

RAVENQUEST BIOMED INC.
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Condensed Interim Consolidated Financial Statements
For the six months ended April 30, 2018 and 2017

(Unaudited – Prepared by Management)

(Stated in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

RAVENQUEST BIOMED INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)
(Stated in Canadian Dollars)

AS AT

	April 30, 2018	October 31, 2017
<u>ASSETS</u>		
Current		
Cash	\$ 5,258,393	\$ 3,379,856
Commodity tax recoverable	559,372	47,615
Receivables	702,897	136,378
Prepays and deposits	2,045,202	103,773
	8,565,864	3,667,622
Reclamation bond – Note 6	4,000	4,000
Plant and equipment – Note 7	7,440,853	1,194,603
Intangible asset – Note 4	31,543,665	3,833,684
	\$ 47,554,382	\$ 8,699,909

LIABILITIES

Current		
Accounts payable and accrued liabilities – Note 11	\$ 3,689,393	\$ 898,075
Loans payable – Note 8	-	233,008
	3,689,393	1,131,083
Convertible debentures – Note 9	12,323,137	-
	16,012,530	1,131,083

SHAREHOLDERS' EQUITY

Share capital – Note 10	35,811,550	13,096,741
Reserves – Note 10	3,628,186	53,800
Equity component of convertible loans – Note 9	2,140,417	-
Non-controlling interest	-	2,895
Deficit	(10,038,301)	(5,584,610)
	31,541,852	7,568,826
	\$ 47,554,382	\$ 8,699,909

Nature and Continuance of Operations – Note 1
Commitment – Note 14

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

<i>/s/ Anton J. Drescher</i>	Director	<i>/s/ Henk Van Alphen</i>	Director
Anton J. Drescher		Henk Van Alphen	

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

RAVENQUEST BIOMED INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the six months ended April 30, 2018 and 2017
(Unaudited – Prepared by Management)
(Stated in Canadian Dollars)

	Three months ended		Six months ended	
	April 30,		April 30,	
	2018	2017	2018	2017
Revenue	\$ 614,360	\$ -	\$ 1,225,755	\$ -
Cost of sales	85,190	-	397,001	-
Gross profit	529,170	-	828,754	-
Expenses				
Advertising and promotion	532,147	-	544,794	-
Depreciation – Note 7	3,958	-	5,205	-
Filing fees	31,028	1,500	33,721	5,269
Gain on settlement of debt	(4,999)	-	(59,472)	-
Interest and accretion	459,413	-	465,472	-
Management and consulting fees – Note 11	1,384,920	20,000	1,491,295	32,000
Meals and entertainment	12,594	4,540	27,736	4,540
Office	109,186	1,329	156,386	2,544
Professional fees – Note 11	254,780	2,300	352,491	4,750
Rent – Note 11	164,361	3,000	299,401	4,200
Research and development	40,000	-	80,000	-
Share-based compensation – Notes 9 and 11	661,021	-	1,363,286	-
Travel	68,204	1,397	119,433	1,397
Telephone	5,621	1,085	8,524	1,712
Transfer agent fees	15,176	825	17,304	1,650
Wages	227,804	-	379,764	-
	3,965,214	35,976	5,285,340	58,062
Net and comprehensive loss for the period	\$(3,436,044)	\$ (35,976)	\$ (4,456,586)	\$ (58,062)
Basic and diluted loss per share	\$ (0.04)	\$ (0.00)	\$ (0.06)	\$ (0.00)
Weighted average number of shares outstanding	86,367,988	29,000,000	79,202,576	29,000,000

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

RAVENQUEST BIOMED INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
For the six months ended April 30, 2018 and 2017
(Unaudited – Prepared by Management)
(Stated in Canadian Dollars)

	<u>Share Capital</u>		Share-based Payment Reserve	Warrants Reserve	Equity Component of Convertible Loans	Deficit	Non- Controlling Interest	Total
	Number of shares	Amount						
Balance as at October 31, 2016	29,000,000	\$ 1,833,381	\$ -	\$ -	\$ -	\$(2,283,583)	\$ -	\$ (450,202)
Loss for the period	-	-	-	-	-	(58,062)	-	(58,062)
Balance as at April 30, 2017	29,000,000	1,833,381	-	-	-	(2,341,645)	-	(508,264)
Private placement	21,000,000	6,300,000	-	-	-	-	-	6,300,000
Share issuance costs	-	(448,087)	-	-	-	-	-	(448,087)
Acquisition of CL2G	8,080,000	2,424,000	-	-	-	-	-	2,424,000
Acquisition of AGB	8,590,818	2,577,245	-	8,000	-	-	2,949	2,588,194
Fair value of bonus warrants	-	-	-	130,202	-	-	-	130,202
Exercise of warrants	5,600,000	410,202	-	(130,202)	-	-	-	280,000
Share-based payment	-	-	45,800	-	-	-	-	45,800
Loss for the period	-	-	-	-	-	(3,242,965)	(54)	(3,243,019)
Balance as at October 31, 2017	72,270,818	13,096,741	45,800	8,000	-	(5,584,610)	2,895	7,568,826
Private placement	9,147,300	11,434,125	-	-	-	-	-	11,434,125
Share issuance costs - shares	1,508,282	568,960	-	-	-	-	-	568,960
Share issuance costs - warrants	-	(2,211,100)	-	2,211,100	-	-	-	-
Share issuance costs	-	(1,011,177)	-	-	-	-	-	(1,011,177)
Acquisition of Bloomera	10,400,000	13,624,000	-	-	-	-	-	13,624,000
Acquisition of AGB	9,152	-	-	-	-	-	-	-
Exercise of warrants	206,667	310,001	-	-	-	-	-	310,001
Equity component of convertible loans	-	-	-	-	2,140,417	-	-	2,140,417
Share-based payment	-	-	1,363,286	-	-	-	-	1,363,286
Loss for the period	-	-	-	-	-	(4,453,691)	(2,895)	(4,456,586)
Balance as at April 30, 2018	93,542,219	\$35,811,550	\$ 1,409,086	\$ 2,219,100	\$ 2,140,417	\$(10,038,301)	\$ -	\$31,541,852

