



VIVO CANNABIS INC.
(formerly ABcann Global Corporation)

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

**FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(In Canadian Dollars)**

NOTICE OF NO AUDITOR REVIEW

The accompanying condensed interim consolidated financial statements for VIVO Cannabis Inc. (the “**Company**”) have been prepared by management. Pursuant to subsection 4.3(3)(a) of National Instrument 51-102 *Continuous Disclosure Requirements*, the Company advises that the accompanying condensed interim consolidated financial statements, which are the responsibility of management, are unaudited and have not been reviewed by the Company’s auditor. The Company’s auditor has not performed a review of the accompanying condensed interim consolidated 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.

VIVO CANNABIS INC. (formerly ABcann Global Corporation)
Condensed Interim Consolidated Statements of Financial Position (Unaudited)
(Expressed in Canadian dollars)

	June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 129,703,490	\$ 70,804,888
Accounts receivable	613,433	197,998
Other receivables	1,685,539	625,426
Inventories (note 5)	2,716,385	965,518
Biological assets (note 6)	109,963	242,892
Due from related parties (note 16)	1,394,672	60,968
Loan receivable (note 13 & 16)	-	1,671,751
Prepaid expenses	1,123,110	98,740
Current portion of mortgage receivable (note 14)	95,718	96,450
	137,442,310	74,764,631
Property, plant and equipment (note 7)	14,932,065	11,236,135
Other financial assets (note 15)	6,960,581	-
Intangible assets (note 8 & 9)	618,705	43,604
Goodwill (note 9)	9,378,339	-
	\$ 169,332,000	\$ 86,044,370
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 6,152,554	\$ 3,210,422
Due to related parties (note 16)	1,000	-
Current portion of contingent consideration (note 9)	3,908,154	-
RSU plan liability (note 18)	2,350,182	3,644,346
	12,411,890	6,854,768
Convertible debenture (note 17)	27,519,437	22,950,991
Deferred revenue (note 10)	8,800,000	8,800,000
Deferred income taxes (note 19)	3,894,246	1,405,049
Contingent consideration (note 9)	3,348,733	-
	55,974,306	40,010,808
Shareholders' equity (deficiency)		
Share capital (note 10)	149,014,413	79,826,795
Contributed surplus (note 10)	12,754,788	10,650,594
Warrant reserve (note 10)	6,008,766	2,054,133
Deficit	(54,334,713)	(46,490,435)
Accumulated other comprehensive income	(85,560)	(7,525)
	113,357,694	46,033,562
	\$ 169,332,000	\$ 86,044,370

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

Nature of operations (note 1),
Commitments and contingencies (note 12),
Subsequent events (note 22)

Approved and authorized for issue by the Board of Directors on August 29, 2018

"Barry Fishman"
Director

"Paul Lucas"
Director

VIVO CANNABIS INC. (formerly ABCann Global Corporation)
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)
(Expressed in Canadian dollars)

	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenue:				
Sales	\$ 1,053,312	\$ 264,319	\$ 1,594,596	\$ 436,802
Other income	372	6,331	2,209	20,335
Cost of sales (note 5)	(508,390)	(173,306)	(714,883)	(388,486)
Production salaries and wages	(52,652)	(296,823)	(240,259)	(487,094)
Production amortization and depreciation (notes 7 & 8)	(319,781)	(239,738)	(582,334)	(454,353)
Production supplies and expense	(148,268)	(240,965)	(255,137)	(430,370)
Gross profit before fair value adjustments	60,803	(680,182)	(159,598)	(1,303,166)
Gain on biological transformation (note 6)	146,173	1,014,866	431,925	1,237,474
Gross profit	170,766	334,684	236,117	(65,692)
Expenses:				
Salaries and wages (note 16)	1,346,042	811,324	2,943,405	1,234,911
Selling expense	53,076		92,420	
Amortization and depreciation (notes 7 & 8)	68,107	37,453	133,823	74,494
Stock-based payments (notes 10, 16 & 18)	681,875	872,921	3,401,068	976,421
Consulting fees	345,157	309,643	671,097	492,702
Research & development	106,725	90,000	122,096	90,000
Professional fees	484,813	112,603	1,152,593	330,816
Office expense	329,559	196,724	453,174	313,775
Finance expense (notes 9, 15 & 17)	1,193,379	1,343,019	2,127,160	2,024,271
Travel	71,291	63,034	178,413	116,206
Advertising & promotion	801,792	322,643	1,363,287	654,521
Communication	29,866	17,636	44,837	31,653
Vehicle	15,180	12,597	21,710	21,795
Rent	86,990	6,000	141,833	12,000
Insurance	6,060	33,434	12,940	38,781
Property tax	26,830	23,767	36,550	31,777
Loss on change in fair value of contingent consideration (note 9)	1,040,376	-	1,112,009	-
Gain on change in fair value of derivative liability (note 11)	-	1,306,798	-	1,744,730
Listing costs (note 4)	-	6,220,818	-	6,220,818
Gain on other financial assets (note 15)	(5,718,581)	-	(5,718,581)	-
Finance income	(3,322)	(10,520)	(209,439)	(13,721)
	965,215	11,769,894	8,080,395	14,395,950
Net loss	\$ (794,449)	\$ (11,435,210)	\$ (7,844,278)	\$ (14,461,642)
Other Comprehensive Loss				
<i>Amounts that may be reclassified subsequently to profit or loss:</i>				
Foreign exchange translation loss	\$ (56,612)	\$ -	\$ (78,035)	\$ -
Comprehensive Loss	\$ (851,061)	\$ (11,435,210)	\$ (7,922,313)	\$ (14,461,642)
Net loss per share				
Basic and diluted	\$ (0.01)	\$ (0.00)	\$ (0.07)	\$ (0.18)
Weighted average shares outstanding	154,286,868	95,451,451	116,066,941	82,609,761

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

VIVO CANNABIS INC. (formerly ABCann Global Corporation)

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

(Expressed in Canadian dollars)

	Common Shares	Contributed Surplus	Warrant Reserve	Deficit	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2018	\$ 79,826,795	\$ 10,650,594	\$ 2,054,133	\$ (46,490,435)	\$ (7,525)	\$ 46,033,562
Common shares issued for cash	34,156,824	-	4,282,060	-	-	38,438,884
Exercise of options	2,199,379	(956,472)	-	-	-	1,242,907
Exercise of warrants	1,175,973	-	(269,875)	-	-	906,098
Exercise of broker warrants	207,485	-	(57,552)	-	-	149,933
Redemption of RSUs	2,841,825	-	-	-	-	2,841,825
Common shares for the acquisition of Harvest Medicine	2,126,553	-	-	-	-	2,126,553
Conversion of Officer Debenture	847,058	-	-	-	-	847,058
Conversion of December 2017 Debentures	25,081,631	(5,091,968)	-	-	-	19,989,663
Stock-based payments	550,890	1,248,636	-	-	-	1,799,526
Issuance of February 2018 Debentures	-	6,903,998	-	-	-	6,903,998
Net loss for the year	-	-	-	(7,844,278)	-	(7,844,278)
Other comprehensive loss	-	-	-	-	(78,035)	(78,035)
Balance, June 30, 2018	\$ 149,014,413	\$ 12,754,788	\$ 6,008,766	\$ (54,334,713)	\$ (85,560)	\$ 113,357,694

