

Condensed interim consolidated financial statements
[Unaudited]

Emblem Corp.

[formerly Saber Capital Corp.]

For the three months ended March 31, 2017 and 2016

Emblem Corp.

[formerly Saber Capital Corp.]

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying unaudited condensed interim consolidated financial statements of Emblem Corp. (the “Company”) have been prepared by and are the responsibility of the Company’s management.

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

Emblem Corp.

[formerly Saber Capital Corp.]

Condensed interim consolidated statements of financial position

[Unaudited]

[Expressed in Canadian dollars]

As at

	March 31, 2017 \$	December 31, 2016 \$
Assets		
Current		
Cash and cash equivalents	36,519,986	26,202,542
Trade and other receivables	1,016,713	417,440
Prepaid expenses	295,911	256,644
Inventory [note 6]	475,953	748,188
Biological assets [note 5]	209,101	124,434
	38,517,664	27,749,248
Equipment deposits	1,313,362	663,813
Property, plant and equipment, net [note 7]	10,992,301	9,483,867
	50,823,327	37,896,928
Liabilities and shareholders' equity		
Current		
Trade and other payables	2,305,591	2,295,673
Provisions [note 9]	600,000	600,000
Due to related parties [note 12]	15,501	59,690
	2,921,092	2,955,363
Long-term debt [note 10]	5,347,008	5,334,613
	8,268,100	8,289,976
Shareholders' equity		
Common shares [note 11]	60,021,493	47,148,696
Special shares	534,959	534,959
Warrants	6,957,149	4,678,264
Stock options [note 11]	840,926	548,587
Deficit	(25,799,300)	(23,303,554)
Total shareholders' equity	42,555,227	29,606,952
	50,823,327	37,896,928

Subsequent events [note 14]

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

Approved on behalf of the Board:

s/Gordon Fox
Directors/Jeffrey Fineberg
Director

Emblem Corp.

[formerly Saber Capital Corp.]

Condensed interim consolidated statements of operations and comprehensive loss

[Unaudited]

[Expressed in Canadian dollars]

For the three months ended March 31

	2017	2016
	\$	\$
Revenue	903,274	9,000
Cost of sales <i>[note 6]</i>	1,382,473	193,286
Unrealized gain from changes in fair value of biological assets <i>[note 5]</i>	(389,956)	(166,458)
Gross loss	(89,243)	(17,828)
Expenses		
General and administrative	897,069	368,662
Research and development	96,875	154,757
Selling and marketing	831,795	131,135
Depreciation	232,702	129,661
Share-based compensation	304,753	83,329
Advances to associate <i>[note 8]</i>	—	39,713
Loss before the following	(2,452,437)	(925,085)
Interest expense, net	64,895	200,356
Other income <i>[note 8]</i>	(21,586)	—
Dividend on Class A preferred shares <i>[note 9]</i>	—	237,253
Net loss and comprehensive loss	(2,495,746)	(1,362,694)
Basic and diluted loss per ordinary share	(0.04)	(0.06)
Weighted average number of ordinary shares outstanding – basic and diluted	66,781,941	21,638,900

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

Emblem Corp.

[formerly Saber Capital Corp.]

Condensed interim consolidated statements of changes in shareholders' equity (deficiency)

[Unaudited]

[Expressed in Canadian dollars]

