# CANNABIS WHEATON INCOME CORP

## (FORMERLY KNIGHTSWOOD FINANCIAL CORP).

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED 30 JUNE 2017**

Stated in Canadian Funds

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

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

| | Note | As at 30 June 2017 | 31 December 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | | **$ 46,395,941** | $ 306,803 |
| Accounts receivable | | **100,288** | - |
| Income taxes receivable | | **56,000** | 56,000 |
| Due from related parties | | **4,138** | 52,544 |
| | | **46,556,367** | 415,347 |
| **Non-current Assets** | | | |
| Investee companies | (4) | **1,598** | 1,598 |
| Deposits | (6) | **250,000** | - |
| Intangible assets | (5) | **1,441,843** | - |
| | | **1,693,441** | 1,598 |
| | | **$ 48,249,808** | $ 416,945 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Accounts payable and accrued liabilities | | **$ 2,121** | $ 32,958 |
| **Non-current Liabilities** | | | |
| Convertible debenture | (7) | **24,022,537** | - |
| Long term loans | (6) | **1,178,373** | - |
| | | **25,200,910** | - |
| | | **25,203,031** | 32,958 |
| **EQUITY** | | | |
| Share capital | (8) | **4,181,203** | 1,758,106 |
| Reserves | (8) | **23,498,333** | 190,041 |
| Deficit | | **(4,632,759)** | (1,564,160) |
| | | **23,046,777** | 383,987 |
| | | **$ 48,249,808** | $ 416,945 |

Commitments (12)
Subsequent Events (13)

The condensed consolidated interim financial statements were approved by the Board of Directors on August 28, 2017 and were signed on its behalf by:

| | |
|---|---|
| *(s) Chuck Rifici* | *(s) Brandon Boddy* |
| Chuck Rifici | Brandon Boddy |

**CANNABIS WHEATON INCOME CORP**

**(FORMERLY KNIGHTSWOOD FINANCIAL CORP)**

Canadian Funds
Unaudited

## CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

| | Note | Six months Ended 30 June 2017 | Six months Ended 30 June 2016 | Three months Ended 30 June 2017 | Three months Ended 30 June 2016 |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Administration fee | | $ - | $ 107,482 | $ - | $ 56,086 |
| **EXPENSES** | | | | | |
| **General and Administrative** | | | | | |
| Consulting fees | | 455,473 | - | - | - |
| Management fees | | 902,030 | 30,000 | 60,000 | 15,000 |
| Administration fees | | 12,600 | 18,900 | 3,150 | 9,450 |
| Director fees | (9) | 8,000 | 15,000 | 2,000 | 7,500 |
| | | 1,378,103 | 63,900 | 65,150 | 31,950 |
| **Operating** | | | | | |
| Share-based payments | (8c) | 147,000 | - | - | - |
| Rent | | 13,400 | 11,100 | 3,350 | 5,550 |
| Transfer agent and filing fees | | 92,096 | 8,093 | 82,972 | 622 |
| Office and miscellaneous | | 8,215 | 1,901 | 2,975 | 1,601 |
| Audit and legal | | 103,841 | 7,400 | 103,390 | 5,000 |
| Business development | | 240,000 | 2,497 | 239,756 | 1,593 |
| Marketing and travel | | 1,050,356 | 2,438 | 1,050,288 | 130 |
| | | 1,654,908 | 33,429 | 1,482,731 | 14,496 |
| **(Loss) Income from Operations** | | (3,033,011) | 10,153 | (1,547,881) | 9,640 |
| **Non-operating Income** | | | | | |
| Interest expense | | $ (11,158) | $ - | $ (11,158) | $ - |
| Accretion expense | | (24,430) | - | (24,430) | - |
| Finance income | | - | 1,396 | - | 698 |
| Gain from sale of investment | | - | 81,113 | - | - |
| | | (35,588) | 82,509 | (35,588) | 698 |
| **Net (Loss) Income before Tax** | | (3,068,599) | 92,662 | (1,583,469) | 10,338 |
| Tax expense | | - | (3,100) | - | (3,100) |
| **Net (Loss) Income and Comprehensive (Loss) Income** | | $ (3,068,599) | $ 89,562 | $ (1,583,469) | $ 7,238 |
| **Net (Loss) Income per Common Share** | | | | | |
| Basic and Diluted | | $ (0.03) | $ 0.03 | $ (0.01) | $ 0.00 |
| **Weighted Average Number of Shares Outstanding** | | | | | |
| Basic and Diluted | | 119,575,025 | 3,011,667 | 162,927,004 | 3,011,667 |