	Common Shares	Contributed Surplus	Warrant Reserve	Deficit	Accumulated Other Comprehensive Loss	Total
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 compensation	-	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)
Balance, June 30, 2017	\$ 36,299,321	\$ 6,795,715	\$ 5,840,387	\$ (31,696,325)	\$ -	\$ 17,239,098

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

VIVO CANNABIS INC. (formerly ABcann Global Corporation)
Condensed Interim Consolidated Statements of Cash Flows (Unaudited)
(Expressed in Canadian dollars)

	June 30, 2018	June 30, 2017
Cash flow from operating activities		
Net loss	\$ (7,844,278)	\$ (14,461,642)
Add (deduct) items not involving cash		
Accretion and accrued interest	1,744,058	1,403,139
Amortization and depreciation	795,650	528,849
Stock-based payments	3,347,187	976,421
Issuance of shares in exchange for services	-	332,500
Gain on biological transformation	(431,925)	(1,237,474)
Non-cash listing costs	-	5,329,383
Loss (gain) on change in fair value of derivative liability	-	1,744,730
Loss on change in fair value of contingent consideration	1,112,009	-
Gain on change in fair value of other financial assets	(5,718,581)	-
Loss on disposal of property and equipment	-	-
Change in non-cash working capital		
Accounts receivable	(148,828)	(99,933)
Other receivables	(1,060,113)	(245,895)
Inventory	(1,186,013)	388,485
Prepaid expenses	(1,020,370)	(53,758)
Accounts payable and accrued liabilities	2,434,359	(146,616)
	(7,976,845)	(5,541,811)
Cash flow from financing activities		
Issuance of common shares for cash, net of issuance costs	38,438,884	12,311,742
Advances from (to) related parties	(1,332,704)	(4,000)
Issuance of convertible debentures, net of issuance costs	33,054,304	14,965,026
Exercise of options	1,242,907	59,392
Exercise of warrants	906,098	6,029,894
Exercise of broker warrants	149,933	420,456
Receipt (repayment) of mortgages payable	-	(350,000)
Receipt (repayment) of loan payable	-	(100,000)
	72,459,422	33,332,510
Cash flow from investing activities		
Investment in property and equipment	(4,348,248)	(1,283,619)
Investment in intangible assets	(645,000)	-
Payment of contingent consideration	(387,750)	-
Cash paid for business acquisitions	(855,000)	-
Net cash acquired from business acquisitions	300,379	566,688
Investment subscription receipts	(1,242,000)	-
Repayment (issuance) of loan receivable	1,671,751	(1,628,998)
Proceeds from mortgage receivable	732	1,954
	(5,505,136)	(2,343,975)
Effect of foreign exchange rate changes on cash	(78,839)	-
Increase in cash	58,898,602	25,446,724
Cash and cash equivalents, beginning of period	70,804,888	1,369,867
Cash and cash equivalents, ending of period	\$ 129,703,490	\$ 26,816,591

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

1. Nature of Operations

VIVO Cannabis Inc. (“**VIVO**” or the “**Company**”) (formerly ABcann Global Corporation) was incorporated under the *Canada Business Corporations Act* on April 12, 2007. The Company’s wholly-owned subsidiary, ABcann Medicinals Inc. (“**ABcann Medicinals**”), is a licensed producer of medical cannabis under the *Access to Cannabis for Medical Purposes Regulations* (the “**ACMPR**”) and its principal business activity is the manufacturing and distribution of medical cannabis under a license issued by Health Canada. VIVO’s registered office is located at 126 Vanluven Road, Napanee, Ontario K7R 3L2.

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. Effective August 9, 2018, the Company changed its name from “ABcann Global Corporation” to “VIVO Cannabis Inc.” and the Company’s trading symbol on the TSXV changed from “ABCN” to “VIVO”.

These unaudited condensed interim consolidated financial statements were authorized for issue by the Company’s board of directors (the “**Board**”) on August 29, 2018.

2. Basis of Presentation

(a) Statement of compliance

These 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, 2017, which were 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 the 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 on consolidation. The principal wholly-owned subsidiaries of the Company that have been consolidated are as follows:

2. Basis of Presentation *(continued)*

- ABcann Medicinals Inc., Ontario
- Harvest Medicine Inc., Alberta
- Green Earth Realty Inc., Ontario
- Patients' Choice Botanicals Inc., Ontario
- Universal Botanicals Inc., Ontario
- ABcann Germany GmbH, Germany
- ABcann Australia Pty Ltd, Australia

(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:

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 and therefore may be considered a derivative liability measured at fair value.

The Company uses closed form pricing models such as the Black-Scholes model for Level 2 recurring fair value measurements and Monte-Carlo simulation for Level 3 recurring fair value measurements 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 common shares, the price of the Company's common shares and the expected life of the convertible debenture.

Fair value of stock options and restricted share units

Management uses the Black-Scholes option-pricing model to calculate the fair value of stock options and restricted share units ("RSUs"). Use of this method requires management to make assumptions and estimates about the expected life of options, warrants and units, the risk free rate, and the volatility of the Company's share price. In making these assumptions and estimates, management relies on historical market data. Estimation uncertainty relates to the fact that the Company is relatively thinly traded which may reduce the reliability of market data.

2. Basis of Presentation (continued)

Contingent consideration

Management is required to make a number of estimates in calculating the fair value of contingent consideration. These estimates include a number of assumptions such as estimating future financial performance, the likelihood of achieving performance milestones and the cost of capital of the acquired business.

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, 2017, which are available on SEDAR at www.sedar.com. In addition, the Company has used the following accounting policy in the preparation of these financial statements:

Adoption of new accounting standards

IAS 7 *Disclosures* requires entities to provide disclosures in their financial statements about changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The adoption of this amendment did not have a material impact on the Company's condensed interim consolidated financial statements.

IAS 12 *Income Taxes – Deferred Tax* clarifies the recognition of deferred tax assets for unrealized losses. It was amended to specify (i) the requirement for recognizing deferred tax assets or unrealized losses; (ii) deferred tax where an asset is measured at a fair value below the asset's tax base; and (iii) certain other aspects of accounting for deferred tax assets. The adoption of this amendment did not have a material impact on the Company's condensed interim consolidated financial statements.

IFRS 9 Financial Instruments - Equity Investments

All equity investments are classified upon initial recognition at fair value through profit or loss ("FVTPL"), with changes in fair value reported in profit or loss. Purchases and sales of equity investments are recognized on the settlement date. Investments at FVTPL are initially recognized at fair value. Subsequent to initial recognition, all equity investments are measured at fair value. Gains and losses arising from changes in the fair value of the FVTPL investments are recognized in profit or loss. Equity investments in common shares of public companies are measured at fair value based on published market prices with unrealized gains and losses recognized through profit or loss. When units are purchased that consist of shares and warrants, the warrants received are accounted for using the residual method at the time of purchase. The value of the warrants are subsequently fair valued at the measurement date using the Black-Scholes option pricing model.

IFRS 9 Financial Instruments – Expected Credit Loss

IFRS 9 requires the Company to record an allowance for expected credit loss ("ECL") based on a 12-month ECL or lifetime ECL. Assets within the scope of IFRS 9 that are considered to have low credit risk have an impairment provision recognized during the period limited to 12-months ECLs. However, when credit risk has increased significantly since origination, that allowance will be based on the lifetime ECL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. For other receivables, the Company applies the simplified approach permitted by IFRS, which requires lifetime ECLs to be recognized from initial recognition.

