SUPREME PHARMACEUTICALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 and 2016

(Expressed in Canadian Dollars)

Management's Responsibility for Financial Reporting

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

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

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

The 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 27, 2017

(signed)

/Navdeep Dhaliwal/
Director

(signed)

/Scott Walters/
Director

(signed)

/Dimitre Naoumov/
Chief Financial Officer

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 statements of financial position as at June 30, 2017 and June 30, 2016, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Supreme Pharmaceuticals Inc. as at June 30, 2017 and June 30, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

Toronto, Ontario
October 27, 2017

Chartered Professional Accountants
Licensed Public Accountants

MNP LLP

Supreme Pharmaceuticals Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at June 30,	**Note**		**2017**		**2016**
ASSETS					
Current assets					
Cash		$	57,681,554	$	3,730,569
Short term investments			-		1,200,000
Receivables			1,055,229		331,665
Prepaid expenses			582,575		235,215
Biological assets	5		459,519		-
			59,778,877		5,497,449
Non-current assets					
Property, plant & equipment	4		26,638,905		10,274,903
Intangible Assets	3		8,396,914		8,396,914
Investments	7		1,073,642		100,000
Other Assets	6		15,000		15,000
		$	95,903,338	$	24,284,266
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		$	5,110,643	$	883,012
Mortgage payable	8		-		3,500,000
			5,110,643		4,383,012
Long-term liabilities					
Convertible debt	9		31,705,456		536,700
			36,816,099		4,919,712
SHAREHOLDERS' EQUITY					
Share capital	10		65,636,030		32,063,452
Reserves			31,948,022		10,945,375
Shares to be issued			-		430,000
Accumulated other comprehensive income			844,635		-
Deficit			(39,341,448)		(24,074,273)
Total Shareholders' Equity			59,087,239		19,364,554
		$	95,903,338	$	24,284,266

Commitments (Note 14)
Subsequent events (Note 15)

Approved and authorized by the Board of Directors on October 27, 2017:

"Navdeep Dhaliwal" 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**		**2017**		**2016**
Gain on fair value changes of biological assets	5	$	459,519	$	-
Operating Expenses					
Wages and benefits	11	$	3,146,276	$	$955,821
Rent and facilities			1,078,417		370,731
Professional fees			621,939		508,599
Marketing			513,455		292,943
General and administrative			463,613		289,679
Amortization of property plant and equipment	4		583,567		203,329
Finance costs, net	8,9		175,777		91,825
Share based payments	10(d), 11		12,208,564		1,673,860
			18,791,608		4,368,787
Net Loss before taxes		**$**	**(18,332,089)**	**$**	**(4,386,787)**
Deferred tax recovery	12		3,064,914		-
Net Loss			**(15,267,175)**		**(4,386,787)**
Gain on revaluation of investments	7		844,635		-
Total comprehensive loss			**(14,422,540)**		**(4,386,787)**
Basic and Diluted Loss per common share		**$**	**(0.09)**	**$**	**(0.05)**
Weighted average number of shares			**164,793,131**		**97,413,831**

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,		**2017**		**2016**
Operating activities:				
Net loss for the year	$	(15,267,175)	$	(4,386,787)
Items not involving cash				
Amortization		583,567		203,329
Accrued interest and accretion		-		78,688
Flow-through share interest and penalties		11,182		8,747
Share based payments		12,208,564		1,673,860
Write down of exploration assets		-		1,700
Expenses settled with shares		-		39,664
Biological assets		(459,519)		-
Deferred tax recovery		(3,064,914)		-
Changes in non-cash working capital:				
Receivables		(723,564)		(289,141)
Prepaid expenses		(347,360)		239,323
Due to related parties		-		(89,439)
Accounts payable and accrued liabilities		4,227,631		318,244
		(2,831,588)		(2,201,812)
Investing activities:				
Additions to property, plant & equipment		(12,155,487)		(1,099,948)
Capitalized cash finance costs		(3,107,592)		(360,265)
Proceeds on sale of short-term investment		1,200,000		(1,200,000)
Investment		-		(100,000)
		(14,063,079)		(2,760,213)
Financing activities:				
Common shares issued (net of issuance costs)		10,533,151		4,117,687
Warrants exercised		9,767,798		3,182,237
Stock options exercised		1,346,950		392,500
Subscriptions collected		-		430,000
Convertible debentures issued (net of issuance costs)		52,697,753		-
Mortgage proceeds		4,000,000		-
Mortgage payable		(7,500,000)		-
		70,845,652		8,122,424
Net change in cash		53,950,985		3,160,399
Cash, beginning of year		3,730,569		570,170
Cash, end of year	**$**	**57,681,554**	**$**	**3,730,569**