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

RAVENQUEST BIOMED INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended April 30, 2018 and 2017
(Unaudited – Prepared by Management)
(Stated in Canadian Dollars)

	2018	2017
Operating Activities		
Net loss attributed to shareholders of the Company	\$ (4,456,586)	\$ (58,062)
Items not affecting cash		
Accretion of convertible debentures	202,869	-
Interest on convertible debentures	250,685	-
Transaction costs	(990,000)	-
Share-based compensation	1,363,286	-
Accrued interest on loans payable	11,902	-
Depreciation	5,205	-
Finders shares issued on acquisition of Bloomera	568,960	-
Change in non-cash working capital accounts		
GST and other receivable	(894,173)	(2,900)
Prepays and deposits	(1,931,826)	-
Accounts payable and accrued liabilities	1,158,447	33,167
	(4,711,231)	(27,795)
Investing Activities		
Plant and equipment	(3,490,073)	-
Cash received from acquisition of Bloomera	155,503	-
Cash paid on acquisition of Bloomera	(15,808,611)	-
	(19,143,181)	-
Financing Activities		
Proceeds from convertible debentures	15,000,000	-
Proceeds from private placements	11,434,125	-
Share issuance costs	(1,011,177)	-
Proceeds from warrants exercised	310,001	-
Shareholder loans received	-	28,915
	25,732,949	28,915
Change in cash during the period	1,878,537	1,120
Cash, beginning of the period	3,379,856	604
Cash, end of the period	\$ 5,258,393	\$ 1,724

Supplemental disclosure of cash flow information - Note 15

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

RAVENQUEST BIOMED INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2018 and 2017

(Unaudited – Prepared by Management)

(Stated in Canadian Dollars)

Note 1 Nature and Continuance of Operations

Ravenquest Biomed Inc. (formerly Ravencrest Resources Inc.) is a British Columbia corporation. The Company's principal place of business is #2300 – 1177 West Hastings Street, Vancouver BC, Canada.

During the year ended October 31, 2017, the Company changed its name from Ravencrest Resources Inc. to Ravenquest Biomed Inc.

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. As of April 30, 2018, the Company had not yet achieved profitable operations and had accumulated a deficit of \$10,038,301 (October 31, 2017 – \$5,584,610) and had a working capital of \$4,876,471 (October 31, 2017 –\$2,536,539). The Company expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. If the Company should be unable to continue as a going concern, realization of its assets and settlement of its liabilities in other than the normal course of the business may be at amounts significantly different from those in the consolidated financial statements. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business when they come due.

Note 2 Significant Accounting Policies

Basis of presentation

These condensed interim consolidated financial statements for the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, "Interim Financial Reporting". The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended October 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on June 29, 2018.

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as available-for-sale or fair value through profit and loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

RAVENQUEST BIOMED INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 April 30, 2018 and 2017
 (Unaudited – Prepared by Management)
 (Stated in Canadian Dollars)

Note 2 Significant Accounting Policies (continued)

Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of the parent company and its subsidiaries.

Basis of consolidation

These condensed interim consolidated financial statements include the financial statements of the Company and the entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

The condensed interim consolidated financial statements include the financial statement of Ravenquest Biomed Inc. and its subsidiaries listed in the following table:

Name of Subsidiary	Country of Incorporation	Ownership Interest at April 30, 2018	Ownership Interest at October 31, 2017	Principal Activity
Ravenquest Technologies (Canada) Inc.	Canada	100%	100%	Consulting
Alberta Green Biotech Inc. (“AGB”)	Canada	100%	99.89%	Cultivation and sale of cannabis
RQB Capital Corp.	Canada	100%	100%	Holding
8649081 Canada Inc.	Canada	100%	Nil	Cultivation and sale of cannabis

The condensed interim consolidated financial statements include the financial statements of:

- a) Ravenquest Technologies (Canada) Inc. from its date of incorporation on October 23, 2017, AGB from the acquisition date on September 29, 2017, and RQB Capital Corp. from its date of incorporation on May 11, 2017.
- b) 8649081 Canada Inc. from the acquisition date on March 21, 2018.

Use of estimates and judgments

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Note 2 **Significant Accounting Policies** *(continued)*

Use of estimates and judgments *(continued)*

Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and include, but are not limited to, the following:

Acquisition of CL2G

The Company's acquisition of CL2G has been determined to be a business combination, and consequently has been accounted for by applying the acquisition method. Applying the acquisition method requires recognizing and measuring (i) the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, and (ii) goodwill or a gain from a bargain purchase.

The measurement of a business combination requires management estimation in determining the fair value of assets and liabilities acquired. The Company's application of the recognition principle may result in recognizing some assets (often intangible) and liabilities that the acquiree had not previously recognized as assets and liabilities in its financial statements. In a business combination, identifiable assets, liabilities and contingent liabilities are recorded at the date of acquisition at their respective fair values.

Management determined that the identifiable assets acquired was plant and equipment with a fair value of \$171,505. The excess of the consideration paid and plant and equipment acquired was recognized as goodwill.

The Company performed its annual goodwill impairment test as at October 31, 2017. Management determined that the carrying amount of the cash-generating unit where the goodwill is allocated exceeded its estimated recoverable amount, which was based on its value in use. Accordingly, an impairment charge of \$2,252,495 was recognized for the year ended October 31, 2017.

Acquisition of AGB

The Company's acquisition of AGB has been determined to be an asset acquisition as AGB does not meet the definition of a business under IFRS 3 – Business Combinations. As a result, the acquisition of AGB has been accounted for as an asset acquisition, whereby all of the assets acquired and liabilities assumed are recorded at fair value.

