

**ABCANN GLOBAL CORPORATION  
(FORMERLY PANDA CAPITAL INC.)**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**THREE AND SIX MONTHS ENDED JUNE 30, 2017  
(In Canadian Dollars)**

**Notice for National Instrument 51-102**

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

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

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

ABcann Global Corporation (formerly Panda Capital Inc.)

**Condensed Interim Consolidated Statements of Financial Position**

*(Expressed in Canadian Dollars)*

	June 30, 2017	December 31, 2016
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 26,816,591	\$ 1,369,867
Accounts receivable	142,154	42,221
Other receivables (note 5)	350,681	104,786
Inventories (note 6)	2,318,442	1,335,922
Biological assets (note 7)	360,544	494,075
Due from related parties (note 17)	24,457	20,457
Loan receivable (note 14)	1,628,998	-
Prepaid expenses	181,881	128,123
Current portion of mortgage receivable (note 15)	95,878	97,832
	<b>31,919,626</b>	<b>3,593,283</b>
Property and equipment (note 8)	6,603,115	5,447,656
Intangible assets (note 9)	26,875	43,750
Deposits	-	383,814
	<b>\$ 38,549,616</b>	<b>\$ 9,468,503</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	1,326,918	\$ 1,562,129
Current portion of mortgage payable (note 10)	-	350,000
Loans payable (note 16)	100,000	1,081,863
RSU plan liability (note 19)	453,365	-
	<b>1,880,283</b>	<b>2,993,992</b>
Convertible debenture (note 18)	13,930,909	3,859,450
Derivative liability (note 12)	5,499,326	4,118,905
	<b>21,310,518</b>	<b>10,972,347</b>
<b>Shareholders' equity (deficiency)</b>		
Share capital (note 11)	36,299,321	7,167,069
Contributed surplus (note 11)	6,795,715	4,138,359
Warrant reserve (note 11)	5,840,387	4,425,411
Deficit	(31,696,325)	(17,234,683)
	<b>17,239,098</b>	<b>(1,503,844)</b>
	<b>\$ 38,549,616</b>	<b>\$ 9,468,503</b>

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

Nature of operations (note 1)

Commitments and contingencies (note 13)

Subsequent events (note 22)

On behalf of the Board

"Ken Clement"

Director

"Aaron Keay"

Director

ABcann Global Corporation (formerly Panda Capital Inc.)

**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**

(Expressed in Canadian Dollars)

	<b>For the three months ended June 30, 2017</b>	For the three months ended June 30, 2016	<b>For the six months ended June 30, 2017</b>	For the six months ended June 30, 2016
Revenue:				
Sales	\$ 264,319	\$ 21,465	\$ 436,802	\$ 21,840
Gain on biological transformation (note 7)	1,014,866	122,419	1,237,474	883,108
Other income	6,331	-	20,335	255,684
Cost of sales (note 6)	(173,306)	(30,260)	(388,486)	(33,025)
Production salaries and wages	(296,823)	(511,614)	(487,094)	(894,414)
Production amortization and depreciation (notes 8 & 9)	(239,738)	(248,222)	(454,353)	(496,444)
Production supplies and expense	(240,965)	(117,338)	(430,370)	(256,211)
Gross profit	<b>334,684</b>	(763,550)	<b>(65,692)</b>	(519,462)
Expenses:				
Salaries and wages	811,324	105,264	1,234,911	184,025
Amortization and depreciation (notes 8 & 9)	37,453	23,892	74,494	47,784
Stock-based payments (note 11)	872,921	54,685	976,421	156,416
Consulting fees	309,643	46,367	492,702	228,654
Research & development	90,000	75,000	90,000	150,001
Professional fees	112,603	8,003	330,816	25,960
Office expense	196,724	100,337	313,775	155,073
Finance expense (notes 10, 16 & 18)	1,343,019	215,654	2,024,271	406,684
Travel	63,034	27,459	116,206	56,930
Advertising & promotion	322,643	6,615	654,521	6,853
Communication	17,636	12,534	31,653	23,396
Vehicle	12,597	11,633	21,795	23,384
Rent	6,000	4,000	12,000	12,000
Insurance	33,434	613	38,781	12,261
Property tax	23,767	5,573	31,777	12,839
Loss (gain) on change in fair value of derivative liability (note 12)	1,306,798	(87,148)	1,744,730	(249,597)
Listing costs	6,220,818	-	6,220,818	-
Finance income	(10,520)	(2,495)	13,721	(4,475)
Income tax recovery - deferred	-	-	-	-
	<b>11,769,894</b>	607,986	<b>14,395,950</b>	1,248,188
<b>Net loss and comprehensive loss</b>	<b>\$ (11,435,210)</b>	\$ (1,371,536)	<b>\$ (14,461,642)</b>	\$ (1,767,650)
<b>Net loss per share</b>				
Basic and diluted	\$ (0.12)	\$ (0.02)	\$ (0.18)	\$ (0.03)
Weighted average shares outstanding	<b>95,451,451</b>	64,532,993	<b>82,609,761</b>	64,461,113

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

ABcann Global Corporation (formerly Panda Capital Inc.)

**Condensed Interim Consolidated Statements of Changes in Shareholders' (Deficiency) Equity**

*(Expressed in Canadian Dollars)*

	<b>Common Shares</b>	<b>Contributed Surplus</b>	<b>Warrant Reserve</b>	<b>Deficit</b>	<b>Total</b>
Balance, January 1, 2017	\$ 7,167,069	\$ 4,138,359	\$ 4,425,411	\$ (17,234,683)	\$ (1,503,844)
Common shares issued for cash	11,651,462	-	660,280	-	12,311,742
Common shares issued for services	332,500	-	-	-	332,500
Exercise of options	462,552	(403,160)	-	-	59,392
Stock-based payments	-	369,516	-	-	369,516
Issuance of replacement 2016 Debentures	-	2,691,000	-	-	2,691,000
Issuance of warrants	-	-	1,353,061	-	1,353,061
Partial conversion of Officer Debenture and interest payable	542,874	-	-	-	542,874
Partial settlement of loans payable	668,226	-	319,561	-	987,787
Conversion of 2015 Debenture	2,647,963	-	-	-	2,647,963
Exercise of broker warrants	857,176	-	(436,720)	-	420,456
Exercise of warrants	7,719,499	-	(1,989,604)	-	5,729,895
Shares retained by Panda shareholders	4,250,000	-	-	-	4,250,000
Warrants retained by Panda shareholders	-	-	1,508,398	-	1,508,398
Net loss for the period	-	-	-	(14,461,642)	(14,461,642)
<b>Balance, June 30, 2017</b>	<b>\$ 36,299,321</b>	<b>\$ 6,795,715</b>	<b>\$ 5,840,387</b>	<b>\$ (31,696,325)</b>	<b>\$ 17,239,098</b>
	<b>Common Shares</b>	<b>Contributed Surplus</b>	<b>Warrant Reserve</b>	<b>Deficit</b>	<b>Total</b>
Balance, January 1, 2016	\$ 6,938,232	\$ 2,516,946	\$ 4,303,524	\$ (11,007,406)	\$ 2,751,296
Common shares issued for cash	103,200	-	-	-	103,200
Exercise of options	10,225	(10,225)	-	-	-
Stock-based compensation	-	156,417	-	-	156,417
Net loss for the period	-	-	-	(1,767,650)	(1,767,650)
<b>Balance, June 30, 2016</b>	<b>\$ 7,051,657</b>	<b>\$ 2,663,138</b>	<b>\$ 4,303,524</b>	<b>\$ (12,775,056)</b>	<b>\$ 1,243,263</b>

