

THE SUPREME CANNABIS COMPANY, INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2017

(Expressed in Canadian Dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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Management's Responsibility for Financial Reporting

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

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

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

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

February 27, 2018

(signed)

/Dimitre Naoumov/
Chief Financial Officer

(signed)

/Scott Walters/
Director

The Supreme Cannabis Company, Inc.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

As at:	Note	December 31, 2017	June 30, 2017
			(Audited)
ASSETS			
Current assets			
Cash		\$ 77,564,229	\$ 57,681,554
Receivables	5	4,282,124	1,055,229
Prepaid expenses and deposits		205,472	110,190
Inventory	7	1,284,377	-
Biological assets	6	1,436,288	459,519
		84,772,490	59,306,492
Non-current assets			
Property, plant & equipment	4	53,911,674	26,638,905
Prepaid property, plant & equipment		1,703,258	472,385
Intangible Assets	3	8,396,914	8,396,914
Investments	8	1,073,642	1,073,642
Other Assets		15,000	15,000
		\$ 149,872,978	\$ 95,903,338
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 12,230,609	\$ 5,110,643
		12,230,609	5,110,643
Long-term liabilities			
Convertible debt	9	46,577,170	31,705,456
		58,807,779	36,816,099
SHAREHOLDERS' EQUITY			
Share capital	10	97,122,939	65,636,030
Reserves		36,652,834	31,948,022
Accumulated other comprehensive income		844,635	844,635
Deficit		(43,555,209)	(39,341,448)
Total Shareholders' Equity		91,065,199	59,087,239
		\$ 149,872,978	\$ 95,903,338

Commitments (Note 13)
Subsequent events (Note 14)

Approved and authorized by the Board of Directors on February 27, 2018.

“Navdeep Dhaliwal” _____ Director

“Scott Walters” _____ Director

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

The Supreme Cannabis Company, Inc.
Condensed Interim Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)
(Unaudited)

For the three and six months ended December 31,	Notes	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016
Revenue		\$ 3,240,639	\$ -	\$ 1,680,641	\$ -
Production Costs		2,570,741	-	1,548,170	-
Gross profit before gain on fair value of biological assets		669,898	-	132,471	-
Gain on fair value changes of biological assets	6	3,005,055	-	1,706,358	-
Cost of finished inventory sold	7	(941,281)	-	(941,281)	-
Gross Profit		2,733,672	-	897,548	-
Operating Expenses					
Wages and benefits	11	\$ 1,666,663	\$ 1,115,289	\$ 948,241	\$ 598,721
Rent and facilities		331,073	434,963	194,297	250,980
Professional fees		350,923	233,909	319,728	208,843
Marketing		415,666	263,636	293,496	123,572
General and administrative		478,839	179,298	254,964	97,917
Amortization of property plant and equipment	4	93,908	205,868	73,444	95,950
Finance expense (income), net	4, 9	274,255	665,324	315,272	444,842
Share based payments	10(d), 11	2,803,385	12,208,564	-	10,283,980
Loss on disposal of property, plant & equipment		693,682	-	693,682	-
		7,108,394	15,306,851	3,093,124	12,104,805
Net Loss before taxes		\$ (4,374,722)	\$ (15,306,851)	\$ (2,195,576)	\$ (12,104,805)
Deferred tax recovery		160,961	-	160,961	-
Total loss and comprehensive loss		(4,213,761)	(15,306,851)	(2,034,615)	(12,104,805)
Basic and Diluted Loss per common share		\$ (0.02)	\$ (0.10)	\$ (0.01)	\$ (0.08)
Weighted average number of shares		198,297,674	160,379,280	198,867,914	160,414,211

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

The Supreme Cannabis Company, Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited)