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**	**AOCI**	**Deficit**	**Total Shareholders' (Deficiency) Equity**
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
Private Placements (net of fees)	28,334,688	6,627,752	(430,000)	4,335,399	-	-	10,533,151
Warrants exercised	22,070,124	11,399,120	-	(1,631,322)	-	-	9,767,798
Debenture conversion (April 2015)	6,038,235	705,404	-	(157,521)	-	-	547,883
Stock options exercised	3,085,000	2,352,396	-	(1,005,446)	-	-	1,346,950
Conversion feature on convertible debt (Dec 2016)	-	-	-	4,161,397	-	-	4,161,397
Warrants issued on convertible debt	-	-	-	4,202,744	-	-	4,202,744
Debenture conversion (Dec 2016)	11,271,515	12,487,906	-	(1,111,168)	-	-	11,376,738
Share based payments	-	-	-	12,208,564	-	-	12,208,564
Net loss for the year	-	-	-	-	-	(15,267,175)	(15,267,175)
Other comprehensive income	-	-	-	-	844,635	-	(844,635)
Balance, June 30, 2017	**188,832,127**	**$ 65,636,030**	**$ -**	**$ 31,948,022**	**$ 844,635**	**$ (39,341,448)**	**$ 59,087,239**

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

1. Nature of Operations:

Supreme is a federally incorporated Canadian medical cannabis company with its common shares publicly traded on the TSX Venture Exchange ("**TSXV**") under the symbol "**FIRE**" and are quoted on the Over-the-Counter Bulletin Board ("**OTCBB**") under the symbol "SPRWF". Supreme's primary asset 7ACRES, an Ontario corporation, is wholly owned by Supreme. 7ACRES is a Licensed Producer (as such term is defined in the Access to Cannabis for Medical Purposes Regulations ("**ACMPR**") which replaced the Marihuana for Medical Purposes Regulations (the "**MMPR**")). 7ACRES became a Licensed Producer on March 11, 2016 when it was issued a license to cultivate medical cannabis, pursuant to the MMPR (the "License"), at its hybrid facility (the **"Hybrid Facility"**) facility in Kincardine, Ontario. On June 28, 2017 the Company was granted permission to sell medical cannabis. Supreme has positioned 7ACRES to be a leading supplier and distributor of medical cannabis and related products to other legal retailers, utilizing a business-to-business focused sales strategy. The Hybrid Facility combines the positive aspects of indoor cannabis cultivation with the cost savings and sustainability of a greenhouse. Management anticipates the Hybrid Facility will allow 7ACRES to produce high volume, high quality medical cannabis.

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

The Company's head office and registered records office is located at 371 Jones Avenue, Toronto, Ontario, M4J 3G5.

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 were authorized for issuance by the Company's Board of Directors ("Board") on October 27, 2017.

b) Basis of Measurement

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

c) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, 7ACRES. All significant intercompany balances and transactions were eliminated on consolidation.

d) 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.

e) 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)

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) Share-based compensation:

The inputs used assessing the fair value of share based payments in the consolidated statements of comprehensive loss and the inputs associated with the initial and subsequent valuation of options in the consolidated statement of equity. Key estimates and assumptions include; the rate of forfeitures of options granted, the expected life of the option, the volatility of the value of the Company's common shares and the risk-free interest rate.

ii) Income taxes:

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) Convertible debt:

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

iv) Intangible assets and impairment of long lived assets:

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, key estimates include; determination of Cash Generating Units ("CGU"), future cash flows and discount rates.

v) Estimated useful life and amortization of property, plant and equipment:

Amortization of property, plant and equipment is dependent upon estimates of useful lives. Assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account key estimates such as economic and market conditions and the useful lives of assets.

vi) Valuation of biological assets:

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

Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. These estimates and assumptions include; the level of effort required to bring the cannabis up to the point of harvest, sales price, selling costs and expected future yields for the cannabis plants.