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

ABcann Global Corporation (formerly Panda Capital Inc.)

**Condensed Interim Consolidated Statements of Cash Flows**

(Expressed in Canadian Dollars)

For the periods ended

	<b>June 30, 2017</b>	June 30, 2016
<b>Cash flow from operating activities</b>		
Net loss	\$ (14,461,642)	\$ (1,767,650)
Add (deduct) items not involving cash		
Accretion and accrued interest	1,403,139	244,589
Amortization and depreciation	528,849	544,228
Stock-based payments	976,421	156,416
Issuance of shares in exchange for services	332,500	-
Gain on biological transformation	(1,237,474)	(760,689)
Non-cash listing costs	5,329,383	-
Loss (gain) on change in fair value of derivative liability	1,744,730	(249,597)
Change in non-cash working capital		
Accounts receivable	(99,933)	(11,062)
Other receivables	(245,895)	289,640
Inventory	388,485	(89,395)
Prepaid expenses	(53,758)	3,471
Accounts payable and accrued liabilities	(146,616)	463,539
	<b>(5,541,811)</b>	<b>(1,176,510)</b>
<b>Cash flow from financing activities</b>		
Private placement of shares, net of issuance costs	12,311,742	103,200
Advances from (to) related parties	(4,000)	1,004
Issuance of convertible debentures, net of issuance costs	14,965,026	445,578
Exercise of options	59,392	-
Exercise of warrants	6,029,894	-
Exercise of broker warrants	420,456	-
Receipt (repayment) of mortgages payable	(350,000)	65,868
Receipt (repayment) of loan payable	(100,000)	709,500
	<b>33,332,510</b>	<b>1,325,150</b>
<b>Cash flow from investing activities</b>		
Investment in property and equipment	(1,283,619)	(25,362)
Investment in intangible assets	-	(35,000)
Net cash acquired in reverse acquisition	566,688	-
Issuance of loan receivable	(1,628,998)	-
Proceeds from mortgage receivable	1,954	626
	<b>(2,343,975)</b>	<b>(59,736)</b>
<b>Increase in cash</b>	<b>25,446,724</b>	<b>88,904</b>
<b>Cash, beginning of period</b>	<b>1,369,867</b>	<b>21,420</b>
<b>Cash, ending of period</b>	<b>\$ 26,816,591</b>	<b>\$ 110,324</b>

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

**Notes to the condensed interim consolidated financial statements**

*For the three and six months ended June 30, 2017 (Unaudited)*

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**1. Nature of operations**

ABcann Global Corporation (“ABcann” or the “Company”) (formerly Panda Capital Inc. (“Panda”)) was incorporated under the Canada Business Corporations Act on April 12, 2007. The Company’s principal business activity is the manufacturing and distribution of medical cannabis under a license issued by Health Canada to the Company’s wholly-owned subsidiary, ABcann Medicinals Inc. (“ABcann Medicinals”). ABcann’s registered office is located at 126 Vanluven Road, Napanee, Ontario.

On April 28, 2017, the Company completed a reverse takeover transaction, pursuant to which ABcann Medicinals amalgamated with a wholly-owned subsidiary of the Company (note 4). The Company’s common shares resumed trading on the TSX Venture Exchange (the “TSXV”) under the symbol “ABCN” on May 4, 2017.

These unaudited condensed interim consolidated financial statements were authorized for issue by the Company’s Board of Directors (the “Board”) on August 25, 2017.

**2. Basis of presentation**

(a) Statement of compliance

The Company’s condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34, “Interim Financial Reporting”. These financial statements do not include all notes of the type normally included within the annual financial report and should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee (“IFRIC”).

(b) Basis of presentation

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and biological assets that are measured at fair value, as detailed in the Company’s accounting policies.

(c) Functional and presentation currency

The Company and its subsidiaries’ functional currency, as determined by management is the Canadian dollar. These condensed interim consolidated financial statements are presented in Canadian dollars.

(d) Principles of consolidation

The Company consolidates its interest in entities which it controls. Control is defined by the power to govern an entity’s financial and operating policies so as to be able to obtain benefits from its activities. All intercompany balances and transactions have been eliminated.

(e) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Management has applied significant estimates and assumptions related to the following:

**Notes to the condensed interim consolidated financial statements**

*For the three and six months ended June 30, 2017 (Unaudited)*

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**Biological assets and inventory**

Management is required to make a number of estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions such as estimating the stage of growth of the cannabis, harvesting costs, sales price, and expected yields.

**Derivative liability**

Convertible debentures may result in a variable number of the Company's common shares being issued on conversion and therefore may be considered a derivative liability measured at fair value.

The Company uses the Black-Scholes model and a Monte-Carlo simulation to estimate fair value at each reporting date. The key assumptions used in the model are the expected future volatility in the price of the Company's shares, the price of the Company's shares and the expected life of the convertible debenture.

**Fair value of stock options**

Determining the fair value of stock options on the grant date, including performance based options, requires judgment related to the choice of a pricing model, the estimation of stock price volatility and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's reported operating results, liabilities or components of shareholders' equity. The key estimates used by management are the stock price volatility, expected life of the options, and share price.

**3. Significant accounting policies**

These condensed interim consolidated financial statements have been prepared following the same accounting policies used in the preparation of the audited financial statements of the Company for the year ended December 31, 2016.

New standards, amendments and interpretations not yet adopted

The Company implemented the following amendments for the annual period beginning on January 1, 2016:

*Amendments to IAS 16 and IAS 41*

IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" are amended to:

- include 'bearer plants' within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for as property, plant and equipment and measured at initial recognition on a cost or revaluation basis in accordance with IAS 16;
- introduce a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales; and
- clarify that produce growing on bearer plants remains within the scope of IAS 41.