3. Significant Accounting Policies (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes previous accounting standards for revenue, including IAS 18, Revenue (IAS 18) and IFRIC 13, Customer loyalty programmes (IFRIC 13). IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:

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

Revenue from the direct sale of cannabis to medical customers for a fixed price is recognized when the Company transfers control of the good to the customer.

Future Accounting Pronouncements

IFRS 2 *Share-based Payment* was issued by the IASB in June 2016. The amendments provide clarification on how to account for certain types of share-based transactions. The amendments are effective for annual periods beginning on or after January 1, 2018. The Company has assessed the impact of this standard and has determined that it is not expected to have a significant impact on the Company's condensed interim consolidated financial statements.

IFRS 16 *Leases* was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Management is currently assessing the impact of adopting this standard.

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 common share of ABcann Medicinals. Each of the previously issued stock options and warrants to purchase common shares of ABcann Medicinals is now exercisable to acquire one common share of the Company.

VIVO CANNABIS INC. (formerly ABcann Global Corporation)
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2018 and 2017

4. Reverse Acquisition (continued)

This transaction was 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:

Consideration transferred		
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
	\$	5,758,398
Net assets acquired		
Cash	\$	566,688
Accounts payable and accrued liabilities		(137,673)
		429,015
Excess attributed to cost of listing		5,329,383
	\$	5,758,398
Listing cost:		
Excess attributed to cost of listing	\$	5,329,383
Legal		290,594
Consulting fees		266,003
Finder's fee		320,000
Other		14,838
	\$	6,220,818

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. Inventories

Inventories are comprised of the following:

	June 30, 2018	December 31, 2017
Harvested cannabis	\$ 2,716,385	\$ 965,518

Inventory recognized as an expense in cost of sales for the three and six months ended June 30, 2018 was \$508,390 and \$714,883, respectively (2017 - \$173,306 and \$388,486).

During the three and six months ended June 30, 2018, the Company recognized inventory impairment in the amount of \$32,773 and \$52,334, respectively (2017 - \$nil and \$nil).

During the three and six months ended June 30, 2018, the Company recognized \$106,725 and \$121,385 of research and development expenses, respectively (2017 - \$nil and \$nil), related to inventory used in the research of cannabis oils.

6. Biological Assets

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

	Amount
January 1, 2017	\$ 494,075
Increase in fair value less costs to sell due to biological transformation	598,526
Transferred to inventory upon harvest	(849,709)
Balance, December 31, 2017	\$ 242,892
Increase in fair value less costs to sell due to biological transformation	431,925
Transferred to inventory upon harvest	(564,854)
Balance, June 30, 2018	\$ 109,963

The growing time for a full harvest of cannabis plants is just over three months. As listed below, key estimates are involved in the valuation process of the cannabis plants. The Company's estimates, by their nature, are subject to changes that could result in future gains or losses of biological assets. Changes in estimates could result from volatility of sales prices, changes in yields, and variability of the costs necessary to complete the harvest. Prior to harvest, all production costs are expensed within gross profit.

As at June 30, 2018, the Company's biological assets were on average, 17% complete (2017 – 32%), and it was expected that the biological assets would yield approximately 167 kg of cannabis (2017 – 23 kg). As at June 30, 2018, the Company had 7,682 plants that were biological assets (2017 – 3,983 plants).

The Company values its biological assets at each reporting period at fair value less costs to sell. This is determined using a valuation model to estimate the expected harvest yield per plant applied to the estimated price per gram, less processing and selling costs. This model also considers the progress in the plant life cycle. The Company's model estimates cost to complete harvest for each stage of a plant's lifecycle (clone, vegetative, flowering). For a given plant, the Company applies the corresponding cost in calculating its fair value at harvest. The fair value of a plant at the reporting date is prorated based on its age at the reporting date. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions:

- Average number of weeks in the growing cycle is twelve weeks from propagation to harvest. The Company considers plants less than two weeks of age to be in the cloning stage; between two and four weeks to be in the vegetative state; and more than four weeks to be in the flowering stage. As at June 30, 2018, the Company had \$70,552 (2017 - \$315,787) in the flowering stage and \$39,410 in the cloning stage (2017 - \$6,489).
- Expected average harvest yield of dried cannabis is 35.7 grams per plant
- Expected average selling price of dried cannabis is \$7.04 per gram
- Expected average cost to complete harvest is \$1.67 per gram and cost of post-harvest activities is \$1.59 per gram
- Expected cost to sell is \$0.97 per gram

The estimates of growing cycle, harvest yield and costs per gram are based on the Company's historical results. The estimate of the selling price per gram is based on the Company's historical sales in addition to the Company's expected sales price going forward. These inputs are subject to volatility and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

VIVO CANNABIS INC. (formerly ABCann Global Corporation)
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2018 and 2017

6. Biological Assets (continued)

The Company expects that a \$1 increase or decrease in the selling price per gram of dried cannabis would increase or decrease the fair value of biological assets by \$27,194 (2017 - \$73,095). A 5% increase or decrease in the estimated yield per cannabis plant would result in an increase or decrease in the fair value of biological assets of \$5,498 (2017 - \$18,027). Additionally, an increase or decrease of 10% in the costs of production would increase or decrease the fair value of biological assets by \$1,006 (2017 - \$22,834).

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

	June 30, 2018	June 30, 2017
Unrealized change in fair value of biological assets	\$ 109,963	\$ 360,544
Realized fair value increments on inventory sold in the year	321,962	876,930
Increase in fair value less costs to sell due to biological transformation	\$ 431,925	\$ 1,237,474

7. Property, Plant and Equipment

	Land	Building and improvements	Computer equipment	Office furniture & equipment	Production equipment	Vehicles	Fencing	Assets under construction	Total
Cost									
At January 1, 2017	\$ 516,251	\$ 2,449,298	\$ 33,739	\$ 254,311	\$ 3,539,784	\$ 112,080	\$ 86,104	\$ -	\$ 6,991,567
Additions	1,794,158	846,570	45,760	18,124	4,135,275	7,470	-	3,551	6,850,908
Reclassification	-	-	-	(100,386)	100,386	-	-	-	-
Effect of changes in exchange rates	-	-	569	130	-	-	-	-	699
At December 31, 2017	2,310,409	3,295,868	80,068	172,179	7,775,445	119,550	86,104	3,551	13,843,174
Additions	-	529,611	114,578	14,214	(44,141)	-	-	3,806,615	4,420,877
Disposals	-	-	-	-	-	(77,180)	-	-	(77,180)
Reclassification	(1,590,274)	(924,193)	-	-	-	-	-	2,514,467	-
Effect of changes in exchange rates	-	-	53	579	-	-	-	-	632
At June 30, 2018	\$ 720,135	\$ 2,901,286	\$ 194,699	\$ 186,972	\$ 7,731,304	\$ 42,370	\$ 86,104	\$ 6,324,633	\$ 18,187,503
Accumulated depreciation									
At January 1, 2017	\$ -	\$ 257,932	\$ 27,479	\$ 79,743	\$ 1,067,140	\$ 91,598	\$ 20,019	\$ -	\$ 1,543,911
Expense for the year	-	203,242	14,612	27,969	787,822	20,826	8,611	-	1,063,082
Effect of changes in exchange rates	-	-	15	31	-	-	-	-	46
At December 31, 2017	-	461,174	42,106	107,743	1,854,962	112,424	28,630	-	2,607,039
Expense for the period	-	165,422	17,744	16,723	519,132	1,696	4,305	-	725,022
Disposals	-	-	-	-	-	(77,180)	-	-	(77,180)
Effect of changes in exchange rates	-	-	251	306	-	-	-	-	557
At June 30, 2018	\$ -	\$ 626,596	\$ 60,101	\$ 124,772	\$ 2,374,094	\$ 36,940	\$ 32,935	\$ -	\$ 3,255,438
Net book value									
At January 1, 2017	\$ 516,251	\$ 2,191,366	\$ 6,260	\$ 174,568	\$ 2,472,644	\$ 20,482	\$ 66,085	\$ -	\$ 5,447,656
At December 31, 2017	\$ 2,310,409	\$ 2,834,694	\$ 37,962	\$ 64,436	\$ 5,920,483	\$ 7,126	\$ 57,474	\$ 3,551	\$ 11,236,135
At June 30, 2018	\$ 720,135	\$ 2,274,690	\$ 134,598	\$ 62,200	\$ 5,357,210	\$ 5,430	\$ 53,169	\$ 6,324,633	\$ 14,932,065

