

Supreme.

TSXV:FIRE

THE SUPREME CANNABIS COMPANY, INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018

(Expressed in Canadian Dollars)

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 consolidated interim 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 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 findings. The Audit Committee is also responsible for recommending the appointment of the Company's external auditors.

November 14, 2018

(signed)

/Dimitre Naoumov/
Chief Financial Officer

(signed)

/Colin Moore/
Director

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

As at:	Note	September 30, 2018	June 30, 2018
			(Audited)
ASSETS			
Current assets			
Cash		\$ 31,196,652	\$ 55,895,997
Receivables	3	9,844,288	8,467,833
Prepaid expenses and deposits		2,629,233	1,289,834
Inventory	4	6,974,372	4,579,118
Biological assets	5	2,625,032	3,283,233
		53,269,577	73,516,015
Non-current assets			
Property, plant and equipment	6	122,065,524	101,008,447
Deposits on property, plant and equipment		1,595,656	516,084
Intangible Assets	7	8,591,787	8,396,914
Investments	8	16,823,399	16,331,609
Other Assets		67,664	15,000
		\$ 202,413,607	\$ 199,784,069
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 23,376,073	\$ 22,916,874
		23,376,073	22,916,874
Long-term liabilities			
Convertible debt	9	31,124,680	31,721,913
		54,500,753	54,638,787
SHAREHOLDERS' EQUITY			
Share capital		162,896,000	156,097,158
Reserves		36,014,212	34,892,067
Shares to be issued		232,044	-
Accumulated other comprehensive income		844,635	844,635
Deficit		(52,074,037)	(46,688,578)
		147,912,854	145,145,282
		\$ 202,413,607	\$ 199,784,069

Commitments (Note 14)

Subsequent events (Note 15)

Approved and authorized by the Board of Directors on November 14, 2018:

"Navdeep Dhaliwal"

Director

"Colin Moore"

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
(Unaudited - Expressed in Canadian Dollars)

For the period	Note	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017
Revenue		\$ 5,139,912	\$ 1,559,998
Production costs	4, 6	2,874,982	1,022,571
Fair value changes on growth of biological assets	5	5,176,746	1,298,697
Realized fair value changes on inventory sold or impaired	4, 5	(3,958,418)	-
Operating expenses			
Wages and benefits	12	\$ 1,848,063	\$ 718,422
Rent and facilities		463,262	136,776
Professional fees		268,217	31,195
Sales, marketing and business development		856,216	122,170
General and administrative		483,619	223,875
Amortization of property, plant and equipment & intangible assets	6, 7	249,752	20,464
Share based payments	10, 12	1,769,108	2,803,385
		5,938,237	4,056,287
Other expenses (Income)			
Finance income, net	6, 9	\$ (182,775)	\$ (41,017)
Loss on disposal of property, plant and equipment	6	3,541,340	-
Unrealized gain on investments	8	(491,790)	-
		2,866,775	(41,017)
Net loss before taxes		\$ (5,321,754)	\$ (2,179,146)
Deferred tax recovery (expense)		(63,705)	-
Net loss and total comprehensive loss after taxes		\$ (5,385,459)	\$ (2,179,146)
Weighted average number of shares		257,423,294	190,844,651
Basic and Diluted Loss per common share		\$ (0.02)	\$ (0.01)

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
(Unaudited - Expressed in Canadian Dollars)

For the three months ended	September 30, 2018	September 30, 2017
Operating activities:		
Net loss after taxes	\$ (5,385,459)	\$ (2,179,146)
Items not involving cash:		
Amortization	613,572	136,426
Flow-through share interest and penalties	2,399	2,616
Share based payments	1,769,108	2,803,385
Loss on disposal of property, plant and equipment	3,541,340	-
Fair value changes on growth of biological assets	(5,176,746)	(1,298,697)
Realized fair value changes on inventory sold	3,700,487	-
Impairment adjustment on fair value of inventory	257,931	-
Deferred tax expense (recovery)	63,705	-
Unrealized gain on investments	(491,790)	-
Changes in non-cash working capital:		
Inventory	(518,718)	(49,497)
Receivables	(1,376,455)	(910,630)
Prepaid expenses and deposits	(1,339,399)	(821,709)
Accounts payable and accrued liabilities	459,199	5,659,014
Other Assets	(52,664)	-
	(3,933,490)	3,341,762
Investing activities:		
Additions to property, plant and equipment & capitalized cash borrowing costs	(23,717,801)	(9,960,872)
Additions to intangible assets	(195,954)	-
Deposits on property, plant and equipment	(1,079,572)	-
	(24,993,327)	(9,960,872)
Financing activities:		
Warrants exercised	4,214,972	676,563
Stock options exercised	12,500	164,000
	4,227,472	840,563
Net change in cash	(24,699,345)	(5,778,547)
Cash, beginning of year	55,895,997	57,681,554
Cash, end of year	\$ 31,196,652	\$ 51,903,007