For the six months ended December 31,	2017	2016
Operating activities:		
Net loss for the period	\$ (4,213,761)	\$ (15,306,851)
Items not involving cash		
Amortization	369,142	205,868
Accrued interest and accretion	209,415	610,873
Flow-through share interest and penalties	4,595	4,372
Share based payments	2,803,385	12,208,564
Loss on disposal of property, plant & equipment	693,682	-
Biological assets	(3,005,055)	-
Cost of finished inventory sold	941,281	-
Deferred tax liability	(160,961)	-
Changes in non-cash working capital:		
Inventory	197,372	-
Receivables	(3,226,895)	89,003
Prepaid expenses	(95,282)	(13,786)
Accounts payable and accrued liabilities	7,119,966	582,327
	1,636,884	(1,619,630)
Investing activities:		
Additions to property, plant & equipment	(25,288,528)	(2,522,049)
Capitalized cash finance costs	(1,559,080)	(366,593)
Proceeds on sale of short-term investment	-	700,000
Prepaid property, plant & equipment	(1,230,873)	-
	(28,078,481)	(2,188,642)
Financing activities:		
Common shares issued (net of issuance costs)	-	10,628,349
Warrants exercised	7,481,019	6,583,527
Stock options exercised	404,500	1,164,950
Convertible debentures issued (net of issuance costs)	38,438,753	52,927,628
	46,324,272	71,304,454
Net change in cash	19,882,675	67,496,182
Cash, beginning of period	57,681,554	3,730,569
Cash, end of period	\$ 77,564,229	\$ 71,226,751

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

The Supreme Cannabis Company, Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)
(Unaudited)

	Common Shares			Reserves	AOCI	Deficit	Total Shareholders' (Deficiency) Equity
	Number of Shares	Share Capital	Shares to be Issued				
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)	28,334,689	5,965,745	(430,000)	5,092,604	-	-	10,628,349
Warrants exercised	15,356,115	7,398,439	8,569	(823,481)	-	-	6,583,527
Debenture conversion	6,038,234	1,013,469	-	(465,586)	-	-	547,883
Stock options exercised	2,685,000	1,986,181	-	(821,231)	-	-	1,164,950
Share based payments	-	-	-	12,208,564	-	-	12,208,564
Convertible debt	-	7,078,855	-	7,115,788	-	-	14,194,643
Net loss for the period	-	-	-	-	-	(15,306,851)	(15,306,851)
Balance, December 31, 2016	170,446,603	55,506,141	8,569	33,252,033	-	(39,381,124)	49,385,619
Warrants exercised	6,714,008	4,000,681	(8,569)	(807,841)	-	-	3,184,271
Stock options exercised	400,000	366,215	-	(184,215)	-	-	182,000
Conversion feature on convertible debt 2016	-	-	-	4,161,397	-	-	4,161,397
Warrants issued on convertible debt	-	-	-	4,202,744	-	-	4,202,744
Debenture conversion (Dec 2016)	5,233,281	4,395,582	-	(999,857)	-	-	3,395,725
Debenture conversion (April 2015)	6,038,235	1,367,411	-	(7,676,239)	-	-	(6,308,828)
Net loss for the period	-	-	-	-	-	39,676	39,676
Other comprehensive income	-	-	-	-	844,635	-	844,635
Balance, June 30, 2017	188,832,127	65,636,030	-	31,948,022	844,635	(39,341,448)	59,087,239
Warrants exercised	7,439,050	8,429,202	-	(948,183)	-	-	7,481,019
Stock options exercised	935,000	743,380	-	(338,880)	-	-	404,500
Debenture conversion (Dec 2016)	17,908,420	22,314,327	-	(1,758,984)	-	-	20,555,343
Convertible debenture (Nov 2017)	-	-	-	4,947,474	-	-	4,947,474
Share based payments	-	-	-	2,803,385	-	-	2,803,385
Net loss for the period	-	-	-	-	-	(4,213,761)	(4,213,761)
Balance, December 31, 2017	215,114,597	\$ 97,122,939	\$ -	\$ 36,652,834	\$ 844,635	\$ (43,555,209)	\$ 91,065,199

The accompanying notes are an integral part of these condensed interim 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**")). 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). 7ACRES became a Licensed Producer on March 11, 2016 when it was issued a license to cultivate medical cannabis, pursuant to the MMPR (the "**License**"), at its Facility. On June 28, 2017 the Company was granted permission to sell medical cannabis.