Note 2 **Significant Accounting Policies** *(continued)*

Use of estimates and judgments *(continued)*

Acquisition of AGB (continued)

The Company's application of the recognition principle may result in recognizing some assets (often intangible) and liabilities that the acquiree had not previously recognized as assets and liabilities in its financial statements. One of the most significant areas of estimation and judgment relates to the valuation of the intangible asset. Valuation techniques applied to intangible assets are based on an estimate of total expected future net cash flows. Management must make assumptions regarding the future performance of the assets concerned and the appropriate discount rate.

Acquisition of 8649081 Canada Inc.

The Company's acquisition of 8649081 Canada Inc. has been determined to be an asset acquisition as 8649081 Canada Inc. does not meet the definition of a business under IFRS 3 – Business Combinations. As a result, the acquisition of 8649081 Canada Inc. has been accounted for as an asset acquisition, whereby all of the assets acquired and liabilities assumed are recorded at fair value.

The Company's application of the recognition principle may result in recognizing some assets (often intangible) and liabilities that the acquiree had not previously recognized as assets and liabilities in its financial statements. One of the most significant areas of estimation and judgment relates to the valuation of the intangible asset. Valuation techniques applied to intangible assets are based on an estimate of total expected future net cash flows. Management must make assumptions regarding the future performance of the assets concerned and the appropriate discount rate.

Revenue

The determination of the stage of completion for revenue arising from the rendering of services requires significant judgment of the services performed to date and an estimate of the total services to be performed.

Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include, but are not limited to, the following:

Note 2 **Significant Accounting Policies** *(continued)*

Use of estimates and judgments *(continued)*

Recoverability of intangible asset

Intangible asset, which consists of an in-progress application to produce medical cannabis, are accounted for at cost less accumulated amortization. The carrying value of intangible asset will be amortized over its estimated useful live based on management's best estimates. As at April 30, 2018, the intangible asset was not ready for use.

Intangible assets are tested for impairment whenever events or changes in circumstance indicate that the assets might be impaired. When the carrying amount of an item exceeds its fair value, an impairment loss is recognized in profit or loss in an amount equal to the excess.

The Company performed its annual intangible asset impairment test as at October 31, 2017 and determined that the intangible asset was not impaired.

Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized in the consolidated statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the consolidated statement of financial position could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods. The Company has not recognized any deferred tax assets.

Going concern

The assessment of the Company's ability to continue as a going concern is a significant judgment. See Note 1.

Determination of cash-generating units

The determination of the Company's cash-generating units is a significant judgment. The Company has determined that its cash-generating units include Ravenquest Technologies (Canada) Inc.'s consulting business and AGB's and 8649081 Canada Inc.'s cultivation and sale of cannabis business.

Note 2 Significant Accounting Policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash held with banks and highly liquid short-term investments in high interest saving accounts which can be withdrawn at any time, which, in the opinion of management, is subject to an insignificant risk of changes in value. As at April 30, 2018 and 2017, the Company held only cash.

Financial instruments

a) Financial assets

Financial assets are classified as into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Fair value through profit or loss ("FVTPL")

A financial asset is classified as FVTPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as FVTPL 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. Upon initial recognition material transaction costs are recognized in profit or loss as incurred. Financial assets designated as FVTPL are measured at fair value, and changes therein are recognized in profit or loss. The Company does not have any financial assets classified as FVTPL.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost less any impairment. Cash and other receivables have been classified as loans and receivables.

Held-to-maturity

Held-to-maturity financial assets are measured at amortized cost. The Company has classified the reclamation bond as held-to-maturity.

Note 2 Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

a) Financial assets *(continued)*

Available-for-sale financial assets

Available-for-sale (“AFS”) financial assets are non-derivatives that are either designated as available-for-sale or not classified in any other financial asset category. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive income (loss) and classified as a component of equity. The Company does not have any financial assets classified as AFS.

Impairment of financial assets

The Company assesses at each reporting date whether a financial asset is impaired.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as 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 then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the financial asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from accumulated other comprehensive income (loss) to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

b) Financial liabilities

The Company classifies its financial liabilities in the following categories: other financial liabilities and FVTPL.

Note 2 Significant Accounting Policies (continued)

Financial instruments (continued)

b) Financial liabilities (continued)

Other financial liabilities

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities, loan payable, and shareholder loans are classified as other financial liabilities.

FVTPL

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through profit or loss. The Company has not classified any financial liabilities as FVTPL.

Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Plant and equipment is depreciated over its estimated useful lives. The cost of an item includes the purchase price and directly attributable costs to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income and comprehensive income during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
April 30, 2018 and 2017
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Note 2 Significant Accounting Policies (continued)

Depreciation is recognized using the following rate and method:

Furniture and office equipment	20% declining balance
Equipment	30% declining balance
Computer equipment	30% declining balance
Vehicles	30% declining balance
Leasehold improvements	straight-line over remaining term of the lease

Depreciation methods, useful lives and residual values are reviewed at each financial year end and are adjusted if appropriate. Plant and equipment costs are not amortized until the asset is available for use.

Revenue recognition

The Company recognizes revenue from the sale of products when persuasive evidence of a contractual arrangement exists, the products have been delivered to the customer, no significant vendor obligations remain outstanding, the price is fixed or determinable, and collectability is reasonably assured.

Revenue from the provision of services are recognized when the related service are rendered, if persuasive evidence of an arrangement exists, the fee is fixed or determinable, and collectability is reasonably assured.

Revenue from the provision of long-term contracts are recognized on a percentage-of-completion basis as the related services are rendered, if persuasive evidence of an arrangement exists, the fee is fixed or determinable, and collectability is reasonably assured. The stage of completion is determined by an estimate of the services performed to date as a percentage of total services to be performed.