The depreciation expense included in the production expense for the three and six months ended June 30, 2018 was \$319,781 and 582,334, respectively (2017 - \$239,738 and \$454,353).

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8. Intangible Assets

	Work flow technology		Websites	Customer relationships	Total
Cost					
At January 1, 2017	\$	190,000	\$	-	\$ 190,000
Additions		-		39,509	39,509
Effect of changes in exchange rates		-		817	817
At December 31, 2017	\$	190,000	\$	40,326	\$ 230,326
Additions		-		-	645,000
Effect of changes in exchange rates		-		858	858
At June 30, 2018	\$	190,000	\$	41,184	\$ 645,000
Accumulated depreciation					
At January 1, 2017	\$	146,250	\$	-	\$ 146,250
Expense for the year		33,750		6,687	40,437
Effect of changes in exchange rates		-		35	35
At December 31, 2017	\$	180,000	\$	6,722	\$ 186,722
Expense for the period		10,000		6,878	53,750
Effect of changes in exchange rates		-		129	129
At June 30, 2018	\$	190,000	\$	13,729	\$ 53,750
Net book value					
At January 1, 2017	\$	43,750	\$	-	\$ 43,750
At December 31, 2017	\$	10,000	\$	33,604	\$ 43,604
At June 30, 2018	\$	-	\$	27,455	\$ 591,250

9. Business Acquisition

Acquisition of Harvest Medicine

On January 31, 2018, the Company completed the acquisition of 100% of the outstanding common shares of Harvest Medicine Inc. ("**Harvest Medicine**"), a medicinal cannabis clinic operating in Alberta.

The consideration was as follows:

Cash, on closing	\$	1,500,000
Promissory note, due within 65 days of closing		76,300
Common shares (1,056,338 shares @ \$3.08)		3,253,521
Discount for lack of marketability of shares		(1,126,968)
Contingent consideration		6,532,628
	\$	10,235,481

The discount for lack of marketability of the shares was calculated based on the restrictions placed on the Company's common shares issued to the vendor. The hold periods range from 3 to 36 months and the discount has been determined using the Black-Scholes model, with a stock price of \$3.08, an exercise price of \$3.08, an expected life ranging between 3 and 36 months, and a volatility of 79.1%.

Contingent consideration is payable in cash or common shares at the option of the vendor, and is based on performance milestones, including patient, revenue and profitability metrics for the 2018 and 2019 fiscal years. These include:

- 1) *Patient acquisition fees* - Provided Harvest Medicine maintains positive cash flow in a given quarter, the Company shall, during calendar 2018 and 2019, pay the vendor a fee for each patient that registers with a licensed producer, depending on the purchasing activity of the patient;

9. Business Acquisition (continued)

- 2) *2018 earnout* – The Company shall pay between \$700,000 and \$1,300,000 by March 31, 2019 if revenue from Harvest Medicine’s existing clinic is at least \$2,100,000 for the year ended December 31, 2018. The amount is payable at the option of the vendor in cash or common shares of the Company, at a price based on the volume weighted average price of the Company’s common shares for the 30 trading days ending on December 31, 2018 (subject to a minimum floor price of \$1.42); and
- 3) *2019 earnout* – The Company shall pay between \$700,000 and \$1,300,000 by March 31, 2020 if revenue from Harvest Medicine’s existing clinic is at least \$2,800,000 for the year ended December 31, 2019. The amount is payable at the option of the vendor in cash or common shares of the Company, at a price based on the volume weighted average price for the 30 trading days ending on December 31, 2019 (subject to a minimum floor price of \$1.42).

The contingent consideration was initially estimated to have a total undiscounted value of \$8,506,705, and has been discounted to a present value of \$6,532,628 using a discount rate relevant to the acquired business.

The following represents the preliminary allocation of the purchase price and the fair value of assets acquired and remains subject to change.

Purchase Price allocated to:	
Cash	\$ 300,379
Accounts receivable	291,563
Prepaid expenses	4,000
Accounts payable and accrued liabilities	(456,428)
Property, plant and equipment	72,629
Customer relationships	645,000
Goodwill	9,378,338
	\$ 10,235,481

The unallocated purchase price is expected to be mainly attributable to Harvest Medicine’s customer relationships, and assembled workforce. It is expected that the customer relationships will be valued over a period of five years, which management considers a reasonable useful life. The initial allocation of the purchase price is preliminary and management will continue to refine the purchase price allocation during the measurement period.

During the three and six months ended June 30, 2018, the Company recorded an increase in the value of the contingent consideration of \$1,040,376 and \$1,112,009, respectively (2017 - \$nil and \$nil). During the three and six months ended June 30, 2018, the Company paid \$375,000 and \$nil, respectively (2017 – \$nil and \$nil), of contingent consideration. The Company has recognized revenue of \$1,035,646 (2017 – \$nil) and net income of \$257,922 (2017 – \$nil) from Harvest Medicine since the acquisition date.

10. Shareholders’ (Deficiency) Equity

Authorized share capital

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

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10. Shareholders' (Deficiency) Equity (continued)

Outstanding share capital

	Number of shares	Amount
Balance, January 1, 2017	64,806,139	\$ 7,167,069
Common shares issued for cash, net of issuance costs (1)	24,341,761	17,851,462
Common shares issued for services (2)	430,488	332,500
Partial conversion of Officer Debenture (3)	1,512,195	542,874
Partial settlement of loans payable (4)	2,409,235	668,226
Partial settlement of interest payable on 2016 Debentures (5)	333,082	279,789
Conversion of 2015 Debenture (6)	5,747,271	2,647,963
Conversion of 2016 Debenture (7)	8,222,656	5,623,924
Conversion of 2017 Debenture (8)	14,423,076	16,468,861
Exercise of options (9)	1,187,078	740,409
Exercise of broker warrants (10)	1,738,079	1,645,961
Exercise of warrants (11)	23,945,453	21,192,378
Shares issued pursuant to the acquisition of Panda (12)	5,312,500	4,250,000
Grant of shares for compensation (13)	1,575,000	415,379
Balance as at December 31, 2017	155,984,013	\$ 79,826,795
Common shares issued for cash, net of issuance costs (14)	11,500,000	34,156,824
Common shares issue for business acquisition (15)	1,056,338	2,126,553
Redemption of RSUs (16)	1,310,550	2,841,825
Conversion of Officer Debenture (17)	2,297,561	847,058
Partial Conversion of December 2017 Debentures (18)	17,666,666	25,081,631
Exercise of options (19)	2,697,654	2,199,380
Exercise of warrants (20)	1,768,292	1,175,972
Exercise of broker warrants (21)	187,416	207,485
Stock-based payments (22)	50,199	550,890
Balance as at June 30, 2018	194,518,689	\$ 149,014,413

As at June 30, 2018, there were no shares issued and outstanding other than common shares.