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

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

2. Significant Accounting Policies

a) Statement of compliance

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

These Financial Statements were authorized for issuance by the Company's Board of Directors ("**Board**") on February 27, 2018.

b) Basis of Measurement

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

c) Basis of consolidation

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

d) Functional and presentation of foreign currency

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

e) Significant accounting judgments, estimates and assumptions

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

2. Significant Accounting Policies (continued)

f) Inventory

Inventories of harvested finished goods are initially valued at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less costs to sell at harvest which becomes the deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that the cost is less than net realizable value. Net realizable value is determined as the estimated selling price less the estimated cost to sell. Cost is determined on an individual harvest basis.

Cannabis is measured and weighted throughout its life at different stages of completion. Due to its biological nature, cannabis can lose weight due to loss of moisture. The Company estimates the amount of weight loss when accounting for the actual finished product available for sale.

g) 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 following;

- I. The Company estimates the cost required to process the harvested cannabis into a finished product and the cost necessary to package and sell. The processing, packaging and selling costs are deducted from the fair value when estimating the fair value of biological assets.
- II. The Company estimates the cannabis plant's growth stage at each reporting date. The growth rate is used to assess the percentage of completion of cannabis plants that have not yet been harvested.
- III. The Company estimates the expected yield by cannabis plant to determine the final weight of the completed cannabis product when it is available to sell.

h) 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. IFRS 9 will be effective for annual periods beginning on or after January 1, 2018.

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*, 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 on its financial statements.

The Supreme Cannabis Company, Inc.
Notes to the Condensed Interim Consolidated Financial Statements
December 31, 2017 and 2016
(Expressed in Canadian Dollars)
(Unaudited)

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 maximum term of 3 years and are to be renewed before expiry unless the Company has significantly breached compliance. Accordingly, the useful life of the License is considered indefinite and has not been amortized. The License is tested for impairment annually by comparing recoverable amount to its carrying value.

4. Property, Plant and Equipment

	Facility		Land		Equipment & fixtures		Total Property, Plant & Equipment	
Cost								
Balance, June 30, 2016	\$	9,141,109	\$	1,203,319	\$	152,292	\$	10,496,720
Additions		11,916,110		-		239,377		12,155,487
Borrowing costs		4,792,082		-		-		4,792,082
Balance, June 30, 2017		25,849,301		1,203,319		391,669		27,444,289
Additions		22,661,333		2,231,541		395,654		25,288,528
Disposal		(722,585)		-		-		(722,585)
Borrowing costs		3,047,065		-		-		3,047,065
Balance, December 31, 2017	\$	50,835,114	\$	3,434,860	\$	787,323	\$	55,057,297
Accumulated Amortization								
Balance, June 30, 2016	\$	173,191	\$	-	\$	48,626	\$	221,817
Amortization		507,523		-		76,044		583,567
Balance, June 30, 2017		680,714		-		124,670		805,384
Amortization		300,278		-		68,864		369,142
Disposals		(28,903)		-		-		(28,903)
Balance, December 31, 2017	\$	952,089	\$	-	\$	193,534	\$	1,145,623
Net carrying cost, June 30, 2017	\$	25,168,587	\$	1,203,319	\$	266,999	\$	26,638,905
Net carrying cost, December 31, 2017	\$	49,883,025	\$	3,434,860	\$	593,789	\$	53,911,674

As at December 31, 2017 the Company had \$20,168,994 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 period ended December 31, 2017 a total of \$3,047,065 (2016: \$336,593) of borrowing costs were capitalized. Borrowing costs include a non-cash accretion expense of \$1,487,985 (2016: nil). Amortization expense of \$275,234 has been recorded as production costs on the condensed interim consolidated statements of comprehensive loss for the six months ended December 31, 2017 (2016: nil).