These amendments did not require any significant changes to the Company's accounting practices.

A number of new standards and amendments to standards and interpretations have not been applied in preparing these consolidated financial statements, as set out below:

- IFRS 9, *Financial Instruments*, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value

**Notes to the condensed interim consolidated financial statements**

*For the three and six months ended June 30, 2017 (Unaudited)*

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through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted.

- IFRS 15, *Revenue from Contracts with Customers*, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of goods or services and thus has the ability to direct the use and obtain the benefits from the goods or services. The standard replaces IAS 18, *Revenue*, and IAS 11, *Construction Contracts*, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier adoption is permitted.
- In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low value assets; however, this exemption can only be applied by lessees. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 is also adopted.

The Company has yet to assess the impact of these standards. Other accounting standards or amendments to existing accounting standards that have been issued, but have future effective dates, are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

#### **4. Reverse acquisition**

In April 2017, the Company completed a three-cornered amalgamation among the Company, ABcann Medicinals and a wholly-owned subsidiary of the Company incorporated solely for the purpose of completing the amalgamation, resulting in ABcann Medicinals becoming a direct, wholly-owned subsidiary of the Company. The amalgamation constituted a reverse acquisition of the Company by ABcann Medicinals, with the Company (being the legal parent) as the accounting acquiree and ABcann Medicinals (being the legal subsidiary) as the accounting acquirer. In connection with the closing of the reverse acquisition, the Company changed its name to "ABcann Global Corporation".

In connection with the completion of the reverse acquisition, the Company acquired all of the issued and outstanding shares of ABcann Medicinals in exchange for the issuance of one common share of the Company for each outstanding Class "A" common share of ABcann Medicinals. Each of the previously issued stock options and warrants to purchase Class "A" common shares of ABcann Medicinals are now exercisable to acquire one common share of the Company.

This transaction has been accounted for as a reverse acquisition that does not constitute a business combination. The purchase price allocation for the Panda assets acquired and liabilities assumed was determined as follows:

ABcann Global Corporation (formerly Panda Capital Inc.)

**Notes to the condensed interim consolidated financial statements**

*For the three and six months ended June 30, 2017 (Unaudited)*

<b>Consideration transferred</b>		
5,312,500 common shares at \$0.80 per share	\$	4,250,000
2,500,000 warrants exercisable at \$0.24 per warrant		1,508,398
	<b>\$</b>	<b>5,758,398</b>
<b>Net assets acquired</b>		
Cash	\$	566,688
Accounts payable and accrued liabilities		(137,673)
		429,015
Excess attributed to cost of listing		5,329,383
	<b>\$</b>	<b>5,758,398</b>
<b>Listing cost:</b>		
Excess attributed to cost of listing	\$	5,329,383
Legal		290,594
Consulting fees		266,003
Finder's fee		320,000
Other		14,839
	<b>\$</b>	<b>6,220,819</b>

For accounting purposes, these financial statements reflect a continuation of the financial position, operating results and cash flows of the Company's legal subsidiary, ABcann Medicinals.

**5. Other receivables**

	<b>June 30, 2017</b>	December 31, 2016
HST recoverable	\$ <b>350,681</b>	\$ 104,786

**6. Inventory**

Inventory is comprised of the following:

	<b>June 30, 2017</b>	December 31, 2016
Harvested cannabis	\$ <b>2,318,442</b>	\$ 1,335,922

Inventory recognized as an expense in cost of sales for the three and six months ended June 30, 2017 was \$173,306 (2016 – \$30,260) and \$388,486 (2016 – \$33,025), respectively.

**Notes to the condensed interim consolidated financial statements**

For the three and six months ended June 30, 2017 (Unaudited)

**7. Biological assets**

The Company's biological assets consist of medical cannabis plants. The continuity of biological assets is as follows:

	<b>Amount</b>
Balance, December 31, 2014	\$ -
Increase in fair value less costs to sell due to biological transformation	706,993
Transferred to inventory upon harvest	(447,194)
<b>January 1, 2016</b>	<b>\$ 259,799</b>
Increase in fair value less costs to sell due to biological transformation	1,726,537
Transferred to inventory upon harvest	(1,492,261)
<b>Balance, December 31, 2016</b>	<b>\$ 494,075</b>
Increase in fair value less costs to sell due to biological transformation	1,237,474
Transferred to inventory upon harvest	(1,371,005)
<b>Balance, June 30, 2017</b>	<b>\$ 360,544</b>

The significant assumptions used in determining the fair value of medical cannabis plants are as follows:

- Yield by plant; and
- Percentage of costs incurred to date compared to the total costs to be incurred are used to estimate the fair value of growing plant.

The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the gain or loss on biological assets.

**8. Property, plant and equipment**

		<b>Building and Land improvements</b>	<b>Computer equipment</b>	<b>furniture &amp; equipment</b>	<b>Production equipment</b>		<b>Vehicles</b>	<b>Fencing</b>	<b>Total</b>
<b>Cost</b>									
<b>At December 31, 2015</b>	\$	515,778	\$ 2,449,298	\$ 18,891	\$ 142,339	\$ 3,470,626	\$ 112,080	\$ 86,104	\$ 6,795,116
Additions		473	-	14,848	111,972	69,158	-	-	196,451
Disposals									-
<b>At December 31, 2016</b>		<b>516,251</b>	<b>2,449,298</b>	<b>33,739</b>	<b>254,311</b>	<b>3,539,784</b>	<b>112,080</b>	<b>86,104</b>	<b>6,991,567</b>
Additions		193,264	217,392	11,828	11,503	1,233,446	-	-	1,667,433
Reclassification		-	-	-	(100,386)	100,386	-	-	-
<b>At June 30, 2017</b>	<b>\$</b>	<b>709,515</b>	<b>\$ 2,666,690</b>	<b>\$ 45,567</b>	<b>\$ 165,428</b>	<b>\$ 4,873,616</b>	<b>\$ 112,080</b>	<b>\$ 86,104</b>	<b>\$ 8,659,000</b>
<b>Accumulated depreciation</b>									
<b>At December 31, 2015</b>	\$	-	\$ 85,977	\$ 14,321	\$ 40,128	\$ 366,099	\$ 54,238	\$ 11,409	\$ 572,172
Expense for the year		-	171,955	13,158	39,615	701,041	37,360	8,610	971,739
Disposals		-	-	-	-	-	-	-	-
<b>At December 31, 2016</b>		<b>-</b>	<b>257,932</b>	<b>27,479</b>	<b>79,743</b>	<b>1,067,140</b>	<b>91,598</b>	<b>20,019</b>	<b>1,543,911</b>
Expense for the period		-	106,211	5,493	5,882	380,291	9,791	4,306	511,974
Disposals		-	-	-	-	-	-	-	-
<b>At June 30, 2017</b>	<b>\$</b>	<b>-</b>	<b>\$ 364,143</b>	<b>\$ 32,972</b>	<b>\$ 85,625</b>	<b>\$ 1,447,431</b>	<b>\$ 101,389</b>	<b>\$ 24,325</b>	<b>\$ 2,055,885</b>
<b>Net book value</b>									
At December 31, 2015	\$	515,778	\$ 2,363,321	\$ 4,570	\$ 102,211	\$ 3,104,527	\$ 57,842	\$ 74,695	\$ 6,222,944
At December 31, 2016	\$	516,251	\$ 2,191,366	\$ 6,260	\$ 174,568	\$ 2,472,644	\$ 20,482	\$ 66,085	\$ 5,447,656
At June 30, 2017	\$	709,515	\$ 2,302,547	\$ 12,595	\$ 79,803	\$ 3,426,185	\$ 10,691	\$ 61,779	\$ 6,603,115