2. Significant Accounting Policies (continued)

f) 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	Declining-balance 55%
Furniture and fixtures	Declining-balance 20%
Building	Declining-balance 4%
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.

g) Impairment of long-lived assets

Long-lived assets, including property, plant and equipment 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.

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.

h) 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.

2. Significant Accounting Policies (continued)

i) 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.

j) Loss per share

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

k) 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.

l) 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.

2. Significant Accounting Policies (continued)

The Company classifies its financial assets as financial assets at fair value through profit and loss, held to maturity, available for sale or loans and receivables. A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's 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, fair value of private company investments is determined using implied valuations from follow-on financing rounds, third party sale negotiations, or market-based approaches, 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.

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 negatively affected.

The amount of the impairment loss recognized is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account.

m) 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.

2. Significant Accounting Policies (continued)

n) 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-measured subsequent to initial recognition. Interest, dividends, losses and gains relating to the financial liability are recognized in profit or loss.

o) Borrowing Costs

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

p) 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.

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

IFRS 9, Financial Instruments was issued by the **IASB** in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("**FVTPL**") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. The effective date of IFRS 9 is January 1, 2018. Management is currently evaluating the impact of IFRS 9 on its financial statements.

IFRS 15, *Revenue from Contracts and Customers* 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.

(Expressed in Canadian Dollars)

3. Intangible Assets

The intangible asset represents the value attributed to an in process Health Canada application on acquisition of 7ACRES. Subsequent to acquisition, the Company was granted a license to cultivate 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. 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 $4,500 currently, decreasing to $4,000/kg in 2019, and an average cost per gram of $2.50 currently, decreasing to $1.50 in 2021.

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 ACMPR (formerly the MMPR). On March 11, 2016, Supreme's wholly owned subsidiary 7ACRES, 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 area of the Facility currently completed and approved for medical cannabis production is being amortized.

	Facility	Land	Equipment & fixtures	Total Property, Plant & Equipment
Cost				
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
Additions	11,916,110	-	239,377	12,155,487
Borrowing costs	4,792,082	-	-	4,792,082
Balance, June 30, 2017	**$ 25,849,301**	**$ 1,203,319**	**$ 391,669**	**$ 27,444,289**
Accumulated Amortization				
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
Amortization	507,523	-	76,044	583,567
Balance, June 30, 2017	**$ 680,714**	**$ -**	**$ 124,670**	**$ 805,384**
Net carrying cost, June 30, 2016	$ 8,967,918	$ 1,203,319	$ 103,666	$ 10,274,903
Net carrying cost, June 30, 2017	**$ 25,168,587**	**$ 1,203,319**	**$ 266,999**	**$ 26,638,905**

(Expressed in Canadian Dollars)

4. Property, Plant and Equipment (continued)

As at June 30, 2017 the Company had $9,182,880 of Facility under development. Each phase of construction is considered under development until such time that it has been approved by Health Canada. Once Health Canada approval is granted the asset is amortized as it is available for use. During the year ended June 30 ,2017 a total of $4,792,082 (2016: $360,265) of borrowing costs were capitalized. Borrowing costs include a non-cash accretion expense of $1,684,490 (2016: nil).

5. Biological Assets

As at June 30, 2017, the Company's biological assets consist of cannabis plants. The changes in the fair value of biological assets are as follows:

Carrying amount, June 30, 2016	$	-
Changes in fair value less costs to sell due to biological transformation		459,519
Transferred to inventory upon harvest		-
Carrying amount, June 30, 2017	$	459,519

The Company's estimates include; the level of effort required to bring the cannabis up to the point of harvest, sales price, selling costs and expected future yields for the cannabis plants. Estimates, by their nature, are subject to change that could result in future gains or losses of biological assets. As at June 30, 2017 biological assets consisted of approximately 2,279 cannabis plants and were approximately 43% complete. Prior to being granted permission to sell from Health Canada, the Company did not record the fair value of its biological assets. Accordingly, any cannabis plants harvested prior to June 28, 2017 were recorded at a carrying value of nil.