Amounts received from customers in advance of an arrangement satisfying all the revenue recognition criteria are recorded as deferred revenue.

Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. Goodwill is carried at cost less accumulated impairment losses.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is valued at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Note 2 **Significant Accounting Policies** *(continued)*

Intangible assets *(continued)*

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of loss.

As at April 30, 2018, intangible asset consists of an in-progress application to produce medical cannabis. It will be amortized over its estimated useful live based on management's best estimates when it is ready for use.

Impairment of non-current assets

Goodwill and intangible assets with indefinite useful lives are not subject to amortization and are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash generating unit ("CGU"), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use.

An impairment loss is recognized in profit or loss to the extent the carrying amount exceeds the recoverable amount.

Reversal of impairment

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

Note 2 Significant Accounting Policies (continued)

Share capital

The proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. The Company's common shares are classified as equity instruments.

Commissions paid to agents, and other directly attributable share issuance costs, such as legal, auditing, and printing, on the issue of the Company's shares are charged directly to share capital.

When units are issued during a private placement, which include both common shares and share purchase warrants, the warrants are valued by comparing the total unit price to the fair value of the shares on the day of the announcement of the private placement. Any premium above the fair value of the shares issued would be allocated to the warrants and credited to the warrant reserve.

Basic and diluted loss per share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred.

Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant measured using the Black-Scholes option pricing model and charged to profit or loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

Note 2 **Significant Accounting Policies** *(continued)*

Share-based payments *(continued)*

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid. If the options expire unexercised, the share-based payments remain in share-based payment reserve.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination or items recognized directly in equity.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Note 2 **Significant Accounting Policies** *(continued)*

Newly adopted accounting policies

Effective November 1, 2016, the Company adopted the following accounting policies. There were no significant impacts to the financial statements upon adoption.

The amendments to IAS 1 clarify existing IAS 1 requirements resulting from the disclosure initiative. It is designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements.

The amendments to IFRS 7 Financial Instruments clarify the applicability of the amendments to IFRS 7 Disclosure—Offsetting Financial Assets and Financial Liabilities to condensed interim financial statements.

The amendments to IAS 7 Statement of Cash Flows require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. This amendment is effective for reporting periods beginning on or after January 1, 2017.

The amendments to IAS 12 Income Taxes, Recognition of Deferred Tax Assets for Unrealised Losses, clarify how to account for deferred tax assets related to debt instruments measured at fair value. These amendments are effective for reporting periods beginning on or after January 1, 2017.

The amendments to IFRS 12 Disclosure of Interests in Other Entities clarify the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10 - B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. These amendments are effective for reporting periods beginning on or after January 1, 2017.

Future accounting pronouncements

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

Note 2 Significant Accounting Policies *(continued)*

Future accounting pronouncements *(continued)*

The amendments to IFRS 2 Share-based Payment added guidance that introduces accounting requirements for cash-settled share-based payments that follow the same approach as used for equity-settled share-based payments. They introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety, provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature. Finally, they clarify the accounting treatment in situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. These amendments are effective for reporting periods beginning on or after January 1, 2018.

IFRS 9 Financial Instruments replaces the current standard IAS 39 Financial Instruments: Recognition and Measurement, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value. This standard has an effective date of January 1, 2018.

IFRS 15 Revenue from Contracts with Customers: The new standard provides a comprehensive five-step revenue recognition model for all contracts with customers and requires management to exercise significant judgment and make estimates that affect revenue recognition. This standard is effective for reporting periods beginning on or after January 1, 2018.

IFRS 16 Leases specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 Leases. This standard is applicable to annual periods beginning on or after January 1, 2019.

IFRIC 22 Foreign Currency Transactions and Advance Consideration interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. It covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts. This interpretation is effective for reporting periods beginning on or after January 1, 2018.

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Note 3 CL2G Acquisition

On September 28 2017, the Company entered into an asset purchase agreement with four companies (“the CL2G Group”), pursuant to which the Company purchased plant and equipment and the business operations of the CL2G Group by issuing 8,080,000 common shares to the CL2G Group shareholders. The fair value of the 8,080,000 common shares was determined to be \$0.30 per common share, based on the concurrent private placement.

The acquisition of the CL2G Group has been accounted for under IFRS 3 – Business Combinations using the acquisition method whereby the plant and equipment and the goodwill related to the business operations are recorded at fair value, with the Company being identified as the acquirer. The net assets acquired pursuant to the acquisition are as follows:

Net assets acquired	
Plant and equipment	\$ 171,505
Goodwill	2,252,495
	\$ 2,424,000
Total Purchase Price:	
Issuance of 8,080,000 common shares	\$ 2,424,000

Below are measures for the CL2G Group since the acquisition date included in the consolidated statement of comprehensive loss for the year ended October 31, 2017:

Revenue	\$ 112,351
Gross profit	\$ 14,654
Net and comprehensive loss	\$ (139,784)

It was impractical to determine the above measures for the Company for the year ended October 31, 2017 as though the acquisition date had been as of the beginning of the year as the Company did not acquire the entities in the CL2G Group nor their books and records.

The Company performed its annual goodwill impairment test as at October 31, 2017. Management determined that the carrying amount of the cash-generating unit where the goodwill is allocated exceeded its estimated recoverable amount, which was based on its value in use. Accordingly, an impairment charge of \$2,252,495 was recognized for the year ended October 31, 2017.

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Note 4 AGB Acquisition

During the year ended October 31, 2017, the Company purchased a 99.89% interest in AGB by issuing 8,590,818 common shares to AGB shareholders.