**Notes to the condensed interim consolidated financial statements**

*For the three and six months ended June 30, 2017 (Unaudited)*

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**9. Intangible assets**

	<b>Work flow technology</b>	
<b>Cost</b>		
At December 31, 2015	\$	150,000
Additions		40,000
At December 31, 2016	\$	190,000
Additions		-
<b>At June 30, 2017</b>	<b>\$</b>	<b>190,000</b>
<b>Accumulated depreciation</b>		
At December 31, 2015	\$	85,000
Expense for the year		61,250
At December 31, 2016	\$	146,250
Expense for the period		16,875
<b>At June 30, 2017</b>	<b>\$</b>	<b>163,125</b>
<b>Net book value</b>		
At December 31, 2015	\$	65,000
At December 31, 2016	\$	43,750
At June 30, 2017	\$	26,875

**10. Mortgages payable**

	<b>June 30, 2017</b>		December 31, 2016
Mortgages payable at 8.5% per annum	\$	-	\$ 350,000
Current		-	350,000
<b>Total</b>	<b>\$</b>	<b>-</b>	<b>\$ 350,000</b>

The mortgages payable were secured by first charge over certain specified properties. During the period ended June 30, 2017, the Company repaid the mortgages in full. Interest expense on mortgages payable for the three and six months ended June 30, 2017 was \$6,920 (2016 - \$40,863) and \$14,357 (2016 - \$80,743), respectively.

**Notes to the condensed interim consolidated financial statements**

*For the three and six months ended June 30, 2017 (Unaudited)*

**11. Shareholders' equity (deficiency)**

Authorized share capital

The Company is authorized to issue an unlimited number of common shares.

Outstanding share capital

	Number of shares		Amount
<b>Balance, December 31, 2015</b>	<b>64,311,508</b>	<b>\$</b>	<b>6,938,232</b>
Common shares issued for cash	224,787		118,200
Common shares issued for services	244,844		100,412
Exercise of options	25,000		10,225
<b>Balance as at December 31, 2016</b>	<b>64,806,139</b>	<b>\$</b>	<b>7,167,069</b>
Common shares issued for cash, net of issuance costs	17,675,095		11,651,462
Common shares issued for services	430,488		332,500
Partial conversion of Officer Debenture	1,512,195		542,874
Partial settlement of loans payable	2,409,235		668,226
Conversion of 2015 Debenture	5,747,271		2,647,963
Exercise of options	833,171		462,552
Exercise of broker warrants	1,025,585		857,176
Exercise of warrants	9,241,766		7,719,499
Shares issued pursuant to the acquisition of Panda	5,312,500		4,250,000
<b>Balance as at June 30, 2017</b>	<b>108,993,445</b>	<b>\$</b>	<b>36,299,321</b>

*Six months ended June 30, 2017*

In January 2017, the Company received gross proceeds of \$990,000 from the issuance of 2,414,633 common shares and 2,414,633 warrants, each of which is exercisable into one common share at a price of \$0.50 and expires 2 years from issuance.

In January 2017, the Company issued 30,488 common shares valued at \$0.41 per share for services rendered.

In April 2017, the Company completed a private placement of 14,750,000 subscription receipts at a price of \$0.80 per subscription receipt for gross proceeds of \$11,800,000. Each subscription receipt was immediately converted into one common share on the same date as the completion of the private placement. Share issuance costs consisted of \$478,257 paid in cash, \$408,370 paid via issuance of 510,462 common shares, and 929,250 broker warrants, each of which entitles the holder to purchase one common share at \$0.80 until April 28, 2019. The broker warrants were valued at \$285,352 and have been recorded in shareholders' equity under warrant reserve.

In April 2017, in conjunction with the closing of the reverse acquisition (note 4), a finders' fee of \$320,000 was paid via issuance of 400,000 common shares, and has been recorded as listing costs.

During the period ended June 30, 2017, \$620,000 of the Officer Debenture (as defined in note 18) was converted into 1,512,195 common shares at a conversion price of \$0.41 per share.

During the period ended June 30, 2017, the Company issued 2,409,235 common shares valued at \$0.41 per share pursuant to settlements of certain loans payable (note 16).

In conjunction with the closing of the reverse acquisition, the 2015 Debenture (as defined in note 18) was converted into 5,747,271 common shares.

As part of the reverse acquisition, 5,312,500 common shares were retained by Panda shareholders. These shares were valued at \$0.80 for a total of \$4,250,000.

**Notes to the condensed interim consolidated financial statements**

*For the three and six months ended June 30, 2017 (Unaudited)*

*Year ended December 31, 2016*

During 2016, 25,000 stock options were exercised into common shares for nominal proceeds. In addition, \$10,225 of contributed surplus attributable to the exercised options was reclassified to share capital.

During 2016, the Company issued 224,787 common shares for gross proceeds of \$118,200.

During 2016, the Company issued 244,844 common shares valued at \$0.41 per share for settlement of engineering and other services rendered to the Company.

Warrants

Each warrant entitles the holder to purchase a common share at a set price and is exercisable at the option of the holder for a set period of time.