6. Other Assets

As at June 30, 2017, Supreme retains 7 mineral claims in the Copper Mountain area of British Columbia totaling approximately 556 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 cannabis 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 2017 and 2016; 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, 2017, total reclamation bonds of $15,000 (2016: $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 2.10% with maturity dates from April 2018 to May 2018.

7. Investments

On April 22, 2016 Supreme closed an investment in Trellis Solutions Inc. (formerly CannSoft Inc.), a development stage software company focused on providing enterprise resource planning solutions to the cannabis industry. The company purchased 285,714 common shares for $100,000. The Company does not exercise significant influence or control. The investment has been classified as an available for sale financial instrument. The Company revalued the investment as at June 30, 2017 and adjusted the carrying value to $1,073,642 (2016; $100,000) due to follow-on financing round establishing a current fair value. The unrealized gain on investment of $973,642 ($844,635 net of tax) has been recorded in other comprehensive loss for the year ended June 30, 2017. 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.

8. Mortgage Payable

During the year ended June 30, 2017 the Company refinanced its $3,500,000 mortgage bearing interest at 7% per annum, with a new lender. The new mortgage principal of $4,000,000 was paid in full March 2, 2017 without prepayment penalty. The mortgage payable was $4,000,000 principal with a 12 month term maturing on July 31, 2017, bearing interest at the rate of 12% per annum, compounded monthly. Interest was due monthly and principal was due on maturity. The mortgage was 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 was 12%. Interest was accrued during the life of the loan based on the effective rate of interest. As at June 30, 2017, all accrued interest has been paid (June 30, 2016: $0) and the principal balance has been paid in full (2016: $3,500,000).

As at June 30, 2017, $514,943 (2016: $360,265) of interest and fees were capitalized to the Facility.

9. Convertible Debentures

April 2015 Convertible Debenture:

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

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

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

The debentures, net of the equity components and issuance 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.

On September 9, 2016 all outstanding convertible debt was converted to shares during the year ended June 30, 2017.

December 2016 Convertible Debenture:

On December 13, 2016, the Company received gross proceeds of $55,000,000 from a brokered private placement issuance of 10% coupon, unsecured debentures, which are convertible into common shares at a conversion price of $1.30 per share at any time and mature December 31, 2019. Concurrently, the lenders received 42,350,000 warrants exercisable at $1.70 to December 13, 2019, subject to accelerated expiry in some circumstances.

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

(Expressed in Canadian Dollars)

9. Convertible Debentures (continued)

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 $1,807,125, share issue fees of $495,122 and issued 1,273,965 finders' warrants valued at $857,669. These transaction costs have been allocated to the liability and equity components based on their pro-rata fair values.

Convertible debentures consist of the following:

	Proceeds	Debt component	Equity component
Balance June 30, 2015	$ 1,374,063	$ 809,555	$ 576,896
Accretion (April 2015 Debentures)	-	55,184	-
Conversion (April 2015 Debentures)	-	(328,039)	(111,310)
Balance, June 30, 2016	$ 1,374,063	$ 536,700	$ 465,586
Issue of convertible debt, net of tax	55,000,000	43,921,105	8,142,988
Transaction costs	(3,159,916)	(2,523,400)	(636,516)
Accretion (April 2015 Debentures)	-	11,184	-
Accretion (Dec 2016 Debentures)	-	1,684,490	-
Conversion (April 2015 Debentures)	-	(547,885)	(157,521)
Conversion (Dec 2016 Debentures)	-	(11,376,738)	(1,111,168)
Balance, June 30, 2017	$ 53,214,147	$ 31,705,456	$ 6,703,369

10. Share capital

Authorized share capital:

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

10a.Share Capital: Common shares issued and outstanding

Common Shares issued during the year ended June 30, 2016

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.

10a.Share Capital: Common shares issued and outstanding (continued)

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.

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.

Common Shares issued during the year ended June 30, 2017

On July 15, 2016, the Company closed the second tranche of the private placement announced June 2016, 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 exercisable at a price of $0.50 per share with a fair value of $7,071, expiring June 19, 2019, in the connection with the financing. As part of the private placement, $430,000 was collected before year end and was included in shares to be issued in the consolidated statement of changes in shareholders' equity.