Year ended December 31, 2017

- 1) 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 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 \$763,609 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 August 2017, the Company received gross proceeds of \$15,000,000 from the issuance of 6,666,666 common shares to Cannabis Wheaton Income Corp., pursuant to a binding agreement to finance the construction of additional cultivation space. The Company recognized \$8,800,000 of deferred revenue, which represents the premium over the closing price of the Company's common shares on the issue date.

10. Shareholders' (Deficiency) Equity *(continued)*

- 2) During the year ended December 31, 2017, the Company issued 30,488 common shares valued at \$0.41 per share for services rendered. In April 2017, in conjunction with the closing of the reverse acquisition (as further described in note 4), a finders' fee of \$320,000 was paid via issuance of 400,000 common shares, and was recorded as listing costs.
- 3) During the year ended December 31, 2017, \$620,000 of the Officer Debenture (as defined in note 0) and accrued interest was converted into 1,512,195 common shares at a conversion price of \$0.41 per share.
- 4) During the year ended December 31, 2017, the Company issued 2,409,235 common shares valued at \$0.41 per share pursuant to settlements of certain loans payable.
- 5) In September 2017, \$279,789 of interest payable owing on the 2016 Debentures (as defined in note 0) was converted into 333,082 common shares at a conversion price of \$0.84 per share.
- 6) In conjunction with the closing of the reverse acquisition, the 2015 Debentures (as defined in note 0) were converted into 5,747,271 common shares.
- 7) During the year ended December 31, 2017, the 2016 Debentures (as defined in note 0) were converted into 8,222,656 common shares.
- 8) During the year ended December 31, 2017, the May 2017 Debentures (as defined in note 0) were converted into 14,423,076 common shares.
- 9) During the year ended December 31, 2017, 1,187,078 stock options were exercised into common shares for total proceeds of \$215,767. In addition, \$524,642 of contributed surplus attributable to the exercised options was reclassified to share capital.
- 10) During the year ended December 31, 2017, 1,738,079 broker warrants were exercised into common shares for total proceeds of \$990,485. In addition, \$655,511 of warrant reserve attributable to the exercised broker warrants was reclassified to share capital.
- 11) During the year ended December 31, 2017, 23,945,453 warrants were exercised into common shares for total proceeds of \$15,639,306. In addition, \$5,553,072 of warrant reserve attributable to the exercised warrants was reclassified to share capital.
- 12) During the year ended December 31, 2017, as part of the reverse acquisition, 5,312,500 common shares were retained by Panda shareholders. These shares were valued at \$0.80 per share, for a total of \$4,250,000.
- 13) During the year ended December 31, 2017, 1,575,000 common shares were issued as compensation to management, at prices between \$0.83 and \$1.16 per share. The shares vest semi-annually over 30 to 36 months. The Company recognized \$415,379 during the year with respect to the vesting of shares granted. As at December 31, 2017, 195,833 common shares were fully vested.

10. Shareholders' (Deficiency) Equity (continued)

Six months ended June 30, 2018

- 14) On February 28, 2018, the Company issued 11,500,000 common shares and 6,125,000 warrants pursuant to a bought deal financing by way of a short form prospectus for gross proceeds of \$40,543,250. Each warrant entitles the holder to purchase one common share at a price of \$4.25 per share until February 28, 2020. The Company recorded a warrant reserve of \$3,734,103 attributable to the value of these warrants. Share issuance costs consisted of \$2,104,366, which were paid in cash, and the issuance of 575,000 broker warrants, each of which entitles the holder to purchase one unit at \$3.50 per unit until February 28, 2020. If exercised, each unit will consist of one common share and one half of one common share purchase warrant, each of which will be exercisable into one common share at a price of \$4.25 per share until February 28, 2020. The broker warrants were valued at \$798,733 and have been recorded in shareholders' equity under warrant reserve.
- 15) On January 31, 2018, the Company acquired Harvest Medicine (as further described in note 9). As part of the consideration paid pursuant to the business acquisition, the Company issued 1,056,338 common shares to the vendor, having a value of \$2,126,553.
- 16) During the period, 1,311,100 restricted share units were redeemed into common shares at a value of \$2,841,825. As part of the redemption, the Company withheld and retired 110,550 RSUs for payroll tax purposes.
- 17) During the period, the Officer Debenture (as defined in note 0) was converted into 2,297,561 common shares at a conversion price of \$0.41 per share.
- 18) During the period, \$26,500,000 of the aggregate \$30,000,000 principal amount of the December 2017 Debentures (as defined in note 0) was converted into 17,666,666 common shares.
- 19) During the period, 2,697,654 stock options were exercised into common shares for total proceeds of \$1,242,907. In addition, \$956,472 of contributed surplus attributable to the exercised options was reclassified to share capital.
- 20) During the period, 1,768,292 warrants were exercised into common shares for total proceeds of \$906,097. In addition, \$269,875 of warrant reserve attributable to the exercised warrants was reclassified to share capital.
- 21) During the period, 187,416 broker warrants were exercised into common shares for total proceeds of \$207,485. In addition, \$57,552 of warrant reserve attributable to the exercised broker warrants was reclassified to share capital.
- 22) During the period, the Company recognized \$438,946 with respect to the vesting of shares granted. As at June 30, 2018, 458,333 common shares were fully vested. In addition, the Company issued 50,199 common shares for services rendered in 2017 of \$111,944, which had been accrued in the prior year.

Warrants

Each warrant entitles the holder to purchase one common share at a set price (except for the broker warrants issued during the three months ended March 31, 2018 which are exercisable into units as described above), at the option of the holder for a set period of time.

10. Shareholders' (Deficiency) Equity (continued)

The following table sets out information regarding warrants issued by the Company:

	Number of warrants	Weighted average exercise price
Outstanding, January 1, 2017	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
Expiry of warrants	(18,353)	\$0.62
Exercise of warrants	(23,945,453)	\$0.65
Exercise of broker warrants	(1,738,079)	\$0.57
Outstanding, December 31, 2017	15,563,630	\$0.42
Issued in conjunction with common share offering	6,612,500	\$4.25
Issuance of broker warrants	575,000	\$3.50
Exercise of warrants	(1,768,292)	\$0.51
Exercise of broker warrants	(187,416)	\$0.80
Outstanding, June 30, 2018	20,795,422	\$1.71

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:

	2018	2017
Volatility	86%	70%-80%
Risk-free interest rate	1.78%	0.72 to 1.17%
Expected life (years)	2 years	2 years
Dividend yield	Nil	Nil
Forfeiture rate	0%	0%
Share price	\$2.04	\$0.41 to 0.80

The following table presents information related to warrants outstanding as at June 30, 2018:

Weighted average exercise price	Number of Warrants	Weighted average remaining life (years)
\$1.71	20,795,422	2.13

Incentive stock 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 Company's common shares on the date of grant, as estimated using the Black-Scholes model.