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

The Supreme Cannabis Company, Inc.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited - Expressed in Canadian Dollars)

	Number of Common Shares	Share Capital	Shares to be issued	Reserves	AOCI	Deficit	Total Shareholders' (Deficiency) Equity
Balance, June 30, 2017	188,832,127	\$ 65,636,030	-	\$ 31,948,022	\$ 844,635	\$ (39,341,448)	\$ 59,087,239
Warrants exercised	1,343,125	929,155	-	(252,592)	-	-	676,563
Stock options exercised	400,000	310,566	-	(146,566)	-	-	164,000
Debenture conversion (Dec 2016)	1,416,146	1,568,496	-	(136,796)	-	-	1,431,700
Share based payments	-	-	-	2,803,385	-	-	2,803,385
Net loss for the period	-	-	-	-	-	(2,179,146)	(2,179,146)
Balance, September 30, 2017	191,991,398	68,444,247	-	34,215,453	844,635	(41,520,594)	61,983,741
Warrants exercised	30,026,357	45,344,748	-	(3,233,216)	-	-	42,111,532
Stock options exercised	1,121,250	965,904	-	(413,966)	-	-	551,938
Debenture conversion (Dec 2016)	29,688,846	37,509,057	-	(2,913,432)	-	-	34,595,625
Convertible debenture (Nov 2017)	-	-	-	4,947,474	-	-	4,947,474
Debenture conversion (Nov 2017)	2,909,375	3,833,202	-	(461,458)	-	-	3,371,744
Share based payments	-	-	-	2,751,212	-	-	2,751,212
Net loss for the period	-	-	-	-	-	(5,167,984)	(5,167,984)
Balance, June 30, 2018	255,737,226	156,097,158	-	34,892,067	844,635	(46,688,578)	145,145,282
Warrants exercised	3,169,967	4,401,997	219,544	(406,569)	-	-	4,214,972
Stock options exercised	-	-	12,500	-	-	-	12,500
Debenture conversions (Nov 2017)	1,515,685	2,396,845	-	(240,394)	-	-	2,156,451
Share based payments	-	-	-	1,769,108	-	-	1,769,108
Net loss for the period	-	-	-	-	-	(5,385,459)	(5,385,459)
Balance, September 30, 2018	260,422,878	\$ 162,896,000	\$ 232,044	\$ 36,014,212	\$ 844,635	\$ (52,074,037)	\$ 147,912,854

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**", Over-the-Counter ("**OTCQX**") under the symbol "**SPRWF**", and on the Frankfurt Stock Exchange ("**FRA**") under the symbol "**53S1**". Supreme's primary asset, 7ACRES a Canadian 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 facility including adjacent buildings situated on approximately sixteen acres of land located in the Bruce Energy Park, in Kincardine, Ontario, approximately 160 kilometers 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 178R Ossington Avenue, Toronto, ON, M6J 2Z7.

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 International Accounting Standard 34 – Interim Financial Reporting as issued by the International Accounting Standards Board ("**IASB**"), following the same accounting policies, including estimates and judgments and methods of application as those disclosed in the annual audited consolidated financial statements for the year ended June 30, 2018 except as described in the notes to the financial statements. The Financial Statements should be read in conjunction with the annual financial statements of the Company for the year ended June 30, 2018, which have been prepared in accordance with IFRS.

These Financial Statements were authorized for issuance by the Company's Board of Directors on November 14, 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 subsidiaries, 8528934 Canada Ltd., d/b/a/, 7ACRES and 10695181 Canada Ltd. 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 subsidiaries is the Canadian dollar.