## CANNABIS WHEATON INCOME CORP

### (FORMERLY KNIGHTSWOOD FINANCIAL CORP)

Canadian Funds
Unaudited

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Share Capital | | Reserves | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Warrants | Contributed Surplus | Special Warrants | Convertible Debenture | Deficit | AOCI | Equity |
| **BALANCE 01 JANUARY 2016** | 9,035,001 | $ 1,758,106 | $ - | $ 190,041 | $ - | $ - | $ (1,334,583) | $ 81,113 | $ 694,677 |
| Reversal on available for sale investments sold | - | - | - | - | - | - | | (81,113) | (81,113) |
| Net income for the period | - | - | - | - | - | - | 82,324 | - | 82,324 |
| **BALANCE 31 MARCH 2016** | 9,035,001 | $ 1,758,106 | $ - | $ 190,041 | $ - | $ - | $ (1,252,259) | $ - | $ 695,888 |
| Net income for the period | - | - | - | - | - | - | 7,238 | - | 7,238 |
| **BALANCE 30 JUNE 2016** | 9,035,001 | $ 1,758,106 | $ - | $ 190,041 | $ - | $ - | $ (1,245,021) | $ - | $ 703,126 |

# Cannabis Wheaton Income Corp

## (formerly Knightswood Financial Corp)

Canadian Funds
Unaudited

## Condensed interim Consolidated Statements of Changes in Equity (Continued)

| | Share Capital | | Reserves | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Warrants | Contributed Surplus | Special Warrants | Convertible Feature | Deficit | AOCI | Equity |
| **01 January 2017** | 9,035,001 $ | 1,758,106 $ | - $ | 190,041 $ | - $ | - $ | (1,564,160) $ | - $ | 383,987 |
| Units issued on exercise of January 20th special warrants issued | **60,927,546** | **740,033** | **376,972** | - | - | - | - | - | **1,117,005** |
| Units issued on private placement March 13th | **54,818,319** | **638,451** | **366,552** | - | - | - | - | - | **1,005,003** |
| Units issued on private placement March 20st | **21,713,649** | **252,711** | **145,373** | - | - | - | - | - | **398,084** |
| Shares issued on exercise of warrants | **4,370,481** | **101,978** | - | - | - | - | - | - | **101,978** |
| Fair value transfer on exercise of warrants | - | **27,040** | **(27,040)** | - | - | - | - | - | - |
| Share issuance costs | - | **(24,230)** | - | - | - | - | - | - | **(24,230)** |
| Share-based payments | - | - | - | **147,000** | - | - | - | - | **147,000** |
| Net loss for the period | - | - | - | - | - | - | **(1,485,130)** | - | **(1,485,130)** |
| **Balance 31 March 2017** | **150,864,996 $** | **3,494,089 $** | **861,857 $** | **337,041 $** | **- $** | **- $** | **(3,049,290) $** | **-** | **$ 1,643,697** |
| Special warrants issued on private placement June 29th, net of issuance costs | - | - | - | - | **18,183,257** | - | - | - | **18,183,257** |
| Broker warrant units issued on private placement June 29th | - | - | - | **1,596,402** | - | - | - | - | **1,596,402** |
| Shares issued on exercise of warrants | **23,541,627** | **541,457** | - | - | - | - | - | - | **541,457** |
| Fair value transfer on exercise of warrants | - | **145,657** | **(145,657)** | - | - | - | - | - | - |
| Equity component of convertible debentures issued on private placement June 29th | - | - | **749,022** | - | - | **1,916,411** | - | - | **2,665,433** |
| Net loss for the period | - | - | - | - | - | - | **(1,583,469)** | - | **(1,583,469)** |
| **Balance 30 June 2017** | **174,406,623 $** | **4,181,203 $** | **1,465,222 $** | **1,933,443 $** | **18,183,257 $** | **1,916,411 $** | **(4,632,759) $** | **-** | **$23,046,777** |

