued liabilities, mortgage payable, and convertible debt. The fair values of cash, reclamation bonds, accounts payable and accrued liabilities, mortgage payable 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, investments as available for sale and accounts payable and accrued liabilities, mortgage payable, and convertible debt 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 investment is considered available for sale, and is considered Level 3. As it is a security without a quoted value,
cost is currently the best estimate of fair value available to the company. The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and reclamation bonds. 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 come 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 June 30, 2016 the Company had a combined cash and short term investments balance of $4,930,569 and current liabilities of $4,383,012. The Company's current resources are sufficient to settle its current liabilities. Subsequent to year end, Management has successfully refinanced the mortgage in the 2017 fiscal year, and the Company closed two additional private placement tranches. Management believes the current resources available should be sufficient to complete the sales licensing process, barring any unforeseen delays or complications. All of the Company's liabilities are due within the next twelve months, except its convertible debt which is due in 2018. The convertible debt was converted to common shares subsequent to year-end.

(Expressed in Canadian Dollars)

14. Financial risk management (continued)

Interest rate risk

The Company is not subject to interest rate risk on future cash flows, as all of its instruments bear fixed rates of interest, other than its flow-through share commitments which bear interest at the Canada Revenue Agency's prescribed rates.

15. Commitments

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

Fiscal 2017	$48,756
Fiscal 2018	$23,247

16. Subsequent events

On July 15, 2016, the Company closed a private placement for an aggregate of $723,250. Pursuant to the private placement, the Company issued 1,808,125 units at a price of $0.40 comprised of 1,808,125 common shares and 1,808,125 purchase warrants exercisable for one common share at a price of $0.50 per share prior to July 15, 2019. All purchase warrants issued pursuant to this private placement are not subject to acceleration provisions. The Company paid finders' fees of $12,750 and issued 24,375 finders warrants in the connection with the financing. As part of the private placement, $430,000 was collected before year end and has been included in shares to be issued in the consolidated statement of changes in shareholders' equity.

Subsequent to year end, all of the Company's outstanding convertible debt was converted to common shares. A total of 5,747,734 common shares were issued on conversion.

Subsequent to year end, 2,215,000 stock options were exercised generating proceeds of $959,450.

Subsequent to year end, various warrant holders exercised 12,442,135 warrants generating proceeds of $5,302,311,

On August 29, 2016 the Company issued 4,123,783 of incentive options to employees, officers, directors and consultants at a price of $0.75 per share expiring on August 29, 2021. All options vest immediately.

On September 1, 2016, the Company closed a private placement for an aggregate of $10,610,625. Pursuant to the private placement, the Company issued 26,526,564 units at a price of $0.40 comprised of 26,526,564 common shares
and 26,526,564 purchase warrants exercisable for one common share at a price of $0.50 per share prior to August 30, 2019. All purchase warrants issued pursuant to this private placement are subject to certain acceleration provisions. The Company paid finders' fees of $252,509.60 and issued 631,274 finders warrants in the connection with the financing.

On September 14, 2016 the Company issued 130,000 of incentive options to employees, officers, directors and consultants at a price of $0.77 per share expiring on September 14, 2021. All options vest immediately.

Subsequent to year-end, the Company refinanced its existing mortgage payable with a new lender, in the amount of $4,000,000. The mortgage is a one year facility and bears interest at 12%.