The transaction does not constitute a business combination as AGB does not meet the definition of a business under IFRS 3 – Business Combinations. As a result, the acquisition of AGB has been accounted for as an asset acquisition, whereby all of the assets acquired and liabilities assumed are recorded at fair value. Upon closing of the transaction, AGB became a subsidiary of the Company. The net assets acquired pursuant to the acquisition are as follows:

Net assets acquired	
Cash	\$ 25,422
GST receivable	28,746
Prepays and deposits	36,914
Intangible asset	3,833,684
Plant and equipment	1,022,432
Accounts payable and accrued liabilities	(1,944,953)
Loan payable	(230,970)
Non-controlling interest – 0.11%	(2,949)
	\$ 2,768,326
Total Purchase Price:	
Issuance of 8,590,818 shares	\$ 2,577,245
Fair value of 57,206 warrants as replacement for AGB outstanding options	8,000
Transaction costs	183,081
	\$ 2,768,326

The fair value of the 8,590,818 common shares of the Company was determined to be \$0.30 per common share, based on the concurrent private placement.

The following weighted average assumptions were used for the Black-Scholes valuation of the warrants:

	2017
Risk-free interest rate	1.58%
Expected life of option	3 year
Expected dividend yield	0%
Expected stock price volatility	96.64%
Share price on issuance date	\$0.30

Expected volatility is determined by reference to the historical volatility of the Company.

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Note 4 AGB Acquisition *(continued)*

The fair value of the cash, GST receivable, prepaids and deposits, and plant and equipment acquired and liabilities assumed as part of the purchase approximates their gross carrying values. The intangible asset consists of an in-progress application to produce medical cannabis under the Access to Cannabis for Medical Purposes Regulations and the intellectual property.

During the period ended April 30, 2018, the Company acquired the remaining 64,000 shares from AGB's non-controlling interest in exchange for the issuance of 9,152 common shares. AGB is now a wholly-owned subsidiary of the Company.

Note 5 8649081 Canada Inc. ("Bloomera")

During the period ended April 30, 2018, the Company completed the acquisition of 8649081 Canada Inc. ("Bloomera"), a Markham, Ontario based licensed producer of cannabis under the Access to Cannabis for Medical Purposes Regulations.

Under the terms of the transaction, the Company has acquired all of the outstanding share capital of Bloomera in consideration for cash payments of \$15,500,000, and the issuance of 10,400,000 common shares to the existing shareholders of Bloomera.

The transaction does not constitute a business combination as Bloomera does not meet the definition of a business under IFRS 3 – Business Combinations. As a result, the acquisition of Bloomera has been accounted for as an asset acquisition, whereby all of the assets acquired and liabilities assumed are recorded at fair value. Upon closing of the transaction, Bloomera became a subsidiary of the Company. The net assets acquired pursuant to the acquisition are as follows:

Net assets acquired	
Cash	\$ 155,503
HST receivable	184,103
Prepaids and deposits	9,603
Intangible asset	27,709,981
Plant and equipment	2,710,103
Accounts payable	(52,975)
Due to related parties	(1,283,707)
	\$ 29,432,611

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Note 5 **8649081 Canada Inc. ("Bloomera")** *(continued)*

Total Purchase Price:

Issuance of 10,400,000 shares	\$ 13,624,000
Cash	15,089,651
Transaction costs	718,960
	<hr/>
	\$ 29,432,611

The fair value of the 10,400,000 common shares of the Company was determined to be \$1.31 per common share, based on the market value at the date of issuance.

Note 6 **Reclamation Bond**

The Company has entered into a safekeeping agreement with the Government of British Columbia for its term deposit to comply with the requirements for reclamation work on a mineral property which has been written off in a previous year.

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Note 7 Plant and Equipment

	Furniture and Office Equipment	Computer Equipment	Leasehold Improvements	Production Equipment	Vehicles	Total
Cost:						
Balance at October 31, 2016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions from acquisition of AGB	-	11,423	1,011,009	-	-	1,022,432
Additions from acquisition of CL2G	129,424	42,081	-	-	-	171,505
Additions	-	952	-	-	-	952
Balance at October 31, 2017	\$ 129,424	\$ 54,456	\$ 1,011,009	\$ -	\$ -	\$ 1,194,889
Additions from acquisition of Bloomera	42,928	72,701	938,725	1,712,608	6,770	2,773,732
Additions	6,963	6,841	3,409,176	115,876	2,496	3,541,352
Balance at April 30, 2018	\$ 179,315	\$ 133,998	\$ 5,358,910	\$ 1,828,484	\$ 9,266	\$ 7,509,973
Accumulated Depreciation:						
Balance at October 31, 2016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	-	286	-	-	-	286
Balance at October 31, 2017	\$ -	\$ 286	\$ -	\$ -	\$ -	\$ 286
Additions from acquisition of Bloomera	14,421	45,797	-	-	3,411	63,629
Additions	1,147	3,948	-	-	110	5,205
Balance at April 30, 2018	\$ 15,568	\$ 50,031	\$ -	\$ -	\$ 3,521	\$ 69,120
Net book value:						
Balance at October 31, 2017	\$ 129,424	\$ 54,170	\$ 1,011,009	\$ -	\$ -	\$ 1,194,603
Balance at April 30, 2018	\$ 163,747	\$ 83,967	\$ 5,358,910	\$ 1,828,484	\$ 5,745	\$ 7,440,853

No depreciation has been taken on the leasehold improvements and production equipment as at April 30, 2018, as they are not available for use.

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Note 8 Loans Payable

Bridge Loans

During the year ended October 31, 2017, the Company completed a bridge financing of \$700,000 from certain accredited investors (the “Bridge Loan”). The Bridge Loan accrues 8% interest per annum, is unsecured and has a maturity date of 12 months. The lenders providing the Bridge Loan received 5,600,000 warrants (the “Bonus Warrants”). The Bonus Warrants have an exercise price of \$0.05 and an expiry date of May 25, 2018. The Bonus Warrants were fair valued at \$130,202 using the Black-Scholes option pricing model with the following inputs, \$0.05 stock price, \$0.05 exercise price, 147.43% volatility, 0% expected dividend yield, 0.91% discount rate, 12 month term, and have been recorded to share-based payment reserves and against the carrying amount of loan payable as financing cost. The loans were repaid during the year ended October 31, 2017.