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10. Shareholders' (Deficiency) Equity (continued)

The following table summarizes the Company's stock option activity for the periods indicated:

	Number of Options	Weighted average exercise price
Outstanding, January 1, 2017	8,630,122	\$0.40
Granted	3,768,166	\$0.81
Exercised	(1,187,078)	\$0.18
Cancelled	(300,000)	\$0.500
Outstanding, December 31, 2017	10,911,210	\$0.57
Granted	1,660,000	\$1.59
Exercised	(2,697,654)	\$0.46
Cancelled	(99,971)	\$0.68
Outstanding, June 30, 2018	9,773,585	\$0.77

In 2017, 3,768,166 stock options were granted, of which 1,079,000 vest monthly over 12 months, 2,650,000 vest monthly over 36 months, and the balance vest quarterly over 12 months. The options had an aggregate fair value of \$1,456,949. 1,187,078 stock options were exercised in 2017 for total proceeds of \$215,768. \$524,641 of contributed surplus attributable to the exercised options was reclassified to share capital.

During the six months ended June 30, 2018, 1,660,000 options were granted, with vesting periods ranging from six months to 36 months. The options had an aggregate value of \$2,119,221. 2,697,654 options were exercised during the period for total proceeds of \$1,242,907. \$956,472 of contributed surplus attributable to the exercised options was reclassified to share capital.

The Company recognized \$610,653 and \$1,248,636 (June 30, 2017 - \$266,016 and \$369,516) of expense related to stock options for the three and six months ended June 30, 2018, respectively.

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

	2018	2017
Volatility	62%-85%	42%-70%
Risk-free interest rate	1.93% to 2.08%	0.85% to 1.62%
Expected life (years)	5 years	5 years
Dividend yield	Nil	Nil
Forfeiture rate	0%	0%
Share price	\$1.42 to \$3.08	\$0.41 to \$1.16

Volatility assumptions used in the model were calculated based on the actual annualized one-year trading volatility of the Company's common shares.

The following table presents information related to stock options outstanding as at June 30, 2018:

Weighted average exercise price	Number of Options	Vested	Weighted average remaining life (years)
\$0.01 to \$1.00	7,374,419	6,471,641	3.09
\$1.00 to \$2.00	2,224,166	413,472	4.88
\$2.00 to \$3.00	175,000	29,167	4.82
Balance as at June 30, 2018	9,773,585	6,914,280	3.53

11. Derivative Liability

2015 Debentures

The 2015 Debentures (see note 0) issued by the Company contained down round protection on the conversion feature. If the down round protection was enacted, there would be variability in the number of common shares issuable on conversion. 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 (see note 20). The key Level 3 inputs used by management to determine the fair value were the expected future volatility in the price of the Company's common shares and the expected life of the 2015 Debentures. The following assumptions were used:

	April 28, 2017*	December 31, 2016
Volatility	70%	70%
Risk-free interest rate	0.72%	0.52%
Expected life (years)	0.54 years	0.86 years
Share price	\$0.41	\$0.53
* 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 year ended December 31, 2017, the Company recorded a loss of \$398,113 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 0) could be converted at the option of the holder into 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 go-public transaction. As the conversion price depended on the go-public price, there was variability in the number of shares that could be issued. Therefore, the Company classified the 2016 Debentures 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 2 recurring fair value measurement (see note 20). The key Level 2 inputs used by management to determine the fair value were the expected future volatility in the price of the Company's common shares and the expected life of the 2016 Debentures.

11. Derivative Liability (continued)

The following assumptions were used:

	April 28, 2017	December 31, 2016
Volatility	70%	70%
Risk-free interest rate	0.72%	0.75%
Expected life (years)	1.47 years	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 year ended December 31, 2017, the Company recorded a loss of \$143,733 on revaluation of the derivative liability. At the closing of the reverse acquisition, these notes were replaced with new notes on substantially the same terms (see note 17), 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 (see note 10). 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. During the year ended December 31, 2017, the 2016 Debentures were converted into 8,222,656 common shares. Upon conversion, the Company reclassified \$2,691,000, being the value of the conversion feature, from contributed surplus to share capital.

May 2017 Debentures

The May 2017 Debentures (see note 0) contained down round protection on the conversion feature. If the down round protection was enacted, there would 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 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 (see note 20).

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:

	December 31, 2017	December 31, 2016
Volatility	70%	n/a
Risk-free interest rate	1.57%	n/a
Expected life (years)	0-3 years	n/a

With respect to the May 2017 Debentures, upon initial recognition, the Company recorded a derivative liability of \$4,507,687 and \$50,000 in transaction costs. During the year ended December 31, 2017, the Company recorded a loss of \$719,236 (2016 - \$nil) on revaluation of the derivative liability. The May 2017 Debentures were converted, in full, during the year ended December 31, 2017. As a result, the Company reclassified the derivative liability of \$5,266,933, representing the fair value of the conversion feature, to share capital.

12. 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. 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

University of Guelph

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. During 2017, the agreement was extended to the earlier of December 31, 2018 and the completion of the project. The estimated payment schedule is as follows:

2018	\$248,000
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Auxly Cannabis Group Inc. (formerly Cannabis Wheaton Income Corp.)

On May 29, 2017, the Company entered into a binding interim agreement with Auxly Cannabis Group Inc. (“ACG”). Pursuant to the agreement, upon the closing of cumulative investments in the Company from ACG of \$30 million, the Company agreed to fund the construction of an additional 50,000 square feet of cultivation space at the Company’s proposed Kimmitt cannabis cultivation facility, to be located in Napanee, Ontario. ACG would be entitled to 50% of the cultivation yield of such additional 50,000 square feet of newly constructed cultivation space.

On March 19, 2018, the Company and ACG entered into an amending agreement (the “**Amendment**”), that amended the terms of the May 2017 binding interim agreement to provide for definitive terms under which ACG will invest an additional \$15 million in the Company to fund construction of the Company’s proposed Kimmitt facility. The Amendment provides that, within 60 days of ACG accepting the Company’s proposed construction budget and timeline (the “**Plan**”) for the Kimmitt facility, ACG will subscribe for \$15 million worth of special warrants of the Company, with such special warrants to be issued at a price equal to the greater of (i) two times the then trading price of the Company’s common shares and (ii) \$2.25, and each special warrant entitling the holder to acquire one common share of the Company for no additional consideration. The Amendment also provides that the Company must deliver the Plan to ACG by September 19, 2018.

Office Sublease

The Company has leased office space in Toronto, Ontario for \$7,724 per month. The lease is on a month-to-month basis and can be terminated by either party on 60 days’ written notice.

13. Loans Receivable

	June 30, 2018	December 31, 2017
Loan receivable from entities controlled by an officer of a subsidiary	\$ -	\$ 1,924,520
Less: impairment of loans receivable	-	(252,769)
Loans receivable balance	\$ -	\$ 1,671,751

During the year ended December 31, 2017, the Company advanced \$1,924,520 to entities controlled by a former officer of a subsidiary of the Company to develop the Company's German cannabis business (see note 16). The advances are interest free and due on demand. During the year, the Company impaired \$252,769 with respect to these advances (2016 - \$nil).