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

**Cannabis Wheaton Income Corp**

**(formerly Knightswood Financial Corp)**

Canadian Funds
Unaudited

## Condensed Interim Consolidated Statements of Cash Flows

| | | Six months Ended 30 June 2017 | Six months Ended 30 June 2016 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Net (Loss) Income for the Period** | | **$ (3,068,599)** | $ 89,562 |
| **Items not Affecting Cash** | | | |
| Share-based payments | (8b) | **147,000** | - |
| Gain from sale of investment | | **-** | (81,113) |
| Accretion expense | (6) | **24,430** | - |
| Income tax expense | | **-** | 3,100 |
| | | **171,430** | (78,013) |
| **Net Change in Non-cash Working Capital** | | | |
| Amounts receivable | | **(100,288)** | (1,413) |
| Taxes payable | | **-** | (2,636) |
| Accounts payable and accrued liabilities | | **(30,837)** | (11,571) |
| Due from related parties | | **48,406** | (17,166) |
| | | **(82,719)** | (32,786) |
| | | **(2,979,888)** | (21,237) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of intangible assets | (5) | **(2,200,000)** | - |
| Deposits to streaming partners | (6) | **(250,000)** | - |
| Proceeds from sale of investments | | **-** | 100,000 |
| Acquisitions of investee companies | | **-** | (600) |
| Disposition of investee companies | | **-** | 51 |
| | | **(2,450,000)** | 99,451 |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from special warrant and unit issuances | (8a) | **21,277,829** | - |
| Proceeds from convertible debentures | (7) | **27,685,662** | - |
| Proceeds on issuances from warrants exercised | (8d) | **643,435** | - |
| Proceeds on long-term debt | (6) | **1,912,100** | - |
| | | **51,519,026** | - |
| **Net Increase in Cash** | | **46,089,138** | 78,214 |
| Cash position – beginning of period | | **306,803** | 566,712 |
| **Cash Position – End of Period** | | **$ 46,395,941** | $ 644,926 |

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

## 1) Nature of operations and going concern

Cannabis Wheaton Income Corp. (the "Company") is a publicly traded company listed on the TSX Venture Exchange under the symbol "CBW", and was incorporated in British Columbia, Canada.

### a) Historical Business of the Company

Historically, the Company's investments have been in private companies (the "Investee Companies") so as to provide those companies with the ability to issue debt instruments that are eligible for registered plans as defined in the Income Tax Act (Canada).

In January 2017, the Company and Knightswood Holdings Ltd. ("Holdings") entered into an assignment agreement under which the Company transferred all of its right, title and interest in the Investee Companies and all the contracts it has with the Investee Companies to Holdings. Holdings is a wholly owned subsidiary of the Company incorporated to holding the Company's equity interest in the Investee Companies and administering the contracts between the Company and the Investee Companies.

### b) Updated Investment Strategy

In the third quarter of 2016, the Company commenced its search for investment opportunities outside of holding interests in the Investee Companies and identified the cannabis industry to be of interest for future investments. In order to initiate its investment portfolio in the cannabis industry, the Company completed several financings in January, March, and June 2017.

In the second quarter of 2016, the Company closed on its agreement with PanCann Streaming Corp. ("PSC"), to acquire the rights to all of PanCann's interests in 13 executed streaming agreements and assume the rights to several other agreements in the final stages of negotiation between PanCann and various Licensed Producers or companies that have applied to become Licensed Producers. The Company also entered into an agreement with 2557788 Ontario Ltd. ("255") to acquire all of 255's interest in patient outreach and services agreements between 255 and 5 patient outreach and service providers

## 2) Basis of preparation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. The Financial Statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these Financial Statements have been prepared using the accrual basis of accounting except for cash flow information.
Since the Financial Statements do not include all disclosures required by the International Financial Reporting Standards ("IFRS") for annual financial statements, they should be read in conjunction with the Company's audited annual financial statements for the year ended 31 December 2016.

The policies set out were consistently applied to all the periods presented unless otherwise noted below. The preparation of Financial Statements in accordance with IAS 1 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.
Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current period ended 30 June 2017.

These financial statements were approved and authorized for issue by the Board of Directors on August 28, 2017.

## 2) Basis of preparation (continued)

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods. The estimates used in preparing the Financial Statements are the same as those followed in preparing the most recent audited annual consolidated financial statements other than the items listed below.