During July 2016 and August 2016, $616,500 of the Company's outstanding convertible debt was converted to common shares. A total of 3,626,470 common shares were issued on conversion.

10a. Share Capital: Common shares issued and outstanding (continued)

On September 1, 2016, the Company closed the third tranche of the private placement announced June 2016 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 and issued 631,274 finders warrants exercisable at a price of $0.50 per share with a fair value of $123,903 expiring August 30, 2019 in the connection with the financing.

On December 13, 2016, the Company closed a private placement of convertible debentures for an aggregate of $55,000,000. Pursuant to the private placement, the Company issued: (a) $55,000,000 in convertible debentures, at a conversion price of $1.30; and (b) 42,350,000 purchase warrants exercisable for one common share at a price of $1.70 per share prior to December 13, 2019. All purchase warrants issued pursuant to this private placement are subject to certain acceleration provisions. The Company paid finders' fees of $1,807,125 In cash and issued 1,273,965 finders warrants in the connection with the financing. Finders' fees were allocated to the liability and equity portion of the convertible debt (Note 8).

On June 30, 2017 the company had 188,832,127 common shares issued and outstanding.

10b. Share Capital: Share purchase warrants

On July 15, 2016, the Company issued 1,808,125 purchase warrants and 24,375 finders warrants.

On September 1, 2016, the Company issued 26,526,564 purchase warrants and 631,274 finders warrants.

In July 2016 various warrant holders exercised 463,157 warrants generating proceeds of $148,210, In August 2016 various warrant holders exercised 764,861 warrants generating proceeds of $244,755, In September 2016 various warrant holders exercised 6,924,000 warrants generating proceeds of $3,336,657, In October 2016 various warrant holders exercised 4,127,680 warrants generating proceeds of $1,559,059, In November 2016 various warrant holders exercised 2,051,065 warrants generating proceeds of $947,516 and In December 2016 various warrant holders exercised 1,025,352 warrants generating proceeds of $406,349.

On December 13, 2016, 42,350,000 warrants were issued as part of the convertible debenture financing, these were valued at $28,511,202. In addition, 1,273,965 finders' warrants at a price of $1.70 were issued in connection to the financing at a fair value of $857,669.

In January 2017 various warrant holders exercised 2,512,132 warrants generating proceeds of $1,256,066, In February 2017 various warrant holders exercised 1,399,792 warrants generating proceeds of $623,614, In March 2017 various warrant holders exercised 1,852,085 warrants generating proceeds of $838,160.

In April 2017 various warrant holders exercised 510,000 warrants generating proceeds of $255,000, In May 2017 various warrant holders exercised 260,000 warrants generating proceeds of $130,000, In June 2017 various warrant holders exercised 180,000 warrants generating proceeds of $90,000.

During the year ended June 30, 2017, a total of 921,998 share purchase warrants expired.

(Expressed in Canadian Dollars)

10b. Share Capital: Share purchase warrants (continued)

On June 30, 2017 the company had 87,697,600 share purchase warrants outstanding.

	Warrants Outstanding	Weighted Average Exercise Price
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
Granted	72,614,303	1.22
Exercised	(22,070,124)	(0.44)
Expired / Cancelled	(921,998)	(0.50)
Outstanding, June 30, 2017	**87,697,600**	**$ 1.09**

As at June 30, 2017, the Company had outstanding warrants as follows:

Exercise Price	Expiry Date	Number of Warrants	Weighted Average Remaining Life
$ 0.50	July 2, 2017	3,200,000	0.01
$ 0.50	June 20, 2019	8,557,057	1.97
$ 0.32	April 23, 2020	6,061,417	2.82
$ 0.32	July 27, 2017	374,587	0.07
$ 0.55	July 27, 2018	2,858,821	1.07
$ 0.50	July 15, 2019	1,202,093	2.04
$ 0.50	August 30, 2019	21,819,660	2.17
$ 1.70	December 13, 2019	43,623,965	2.45
		87,697,600	**2.21**

The warrants were valued using the Black-Scholes option pricing model using the following range of 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:

	2017	2016
Share price	$0.41 - $1.82	$0.32 - $0.47
Expected dividend yield	0.00%	0.00%
Stock price volatility	89% - 90%	91% -103%
Expected life of warrants	1 - 3 years	2 - 4.25 years
Forfeiture rate	-	-
Risk free rate	0.56% - 0.75%	0.54% - 0.82%