2. Significant Accounting Policies (continued)

e) New Accounting Standards effective July 1, 2018

The Company adopted the following new accounting standards effective July 1, 2018.

i. IFRS 9 – Financial Instruments (“IFRS 9”)

Effective July 1, 2018, the Company adopted IFRS 9. In July 2014, the IASB issued the final publication of the IFRS 9 standard, which supersedes IAS 39 – Financial Instruments: recognition and measurement (“IAS 39”). IFRS 9 includes revised guidance on the classification and measurement of financial instruments and new guidance for measuring impairment on financial assets. The Company has made a policy choice to adopt IFRS 9 on a retrospective basis where the cumulative impact of adoption will be recognized in retained earnings as of July 1, 2018; thus, prior period comparatives will not be restated.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (“FVOCI”), and fair value through profit and loss (“FVTPL”). Under IFRS 9, the Company has irrevocably elected to present subsequent changes in the fair value of equity investments that are not held-for-trading in other comprehensive income (“OCI”). For these equity investments, any subsequent changes in fair value or impairment on the instrument will be recorded in OCI, and cumulative gains or losses in OCI will not be reclassified into net income on disposal. Any subsequent changes in fair value or impairment on equity investments that are held-for-trading will continue to be realized in net income.

Under IFRS 9, the loss allowance for trade receivables must be calculated using the expected lifetime credit loss and recorded at the time of initial recognition. A portion of the Company’s trade receivables require a loss allowance of \$36,506 as at September 30, 2018 in order to comply with the requirements of IFRS 9. There is no significant effect on the carrying value of the Company’s other financial instruments under IFRS 9 related to this new requirement.

Below is a summary showing the classification and measurement bases of the Company’s financial instruments as at July 1, 2018 as a result of adopting IFRS 9 (along with a comparison to IAS39).

Financial Instrument	IAS 39	IFRS 9
Financial Assets		
Cash	FVTPL	FVTPL
Accounts Receivable	Loans and receivables	Amortized cost
Investments:		
BlissCo shares	Held-for-trading (FVTPL)	FVTPL
BlissCo warrants	Held-for-trading (FVTPL)	FVTPL
Trellis Solutions Inc.	Available-for-sale (Note 1)	FVOCI (Note 2)
MediGrow	Available-for-sale (Note 1)	FVOCI (Note 2)
Financial Liabilities		
Accounts Payable and Accrued Liabilities	Other financial liabilities	Amortized cost
Convertible Debentures	Other financial liabilities (Note 3)	Amortized cost

2. Significant Accounting Policies (continued)

e) New Accounting Standards effective July 1, 2018 (continued)

i. IFRS 9 – Financial Instruments (continued)

Note 1: Subsequently measured at fair value with changes recognized in other comprehensive income. The net change subsequent to initial recognition, in the case of investments, is reclassified into net income upon disposal of the investment or when the investment becomes impaired.

Note 2: Subsequently measured at fair value with changes recognized in OCI. The net change subsequent to initial recognition, in the case of investments, is not reclassified into net income upon disposal of the investment or when the investment becomes impaired.

Note 3: Subsequently measured at amortized cost using the effective interest rate.

ii. IFRS 15 – Revenue from contracts with customers (“**IFRS 15**”)

Effective July 1, 2018, the Company adopted IFRS 15. IFRS 15 supersedes previous accounting standards for revenue, including International Accounting Standards IAS 18, Revenue.

IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. identify the contract with a customer;
2. identify the performance obligations in the contract;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations in the contract; and
5. recognize revenue when (or as) the entity satisfies a performance obligation.

Revenue from the direct business to business sale of cannabis to legal and licensed Canadian retailers for a fixed price is recognized when the Company transfers control of the good to the customer. The Company has elected to adopt IFRS 15 on a cumulative effective basis, with no restatement of the comparative period. The Company assessed the impact of adopting IFRS 15 retrospectively and determined that no retroactive adjustments were necessary.

f) Recent accounting pronouncements not yet adopted

i. IFRS 16 – Leases (“**IFRS 16**”)

In 2016, the IASB issued IFRS 16, Leases, replacing International Accounting Standards IAS 17, Leases, and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019 and is to be applied retrospectively. Early adoption is permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of the new standard on its consolidated financial statements and will adopt IFRS 16 starting July 1, 2019.

The Supreme Cannabis Company, Inc.
Notes to the Condensed Interim Consolidated Financial Statements
September 30, 2018 and 2017
(Unaudited - Expressed in Canadian Dollars)

3. Accounts Receivable

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

	September 30, 2018	June 30, 2018
Trade accounts receivable (net of allowance)	\$ 4,488,238	\$ 4,800,313
Sales tax receivable	3,023,412	3,502,566
Other receivable	2,332,638	164,954
Total accounts receivable	\$ 9,844,288	\$ 8,467,833

4. Inventory

Carrying amount, June 30, 2018	\$ 4,579,118
Supplies	609,374
Seeds	233,744
Work in progress	4,217,298
Finished goods	1,913,956
Carrying amount, September 30, 2018	\$ 6,974,372

Inventories consist of dried cannabis that is complete and available for sale. Supplies and seed 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.