### a) Inputs When Using Black-Scholes Valuation Model

The estimates used in determining the stock option and warrant fair values, utilizes estimates made by management in determining the appropriate input variables in the Black-Scholes valuation model. Inputs are subject to estimates include volatility, forfeiture rates, estimated lives and market rates.

### b) Discount Rate

The discount rate used to calculate the net present value of the convertible debentures and the notes payable are based on management's best estimates of an approximate industry peer group weighted average cost of capital and management's best estimate of the Company's risk levels. Changes in the general economic environment could result in significant changes to this estimate.

## 3) Significant accounting policies

The accounting policies and methods of computation followed in preparing the Financial Statements are the same as those followed in preparing the most recent audited annual consolidated financial statements other than the items listed below.

### a) Intangible Assets

Intangible assets, either acquired as a result of an acquisition or developed internally, are assets that can be identified, are controlled by the Company and provide future economic benefits to the Company. Intangible assets are recognized at cost and, unless determined to have an indefinite life, are amortized over their expected useful life. Intangible assets are tested for impairment on an annual basis or more frequently if there are indicators that the assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If the recoverable amount of the asset is estimated to be less than the carrying amount, the carrying amount is reduced to its recoverable amount. The Company derecognizes the carrying amount of intangible assets on disposal or when no future economic benefits are expected from its use.

### b) Share Capital and Share Based Payments

The Company has a stock option plan for directors, officers and employees. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over each tranche's vesting period, based on the number of awards expected to vest, with the offset credited to contributed surplus. When options are exercised, the amount received is credited to share capital and the fair value attributed to these options is transferred from contributed surplus to share capital.

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. Contributed surplus includes amounts in connection with conversion options embedded in compound financial instruments, stock-based compensation and the value of expired options and warrants. Deficit includes all current and prior period income and losses.

## 3) Significant accounting policies (continued)

### c) Compound Financial Instruments

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

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or upon expiration, where the carrying value of the equity portion is transferred to common shares or contributed surplus.

## 4) Investee companies

As indicated in Note 1, the historical business of the company led to the Company owning several investee companies. The Investee Companies are unconsolidated structured entities as defined under IFRS 12, referred to as structured entities not controlled by an entity. The Company is a party to a put option regarding each Investee Company, which allows the Company to sell all the shares of the Investee Company to a third party affiliated with the Investee Company. The option price is generally the amount the Company paid for the shares of the Investee Company, between $1 and $100.

The maximum exposure to loss from the Company's interest in the Investee Companies is the cost of the shares which was $1,598 at June 30, 2017 ($1,598 at December 31, 2016).

### a) Acquisitions and Dispositions

During the year ended December 31, 2016, the Company acquired 60% of the issued and outstanding shares of a company for $600 and 90% of the issued and outstanding shares of a start-up company for $90. Also during the year, the Company dissolved an Investee Company which had never commenced operations since incorporation and disposed of an Investee Company for $51 which ceased operations after it redeemed all its bonds in 2015. No gain or loss was recorded from these dispositions.

At June 30, 2017 and December 31, 2016, the Company had 22 Investee Companies.

### b) Transactions with Investee Companies

The administrative agreement into which the Company and each individual Investee Company entered provides that the Investee Company pays to the Company a fee determined based upon the outstanding debenture balance of the Investee Company at the end of a period. For six months ended June 30, 2017, the Company reported administration fees of $Nil (June 30, 2016 - $107,482).

## 5) Intangible assets

| | Patient Referral Agreements | Streaming Agreements | Total |
|---|---|---|---|
| **Balance at 31 December 2016** | $ - | $ - | **$ -** |
| Additions | 838,369 | 603,474 | **1,441,843** |
| Dispositions | - | - | **-** |
| **Balance at 30 June 2017** | $ 838,369 | $ 603,474 | **$ 1,441,843** |

### a) Patient Referral Agreement Purchases

On April 18, 2017, the Company entered into a purchase agreement with 2557788 Ontario Ltd. ("255"), a private Ontario company acting at arm's length to the Company, pursuant to which the Company acquired all of 255's interests in certain patient outreach and services agreements between 255 and several different patient outreach and service providers for total consideration of $1,200,000, which included cash of $288,000 on closing and the assumption of a promissory note in a separate legal agreement. The present value of the loan was calculated at $550,369, as at June 30, 2017, no amortization has been recorded as the assets are not yet in use.