During the six months ended June 30, 2018, \$1,663,140 of the loan was assigned to a company controlled by Ken Clement, a former director of the Company. The loan was fully repaid as at June 30, 2018.

14. 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, 2015. The mortgage was originally due March 31, 2017 and was extended from its original maturity for another one year. During the period, the mortgage was extended to March 31, 2019, during which the balance owing can be repaid in full at any time.

15. Other Financial Assets

On March 16, 2018, the Company subscribed for 6,666,666 subscription receipts of Choom Holdings Inc. at a price of \$0.60 per subscription receipt, for an aggregate subscription price of \$4,000,000 and was assigned an option to purchase common shares of Specialty Medijuana Inc., which it subsequently exercised for \$1,242,000. Because the escrow release conditions were not satisfied by the escrow deadline, the Choom subscription funds were returned in full to the Company. The Company's Specialty shares were subsequently exchanged, via a series of transactions, for 5,395,799 shares of Choom.

During the three and six months ended June 30, 2018, the Company recognized an unrealized gain of \$5,718,581 (2017 - \$nil and \$nil).

16. Related Party Transactions

- (a) The Company owed \$1,000 at June 30, 2018 to ABcann Medical Distributors Inc., a company controlled by a former director of the Company (December 31, 2017 – \$nil).
- (b) As at June 30, 2018, the Company was owed \$1,394,672 (December 31, 2017 - \$56,672) from a former director of the Company.
- (c) During the six months ended June 30, 2018, \$1,663,140 of loans receivable was assigned to a company controlled by a former director of the Company (see note 13), and has been fully repaid.

16. Related Party Transactions (continued)

(d) Key management includes directors and officers of the Company. Compensation awarded to key management was comprised of the following for the years indicated:

	For the three months ended June 30, 2018	For the three months ended June 30, 2017	For the six months ended June 30, 2018	For the six months ended June 30, 2017
Short-term	\$ 396,547	\$ 287,670	\$ 1,037,459	\$ 455,746
Share-based payments	371,577	481,245	2,432,701	490,487
Total	\$ 768,124	\$ 768,915	\$ 3,470,160	\$ 946,233

17. Convertible Debentures

2015 Debentures

On November 10, 2015, the Company entered into an agreement to issue convertible debentures having a principal amount of up to \$1,500,000 (the “**2015 Debentures**”). The 2015 Debentures bore interest at the rate of 12% per annum, with accrued interest and principal payable two years from the date of issuance. The 2015 Debentures and accrued interest could be converted at the option of the holder into common shares of the Company at a conversion price of \$0.41 per share. The 2015 Debentures contained a down round adjustment provision, which would adjust 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 (see note 11). In addition, subject to the conversion of the 2015 Debentures into common 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 Debentures 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 (see note 4).

2016 Debentures

On October 13, 2016, the Company issued senior secured convertible debentures in the aggregate principal amount of \$5,000,000 (the “**2016 Debentures**”), maturing October 13, 2018. The 2016 Debentures bore interest at the rate of 10% per annum, payable semi-annually beginning December 31, 2016. Upon a go-public transaction, the 2016 Debentures could be converted at the option of the holder into common shares of the Company at a conversion price equal to a 20% discount to the go-public price. In conjunction with the closing of the reverse acquisition (see note 4), the 2016 Debentures were replaced with new debentures of the Company having substantially the same terms. The aggregate principal amount of the replacement debentures was \$5,262,500, which reflected 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. In addition, 3,906,250 warrants were issued in connection with the issuance of the replacement debentures, each of which is exercisable into one common share at an exercise price of \$0.80 per share for two years from the date of issue. In September 2017, the Company settled \$279,789 of interest payable on the 2016 Debentures via issuance of 333,082 common shares. During the year ended December 31, 2017, the total outstanding principal of \$5,262,500 was converted into 8,222,656 common shares (see note 10).

17. Convertible Debentures (continued)

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 into common shares of the Company at a conversion price of \$0.41 per share. Following the amendment, the total face value of the Officer Debenture, 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 the amendment, the Company issued 7,768,000 warrants to the officer and director (see note 10). During the year ended December 31, 2017, \$500,000 of principal and \$120,000 of accrued interest was converted into 1,512,195 common shares. During the first quarter of 2018, the remaining \$942,000 of principal was converted into 2,297,561 common shares.

May 2017 Debentures

In May 2017, the Company issued senior secured convertible debentures in the aggregate principal amount of \$15,000,000 (the "**May 2017 Debentures**"), maturing April 28, 2020. The May 2017 Debentures could be converted at the option of the holder into common shares at a conversion price of \$1.04 per share, subject to adjustment as provided in the 2017 Debentures. The May 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. During 2017, the May 2017 Debentures were converted, in full, into an aggregate of 14,423,076 common shares.

December 2017 Debentures

In December 2017, the Company issued senior unsecured convertible debentures in the aggregate principal amount of \$30,000,000 (the "**December 2017 Debentures**"), bearing an interest rate of 7% per annum and maturing December 21, 2020. The December 2017 Debentures and accrued interest can be converted at the option of the holder into common shares of the Company at a conversion price of \$1.50 per share, subject to adjustment as provided in the December 2017 Debentures. The Company initially recognized \$22,056,922 as the fair value of the December 2017 Debentures, and \$6,075,065 was initially recognized in contributed surplus with respect to the value of the conversion feature. During the six months ended June 30, 2018, \$26,500,000 of the principal amount was converted into 17,666,666 common shares (see note 10).

February 2018 Debentures

In February 2018, the Company issued unsecured convertible debentures in the aggregate principal amount of \$34,500,000 (the "**February 2018 Debentures**") pursuant to a bought deal financing. The February 2018 Debentures mature on February 28, 2021 and the outstanding principal of the debentures bears interest at the rate of 6.0% per annum, payable semi-annually in arrears on June 30 and December 31 in each year, commencing on June 30, 2018. Each debenture is convertible into common shares at the option of the holder at any time prior to the close of business on the earlier of the last business day immediately preceding the maturity date at a conversion price of \$4.00 per share, subject to adjustment in certain circumstances. The Company initially recognized \$23,661,109 as the fair value of the February 2018 Debentures, and \$6,903,998 was initially recognized in contributed surplus with respect to the value of the conversion feature.