During the three months ended September 30, 2018 inventory recognized as expense was \$4,866,918 (2017: \$nil). Inventory recognized as expense includes the fair value changes related to biological assets previously recognized, as described in Note 5, and capitalized post-harvest costs. For the three months ended September 30, 2018 a total of \$908,500 (2017: \$nil) has been recorded as production costs on the consolidated statement of comprehensive loss related to capitalized post-harvest costs expensed during the period as cannabis inventory is sold.

The impairment charge on the finished goods inventory for the three months ended September 30, 2018 was \$257,931 (2017: \$nil). The impairment charge is due to the cost of certain inventory exceeding net realizable value for the three months ended September 30, 2018. The amount has been expensed through realized fair value changes on inventory sold or impaired.

5. Biological Assets

Use of Estimates:

Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions as at September 30, 2018:

- a) Selling prices – selling prices are based on the Company's actual historical average selling price per gram for the preceding nine months. Estimated selling prices average \$6.30 for cannabis flower and \$2.39 for cannabis trim.
- b) Post-harvest costs – the costs are based on actual processing costs incurred by drying, trimming, testing and packaging activities incurred in the period, including overhead allocations for these activities. Estimated post-harvest processing costs average \$0.96 per gram.

The Supreme Cannabis Company, Inc.
Notes to the Condensed Interim Consolidated Financial Statements
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5. Biological Assets (continued)

Use of Estimates (continued)

- c) The stage of plant growth – the stage of plant growth is estimated by the number of days into the growing stage as compared to the estimated growing time for a full harvest. The estimated stage of growth of the cannabis plants as at September 30, 2018 averages 75%.
- d) Expected yield – the expected yield per plant is based on the Company's actual historical average yield per plant. Expected yield per plant is 49.2 grams of cannabis trim and 77.5 grams of cannabis flower.

Explanatory Information:

As at September 30, 2018, 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, 2017	\$ 459,519
Changes in fair value less costs to sell due to biological transformation	12,460,812
Transferred to inventory upon harvest	(9,637,098)
Carrying amount, June 30, 2018	3,283,233
Changes in fair value less costs to sell due to biological transformation	5,176,746
Transferred to inventory upon harvest	(5,834,947)
Carrying amount, September 30, 2018	\$ 2,625,032

The Company expects that a \$1 increase or decrease in the wholesale market price per gram of dried cannabis would increase or decrease the fair value of biological assets by \$692,802 (2017: \$420,928). A 5% increase or decrease in the estimated yield per cannabis plant would result in an increase or decrease in the fair value of biological assets by \$131,252 (2017: \$87,911). Additionally, an increase or decrease of 10% in the post-harvest costs would increase or decrease the fair value of biological assets by \$66,650 (2017: \$nil).

Net effect of changes in fair value of biological assets and inventory include:

Unrealized change in fair value of biological assets	\$ 1,218,328
Realized fair value increments on inventory sold or impaired	3,958,418

Realized fair value changes on inventory sold or impaired included on the Company's consolidated statement of comprehensive loss is entirely comprised of the fair value previously recognized during the biological transformation process related to cannabis sold during the period and impairment changes.

Realized fair value changes on inventory sold or impaired is the amount of changes in fair value due to biological transformation and inventory impairment charges that have been expensed during the three months ended September 30, 2018 as cannabis inventory is sold.

Unrealized change in fair value of biological assets is the net amount of changes in fair value due to biological transformation charges that have been added to biological assets and inventory during the three months ended September 30, 2018. As at September 30, 2018, biological assets and inventory include a total of \$8,426,129 (2017: \$1,758,216) of unrealized fair value of biological assets charges which are yet to be expensed as the related cannabis inventory is not yet sold.

For the three months ended September 30, 2018 a total of \$3,958,418 (2017: \$nil) has been recognized as realized fair value changes on inventory sold or impaired.