### b) Streaming Agreement Purchases

On April 26, 2017, the Company entered into a purchase agreement with PanCann Streaming Corp. ("PSC"), a private Ontario company, acting at arm's length to the Company, pursuant to which the Company acquired all of PSC's interests in certain binding interim streaming agreements between PSC and various licensed producers and LP applicants. In consideration of the acquisition, the Company entered into a loan to PanCann Streaming Corp. for $1,000,000 which formed the purchase consideration on closing of the Acquisition. Refer to note 6 for further details on the loan. The present value of the loan was calculated at $603,474. As at June 30, 2017, no amortization has been recorded as the assets are not yet in use.

Both the 255 and PSC transactions have been accounted for as asset acquisitions.

## 6) Long term loans

| | 2557788 Ontario Ltd. (A) | PanCann Streaming Corp. (B) | Total |
|---|---|---|---|
| **Balance at 31 December 2016** | $ - | $ - | **$ -** |
| Face value of debt upon issuance | 912,100 | 1,000,000 | **1,912,100** |
| Less: Discount | (361,631) | (396,526) | **(758,157)** |
| Fair value of debt on initial recognition | 550,469 | 603,474 | **1,153,943** |
| Accretion expense during the period | 10,090 | 14,340 | **24,430** |
| **Balance at 30 June 2017** | $ 560,559 | $ 617,814 | **$ 1,178,373** |

(A) The Company entered an unsecured promissory note with 255 for $912,100 as part of the purchase of the patient referral agreement (see Note 5). The loan has a term of five years and matures on April 17, 2022. The amount can be repaid at any time and is not subject to a prepayment fee. The loan bears interest at 1% per annum, compounded annually. The Company recognized the fair value of the below-market interest loan using a market interest rate of 12%.

## 6) Long term loans (continued)

(B) The Company entered into an unsecured promissory note with PSC for $1,000,000 as part of the purchase of the streaming agreements (see Note 5). The loan has a term of five years and matures on April 25, 2022. The amount can be repaid at any time and is not subject to a prepayment fee. The loan bears interest at 1% per annum, compounded annually. The Company recognized the fair value of the below-market interest loan using a market interest rate of 12%.

## 7) Convertible debenture

On June 29, 2017, the Company completed a brokered private placement of unsecured convertible debentures units in the aggregate amount of $30,000,000. Each convertible debenture unit consists of a $1,000 principal amount of unsecured convertible debentures and 500 share purchase warrants.

The debentures bear interest at 6% per annum, payable semi-annually and mature 24 months. The principal amount of the debentures will be convertible into common shares of the Company at a price of $1.00 per share, at the option of the holder. The fair value of the debenture was recorded at its fair value of $24,022,537, discounted at a market interest rate of 12% and is net of debt issue costs. The fair value of the conversion feature was estimated at a fair value of $1,988,074, net of share issue costs based on the following assumptions: Stock price volatility – 89%; Risk-free interest rate – 1.08%; Dividend yield – 0%; and Expected life – 2 years.

Each warrant will be exercisable to acquire one common share at an exercise price of $1.50 per share for a period of 24 months following the closing date. The fair value of these warrants was estimated at $777,035 based on the following assumptions: Stock price volatility – 89%; Risk-free interest rate – 1.08%; Dividend yield – 0%; and Expected life – 2 years.

On closing, the Company paid the Agent (i) a commission of $2,100,000 representing 7% of the gross proceeds of the private placement; and (ii) 2,100 broker warrant units estimated at a fair value of $997,692 based on the following assumptions: Stock price volatility – 89%; Risk-free interest rate – 1.08%; Dividend yield – 0%; and Expected life – 2 years. Each broker warrant unit is exercisable into one common share and one warrant at an exercise price of $1.00 per share, expiring two years from the date of issuance. In addition, the Company also paid legal fees and advisory expenses as part of the wider private placement that is further described in note 8.

Beginning on the date that is four months and one day following the closing date, the Company may force the conversion of the principal amount of the convertible debentures and the expiry of date of the convertible debt warrants should the daily volume weighted average trading price of the Company's common shares be greater than $2.00 for 10 consecutive trading days.