For the three months ended March 31

	Common shares		Special shares		Warrants		Stock options		Deficit	Total
	#	\$	#	\$	Number of common shares issuable on exercise #	\$	#	\$	\$	\$
Balance, January 1, 2016	21,638,900	1,580,125	—	—	10,516,240	958,174	3,040,000	99,512	(5,914,908)	(3,277,097)
Net loss and comprehensive loss	—	—	—	—	—	—	—	—	(1,362,694)	(1,362,694)
Balance, March 31, 2016	21,638,900	1,580,125	—	—	10,516,240	958,174	3,040,000	99,512	(7,277,602)	(4,639,791)
Balance, January 1, 2017	65,650,817	47,148,696	14,065,285	534,959	29,246,230	4,678,264	4,833,333	548,587	(23,303,554)	29,606,952
Shares and warrants issued to brokers for December 2016 financing	209,037	213,217	—	—	104,518	27,175	—	—	—	240,392
Shares issued to settle an obligation	100,000	102,001	—	—	—	—	—	—	—	102,001
Stock options and warrants exercised [note 11]	699,324	583,245	—	—	(679,324)	(214,764)	(20,000)	(12,414)	—	356,067
Stock options forfeited [note 11]	—	—	—	—	—	—	—	(143,334)	(12,789)	(12,789)
Stock options issued [note 11]	—	—	—	—	—	—	1,165,000	153,917	—	153,917
Restricted shares issued as share-based compensation [note 11]	300,000	—	—	—	—	—	—	163,625	—	163,625
Private placement issuance [note 11]	4,385,668	13,200,861	—	—	2,192,834	2,719,114	—	—	—	15,919,975
Private placement Issuance costs [note 11]	—	(1,226,527)	—	—	—	(252,640)	—	—	—	(1,479,167)
Net loss and comprehensive loss	—	—	—	—	—	—	—	—	(2,495,746)	(2,495,746)
Balance, March 31, 2017	71,344,846	60,021,493	14,065,285	534,959	30,864,258	6,957,149	5,834,999	840,926	(25,799,300)	42,555,227

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Emblem Corp.

[formerly Saber Capital Corp.]

Condensed interim consolidated statements of cash flows

[Unaudited]

[Expressed in Canadian dollars]

For the three months ended March 31

	2017	2016
	\$	\$
Operating activities		
Net loss for the period	(2,495,746)	(1,362,694)
Adjustments to reconcile net loss to net cash used in operating activities		
Unrealized gain from changes in fair value of biological assets	(389,956)	(166,458)
Non-cash interest	12,395	124,755
Depreciation	232,702	129,661
Other income	(21,586)	—
Advances to associate	—	39,713
Stock-based compensation	304,753	83,329
Dividend on Class A preferred shares	—	237,253
	(2,357,438)	(914,441)
Changes in non-cash operating working capital		
Prepaid expenses	(39,267)	16,778
Inventory	272,235	(96,595)
Biological assets	305,289	71,893
Trade and other receivables	(599,273)	122,246
Trade and other payables	(115,784)	(50,448)
Due to related parties	(22,603)	—
Cash used in operating activities	(2,556,841)	(850,567)
Financing activities		
Proceeds from long-term debt	—	425,000
Stock options and warrants exercised	356,067	—
Proceeds from private placement, net of issuance costs	14,440,808	—
Cash provided by financing activities	14,796,875	425,000
Investing activities		
Purchase of property, plant and equipment	(1,273,041)	(92,465)
Investment in and advances to associate <i>[note 8]</i>	—	(164,597)
Equipment deposits	(649,549)	—
Cash used in investing activities	(1,922,590)	(257,062)
Increase (decrease) in cash and cash equivalents during the period	10,317,444	(682,629)
Cash and cash equivalents, beginning of period	26,202,542	1,236,646
Cash and cash equivalents, end of period	36,519,986	554,017

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Emblem Corp.

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Notes to condensed interim consolidated financial statements

[Unaudited]

[Expressed in Canadian dollars]

March 31, 2017 and 2016

1. Nature of business

Emblem Corp. ["Emblem" or the "Company"] was incorporated on February 25, 2008 pursuant to the *Business Corporations Act* [British Columbia] under the name "Kristina Capital Corp." and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange ["TSXV"]. The Company changed its name to "Saber Capital Corp." on January 19, 2011.

On December 6, 2016, the Company closed its qualifying transaction [the "Transaction"] with 9045538 Canada Inc. [f/k/a KindCann Holdings Limited and Emblem Corp.] ["KindCann"]. The Transaction was completed pursuant to a plan of arrangement [the "Plan of Arrangement"] under the *Canada Business Corporations Act* [the "CBCA"] pursuant to which the shareholders of KindCann completed a reverse take-over of the Company [note 2]. KindCann, through its wholly-owned subsidiary Emblem Cannabis Corporation, is a licensed producer under the Access to Cannabis for Medical Purposes Regulations ["ACMPR"]. Concurrent with the Transaction, KindCann amalgamated with its three subsidiaries, Emblem Cannabis Corporation, formerly KindCann Limited, KindCann Realty Limited ["KRL"] and 9845992 Canada Limited ["OHL"], formerly Oakbank Holdings Limited. The amalgamated entity was renamed Emblem Cannabis Corporation ["ECC"].