The Supreme Cannabis Company, Inc.
Notes to the Condensed Interim Consolidated Financial Statements
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5. Accounts Receivable

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

	December 31, 2017	June 30, 2017
Trade accounts receivable	\$ 1,029,094	\$ 111,386
Sales tax receivable	3,253,030	943,843
Total accounts receivable	\$ 4,282,124	\$ 1,055,229

6. Biological Assets

As at December 31, 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
Carrying amount, June 30, 2017		459,519
Changes in fair value less costs to sell due to biological transformation		3,005,055
Transferred to inventory upon harvest		(2,028,286)
Carrying amount, December 31, 2017	\$	1,436,288

The Company's estimates, by their nature, are subject to change that could result in future gains or losses of biological assets. Changes in estimates could result from volatility of sales prices, changes in yields and variability of the costs necessary to complete the cannabis post-harvest.

These estimates and inputs used to assess the fair value less cost to sell of biological assets include the following assumptions:

- (a) Selling prices are based on the Company's actual average selling price during the three and six months ended December 31, 2017;
- (b) The cost to compete the cannabis post-harvest and cost to sell;
- (c) The stage of plant growth; and
- (d) Expected yields by cannabis plant.

7. Inventory

Carrying amount, June 30, 2017	\$	-
Work-in-progress		776,387
Supplies and other		147,409
Finished goods		360,581
Carrying amount, December 31, 2017	\$	1,284,377

7. Inventory (continued)

Inventories consist of dried cannabis that is complete and available for sale. Supplies and other inventory consists of consumables for use in the transformation of biological assets and other inventory used in production. Work-in-progress includes cannabis, after harvest, in the processing stage. Prior to being granted permission to sell from Health Canada, the Company did not record the value of inventory. Accordingly, any cannabis plants harvested prior to June 28, 2017 were recorded at a carrying value of nil.

The amount of inventory recognized as expense during the six months ended December 31, 2017 was \$941,281 (2016: nil). Prior to being granted permission to sell from Health Canada on June 28, 2017, the Company did not capitalize inventory. Accordingly, portion of the cannabis sold during the six months ended December 31, 2017 that was harvested prior to June 28, 2017 and was recorded at a carrying value of nil.

8. Investments

On April 22, 2016 Supreme closed an investment in Trellis Solutions Inc. (formerly CannSoft Inc.), a software company focused on providing enterprise resource planning solutions to the cannabis industry. The company purchased 285,714 common shares for \$100,000. The Company does not exercise significant influence or control. The investment has been classified as an available for sale financial instrument. The Company revalued the investment as at June 30, 2017 and adjusted the carrying value to \$1,073,642 due to follow-on financing round establishing a current fair value. During the six months ended December 31, 2017 there were no adjustments necessary to the carrying value of the investment (2016: nil). 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.

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

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

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 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. As at December 31, 2017, the principal amount outstanding of December 2016 Convertible Debentures was \$17,066,000 (June 30, 2017: \$40,314,000).

The Supreme Cannabis Company, Inc.
Notes to the Condensed Interim Consolidated Financial Statements
December 31, 2017 and 2016
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9. Convertible Debentures (continued)

November 2017 Convertible Debenture:

On November 14, 2017, the Company received gross proceeds of \$40,250,000 from a brokered private placement issuance of 8% coupon, unsecured debentures, which are convertible into common shares at a rate of \$1.60 per share at any time and mature on November 14, 2019. Concurrently, the lenders received 12,598,250 warrants exercisable at \$1.80 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 company incurred expenses of \$1,594,111 related to the private placement and \$217,136 of legal and regulatory fees. These transaction costs have been allocated to the liability and equity components based on their pro-rata fair values. As at December 31, 2017, the principal amount outstanding of November 2017 Convertible Debentures was \$40,250,000 (June 30, 2017: nil).