## 8) Share capital

### a) Authorized

Until January 6, 2017, the Company was authorized to issue 100,000,000 common shares with no par value. In January 2017, the authorized share capital of the Company was approved to increase to an unlimited number of common shares.

On April 7, 2017, the Company completed a forward stock split of its common shares on a three for one basis. All historical references to share transactions or balances prior to this date have been recast on a three for one basis.

## 8) Share capital (continued)

### b) Issued and Outstanding

At June 30, 2017, there were 174,406,623 issued and fully paid common shares.

On January 20, 2017, the Company closed a non-brokered private placement and distributed 60,927,546 special warrants for gross proceeds of $1,117,005. The warrants convert to units on 22 February 2017. Each warrant entitled the holder to receive one unit of the Company, with each unit consisting of one common share and one share purchase warrant with each warrant entitling the holder to purchase one additional share at $0.023 until January 20, 2019. The Company recorded $740,033 for the issuance of shares and $376,972 for the issuance of warrants based on a relative fair value calculation. The fair value of these warrants for the relative fair value calculation was based on the following assumptions: Stock price volatility – 72.40%; Risk-free interest rate – 0.76%; Dividend yield – 0%; and Expected life – 2 years.

In March 2017, the Company closed two non-brokered private placements and distributed a total of 76,531,968 units for gross proceeds of $1,403,088. Each unit consists of one share and one warrant, with each warrant entitling the holder to purchase one additional share at $0.023 until March 2019. The Company recorded $891,162 for the issuance of shares and $511,925 for the issuance of warrants based on a relative fair value calculation. The fair value of these warrants for the relative fair value calculation was based on the following assumptions: Stock price volatility – 72.40%; Risk-free interest rate – 0.85%; Dividend yield – 0%; and Expected life – 2 years.

On June 29, 2017, the Company closed a private placement of special warrants and distributed a total of 20,252,203 special warrants for gross proceeds of $20,252,203. Each special warrant will be automatically exercised into one unit on the date that is the earlier of: (i) the date that is three business days following the date on which the Company obtains a receipt from the applicable Canadian securities regulatory authorities for a final short form prospectus qualifying the distribution of the units issuable upon exercise of the special warrants, and (ii) the date that is four months and one day after the closing date. Each unit will consist of one common share and warrant. Each warrant will entitle to purchase one common share, at any time on or prior to the date that is 24 months following the closing date, at an exercise price of $1.50 per common share.

On closing of the June 29, 2017 issuance, the Company paid the Agent (i) a commission of $1,319,549 representing 7% of the gross proceeds of the private placement; and (ii) 1,319,549 broker warrant units estimated at a fair value of $598,710 based on the following assumptions: Stock price volatility – 89%; Risk-free interest rate – 1.08%; Dividend yield – 0%; and Expected life – 2 years. Each broker warrant unit is exercisable into one common share and one warrant at an exercise price of $1.00 per share, expiring two years from the date of issuance. In addition, the Company paid legal fees and advisory expenses of $419,573 for the issuance of the June 29, 2017 special warrants, and the debenture units discussed in note 7.

### c) Stock Options

The Company has a stock option plan to provide incentives to directors, employees and consultants of the Company. Prior to an amendment to the Plan approved by the shareholders of the Company at a meeting held in January 2017, the maximum number of shares reserved for issuance was 632,334 shares and the total number of options awarded in any 12-month period was not to exceed 5% of the issued and outstanding shares to any one individual or 2% to any one consultant or employee. No options were granted or exercised during the year ended December 31, 2016.

At December 31, 2016, 602,333 options were available for grant under the stock option plan.

## 8) Share capital (continued)

On March 15, 2017, the Company granted 12,716,085 stock options with each stock option permitting the holder to acquire one common share of the Company at a price of $0.025 per share. The stock options expire five years from the date of grant. Under the plan, the Company may grant options for up to 10% of the issued and outstanding common shares of the Company.