The warrant details of the Company are as follows:

	<b>Number of warrants</b>	<b>Weighted average exercise price</b>
Outstanding, December 31, 2015	20,838,147	\$0.61
Issued in conjunction with amendment of 10% interest bearing loan (note 16)	7,768,000	\$0.41
Outstanding, December 31, 2016	28,606,147	\$0.56
Issued during private placement	2,414,633	\$0.50
Issued in conjunction with partial settlement of loans payable	2,409,235	\$0.50
Issued pursuant to reverse acquisition	2,500,000	\$0.24
Issuance of broker warrants	929,250	\$0.80
Issued pursuant to 2016 Debenture	3,906,250	\$0.80
Penalty warrants issued for no consideration	500,000	\$0.80
Exercise of warrants	(9,241,766)	\$0.62
Exercise of broker warrants	(1,025,585)	\$0.41
<b>Outstanding, June 30, 2017</b>	<b>30,998,164</b>	<b>\$0.55</b>

During the six months ended June 30, 2017, the Company issued 2,414,633 warrants as part of a private placement offering. Each warrant is exercisable into one common share at a price of \$0.50 per share for 2 years from the date of issuance. The fair value of these warrants was \$374,928. Pursuant to the reverse acquisition, the Company issued 2,500,000 warrants exercisable at \$0.24, expiring 3 years from the date of issuance. The fair value of these warrants was \$1,508,398.

During the six months ended June 30, 2017, the Company issued 2,409,235 warrants pursuant to settlements of certain loans payable (note 16). Each warrant is exercisable into one common share at a price of \$0.50 per share for 2 years from the date of issuance. The fair value of these warrants was \$319,561.

During the six months ended June 30, 2017, the Company agreed to extend the life of 1,025,585 outstanding broker warrants while modifying the terms such that the warrants were exercisable at \$0.41 for common shares only (removing the additional warrant). These broker warrants were exercised into 1,025,585 common shares for gross proceeds of \$420,490, with the remainder being exercised in April 2017.

In conjunction with the closing of the reverse acquisition (note 4), the Company issued 3,906,250 warrants pursuant to terms of the 2016 Debentures (as defined in note 18). Each warrant is exercisable into one common share at a price of \$0.80 per share for 2 years from the date of issuance. These warrants were part of the derivative liability that was recognized with respect to the 2016 Debentures and were valued at \$1,199,522 at the time of issuance. The Company also issued 500,000 penalty warrants with the same terms pursuant to the 2016 Debentures as the Company did not complete its go-public transaction by a certain date. These penalty warrants were valued at \$153,539 and have been expensed in the period.

**Notes to the condensed interim consolidated financial statements**

*For the three and six months ended June 30, 2017 (Unaudited)*

The Company also issued 929,250 broker warrants, each of which is exercisable into one common share at a price of \$0.80 per share for 2 years from the date of issuance. These broker warrants were valued at \$285,352.

In 2016, 7,768,000 warrants were issued in conjunction with the amendment of a 10% interest bearing note (see note 16). The fair value of the warrants was \$121,887.

The fair value of each group of warrants on the date granted was estimated using the Black-Scholes valuation model. The following assumptions were used:

	<b>June 30, 2017</b>	2016
Volatility	<b>70%</b>	70%
Risk-free interest rate	<b>0.72 to 1.17%</b>	1.06%
Expected life (years)	<b>2 to 3 years</b>	5 years
Dividend yield	<b>Nil</b>	Nil
Forfeiture rate	<b>0%</b>	0%
Share price	<b>\$0.24 to \$0.80</b>	\$0.41

The following table presents information related to warrants at June 30, 2017:

<b>Weighted average exercise price</b>	<b>Number of Warrants</b>	<b>remaining life (years)</b>
\$0.55	30,998,164	1.94

Employee options

The Company has stock based compensation arrangements to encourage ownership of the Company's common shares by its officers, directors, employees and certain non-employees. The maximum number of common shares granted, vesting period and contractual life of the options under these arrangements shall be determined from time to time by the Board. The exercise price for each option shall be determined by the Board based on the fair market value of the shares on the date of grant as estimated in accordance with a valuation model approved by the Board.

The following table summarizes the stock option activity:

	<b>Number of Options</b>	<b>Weighted average exercise price</b>
Outstanding, December 31, 2015	4,765,000	\$0.46
Granted	3,940,122	\$0.34
Forfeited	(50,000)	\$0.41
Exercised	(25,000)	\$0.001
Outstanding, December 31, 2016	8,630,122	\$0.40
Granted	1,779,000	\$0.65
Exercised	(833,171)	\$0.07
Cancelled	(300,000)	\$0.50
<b>Outstanding, June 30, 2017</b>	<b>9,275,951</b>	<b>\$0.48</b>

During the three and six months ended June 30, 2017, the Company recognized \$266,016 (2016 - \$54,684) and \$369,516 (2016 - \$156,416) of stock-based compensation related to stock options, respectively.

During the six months ended June 30, 2017, 833,171 stock options were exercised into common shares for proceeds of \$59,392. \$403,160 of contributed surplus attributable to the exercised options was reclassified to share capital.

**Notes to the condensed interim consolidated financial statements**

*For the three and six months ended June 30, 2017 (Unaudited)*

During the six months ended June 30, 2017, the Company and an optionee agreed to cancel 300,000 previously vested and outstanding options. The cancelled options had an exercise price of \$0.50 and were originally set to expire in March 2019.

During the six months ended June 30, 2017, the Company granted 1,779,000 stock options, exercisable for common shares at a weighted average exercise price of \$0.65 per share, vesting over 12 months. The options expire 5 years from the date of grant. The fair value of these options was \$662,722.

In 2016, 3,940,122 stock options were granted, with 3,840,122 vesting immediately upon the grant date. The remaining balance of the options granted vest over 7 months. The options had an aggregate fair value of \$1,441,816. 25,000 options were exercised in 2016 for nominal proceeds. In addition, \$10,225 of contributed surplus attributable to the exercised options was reclassified to share capital.

The fair value of each group of options on the date granted was estimated using the Black-Scholes valuation model. The following assumptions were used:

	<b>June 30, 2017</b>	2016
Volatility	<b>70%</b>	70% to 80%
Risk-free interest rate	<b>0.85% to 1.17%</b>	1.06% to 1.39%
Expected life (years)	<b>5 years</b>	5 to 10 years
Dividend yield	<b>Nil</b>	Nil
Forfeiture rate	<b>0%</b>	0%
Share price	<b>\$0.41 to \$0.80</b>	\$0.41 or \$0.53

The following table presents information related to stock options at June 30, 2017:

<b>Weighted average exercise price</b>	<b>Number of Options</b>	<b>Weighted average remaining life (years)</b>	<b>Vested</b>
\$0.41	5,996,951	4.70	5,596,951
\$0.50	2,200,000	1.72	2,500,000
\$0.80	1,079,000	4.84	179,833
<b>Balance as at June 30, 2017</b>	<b>9,275,951</b>	<b>4.01</b>	<b>8,276,784</b>

**12. Derivative liability**

*2015 Debentures*

The 2015 Debentures (see note 18) issued by the Company contain down round protection on the conversion feature. If the down round protection is enacted, there will be variability in the number of shares issued. In accordance with IFRS, a contract to issue a variable number of shares fails to meet the definition of equity and must instead be classified as a derivative liability and measured at fair value with changes in fair value recognized in the consolidated statements of loss and comprehensive loss at each period-end. The derivative liability will ultimately be converted into the Company's equity (common shares) when the convertible debenture is converted, or will be extinguished on the repayment of the debentures, and will not result in the outlay of any additional cash by the Company.