Loan

In September 2017, the Company acquired AGB which had a loan agreement. The principal amount of the loan is \$200,000, bears interest at the rate of 12% per annum, and is unsecured. The principal balance of the loan, together with all accrued and unpaid interest was payable on December 31, 2017. During the period ended April 30, 2018, the lender agreed to extend the maturity to March 31, 2018. At April 30, 2018, accrued interest on the loan totalled \$44,999 (October 31, 2017 - \$33,008). During the period ended April 30, 2018, the loan has been classified into accounts payable.

Note 9 Convertible Debentures

During the period ended April 30, 2018, the Company completed 15,000 convertible debenture units at a price of \$1,000 per debenture unit, for aggregate gross proceeds to the Company of \$15,000,000.

Each debenture unit consists of an unsecured convertible debenture of the Company in the principal amount of \$1,000 and 690 warrants. The debentures are convertible at the option of the holder into common shares at a price of \$1.45 per share, bear an interest rate of 10% per annum and mature on February 28, 2020.

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Note 9 Convertible Debentures *(continued)*

	Debenture i)	Debenture ii)	Debenture iii)	Total
Balance, October 31, 2017	\$ -	\$ -	\$ -	\$ -
Issuances	500,000	2,000,000	12,500,000	15,000,000
Transaction costs	-	-	(990,000)	(990,000)
Amount allocated to conversion feature	(76,389)	(305,556)	(1,758,472)	(2,140,417)
Effective interest accretion	5,127	20,507	177,235	202,869
Debenture interest	8,356	33,425	208,904	250,685
Balance, April 30, 2018	\$ 437,094	\$ 1,748,376	\$10,137,667	\$12,323,137

- i) During the period ended April 30, 2018, the Company entered into a \$500,000 convertible debenture. The debenture will mature on February 28, 2020 and will accrue interest at a rate of 10% per annum payable semi-annually and convertible into common shares at a price of \$1.45 per share, at any time prior to maturity.

The debenture has been classified into its convertible debenture liabilities and conversion feature equity components in the Company's financial statements using the fair value method and an effective interest rate of 18.9%.

The Company accrued \$423,611 being allocated to the liability and \$76,389 being allocated to the conversion feature. Over the term of the loan this carrying value is to be accreted to the \$500,000 principal amount using the effective-interest-rate method. During the period ended April 30, 2018, the Company accrued \$13,483 of interest.

- ii) During the period ended April 30, 2018, the Company entered into a \$2,000,000 convertible debenture. The debenture will mature on February 28, 2020 and will accrue interest at a rate of 10% per annum payable semi-annually and convertible into common shares at a price of \$1.45 per share, at any time prior to maturity.

The debenture has been classified into its convertible debenture liabilities and conversion feature equity components in the Company's financial statements using the fair value method and an effective interest rate of 18.9%.

The Company accrued \$1,694,444 being allocated to the liability and \$305,556 being allocated to the conversion feature. Over the term of the loan this carrying value is to be accreted to the \$2,000,000 principal amount using the effective-interest-rate method. During the period ended April 30, 2018, the Company accrued \$53,932 of interest.

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Note 9 Convertible Debentures (continued)

- iii) During the period ended April 30, 2018, the Company entered into a \$12,500,000 convertible debenture. The debenture will mature on February 28, 2020 and will accrue interest at a rate of 10% per annum payable semi-annually and convertible into common shares at a price of \$1.45 per share, at any time prior to maturity.

The debenture has been classified into its convertible debenture liabilities and conversion feature equity components in the Company's financial statements using the fair value method and an effective interest rate of 23.46%.

The Company accrued \$9,751,528 being allocated to the liability and \$1,758,472 being allocated to the conversion feature. Over the term of the loan this carrying value is to be accreted to the \$12,500,000 principal amount using the effective-interest-rate method. During the period ended April 30, 2018, the Company accrued \$386,139 of interest.

Note 10 Share Capital

Authorized: unlimited common shares without par value

During the period ended April 30, 2018, the Company:

- a) issued 9,152 common shares at a value of \$13,087 to acquire the remaining 64,000 shares from AGB's non-controlling interest (Note 4).
- b) completed the first tranche of a brokered private placement of units and convertible debenture units of the Company, with Haywood Securities Inc. acting as lead agent. In connection with completion of the brokered placement, the Company issued 3,581,300 units at a price of \$1.25 per unit for aggregate gross proceeds to the Company of \$4,476,625. The Company also completed a concurrent non-brokered private placement of 4,042,000 units at a price of \$1.25 per unit for additional gross proceeds to the Company of \$5,065,500 and issued 128,000 common shares as a finder's fees at a value of \$160,000. The aggregate gross proceeds to the Company was \$9,529,125.

Each unit consists of one common share of the Company, and one common share purchase warrant. Each warrant is exercisable to acquire an additional common share of the Company at a price of \$1.50 per a period of 24 months, subject to acceleration in the event that the closing price of the Company's common shares on the Canadian Securities Exchange is greater than \$2.75 for a period of ten consecutive trading days.

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Note 10 Share Capital *(continued)*

In connection with the brokered placement, the Company paid a commission of \$1,558,130, of which \$932,953 was issued in 746,362 units at a deemed price per unit of \$1.25 and \$625,177 was paid in cash, and issued to the agent 1,178,090 compensation options (valued at \$1,115,700). Each compensation option entitles the holder to acquire a common share of the Company at a price per common share of \$1.25 for a period of 24 months from the closing of the offering. As additional compensation, the Company paid to the agent a corporate finance fee equal to \$80,000 in the form of 64,000 units (valued at \$80,000) and issued to the agent 64,000 corporate finance compensation options, having the same terms and attributes as the compensation options.