The following table summarizes information about stock options outstanding as at 30 June 2017:

| Expiry date | Exercise Price | 30 June 2017 Outstanding | 31 December 2016 Exercisable |
|---|---|---|---|
| March 14, 2022 | $ 0.025 | $ 12,716,085 | $ - |

The following table reflects the continuity of stock options for the periods presented:

| STOCK OPTION ACTIVITY | 30 June 2017 | Weighted Average Exercise price | 31 December 2016 | Weighted Average Exercise price |
|---|---|---|---|---|
| **Balance – beginning of year** | **-** | **$ -** | $ - | $ - |
| Granted | **12,716,085** | **0.025** | - | - |
| **Balance – end of year** | **12,716,085** | **$ 0.025** | $ - | $ - |

The weighted average fair value of stock options granted during the six months ended June 30, 2017 was $0.025. As at June 30, 2017, stock options outstanding have a weighted average remaining life of 4.7 years.

The total fair value of stock options granted during the six months ended June 30, 2017 was $147,000 (2016 – $Nil).

The fair value of stock options was estimated using the Black-Scholes option pricing model with the following assumptions: Stock price volatility – 53.20%; Risk-free interest rate – 1.10%; Dividend yield – 0%; and Expected life – 5 years.

### d) Warrants

Each warrant entitles the holder to purchase one common share of the Company. The following table reflects the continuity of warrants for the periods presented:

| WARRANT ACTIVITY | 30 June 2017 | Weighted Average Exercise Price | 31 December 2016 | Weighted Average Exercise Price |
|---|---|---|---|---|
| **Balance – Beginning of Year** | **-** | **$ -** | $ - | $ - |
| Issued | **152,459,514** | **0.1693** | - | - |
| Expired | **-** | **-** | - | - |
| Exercised | **(27,912,108)** | **0.025** | - | - |
| **Balance – End of Period** | **109,547,406** | **$ 0.202** | $ - | $ - |

The weighted average fair value of warrants outstanding during the six months ended June 30, 2017 was $0.024. As at 30 June 2017, warrants outstanding have a weighted average remaining life of 1.68 years.

## 8) Share capital (continued)

The following table summarizes information about warrants outstanding as at 30 June 2017:

| Date of Issuance | Date of Expiry | | Exercise Price | 30 June 2017 Outstanding | 31 December 2016 Outstanding |
|---|---|---|---|---|---|
| February 22, 2017 | February 21, 2019 | $ | 0.023 | **33,015,438** | - |
| March 13, 2017 | March 12, 2019 | $ | 0.023 | **54,818,319** | - |
| March 20, 2017 | March 19, 2019 | $ | 0.023 | **21,713,649** | - |
| June 29, 2017 | June 27, 2019 | $ | 0.150 | **15,000,000** | - |
| | | | | **124,547,406** | - |

### e) Special Warrants

During period ended 30 June 2017, the Company issued 20,252,203 special warrants. See Note 8b for details on the special warrant issuance and the details on the automatic exercise of the special warrants. The following table reflects the continuity of warrants issued for the periods presented:

| Date of Issuance | Date of Expiry | | Exercise Price | 30 June 2017 | 31 December 2016 |
|---|---|---|---|---|---|
| June 29, 2017 | June 28, 2019 | $ | 1.000 | **20,252,203** | - |

### f) Broker Warrant Units

During period ended 30 June 2017, the Company issued 3,419,549 broker warrant units. See Note 7 and Note 8b for details on the broker warrant unit issuance. The following table reflects the continuity of broker warrant units issued for the periods presented:

| Date of Issuance | Date of Expiry | | Exercise Price | 30 June 2017 | 31 December 2016 |
|---|---|---|---|---|---|
| June 29, 2017 | June 28, 2019 | $ | 1.000 | **3,419,549** | - |

### g) Earnings Per Share

The calculation of basic and diluted income (loss) per share is based on the income (loss) for the period divided by the weighted average number of shares in circulation during the period. In calculating the weighted average number of shares, the shares relating to the special warrants were deemed to be issued on the date the special warrants were issued. In calculating the diluted loss per share, potentially dilutive shares such as options, convertible debt and warrants have not been included as they would have the effect of decreasing the loss per share and they would, therefore be antidilutive.

## 9) Related party balances and transactions

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company. Key management personnel include members of the Board of Directors, executive officers and the President. Compensation of key management personnel may include short-term and long-term benefits. Short-term benefits include salaries, bonuses and medical benefits. Long-term benefits include stock options or post-employment benefits. Compensation provided to current and former key management are as follows:

| For the six months ended June 30 | 2017 | 2016 |
|---|---|---|
| Short-term benefits | **$ 853,693** | $ 45,000 |
| Long-term benefits (*) | **134,354** | - |
| | **$ 988,047** | $ 45,000 |

(*) Consists of share-based payments as the fair value of options granted to key management personnel of the Company under the Company's stock option plan.