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

Convertible debentures consist of the following:

	Proceeds	Debt component	Equity component
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 and unpaid interest (April 2015 Debentures)	-	11,184	-
Accretion and unpaid interest (Dec 2016 Debentures)	-	1,684,490	-
Conversion (April 2015 Debentures)	-	(547,885)	(157,521)
Conversion (Dec 2016 Debentures)	-	(11,376,738)	(1,111,168)
Balance, June 30, 2017	\$ 53,214,147	\$ 31,705,456	\$ 6,703,369
Accretion and unpaid interest (Dec 2016 Debentures)	-	1,253,178	-
Conversion (Dec 2016 Debentures)	-	(18,792,008)	(1,758,984)
Issue of convertible debt, net	38,438,753	31,566,984	4,947,474
Accretion and unpaid interest (Nov 2017 Debentures)	-	843,560	-
Balance, December 31, 2017	\$ 91,652,900	\$ 46,577,170	\$ 9,891,859

The Supreme Cannabis Company, Inc.
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(Unaudited)

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

During the six months ended December 31, 2017, \$23,248,000 of the Company's outstanding convertible debt was converted to common shares. A total of 17,908,420 common shares were issued on conversion.

On December 31, 2017 the company had 215,114,597 common shares issued and outstanding.

10b. Share Capital: Share purchase warrants

During the six months ended December 31, 2017, various warrant holders exercised 7,439,050 warrants generating proceeds of \$7,481,019.

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

During the six months ended December 31, 2017, a total of 3,574,587 share purchase warrants expired.

On December 31, 2017 the company had 89,282,213 share purchase warrants outstanding.

	Warrants Outstanding	Weighted Average Exercise Price
Outstanding, June 30, 2016	38,075,419	\$ 0.44
Granted	72,614,303	1.22
Exercised	(22,070,124)	(0.44)
Expired / Cancelled	(921,998)	(0.50)
Outstanding, June 30, 2017	87,697,600	\$ 1.09
Granted	12,598,250	1.80
Exercised	(7,439,050)	(1.01)
Expired	(3,574,587)	(0.48)
Outstanding, December 31, 2017	89,282,213	\$ 1.22

As at December 31, 2017, the Company had outstanding warrants as follows:

Exercise Price	Expiry Date	Number of Warrants	Weighted Average Remaining Life
\$ 0.50	June 20, 2019	8,054,557	1.47
\$ 0.32	April 23, 2020	5,878,699	2.31
\$ 0.55	July 27, 2018	2,758,821	0.57
\$ 0.50	July 15, 2019	1,002,093	1.54
\$ 0.50	August 30, 2019	18,523,648	1.66
\$ 1.70	December 13, 2019	40,466,145	1.95
\$ 1.80	November 14, 2020	12,598,250	2.87
		89,282,213	1.95

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

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

December 31,	2017	2016
Share price	\$1.61	\$0.35 - \$1.82
Expected dividend yield	0.00%	0.00%
Stock price volatility	62%	89%-91%
Expected life of options	1 year	1 year - 3 years
Forfeiture rate	-	-
Risk free rate	1.44%	0.68% - 1.83%

10c. Share Capital: Stock options

During the six months ended December 31, 2017, 935,000 stock options were exercised generating proceeds of \$404,500.

During the six months ended December 31, 2017, a total of 705,000 stock options were forfeited.

As at December 31, 2017, the Company had outstanding and exercisable stock options as follows:

	Options Outstanding	Weighted Average Exercise Price
Outstanding, June 30, 2016	7,385,000	\$ 0.47
Granted	11,553,783	1.54
Exercised	(3,085,000)	(0.44)
Expired	(430,000)	(0.49)
Outstanding and exercisable, June 30, 2017	15,423,783	\$ 1.28
Granted	3,010,000	1.45
Exercised	(935,000)	(0.43)
Expired / Forfeited	(705,000)	(1.29)
Outstanding and exercisable, December 31, 2017	16,793,783	\$ 1.35

As at December 31, 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	1.34
\$ 0.41	October 14, 2019	975,000	1.79
\$ 0.50	January 10, 2021	1,210,000	3.03
\$ 0.75	April 25, 2021	800,000	3.31
\$ 0.75	August 29, 2021	3,823,783	3.66
\$ 1.45	September 25, 2022	2,935,000	4.74
\$ 2.00	December 15, 2026	7,000,000	8.96
		16,793,783	5.88

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10d. Share Capital: Share based payments

On September 25, 2017 the Company issued 3,010,000 of 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.