- c) issued 10,400,000 shares at a value of \$13,624,000 pursuant to the acquisition of Bloomera (Note 5). Pursuant to the acquisition, the Company issued 448,000 common shares as a finder's fee (valued at \$568,960)
- d) completed an additional tranche of its brokered private placement of units and convertible debenture units of the Company, with Haywood Securities Inc. acting as lead agent. In connection with completion of this tranche of the brokered placement, the Company issued 1,440,000 units at a price of \$1.25 per unit for gross proceeds of \$1,800,000.

Each unit consists of one common share of the Company, and one common share purchase warrant. Each warrant is exercisable to acquire an additional common share of the Company at a price of \$1.50 per share for a period of 24 months, subject to acceleration in the event that the closing price of the Company's common shares on the Canadian Securities Exchange is greater than \$2.75 for a period of ten consecutive trading days.

In connection with this tranche of the brokered placement, the Company paid a commission of \$144,000, which was satisfied through the issuance of 115,200 units and 115,200 compensation options (valued at \$113,100). Each compensation option entitles the holder to acquire a common share of the Company at a price per common share of \$1.25 for a period of 24 months from the date of issuance.

- e) completed an additional tranche of its non-brokered private placement of units of the Company. In connection with the completion of this tranche of the non-brokered placement, the Company issued an additional 84,000 units at a price of \$1.25 per unit for gross proceeds of \$105,000.

Each unit consists of one common share of the Company, and one common share purchase warrant. Each warrant is exercisable to acquire an additional common share of the Company at a price of \$1.50 per share for a period of 24 months, subject to acceleration in the event that the closing price of the Company's common shares on the Canadian Securities Exchange is greater than \$2.75 for a period of ten consecutive trading days.

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Note 10 Share Capital (continued)

In connection with this tranche of the non-brokered placement, the Company paid a commission of \$8,400, which was satisfied through the issuance of 6,720 units and 6,720 compensation options (valued at \$6,500). Each compensation option entitles the holder to acquire a common share of the Company at a price per common share of \$1.25 for a period of 24 months from the date of issuance.

- f) issued 206,667 shares pursuant to the exercise of warrants for proceeds of \$310,001.

During the year ended October 31, 2017, the Company:

- a) completed a private placement for 21,000,000 shares at a price of \$0.30 per share for total proceeds of \$6,300,000. The Company paid \$448,087 share cash for share issuance costs.
- b) issued 5,600,000 shares pursuant to the exercise of warrants for proceeds of \$280,000, and accordingly, the Company reallocated \$130,202 of share-based payment to share capital.
- c) issued 8,080,000 shares (valued at \$2,424,000) pursuant to the acquisition of CLG2 Group (Note 3).
- d) issued 8,590,818 shares (valued at \$2,577,245) pursuant to the acquisition of AGB (Note 4).

Escrowed shares

At April 30, 2018, there were 13,005,256 (October 31, 2017 – 15,606,312) shares held in escrow. Under the applicable escrow agreement, 1,734,034 shares were released during the year ended October 31, 2017 and 2,601,051 shares will release every six months starting April 4, 2018.

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Note 10 Share Capital *(continued)*

Stock-based Compensation Plan

During the year ended October 31, 2008 the Company adopted a stock option plan (the “Plan”) to grant directors and employees common share purchase options.

Pursuant to the Option Plan, options may be granted to officers, directors, employees and consultants (the “Participants”) of the Company or its affiliates. Options may be granted for a maximum of 5 years, and vesting is subject to the discretion of the Board. The maximum number of common shares reserved for issuance upon exercise of options granted thereunder may not exceed 10% of the total number of the issued common shares at the time the options are granted. Under the Option Plan, no one Participant may be granted options to purchase more than 5% of the number of issued common shares and no more than 2% of the issued common shares may be granted to any one consultant in any twelve month period. No more than an aggregate of 2% of the issued common shares may be granted to an employee conducting investor relations activity in any twelve month period.

The price at which common shares may be acquired upon the exercise of an option may not be less than the price permitted under the rules of any stock exchange or exchanges on which the common shares are listed.

Subject to the foregoing restrictions, and certain other restrictions set forth in the Option Plan, our Board is authorized to provide for the granting of options and the exercise and method of exercise of options under the Plan. Options granted under the Option Plan are non-assignable. Options are subject to early termination in the event of the death of a participant or in the event a participant ceases to be an officer, director, employee or consultant.

Stock Options

During the year ended October 31, 2017, the Company granted 2,430,000 options to directors, officers, employees and consultants of the Company. The options are exercisable at a price of \$1.25 per common share, expiring on October 25, 2022, to be vested over two years. The estimated fair market value of these options was \$2,670,800. During the period ended April 30, 2018, the fair value of the vested portion of \$1,363,286 (2017 - \$Nil) was recorded as share-based compensation.

Option transactions and the number of options outstanding are summarized as follows:

	Number of Options	Weighted average exercise price
Balance, October 31, 2016	-	\$ -
Granted	2,430,000	1.25
Balance, October 31, 2017 and April 30, 2018	2,430,000	\$ 1.25

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Note 10 Share Capital (continued)

Stock Options (continued)

As at April 30, 2018, the weighted average remaining contractual life of the share purchase options was 4.49 years (October 31, 2017 – 4.99 years).

The number of options exercisable at April 30, 2018 is 607,500.

The following weighted average assumptions were used for the Black-Scholes valuation of the options:

	April 30, 2018	October 31, 2017
Risk-free interest rate	-	1.46%
Expected life of option	-	5 year
Expected dividend yield	-	0%
Expected stock price volatility	-	150.00%
Share price on grant date	-	\$1.21

Expected volatility is determined by reference to the historical volatility of the Company.