The Company used a Monte-Carlo simulation and the Black-Scholes model to estimate fair value of the derivative liability with respect to the 2015 Debentures at each reporting date. This is a Level 3 recurring fair value measurement (note 21). The key Level 3 inputs used by management to determine the fair value are the expected future volatility in the price of the Company's shares and the expected life of the 2015 Debentures.

**Notes to the condensed interim consolidated financial statements**

*For the three and six months ended June 30, 2017 (Unaudited)*

The following assumptions were used:

	<b>April 28, 2017*</b>	December 31, 2016	Third tranche	Second tranche	First tranche
Volatility	<b>70%</b>	70%	80%	80%	80%
Risk-free interest rate	<b>0.72%</b>	0.52%	0.41%	0.60%	0.66%
Expected life (years)	<b>0.54 years</b>	0.86 years	1.84 years	1.95 years	2 years
Share price	<b>\$0.41</b>	\$0.53	\$0.41	\$0.41	\$0.41

\*Date of conversion

Upon initial recognition, the Company recorded a derivative liability of \$706,835 in 2015 and \$278,446 in 2016, and expensed related transaction costs of \$50,765 and \$7,013, respectively. During the three and six months ended June 30, 2017, the Company recorded a gain of \$67,859 (2016 - \$87,148) and a loss of \$398,113 (2016 - gain of \$249,597) on revaluation of the derivative liability. In conjunction with the closing of the reverse acquisition, the 2015 Debentures were converted into 4,314,677 common shares and 1,432,594 warrants, each of which was exercisable into one common share at \$0.21 per share and was to expire 2 years from the issuance date. The warrants were immediately exercised. The Company recorded \$981,473, representing the fair value of the derivative liability at the conversion date, as share capital.

*2016 Debentures*

The 2016 Debentures (see note 18) can be converted at the option of the holder to common shares at a conversion price equal to a 20% discount to the transaction price assigned to each share of the Company on completion of a proposed go-public transaction. As the conversion price depends on the go-public price, there is variability in the number of shares that may be issued. Therefore, the Company has classified this instrument as a derivative liability. The Company used the Black-Scholes model to estimate the fair value of the derivative liability with respect to the 2016 Debentures at each reporting date. This is a Level 3 recurring fair value measurement (note 21). The key Level 3 inputs used by management to determine the fair value are the expected future volatility in the price of the Company's shares and the expected life of the 2016 Debentures. The following assumptions were used:

	<b>April 28, 2017</b>	December 31, 2016
Volatility	<b>70%</b>	70%
Risk-free interest rate	<b>0.72%</b>	0.75%
Expected life (years)	<b>1.47 years</b>	1.50 years

With respect to the 2016 Debentures, upon initial recognition, the Company recorded a derivative liability of \$3,660,996 and expensed \$45,808 in transaction costs. During the three and six months ended June 30, 2017, the Company recorded a gain of \$28,041 and a loss of \$143,733 on revaluation of the derivative liability (March 2016 - \$nil and \$nil), respectively. At the closing of the reverse acquisition, these notes were replaced with new notes on substantially the same terms (note 18), with the conversion price affixed. As a result, the Company reclassified the derivative liability of \$2,691,000, representing the fair value of the conversion feature, to contributed surplus. The Company also issued 3,906,250 warrants pursuant to terms of the 2016 Debentures (note 11). The Company reclassified \$1,199,522 of the derivative liability, representing the fair value of the warrants at the time of issuance, to warrant reserve.

*2017 Debentures*

The 2017 Debentures (see note 18) issued by the Company contain down round protection on the conversion feature. If the down round protection is enacted, there will be variability in the number of shares issued. In accordance with IFRS, a contract to issue a variable number of shares fails to meet the definition of equity and must instead be classified as a derivative liability and measured at fair value with changes in fair value recognized in the consolidated statements of loss and comprehensive loss at each period-end. The derivative liability will ultimately be converted into the Company's equity (common shares) when the convertible debenture is converted, or will be extinguished on the repayment of the debentures, and will not result in the outlay of any additional cash by the Company.

**Notes to the condensed interim consolidated financial statements**

*For the three and six months ended June 30, 2017 (Unaudited)*

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The Company used the Black-Scholes model to estimate the fair value of the derivative liability with respect to the 2017 Debentures at each reporting date. This is a Level 2 recurring fair value measurement (note 21). The key Level 2 inputs used by management to determine the fair value are the expected future volatility in the price of the Company's shares and the expected life of the 2017 Debentures. The following assumptions were used:

	<b>June 30, 2017</b>	December 31, 2016
Volatility	<b>70%</b>	n/a
Risk-free interest rate	<b>0.72% to 1.05%</b>	n/a
Expected life (years)	<b>2.83 - 3.00 years</b>	n/a

With respect to the 2017 Debentures, upon initial recognition, the Company recorded a derivative liability of \$4,507,687 and \$50,000 in transaction costs. During the three and six months ended June 30, 2017, the Company recorded a loss of \$991,639 on revaluation of the derivative liability (March 2016 - \$nil).

**13. Commitments and contingencies**

Litigation

In the normal course of business, the Company may be involved in legal proceedings, claims and assessments arising in the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Legal fees for such matters are expensed as incurred and the Company accrues for adverse outcomes as they become probable and estimable.

The Company has been named a defendant in certain legal actions. Management is of the opinion that there is a strong defense against the claims. Accordingly, no provision for losses has been reflected in the accounts of the Company for this matter. Furthermore, for one of the legal actions, a co-defendant has signed an indemnity agreement, dated December 12, 2014, agreeing to indemnify and hold harmless the Company from and against all costs, damages, losses and liabilities arising from the legal action.

Commitments

Effective January 1, 2015, the Company entered into a research contract with the University of Guelph which will continue for a term of the earlier of three years or the completion of the project. The estimated payment schedule is as follows:

2017	\$184,000
2018	\$287,000

**14. Loans receivable**

	<b>June 30, 2017</b>	December 31, 2016
Loan receivable from third party	<b>\$ 1,628,998</b>	\$ 160,000
Loan receivable from employees	-	18,050
Less: allowance on loans receivable	-	(178,050)
<b>Loans receivable balance</b>	<b>\$ 1,628,998</b>	\$ -

During the three months ended June 30, 2017, the Company advanced \$1,221,615 (2016 - \$nil) to entities controlled by an officer of a subsidiary of the Company to develop the Company's German cannabis business. The advances are interest free and due on demand.