(Expressed in Canadian Dollars)

10c. Share Capital: Stock options

In September 2016, 340,000 stock options were exercised generating proceeds of $123,400, In October 2016, 1,925,000 stock options were exercised generating proceeds of $856,550, In November 2016, 320,000 stock options were exercised generating proceeds of $110,000 and In December 2016, 100,000 stock options were exercised generating proceeds of $75,000. In February 2017, 100,000 stock options were exercised generating proceeds of $25,000, In March 2017, 250,000 stock options were exercised generating proceeds of $161,500. In June 2017, 50,000 stock options were exercised generating proceeds of $20,500.

During the year ended June 30, 2017, a total of 430,000 stock options expired.

As at June 30, 2017 and 2016, the Company had outstanding and exercisable stock options as follows:

	Options Outstanding	Weighted Average Exercise Price
Outstanding, 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**
Granted	11,553,783	1.54
Exercised	(3,085,000)	(0.44)
Expired	(430,000)	(0.49)
Outstanding and exercisable, June 30, 2017	**15,423,783**	**$ 1.28**

As at June 30, 2017, the Company had outstanding and exercisable stock options as follows:

Exercise Price	Expiry Date	Number of Options	Weighted Average Remaining Life (years)
$ 0.25	May 5, 2019	50,000	1.85
$ 0.41	October 14, 2019	1,675,000	2.29
$ 0.50	January 10, 2021	1,645,000	3.53
$ 0.75	April 25, 2021	800,000	3.82
$ 0.75	August 29, 2021	3,823,783	4.17
$ 0.77	September 14, 2021	130,000	4.22
$ 2.00	December 15, 2026	7,300,000	9.47
		15,423,783	**6.38**

10d. Share Capital: Share based payments

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. The Company recorded the fair value of the options as stock based compensation of $1,849,771. The Company valued the options using the Black Scholes method using a risk free rate of 0.68%, expected life of 5 years, nil dividend yield, and 89% expected volatility.

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. The Company recorded the fair value of the options as stock based compensation of $74,813. The Company valued the options using the Black Scholes method using a risk free rate of 0.73%, expected life of 5 years, nil dividend yield, and 89% expected volatility.

(Expressed in Canadian Dollars)

10d. Share Capital: Share based payments (continued)

On December 16, 2016 the Company issued 7,300,000 of incentive options to employees, officers, directors and consultants at a price of $2.00 per share expiring on December 15, 2026. All options vest immediately. The Company recorded the fair value of the options as stock based compensation of $10,283,980. The Company valued the options using the Black Scholes method using a risk free rate of 1.83%, expected life of 10 years, nil dividend yield, and 91% expected volatility.

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:

	2017	2016
Share price	$0.67 - $1.66	$0.39 - $0.47
Expected dividend yield	0.00%	0.00%
Stock price volatility	89% - 91%	90% - 134%
Expected life of options	5 years – 10 years	4.8 years
Forfeiture rate	-	-
Risk free rate	0.68% - 1.83%	0.51% - 1.43%

10e. Reserves:

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

11. Related party transactions

The remuneration awarded to directors and executives includes the following:

Related party transactions	2017	2016
Share based payments	$ 10,395,242	$ 981,742
Management and consulting fees	-	60,814
Salaries and wages	602,504	581,901
	$ 10,997,746	**$ 1,624,457**

(Expressed in Canadian Dollars)

12. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2016 - 26.5%) to the effective tax rate is as follows:

		2017		2016
Earnings (loss) for the year	$	(18,332,089)	$	(4,386,787)
Expected income tax (recovery)		(4,858,000)		(1,162,500)
Share based compensation and non-deductible expenses		3,235,270		479,659
Share issue costs and other		(1,107,844)		196,694
Convertible debenture		3,180,350		-
Change in taxes not recognized		(3,514,690)		486,147
Income tax expense (recovery) expense	**$**	**(3,064,914)**	$	-

The Company's income tax (recovery) is allocated as follows:

Current tax (recovery) expense	$	-	$	-
Deferred tax (recovery) expense		(3,064,914)		-
	$	(3,064,914)	$	-