The Supreme Cannabis Company, Inc.
Notes to the Condensed Interim Consolidated Financial Statements
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(Unaudited - Expressed in Canadian Dollars)

6. Property, Plant and Equipment

	Facility	Land	Furniture, equipment and leaseholds	Total Property, Plant and Equipment
Cost				
Balance, June 30, 2017	\$ 25,849,301	\$ 1,203,319	\$ 391,669	\$ 27,444,289
Additions	67,408,641	2,231,541	1,765,617	71,405,799
Disposals	(1,447,733)	-	(4,543)	(1,452,276)
Borrowing costs	5,525,833	-	-	5,525,833
Balance, June 30, 2018	97,336,042	3,434,860	2,152,743	102,923,645
Additions	19,649,672	1,042,920	2,861,658	23,554,250
Disposals	(4,064,426)	-	-	(4,064,426)
Borrowing costs	1,656,658	-	-	1,656,658
Balance, September 30, 2018	\$ 114,577,946	\$ 4,477,780	\$ 5,014,401	\$ 124,070,127
Accumulated Amortization				
Balance, June 30, 2017	\$ 680,714	\$ -	\$ 124,670	\$ 805,384
Amortization	953,236	-	218,115	1,171,351
Disposals	(57,909)	-	(3,628)	(61,537)
Balance, June 30, 2018	1,576,041	-	339,157	1,915,198
Amortization	358,005	-	254,486	612,491
Disposals	(523,086)	-	-	(523,086)
Balance, September 30, 2018	\$ 1,410,960	\$ -	\$ 593,643	\$ 2,004,603
Net carrying cost, June 30, 2018	\$ 95,760,001	\$ 3,434,860	\$ 1,813,586	\$ 101,008,447
Net carrying cost, September 30, 2018	\$ 113,166,986	\$ 4,477,780	\$ 4,420,758	\$ 122,065,524

As at September 30, 2018 the Company had \$62,620,398 (2017: \$21,389,203) 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 three months ended September 30, 2018 a total of \$1,656,658 (2017: \$1,496,291) of borrowing costs were capitalized. Borrowing costs include a non-cash accretion expense of \$946,946 (2017: \$643,158). Amortization expense of \$363,820 has been recorded as production costs on the consolidated statements of comprehensive loss for the three months ended September 30, 2018 (2017: \$115,962).

7. Intangible Assets

Accounting Policy:

Initial recognition:

Upon initial recognition, the Company measures intangible assets at cost unless they are acquired through a business combination, in which case they are measured at fair value. For internally generated intangible assets, research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically, and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset.

The Company begins recognizing amortization of intangible assets with finite useful lives when the asset is ready for its intended use. Subsequently, the asset is carried at cost less accumulated amortization and accumulated impairment losses. The estimated useful lives, residual values, and amortization methods are reviewed at each period end, and any changes in estimates are accounted for prospectively.

The Company does not amortize intangible assets with indefinite lives.

Use of Estimates:

The Company uses estimates in determining the useful life and residual values of the intangible assets. The Company only has one definite life intangible asset, internally generated website asset, which has been amortized on a straight-line basis over a period of 3 years which is estimated to be the useful life of the website asset.

Use of Judgements:

The Company uses judgement to assess if an intangible asset is an indefinite or a definite life intangible. Additionally, in the case of internally generated intangibles, further judgment is required to assess if the costs incurred are part of research or development stage and whether future economic benefits are probable.

Explanatory Information:

The Company has two intangible assets, one is an indefinite life intangible, whereas the other is a definite life intangible.

The indefinite life 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 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 the recoverable amount to its carrying value. The Company did not have any impairment losses in the current period and the carrying amount of this intangible asset continues to be carried at \$8,396,914 (2017: \$8,396,914).

The definite life intangible asset is the Company's internally generated website for 7ACRES. The Company incurred total costs of \$204,353 to complete the website, of which \$195,954 are development expenditures which were capitalized. The website is amortized on a straight-line basis over the expected useful life of the asset of 3 years. For the three months ending September 30, 2018 a total of \$1,081 (2017: \$nil) was recorded as amortization expense.

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8. Investments

Use of Estimates:

The Company uses the Black-Scholes pricing model to estimate the value of its investment in the warrants of BlissCo Cannabis Corp ("BlissCo"). The following estimates were used as inputs into the model as at September 30, 2018:

	2018
Share price	\$ 0.44
Expected dividend yield	0.00%
Stock price volatility	78.92%
Expected life of warrants	1.38 years
Forfeiture rate	-
Risk free rate	2.210%

The Company uses the discounted cash flows valuation method to estimate the value of its FVOCI investments considered a Level 3 categorization on the IFRS fair value hierarchy. The significant unobservable input into the valuation models of these investments is the discount rate, which has been estimated to be between 20%-25%. Changes in discount rates will result in changes in the fair values of these investments.