Canterra, a company owned and controlled by a former director of the Company, provides management consulting services to the Company on a month to month basis. For the six-month period ended June 30, 2017, the Company incurred $307,789 (June 30, 2016 - $15,000) in management consulting fees. There was no amount outstanding to Canterra at June 30, 2017 (June 30, 2016 - $Nil).

Elcyc, a company owned and controlled by the former President and former director of the Company, provides management consulting services to the Company on a month to month basis. For the six-month period ended June 30, 2017, the Company incurred $137,750 (June 30, 2016 - $15,000). There was no amount outstanding to Elcyc at June 30, 2017 (June 30, 2016 - $Nil).

The Company provides a monthly fee to former directors for services provided. For the six-month period ended June 30, 2017, the Company incurred $8,000 (June 30, 2016 – $15,000) in director's fees. The Company also paid $198,154 for additional consulting services to the former President and former director of the Company (June 30, 2016 - $Nil) and $202,000 for additional consulting services to another former director (June 30, 2016 - $Nil).

## 10) Financial instruments and risk management

The Company has exposure to the following risks from its use of financial instruments. The Board of Directors approves and monitors the risk management processes.

### a) Financial Instrument Classification and Measurement

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

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in the markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

## 10) Financial instruments and risk management (continued)

- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

### b) Fair Values of Financial Assets and Liabilities

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, due from related parties, convertible debenture and long term loans. As at June 30, 2017 and December 31, 2016, the carrying value of cash and cash equivalents is carried at fair value. Accounts receivable and accounts payable and accrued liabilities approximate their fair value due to their short-term nature. As the related party loans have no set repayment terms, the fair value is not able to be determined. The convertible debenture and long-term loans carrying value approximate fair value due to their recent issuance and being at market rates for similar instruments.

### c) Market Risk

Market risk is the risk that changes in market prices will affect the Company's earnings or the value of its financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Company is not exposed to significant market risk.

### d) Interest Rate Risk

Interest rate risk is the risk that changes interest rates will impact the cash flows of the Company. As all of the Company's financial debt are on fixed interest rates, the impact of a change in interest rates will not impact the Company's income or cash flows.

## 11) Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company considers its capital structure to include convertible debt, working capital and shareholders' equity.
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. The Company may issue new shares or debt, acquire or dispose of assets to maintain or adjust its capital structure.

The Company is dependent on expected business growth, changes in the business environment and capital markets as its source of operating capital. The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management in the year.

## 12) Commitments

As at June 30, 2017, the Company has entered into streaming agreements with 14 partners. By entering into these streaming agreements, the Company has commitments, subject to due diligence and other closing conditions, to do one or both of the following:

(i) invest in a private placement of common shares of the streaming partner for certain gross proceeds resulting in the Company owning an equity interest in the Investee Company.

(ii) provide all necessary funding to secure proposed cultivation sites and for the construction of cultivation sites.

## 12) Commitments (continued)

As at June 30, 2017, the Company has entered into patient referral agreements with 5 clinics. By entering into these patient referral agreements, the Company has committed to milestone payments to the clinics based on specific referral targets.

## 13) Subsequent events

On July 10, 2017, the Company agreed to purchase $15,000,000 of ABcann Global Corporation ("ABcann") shares at an agreed upon valuation of $2.25 per ABcann share.

The Initial Investment forms part of a larger phased investment by the Company to fund the construction of an additional 50,000 square feet of pure cultivation space of ABcann's proposed cannabis cultivation facility to be located in Napanee, Ontario and known as the Kimmett facility. The Initial Investment is made pursuant to a interim agreement entered into between ABcann and the Company on May 29, 2017 whereby upon the completion of the Full Investment and construction of the Expansion Production Area, the Company will be entitled to 50% of the cultivation yield generated by the Expansion Production Area. All cannabis product produced pursuant to the Cannabis Wheaton Allocation will be sold by ABcann through its ordinary distribution channels or wholesale transferred in bulk at the request of the Company to another legal purchaser thereof.