VIVO CANNABIS INC. (formerly ABCann Global Corporation)
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2018 and 2017

17. Convertible Debentures (continued)

	2015 Debentures	2016 Debentures	Officer Debentures	May 2017 Debentures	December 2017 Debentures	February 2018 Debentures	Total
Balance, January 1, 2017	\$ 1,100,932	\$ 1,542,817	\$ 1,215,701	\$ -	\$ -	\$ -	\$ 3,859,450
Amounts issued	-	-	-	15,000,000	30,000,000	-	45,000,000
Less: allocated to derivative liability	-	-	-	(4,507,687)	-	-	(4,507,687)
Less: allocated to equity component	-	-	-	-	(6,075,065)	-	(6,075,065)
Less: deferred tax liability	-	-	-	-	(1,767,780)	-	(1,767,780)
Less: issuance costs	-	-	-	(34,975)	(100,233)	-	(135,208)
Accretion	265,558	1,125,107	49,908	784,600	51,334	-	2,276,507
Accrued interest	-	265,000	-	-	-	-	265,000
Conversion	(1,366,490)	(2,932,924)	(422,874)	(11,241,938)	-	-	(15,964,226)
Balance, December 31, 2017	\$ -	\$ -	\$ 842,735	\$ -	\$ 22,108,256	\$ -	\$ 22,950,991
Amounts issued	-	-	-	-	-	34,500,000	34,500,000
Less: allocated to derivative liability	-	-	-	-	-	-	-
Less: allocated to equity component	-	-	-	-	-	(6,903,998)	(6,903,998)
Less: deferred tax liability	-	-	-	-	-	(2,489,197)	(2,489,197)
Less: issuance costs	-	-	-	-	-	(1,445,696)	(1,445,696)
Accretion	-	-	4,323	-	581,713	1,158,022	1,744,058
Accrued interest	-	-	-	-	-	-	-
Conversion	-	-	(847,058)	-	(19,989,663)	-	(20,836,721)
Balance, June 30, 2018	\$ -	\$ -	\$ -	\$ -	\$ 2,700,306	\$ 24,819,131	\$ 27,519,437

18. Restricted Share Unit Liability

In 2017, the Company adopted an 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 year ended December 31, 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. During 2017, the Company accelerated the vesting of 1,200,000 RSUs pursuant to the separation of a former director and officer. The fair value of RSUs measured is based on the fair value of shares granted as the fair value of services cannot be reliably measured.

During the six months ended June 30, 2018, 1,311,100 RSUs were redeemed for common shares (see note 10). As part of the redemption, the Company withheld and retired 110,550 RSUs for payroll tax purposes. During the period, the Company issued 200,000 RSUs to a director of the Company. As at June 30, 2018, there were 1,751,788 RSUs outstanding.

The Company recorded a recovery of \$113,421 and an expense of \$1,713,486 (June 30, 2017 - \$453,365 and \$453,365) of share-based compensation expense related to RSUs during the three and six months ended June 30, 2018, respectively, of which a recovery of \$609,525 and a recovery of \$65,839 (June 30, 2017 - \$56,980 and \$56,980) related to the change in price of the Company's common shares.

19. 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 seeks to ensure that 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, mortgages 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.

20. Financial Instruments and Risk Management

Financial Instruments

The Company has classified its cash and cash equivalents, other financial assets and derivative liability as fair value through profit and loss ("FVTPL"). Other receivables, short-term investments, due from related parties, loan receivable and mortgage receivable have been classified as loans and receivables. 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

The following table summarizes information about financial assets and liabilities measured at fair value on a recurring basis in the consolidated statement of financial position and categorized by level of significance of the inputs used in making the measurements:

	June 30, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash	\$ 129,703,490	\$ -	\$ -	\$ 70,804,888	\$ -	\$ -
Other financial assets	6,960,581	-	-	-	-	-
RSU plan liability	-	2,350,182	-	-	3,644,346	-
	136,664,071	2,350,182	-	70,804,888	3,644,346	-

20. Financial Instruments and Risk Management (continued)

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, and mortgage receivable. The Company's cash and cash equivalents are held at a major Canadian bank or credit union. The Company has assessed the ECL of its Other receivables as 0%, as they primarily relate to HST refunds and an amount owing from a former director, who has demonstrated a history of creditworthiness to the Company and has the means to settle the amount owing. The mortgage receivable is secured against property, which mitigates the credit risk exposure. The Company regularly monitors its 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 convertible debentures.

(c) Interest rate risk

The Company is subject to interest rate risk from its mortgage and convertible debentures. Debentures and mortgages owed by the Company are all fixed rate instruments.

21. Segmented Information

During the period, operating segments were determined to exist in two operating areas (production and sale of medical cannabis, and patient clinics) in addition to a corporate segment. As the Company has experienced rapid growth, operating segments will be further analyzed and are subject to future change. The Company had only one operating segment during the year ended December 31, 2017. The following table presents selected financial results for the operating segments and the corporate segment for the three and six months ended June 30, 2018.

	Medical Cannabis	Patient Clinics	Corporate	Total
<i>For the three months ended June 30, 2018</i>				
Revenue	\$ 368,959	\$ 684,725	\$ -	\$ 1,053,684
Gross profit (loss)	(513,959)	684,725	-	170,766
Net income (loss)	(2,204,676)	178,595	(1,231,631)	(794,449)
<i>For the six months ended June 30, 2018</i>				
Revenue	\$ 561,159	\$ 1,035,646	\$ -	\$ 1,596,805
Gross profit (loss)	(799,529)	1,035,646	-	236,117
Net income (loss)	(6,548,316)	257,922	(1,553,885)	(7,844,278)
<i>As at June 30, 2018</i>				
Total assets	32,200,473	1,005,392	136,126,135	169,332,000
Total liabilities	3,335,891	238,263	52,400,152	55,974,306

21. Segmented Information (continued)

The Company holds assets across three geographical locations – Canada, Germany and Australia.

	Canada	Germany	Australia	Total
<i>For the three months ended June 30, 2018</i>				
Revenue	\$ 1,053,684	\$ -	\$ -	\$ 1,053,684
Gross profit (loss)	170,766	-	-	170,766
Net income (loss)	(497,077)	(277,309)	(20,063)	(794,449)
<i>For the six months ended June 30, 2018</i>				
Revenue	\$ 1,596,805	\$ -	\$ -	\$ 1,596,805
Gross profit (loss)	236,117	-	-	236,117
Net income (loss)	(7,307,724)	(456,839)	(79,715)	(7,844,278)
<i>As at June 30, 2018</i>				
Total assets	168,985,095	304,005	42,900	169,332,000
Total liabilities	55,821,406	152,900	-	55,974,306

For the three and six months ended June 30, 2018, all revenues were earned in Canada.

22. Subsequent Events

- (a) Subsequent to the period, the Company granted 410,000 stock options, each of which are exercisable into one common share of the Company at an exercise price of \$1.27 per share until August 13, 2023.
- (b) On July 30, 2018, the Company announced that it had entered into a definitive agreement (the “**Definitive Agreement**”) with the shareholders (the “**Vendors**”) of Canna Farms Limited (“**Canna Farms**”) to acquire 100% of the issued and outstanding share capital of Canna Farms, an *Access to Cannabis for Medical Purposes Regulations* Licensed Producer located in Hope, British Columbia (the “**Acquisition**”). Under the terms of the Definitive Agreement, the Company has agreed to pay the Vendors an approximate purchase price of up to \$127,900,000, consisting of: (i) a cash payment in the amount of up to \$22.5 million, subject to adjustment in accordance with the terms of the Definitive Agreement (the “**Cash Payment**”); and, (ii) 92.5 million common shares in the capital of VIVO (the “**Consideration Shares**”) issued at a deemed price of \$1.14 per Consideration Share. Under the terms of the Definitive Agreement: (i) the Cash Payment will be paid on closing; and, (ii) 20,555,556 Consideration Shares will be issued to the Vendors on closing as freely tradeable shares, and the balance of 71,944,444 Consideration Shares will be released from escrow in six month increments over 30 months pursuant to an escrow agreement to be entered into upon closing of the Acquisition. The Acquisition remains subject to a number of customary closing conditions, including the approval of the TSXV.