Explanatory Information:

		Carrying amount, June 30, 2018	Investment	Fair value September 30, 2018	Unrealized Gain / (Loss) on investment	Carrying amount, September 30, 2018
Level 1 on fair value hierarchy						
BlissCo shares	Note 8A	\$ 4,000,000	-	4,400,000	400,000	4,400,000
		\$ 4,000,000	-	4,400,000	400,000	4,400,000
Level 2 on fair value hierarchy						
BlissCo warrants	Note 8A	\$ 1,095,860	-	1,187,650	91,790	1,187,650
		\$ 1,095,860	-	1,187,650	91,790	1,187,650
Level 3 on fair value hierarchy						
Trellis Solutions Inc.	Note 8B	\$ 1,073,642	-	1,073,642	-	1,073,642
MediGrow	Note 8C	\$ 10,162,107	-	10,162,107	-	10,162,107
		\$ 11,235,749	-	11,235,749	-	11,235,749
		\$ 16,331,609	-	16,823,399	491,790	16,823,399

Note 8A:

On February 26, 2018, Supreme closed an investment in BlissCo, an early stage vertically integrated distribution focused cannabis company. The Company purchased 10,000,000 units for \$3,000,000. Each unit is comprised of one common share and one common share purchase warrant of BlissCo. The common share purchase warrant is exercisable until February 23, 2020 at \$0.60 per common share. The Company has valued the common shares and common share purchase warrant separately. The Company does not exercise significant influence or control. The investment has been classified as a fair value through profit and loss financial instrument. The Company revalued the investment as at September 30, 2018 and adjusted the carrying value of common shares to \$4,400,000 which is based on the common share price of BlissCo quoted on the Canadian Securities Exchange, resulting in an unrealized gain of \$400,000 (2017: \$nil).

8. Investments (continued)

Note 8A (continued):

The Company revalued the common share purchase warrants as at September 30, 2018 using the Black-Scholes pricing model to estimate the fair value of warrants at the period then ended, resulting in an unrealized gain of \$91,790 (2017: \$nil). The Company intends to continue as a passive shareholder.

Note 8B:

On April 22, 2016, Supreme closed an investment in Trellis Solutions 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 a fair value through other comprehensive income financial instrument. The Company revalued the investment on 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 three months ended September 30, 2018 there were no adjustments necessary to the carrying value of the investment (2017: \$nil). The Company intends to continue as a passive shareholder.

Note 8C:

On March 20, 2018, Supreme closed an investment in MediGrow Lesotho (Pty) Limited ("MediGrow"), a licensed producer of medical cannabis based in the Kingdom of Lesotho. MediGrow is focused on medical cannabis oil production for export to federally legal medical cannabis markets globally. The Company purchased 278,000 common shares for \$10,074,145 and incurred \$87,962 of transaction costs that have been capitalized. The Company does not exercise significant influence or control. The investment has been classified as a fair value through other comprehensive income financial instrument. For the three months ending September 30, 2018 there were no adjustments necessary to the carrying value of the investment (2017: \$nil).

9. Convertible Debentures

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 until December 13, 2019, subject to accelerated expiry in some circumstances. The effective interest rate used to value the convertible debenture is 20.6%. The proceeds were primarily used for the construction of the Company's Facility, resulting in the capitalization of borrowing costs.

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 values. On January 22, 2018, the Company exercised its accelerated condition included in the indenture relating to the December 2016 Convertible Debenture resulting in all the outstanding convertible debentures being exercised and converted to common shares of the Company. As at September 30, 2018, the principal amount outstanding of December 2016 Convertible Debentures was \$nil (2017: \$30,916,914).

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 until November 14, 2020. Both the unsecured debentures and the warrants are subject to accelerated expiry in some circumstances. The effective interest rate used to value the convertible debenture is 20.6%.

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9. Convertible Debentures (continued)

November 2017 Convertible Debenture (continued):

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 values. As at September 30, 2018, the principal amount outstanding of November 2017 Convertible Debentures was \$33,170,000 (June 30, 2018: \$35,595,000). The decrease of the outstanding amount from the November 2017 Convertible Debenture is due to conversions occurring during the three months ended September 30, 2018.

All convertible debentures are comprised of a liability component, 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 conversion option
Balance June 30, 2017	\$ 53,214,147	\$ 31,705,456	\$ 3,050,228
Conversion (Dec 2016 Debentures)	-	(32,873,148)	(3,050,228)
Accretion (Dec 2016 Debentures)	-	1,167,692	-
Issue of convertible debt, net	38,438,753	31,566,984	4,947,474
Conversion (Nov 2017 Debentures)	-	(3,764,962)	(461,458)
Accretion and unpaid interest (Nov 2017 Debentures)	-	3,919,891	-
Balance, June 30, 2018	\$ 91,652,900	\$ 31,721,913	\$ 4,486,016
Conversion (Nov 2017 Debentures)	-	(2,092,746)	(240,395)
Accretion and unpaid interest (Nov 2017 Debentures)	-	1,495,513	-
Balance, September 30, 2018	\$ 91,652,900	\$ 31,124,680	\$ 4,245,621

10. Share Based Compensation

During the three months ended September 30, 2018, there were no common share issuances upon exercise of stock options.