**15. Mortgage receivable**

As part of a disposition of property, the Company took back a mortgage in the amount of \$100,000 that bears interest at a rate of 8%, with monthly payments of \$763 on account of principal and interest, commencing April 30,

**Notes to the condensed interim consolidated financial statements**

*For the three and six months ended June 30, 2017 (Unaudited)*

2015. The mortgage was originally due March 31, 2017 and was extended from its original maturity for another 180 days.

**16. Loans payable**

	<b>June 30, 2017</b>	December 31, 2016
12% interest bearing loan owed to a director of a subsidiary of the Company, repayable at the discretion of the Company	<b>100,000</b>	350,000
5% interest bearing loan owed to an officer of the Company, repayable at the discretion of the Company	-	481,863
5% interest bearing loan repayable at the discretion of the Company	-	150,000
7% interest bearing loan repayable upon a go-public transaction	-	100,000
<b>Loan payable balance</b>	<b>\$ 100,000</b>	<b>\$ 1,081,863</b>

The Company recognized \$8,087 (2016 - \$15,808) and \$11,229 (2016 – \$44,099) of interest expense related to these loans for the three and six month periods ended June 30, 2017, respectively.

During the six months ended June 30, 2017, the Company settled \$250,000, plus accrued interest, of the 12% interest bearing loan owed to a director of the Company (note 16), via the issuance of 728,634 common shares and 728,634 warrants to purchase 728,634 common shares at \$0.50 per share. The warrants expire 2 years from the date of issuance.

During the six months ended June 30, 2017, the Company settled \$481,863, plus accrued interest, of the 5% interest bearing loan owed to an officer of the Company (note 16), via the issuance of 1,282,873 common shares and 1,282,873 warrants to purchase 1,282,873 common shares at \$0.50 per share. The warrants expire 2 years from the date of issuance.

During the six months ended June 30, 2017, the Company settled \$150,000, plus accrued interest, of the 5% interest bearing loan owed to an arm’s length party (note 16), via the issuance of 397,728 common shares and 397,728 warrants to purchase 397,728 common shares at \$0.50 per share. The warrants expire 2 years from the date of issuance.

During the six months ended June 30, 2017, the Company repaid the 7% interest bearing loan at the closing of the reverse acquisition.

**17. Related party transactions**

- (a) The Company is owed \$4,500 at June 30, 2017 from ABcann Medical Distributors Inc., a company under common control (2016 - \$20,457).
- (b) The Company is owed \$1,628,998 (2016 - \$nil) from entities controlled by an officer of a subsidiary of the Company.
- (c) The Company is owed \$19,957 (2016 - \$nil) at June 30, 2017 from a director of the Company.
- (d) Key management includes directors and officers of the Company. Compensation awarded to key management was comprised of the following:

	<b>3 months ended June 30, 2017</b>	3 months ended June 30, 2016	<b>6 months ended June 30, 2017</b>	6 months ended June 30, 2016
Short-term	<b>\$ 287,670</b>	\$ 131,269	<b>\$ 455,746</b>	\$ 286,909
Share-based payments	<b>481,245</b>	54,684	<b>490,487</b>	266,249
<b>Total</b>	<b>\$ 768,915</b>	\$ 185,953	<b>\$ 946,233</b>	\$ 553,158

**Notes to the condensed interim consolidated financial statements**

*For the three and six months ended June 30, 2017 (Unaudited)*

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**18. Convertible debentures**

*2015 Debentures*

On November 10, 2015, the Company entered into an agreement to issue convertible debentures of up to \$1,500,000 (the “2015 Debentures”). The 2015 Debentures bore interest at 12% per annum, with accrued interest and principal payable 2 years from the date of issuance. The 2015 Debentures and accrued interest could be converted at the option of the holder to common shares at a conversion price of \$0.41 per share. The 2015 Debentures contained a down round adjustment provision, which adjusted the conversion price if securities were issued at an effective price per share that was lower than the stated conversion price. This down round adjustment provision was considered a derivative liability, which was initially valued at \$706,835 in 2015, with an additional \$278,447 for the tranche issued during 2016 (note 12).

In addition, subject to the conversion of the 2015 Debentures to shares, the Company was required to issue a warrant to purchase common shares for gross proceeds of \$300,000 for that number of shares that, when taken with the number of shares issued under the conversion of the 2015 Debenture and the exercise of the warrant, would result in the weighted average purchase price for each common share issued to the debenture holder being equal to the conversion price less \$0.05.

The 2015 Debentures were automatically converted into common shares in connection with the closing of the reverse acquisition (note 4).

*2016 Debentures*

On October 13, 2016, the Company issued senior secured convertible debentures of \$5,000,000 (the “2016 Debentures”), maturing October 13, 2018. The 2016 Debentures bear interest at 10% per annum, payable semi-annually beginning December 31, 2016. Upon a go-public transaction, the 2016 Debentures can be converted at the option of the holder to common shares at a conversion price equal to a 20% discount to the go-public price. In addition, 3,906,250 warrants were issued upon closing of a transaction, at an exercise price equal go-public price. The warrants will expire 24 months from their date of issue. In conjunction with the closing of the reverse acquisition (note 4), the 2016 Debentures were replaced with debentures on substantially the same terms. The new face value of the note was \$5,262,500 to reflect inclusion of accrued interest from the date of issuance as part of the new principal amount. The Company did not consider the replacement as a substantial modification to the original 2016 Debentures.

*Officer Debenture*

During 2016, the Company amended the terms of a 10% interest bearing loan, which was outstanding to an officer and director of the Company (the “Officer Debenture”). The Officer Debenture and accrued interest can be converted at the option of the holder to common shares at a conversion price of \$0.41 per share. The total face value of the loan amended, including accrued interest, was \$1,442,000. The Company initially recognized \$1,211,532 as the fair value of the Officer Debenture, and \$169,983 was initially recognized in contributed surplus with respect to the value of the warrants and conversion feature. In conjunction with this amendment, the Company issued 7,768,000 warrants to the officer and director (note 11). During the six months ended June 30, 2017, \$620,000 of the Officer Debenture was converted into 1,512,195 common shares.