Share Purchase Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of Warrants	Weighted average exercise price
Balance, October 31, 2016	-	\$ -
Issued	5,657,206	0.08
Exercised	(5,600,000)	(0.05)
Balance, October 31, 2017	57,206	\$ 3.49
Issued	21,857,592	1.48
Exercised	(206,667)	(1.50)
Balance, April 30, 2018	21,708,131	1.49

As at April 30, 2018, the weighted average remaining contractual life of the share purchase warrants was 1.77 years (October 31, 2017 - 2.85 years).

The following weighted average assumptions were used for the Black-Scholes valuation of the warrants:

	April 30, 2018	October 31, 2017
Risk-free interest rate	1.78%	-
Expected life of warrant	2 year	-
Expected dividend yield	0%	-
Expected stock price volatility	150.00%	-
Share price on grant date	\$1.31	-

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Note 11 Related Party Transactions

Related party transactions not disclosed elsewhere in these consolidated financial statements were as follows:

Key management personnel compensation comprised of the following:

	Six Months Ended April 30,	
	2018	2017
Management fees to the CEO	\$ 120,000	\$ -
Management fees to a company with a common director	60,000	32,000
Professional fees to the CFO	37,541	-
Professional fees to the corporate secretary's company	18,000	-
Rent fees to the corporate secretary's company	22,200	-
	<u>\$ 257,741</u>	<u>\$ 32,000</u>

During the period ended April 30, 2018, the Company paid interest of \$11,902 to key management and other related companies on the loans payable (Note 8)

As at April 30, 2018, accounts payable and accrued liabilities include \$402 (October 31, 2017 - \$14,400) owing to a company with a common officer and the CFO.

Share-based compensation includes stock options granted to directors and officers recorded at a fair value of \$897,637 (2017 - \$Nil).

Note 12 Financial Instruments

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash, other receivable, and reclamation bond are exposed to credit risk, the maximum exposure being their carrying amounts on the statements of financial position. The Company reduces its credit risk on cash and reclamation bond by placing these instruments with institutions of high credit worthiness. As at April 30, 2018, the Company is not exposed to any significant credit risk.

Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rate. The Company does not believe it is exposed to significant currency risk as funds are held in Canadian currency and there are no significant foreign exchange currency transactions.

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Note 12 Financial Instruments *(continued)*

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the risk that the value of financial instruments will change due to movement in market interest rates. The Company does not hold variable interest-bearing debt with long-term maturities and therefore does not believe that interest rate risk is significant. The Company does not use derivative instruments to reduce its interest rate risk as the Company's management believes that the likely financial impact of interest rate changes does not justify using derivatives.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. As at April 30, 2018, the Company has a working capital of \$4,876,471 (October 31, 2017 - \$2,536,539). The Company addresses its liquidity risk through equity financing obtained through the sale of common shares and loans from shareholders.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash, other receivables, reclamation bond, accounts payable and accrued liabilities, loan payable and shareholder loans. The fair value of these financial instruments approximates their carrying values.

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – valuation techniques, using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of these assets and liabilities approximates their respective carrying amounts due to their short term nature except as otherwise noted.

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Note 13 Capital Management

The Company’s objective when managing capital is to safeguard the Company’s ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in shareholders’ equity (deficit) as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements. There were no changes in the Company’s approach to capital management during the period ended April 30, 2018 and 2017.

Note 14 Commitment

Prior to the Company’s acquisition, AGB entered into a lease agreement for premises expiring on December 31, 2018.

Future minimum annual lease payments are as follows

2018	\$ 256,316
2019	91,364
	<u>\$ 347,680</u>

AGB is obligated to purchase the building on or prior to December 31, 2018 for \$5,600,000 plus GST.

Note 15 Supplemental cash-flow information

	<u>April 30,</u> 2018	<u>April 30,</u> 2017
Exploration and evaluation expenditures included in accounts payable and accrued liabilities	\$ 51,279	\$ 57,297
Fair value of warrants issued pursuant to private placements	\$ 2,211,100	\$ -

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Note 16 Segmented Information

For the period ended April 30, 2018, the Company's business operates primarily through two operating segments – consulting business, and cultivation and sale of medical cannabis. The Company reports activities not directly attributable to an operating segment under corporate. These operating segments are monitored by the Company's chief operating decision makers, and strategic decisions are made on the basis of segment operating results.

	Consulting	Medical cannabis	Corporate	Total
Revenue	\$ 1,225,755	\$ -	\$ -	\$ 1,225,755
Gross profit	\$ 828,754	\$ -	\$ -	\$ 828,754
Net profit(loss)	\$ 118,829	\$ (446,227)	\$ (4,129,188)	\$ (4,456,586)
Total assets	\$ 1,260,634	\$ 39,225,359	\$ 7,064,389	\$ 47,550,382
Total liabilities	\$ 553,156	\$ 2,941,374	\$ 12,518,000	\$ 16,012,530

For the year ended October 31, 2017, the Company's business operates primarily through two operating segments – consulting business, and cultivation and sale of medical cannabis. The Company reports activities not directly attributable to an operating segment under corporate. These operating segments are monitored by the Company's chief operating decision makers, and strategic decisions are made on the basis of segment operating results.

	Consulting	Medical cannabis	Corporate	Total
Revenue	\$ 112,351	\$ -	\$ -	\$ 112,351
Gross profit	\$ 14,654	\$ -	\$ -	\$ 14,654
Net loss	\$ (2,392,279)	\$ (50,978)	\$ (857,824)	\$ (3,301,081)
Total assets	\$ 357,410	\$ 4,948,249	\$ 3,394,250	\$ 8,699,909
Total liabilities	\$ 202,450	\$ 345,197	\$ 583,436	\$ 1,131,083