As at September 30, 2018, the Company had 24,482,533 stock options outstanding as follows:

	Options Outstanding	Weighted Average Exercise Price
Outstanding and exercisable, June 30, 2017	15,423,783	\$ 1.28
Granted	11,410,000	1.76
Exercised	(1,521,250)	(0.47)
Expired / Forfeited	(1,205,000)	(1.58)
Outstanding and exercisable, June 30, 2018	24,107,533	\$ 1.54
Granted	375,000	1.50
Outstanding and exercisable, September 30, 2018	24,482,533	\$ 1.54

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10. Share Based Compensation (continued)

As at September 30, 2018, 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	0.59
\$ 0.41	October 14, 2019	800,000	1.04
\$ 0.50	January 10, 2021	935,000	2.28
\$ 0.75	April 25, 2021	800,000	2.57
\$ 0.75	August 29, 2021	3,687,533	2.92
\$ 1.45	September 25, 2022	2,935,000	3.99
\$ 2.00	December 15, 2026	6,500,000	8.21
\$ 3.05	January 5, 2023	500,000	4.27
\$ 2.05	March 5, 2023	200,000	4.43
\$ 1.80	May 15, 2023	300,000	4.62
\$ 1.70	June 25, 2023	400,000	4.74
\$ 1.80	March 29, 2028	7,000,000	9.50
\$ 1.50	August 23, 2023	375,000	4.90
		24,482,533	6.35

During the three months ended September 30, 2018 the Company granted the following incentive option to employees as follows:

Grant Date	# of options	Expiry Date	Exercise price	Vesting Period
August 23, 2018	375,000	August 23, 2023	\$ 1.50	3 years (1/3rd vesting each of the first 3 years)

Significant estimates are used to determine the fair value of stock options, the table below shows the estimates and assumptions used in applying the Black-Scholes option pricing model for options granted during the three months ending September 30, 2018:

	2018
Share price	\$ 1.47
Expected dividend yield	0.00%
Stock price volatility	78.66%
Expected life of options	5 Years
Forfeiture rate	-
Risk free rate	2.210%

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11. 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

Share Capital: Common shares issued and outstanding

During the three months ended September 30, 2018, \$2,425,000 of the Company's outstanding convertible debt was converted to common shares. A total of 1,515,685 common shares were issued on conversion.

Additionally, 3,169,967 common shares were issued during the three months ended September 30, 2018 as a result of warrants exercised. On September 30, 2018 the Company had 260,422,878 common shares issued and outstanding.

Share Capital: Share purchase warrants

During the three months ended September 30, 2018, various warrant holders exercised 3,169,967 warrants generating proceeds of \$3,995,428, of which \$2,332,638 was received subsequent to period end.

On September 30, 2018, the Company had 62,181,814 share purchase warrants outstanding as follows:

	Warrants Outstanding	Weighted Average Exercise Price
Outstanding, June 30, 2017	87,697,600	\$ 1.09
Granted	12,598,250	1.80
Exercised	(31,369,482)	(1.36)
Expired	(3,574,587)	(0.48)
Outstanding, June 30, 2018	65,351,781	\$ 1.12
Exercised	(3,169,967)	(1.26)
Outstanding, September 30, 2018	62,181,814	\$ 1.12

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11. Share Capital (continued)

As at September 30, 2018, the Company had outstanding warrants as follows:

Exercise Price	Expiry Date	Number of Warrants	Weighted Average Remaining Life (years)
\$ 0.50	June 20, 2019	7,974,557	0.72
\$ 0.32	April 23, 2020	4,979,321	1.56
\$ 0.50	July 15, 2019	857,093	0.79
\$ 0.50	August 30, 2019	16,772,936	0.92
\$ 1.70	December 13, 2019	19,163,982	1.20
\$ 1.80	November 14, 2020	12,433,925	2.13
		62,181,814	1.27

Reserves:

Reserves are comprised of share-based payments, the equity component of convertible debt and initial fair value of warrants, offset by the exercise of these instruments.