*2017 Debentures*

On April 28, 2017, the Company issued senior secured convertible debentures of \$15,000,000 (the “2017 Debentures”), maturing April 28, 2020. The 2017 Debentures and accrued interest can be converted at the option of the holder to common shares at a conversion price of \$1.04 per share, subject to adjustment as provided in the 2017 Debentures. The 2017 Debentures contained a down round adjustment provision, which adjusted the conversion price if securities were issued at an effective price per share that was lower than the stated conversion price. This conversion feature with down round adjustment provision was considered a derivative liability, which was initially valued at \$4,507,687 at issuance, with a loss of \$991,639 recognized in the period with respect to the change in fair value of the derivative liability.

**Notes to the condensed interim consolidated financial statements**

*For the three and six months ended June 30, 2017 (Unaudited)*

			<b>Officer</b>		<b>Total</b>
	<b>2015 Debentures</b>	<b>2016 Debentures</b>	<b>Debentures</b>	<b>2017 Debentures</b>	
Balance, December 31, 2015	\$ 360,773	\$ -	\$ -	\$ -	\$ 360,773
Amounts issued	450,000	5,000,000	1,442,000	-	6,892,000
Less: allocated to derivative liability	(278,447)	(3,660,995)	-	-	(3,939,442)
Less: allocated to equity component	-	-	(169,983)	-	(169,983)
Less: deferred tax liability	-	-	(61,286)	-	(61,286)
Less: issuance costs	(4,321)	(16,754)	(4,194)	-	(25,269)
Accretion	380,376	220,566	9,164	-	610,106
Accrued interest	192,551	-	-	-	192,551
Balance, December 31, 2016	\$ 1,100,932	\$ 1,542,817	\$ 1,215,701	\$ -	\$ 3,859,450
Amounts issued	-	-	-	15,000,000	15,000,000
Less: allocated to derivative liability	-	-	-	(4,507,687)	(4,507,687)
Less: issuance costs	-	-	-	(34,974)	(34,974)
Accretion	196,600	642,224	24,820	222,983	1,086,627
Accrued interest	68,856	247,656	-	-	316,512
Conversion	(1,366,388)	-	(422,631)	-	(1,789,019)
<b>Balance, June 30, 2017</b>	<b>\$ -</b>	<b>\$ 2,432,697</b>	<b>\$ 817,890</b>	<b>\$ 10,680,322</b>	<b>\$ 13,930,909</b>

**19. Restricted share unit liability**

During the six months ended June 30, 2017, the Company adopted a restricted share unit (“RSU”) plan whereby RSUs may be granted to participants from time to time as determined by the Board. Each vested RSU entitles the participant, at his or her option, to receive one common share or cash equivalent based on the market price at the redemption date. The maximum number of RSUs which may be awarded under the RSU plan shall not exceed 3,000,000 RSUs.

During the six months ended June 30, 2017, the Company granted 2,972,888 RSUs, vesting 12 months from the date of issuance. The Company has accounted for these RSUs as a compound instrument as they include an equity portion and a cash settled liability portion, although the amount attributed to equity is \$nil as the full value RSUs may be redeemed for cash or for shares upon vesting. The Company recorded \$453,365 (2016 - \$nil) of share-based compensation expense during the three and six months ended June 30, 2017, of which \$56,980 (2016 - \$nil) related to the increase in share price of the Company.

**20. Capital management**

The Company’s objective in managing capital is to ensure a sufficient liquidity position to safeguard the Company’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company defines capital as net equity and debt, comprised of issued common shares, warrants, contributed surplus and accumulated deficit, as well as mortgages and loans payable.

The Company’s objective with respect to its capital management is to ensure it has sufficient cash resources to maintain its ongoing operations and finance its research and development activities, corporate and administration expenses, working capital and overall capital expenditures. Since inception, the Company has primarily financed its liquidity needs through private placements of common shares, convertible debentures and loans.

There have been no changes to the Company’s objectives and what it manages as capital since the prior fiscal year. The Company is not subject to externally imposed capital requirements.

**21. Financial instruments and risk management**

**Financial instruments**

The Company has classified its cash and cash equivalents and derivative liability as fair value through profit and loss (“FVTPL”). Other receivables, short-term investments, due from related parties, loan receivable and mortgage

**Notes to the condensed interim consolidated financial statements**

*For the three and six months ended June 30, 2017 (Unaudited)*

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receivable have been classified as loans and receivables, and accounts payable and accrued liabilities, due to related parties, mortgage payable, convertible debenture and loans payable have been classified as other financial liabilities.

The carrying values of cash and cash equivalents, other receivables, short-term investments, due to/from related parties, loan receivable, accounts payable and accrued liabilities approximate their fair values due to their short periods to maturity.

**Fair value hierarchy**

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The hierarchy is summarized as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2 – inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data

Level 3 – inputs for assets and liabilities not based upon observable market data

**Financial risk factors**

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, other receivables, loan receivable and mortgage receivable. The Company's cash is held at a major Canadian bank or credit union. Other receivables are related to HST refunds, which management believes does not pose a significant credit risk. The mortgage receivable is secured against property, which mitigates the credit risk exposure. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

(b) Liquidity risk

The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The Company constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations. All of the Company's financial liabilities are due within one year except for the derivative liability.

(c) Interest rate risk

The Company is subject to interest rate risk from its mortgage, loans payables and convertible debentures. Debentures, loans payable and mortgages owed by the Company are all fixed rate instruments. A portion of the Company's loan receivable is subject to a floating interest rate, which changes based on prevailing market conditions.

**22. Subsequent events**

Subsequent to the period, 3,646,784 warrants were exercised for gross proceeds of \$2,261,006.

On May 29, 2017, the Company entered into a binding interim agreement with Cannabis Wheaton Income Corp. ("CW") to fund the construction of 50,000 square feet of cultivation space at the Company's proposed cannabis cultivation facility to be located in Napanee, Ontario, known as the Kimmett facility. Pursuant to the agreement, CW agreed to invest \$30 million in the Company as follows: (i) on the date that is the earlier of 10 days of the final closing of CW's previously announced financing or by June 30, 2017, CW would subscribe for \$15 million of ABCann common shares at an agreed upon valuation of \$2.25 per share (the "Initial Investment"); and (ii) on the date that is the earlier of 10 days following CW raising an aggregate of \$150 million or March 31, 2018, CW will subscribe for an additional \$15 million of ABCann shares at a price per share equal to the greater of two times the 10 day volume average trading price of the ABCann shares at the relevant time or \$2.25, subject to the satisfaction of

**Notes to the condensed interim consolidated financial statements**

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certain terms and conditions as set out in the interim agreement. The Initial Investment was completed on August 1, 2017, pursuant to which the Company issued 6,666,666 common shares to CW at a price of \$2.25 per share.