The options were valued using the Black-Scholes option pricing model using the following assumptions.

December 31,	2017	2016
Share price	\$1.43	\$0.67 - \$1.66
Expected dividend yield	0.00%	0.00%
Stock price volatility	81%	89%-91%
Expected life of options	5 years	5 years-10 years
Forfeiture rate	-	-
Risk free rate	1.80%	0.68% - 1.83%

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 for the six-month period ended December 31, 2017, includes the following:

Related party transactions	2017	2016
Share based payments	\$ 2,561,232	\$ 10,395,242
Salaries and wages	461,417	278,120
	\$ 3,022,649	\$ 10,673,362

As at December 31, 2017, directors and executives of the Company held a combined \$1,085,000 of convertible debentures.

12. Financial risk management

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

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 December 31, 2017, the Company's financial instruments consist of cash, receivables, investment, accounts payable and accrued liabilities 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, investments as available for sale and accounts payable and accrued liabilities 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 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:

12. Financial risk management (continued)

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and receivables. To minimize the credit risk the Company places cash with a high credit quality financial institution of Canada, for receivables, the Company evaluates the credit worthiness of the counterparty before credit is granted.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company typically settles its financial obligations out of cash and occasionally will settle liabilities with the issuance of common shares. The ability to settle obligations with cash relies on the Company raising funds in a timely manner and by maintaining sufficient cash in excess of anticipated needs. As at December 31, 2017 the Company had a cash balance of \$77,564,229 and current liabilities of \$12,230,609. 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 December 31, 2017, the Company's shareholders' equity was \$91,065,199 (June 30, 2017: \$59,087,239) and liabilities other than trades payable and accruals were \$46,577,170 (June 30, 2017: \$31,705,456). The Company's objective when managing capital is to safeguard its accumulated capital in order to provide adequate return to shareholders by maintaining a sufficient level of funds in order to support its ongoing activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, 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 six months ended December 31, 2017.

13. Commitments

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

	December 31, 2017
Less than 1 year	\$ 120,300
1-2 years	13,000
	\$ 133,300

14. Subsequent events

Convertible debentures

During the six months ended December 31, 2017, the Company issued notice to holders of its December 2016 Convertible Debenture that required holders to convert December 2016 Convertible Debentures into common shares of the Company in January 2018. Under the terms of the indenture relating to the December 2016 Convertible Debenture, the Company had the right at any time beginning on April 14, 2017 to convert all, but not less than all, of the principal amount and all accrued and unpaid interest of the December 2016 Convertible Debenture into common shares if the volume weighted average price of the Company's common shares for 15 consecutive trading days equals or exceeds \$1.75.

Subsequent to December 31, 2017, the Company completed the conversion of all outstanding December 2016 Convertible Debenture to common shares of the Company, as a result 13,196,572 common shares were issued.

Subsequent to December 31, 2017, November 2017 Convertible Debentures of \$1,255,000 were converted in exchange for 784,375 common shares of the Company.

Incentive stock options issued and exercised

Subsequent to December 31, 2017, the Company issued 500,000 incentive options to a new employee at a price of \$3.05 expiring on January 7, 2023. The incentive options issued vest immediately.

Subsequent to December 31, 2017, 290,000 stock options were exercised for total proceeds of \$133,000.

Share purchase warrants exercised

Subsequent to December 31, 2017, various warrant holders exercised 21,295,944 warrants for total proceeds of \$33,293,492.