Deferred tax

The following table summarizes the components of deferred tax:

		2017		2016
Deferred Tax Assets				
Non-capital losses carried forward	$	4,147,745	$	168,623
Capital losses carried forward		33,125		-
Deferred Tax Liabilities				
Property, plant and equipment		(1,066,330)		(38,826)
Biological assets		(121,773)		
Short-term investments		(129,008)		
Convertible debt		(2,863,759)		(129,797)
Net deferred tax asset	**$**	**-**	**$**	-

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

Movement in net deferred tax liabilities:

		2017		2016
Balance at the beginning of the year	$	-	$	-
Recognized in profit/loss		(3,064,914)		-
Recognized in OCI		129,007		-
Recognized in equity		2,935,907		-
Prior year deferred tax asset from continuing operations		-		-
Balance at the end of the year	**$**	**-**	$	-

(Expressed in Canadian Dollars)

12. Income taxes (continued)

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

Share issuance costs – 20(1)(e) - Canada	$ 2,262,760	$ 296,815
Non-capital losses carried forward - Canada	2,844,310	8,068,615
Capital losses carried forward	-	-
Resource pools – Mineral Properties	845,097	845,100

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

The Canadian non-capital loss carry forwards begin to expire in 2035

Share issue and financing costs will be fully amortized in 2022.

The remaining deductible temporary differences may be carried forward indefinitely.

The remaining deductible difference may be carried forward indefinitely.
Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

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

2026	278,020
2027	203,940
2028	26,560
2029	110,250
2030	159,520
2031	323,230
2032	195,050
2033	196,530
2034	1,318,440
2035	3,343,920
2036	2,575,090
2037	9,658,040
	$ 18,388,590

13. Financial risk management

Financial instruments measured at fair value are classified into one of 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, 2017, the Company's financial instruments consist of cash, receivables, short term investments, investment, accounts payable and accrued liabilities, mortgage payable and convertible debt. The fair values of cash, receivables, accounts payable and accrued liabilities 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

13. Financial risk management (continued)

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 available for sale investment is considered Level 3, as it is a security without a quoted value. If Level 2 inputs are available, such as implied valuations from follow-on financing rounds, third party sale negotiations, or market-based approaches, fair value is considered determinable. In cases where fair value is not reasonably determinable, cost may be the best estimate of fair value. 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 occasionally will settle liabilities with the issuance of common shares. The ability to settle obligations with cash relies on the Company raising financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. As at June 30, 2017 the Company had a cash balance of $57,681,554 and current liabilities of $5,110,643. The Company's current resources are sufficient to settle its current liabilities. All of the Company's liabilities are due within one year, other than convertible debt which is due in 2019.

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.

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, 2017, the Company's shareholders' equity was $59,087,239 (June 30, 2016- $19,364,554) and liabilities other than trades payable were $31,705,456 (June 30, 2016 - $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 and early development stage 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, development of the Facility and raise additional amounts as needed. The Company is not subject to any externally imposed capital requirements. There have been no changes in the Company's approach to capital management during the year ended June 30, 2017.

(Expressed in Canadian Dollars)

14. Commitments

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

		2017
	$	
Less than 1 year		170,436
1-3 years		56,950
	$	227,386

15. Subsequent events

Private placement

On October 18, 2016, the Company announced a brokered private placement issuance of approximately $35,000,000, 8% coupon, unsecured debentures, which are convertible into common shares at a rate of $1.60 per share at any time and mature two years after closing. Concurrently, the lenders will receive approximately 10,955,000 warrants exercisable at $1.80 for three years after the closing of the private placement. Both the unsecured debentures and the warrants are subject to accelerated expiry in some circumstances. The private placement is expected to close on November 9, 2017.

Warrant conversions and stock option exercises

Subsequent to year end, convertible debentures of $13,488,000 were converted in exchange for 10,375,374 common shares of the Company.

Subsequent to year end, various warrant holders exercised 3,485,075 warrants for total proceeds of $1,747,538.

Subsequent to the year end, 410,000 stock options were exercised for total proceeds of $169,000.

Stock option issuance

On September 25, 2017 the Company issued 3,010,000 incentive options to employees, officers, directors and consultants at a price of $1.45 per share expiring on September 25, 2022. All options vest immediately.