12. Related Party Transactions

The remuneration awarded to directors and executives for the three-month period ended September 30, 2018, includes the following:

	2019	2018
Share based payments	\$ 516,383	\$ 5,147,227
Salaries and wages	1,564,217	1,225,838
	\$ 2,080,600	\$ 6,373,065

As at September 30, 2018, directors and executives of the Company held a combined \$85,000 of convertible debentures. The convertible debentures issued to related parties are at arm's length terms and generate 8% interest with payments due December 31, 2018, June 30, 2019 and November 14, 2019. The interest payment due to related parties as at September 30, 2018 is \$5,962.

13. Financial Risk Management and Financial Instruments

Use of Estimates:

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.

13. Financial Risk Management and Financial Instruments (continued)

Explanatory Information:

For the three months ended September 30, 2018 the Company has recognized an unrealized gain from investments of \$491,790 (2017: \$nil) due to the changes in fair value. The unrealized gain was determined using Level 1 and Level 2 inputs.

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 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. As at September 30, 2018 a total of \$1,190,167 (2017: \$nil) of trade accounts receivable were considered overdue. The Company has estimated the expected loss allowance using the lifetime credit loss approach to estimate the bad debt expense for the current period to be \$36,506 (2017: \$nil).

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 September 30, 2018, the Company had a cash balance of \$31,196,652 and current liabilities of \$23,376,073.

The Company's current resources are sufficient to settle its current liabilities. All the Company's liabilities are due within one year, other than convertible debt which is due in November 2019.

Interest rate risk:

The Company is not subject to interest rate risk on future cash flows, as all its instruments bear fixed rates of interest.

Capital management:

Capital is comprised of the Company's shareholders' equity and any debt it may issue, other than trade payables in the normal course of operations. As at September 30, 2018, the Company's shareholders' equity was \$147,912,854 (June 30, 2018: \$145,145,282) and liabilities other than trades payable and accruals were \$31,124,680 (June 30, 2018: \$31,721,913). 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 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 three months ended September 30, 2018.

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14. Commitments

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

For the fiscal year ending June 30,	
2019	413,633
2020	429,728
2021	429,728
2022	429,728
2023 and beyond	2,743,648
	\$ 4,446,465

15. Subsequent Events

Bought Deal Prospectus Offering

On October 19, 2018, the Company closed a bought deal offering for gross proceeds of \$100,000,000, (the "Offering"), comprised of 6.0% senior unsecured convertible debentures (the "Debentures") of the Company at the issue price of \$1,000 per Debenture.

The Debentures have a maturity date that is 36 months from the closing date of the Offering (the "Maturity Date") and bear interest from the date of closing at 6.0% per annum, payable semi-annually on June 30 and December 31 of each year. The Debentures are convertible, at the option of the holder, into common shares at any time prior to the close of business on the last business day immediately preceding the Maturity Date at a conversion price of \$2.45 per common share, subject to adjustment in certain circumstances. The Debentures are subject to accelerated expiry in some circumstances. The Debentures are listed for trading on the TSXV under the symbol FIRE.DB.

Convertible Debentures Conversion

Subsequent to three months ended September 30, 2018, convertible debentures of \$28,330,000 were converted in exchange for 17,706,250 common shares of the Company.

On November 6, 2018, as per the terms of the November 2017 Convertible Debenture indenture, the Company forced the conversion of an aggregate principal of \$4,840,000 of 8% unsecured convertible debentures and accrued interest of \$378,596, originally due November 14, 2019, into 3,261,622 common shares of the Company.

Warrant conversions and stock option exercises

Subsequent to the three months ended September 30, 2018, various warrant holders exercised 1,493,772 warrants for total proceeds of \$1,157,450.

Subsequent to the three months ended September 30, 2018, 80,000 stock options were exercised for total proceeds of \$55,000.

Incentive stock options issued

On October 17, 2018, the Company issued 200,000 incentive stock options to various employees of the Company at an exercise price of \$2.05 expiring on October 17, 2023. The incentive stock options will vest in equal instalments of 1/3 on each of the dates that are 12 months, 24 months and 36 months from October 17, 2018.

Acquisition of Bayfield Strategy, Inc.

On November 12, 2018, the Company entered into a definitive agreement to acquire communications and stakeholder relations firm Bayfield Strategy, Inc. ("Bayfield").

15. Subsequent Events (continued)

Acquisition of Bayfield Strategy, Inc. (continued)

The Company will purchase all of the issued and outstanding shares of Bayfield in exchange for issuing \$2,000,000 of common shares of the Company valued at the closing trading price of the Company's shares on the TSXV at the last trading day before the definitive agreement was executed. The transaction is expected to close on November 30, 2018 subject to closing conditions and TSXV approval.