Prior to completion of the Transaction, the Company completed a brokered private placement by issuing 18,781,985 subscription receipts at a price of \$1.15 for gross proceeds of \$21,599,283. On closing of the Transaction, each subscription receipt was exchanged, without payment of any additional consideration, for one unit ["Unit"] of the Company, comprising one post-consolidation common share and one-half of one warrant [each whole warrant, a "Warrant"]. Each Warrant is exercisable to purchase one post-consolidation common share at an exercise price of \$1.75 per share for a period of 36 months.

Concurrent with completion of the Transaction, the Company completed a brokered financing pursuant to a TSXV short form offering document by issuing 1,739,130 Units for gross proceeds of \$2,000,000.

In connection with the Transaction, the Company changed its name from "Saber Capital Corp." to "Emblem Corp.", consolidated its common shares on a 4 to 1 basis and continued from a corporation governed by the laws of British Columbia to a corporation governed by the CBCA. Following these changes, KindCann amalgamated with Saber Acquisition Co., a wholly-owned subsidiary of the Company formed solely for the purpose of facilitating the Transaction. Pursuant to the amalgamation and the Plan of Arrangement, the shareholders of KindCann received one common share of the Company for each common share of KindCann registered in the names of such shareholders. Holders of KindCann's special non-voting shares also received one special non-voting share of the Company for each special non-voting share of KindCann registered in the names of such shareholders. Holders of KindCann's options and warrants [including all holders of Units] outstanding at the time of closing the Transaction also received equivalent instruments of the Company exercisable for or convertible into the Company's common shares.

Following completion of the Transaction, the Company had 64,936,028 common shares issued and outstanding. In addition, an aggregate 47,936,972 common shares of the Company were reserved for special shares, options, warrants and compensation options outstanding.

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Effective upon the closing of the Transaction, as a result of the reverse take-over of the Company by the shareholders of KindCann and to align the financial years of the Company to that of KindCann, the financial year of the Company has been changed from January 31 of each year to December 31 of each year.

Upon issuance of the final exchange bulletin of the TSXV providing final acceptance of the Transaction, the Company ceased to be a Capital Pool Company and recommenced trading on the TSXV on December 12, 2016 under the symbol "EMC".

KindCann was incorporated on October 8, 2014 pursuant to the CBCA under the name "KindCann Holdings Limited". KindCann changed its name to "Emblem Corp." on September 1, 2016 and further changed its name to "9045538 Canada Inc." on December 5, 2016. ECC received its cultivation license under the ACMPR on August 26, 2015 and commenced cultivation in December 2015 at its facility in Paris, Ontario. On July 27, 2016, ECC received its distribution license and a renewal of its cultivation license upon meeting the standards set by the ACMPR and the *Controlled Drugs and Substances Act* and its Regulations. The registered office of the Company is 500-36 York Mills Road, North York, Ontario, Canada.

In addition to its 100% ownership of ECC, the Company also owns a 50% interest in GrowWise Health Limited, a corporation incorporated under the *Business Corporation Act* [Ontario].

2. Basis of preparation

The unaudited condensed interim consolidated financial statements ["financial statements"] were prepared using the same accounting policies and methods as those used in the Company's consolidated financial statements for the year ended December 31, 2016. These condensed interim consolidated financial statements have been prepared in compliance with IAS 34 - *Interim Financial Reporting*. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ["IFRS"] have been omitted or condensed. These condensed interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 24, 2017.

3. New standards, amendments and interpretations adopted by the Company

The following new accounting standards applied or adopted during the period ended March 31, 2017 had no material impact on the financial statements:

[i] IAS 7 – Statement of Cash Flows ["IAS 7"]

On January 1, 2017, the Company adopted the amended version of IAS 7 - *Statement of Cash Flows*. The amendments require disclosures to evaluate changes in liabilities arising from financing activities, including both cash flow and non-cash changes. These amendments do not have a material impact on the condensed interim consolidated financial statements. The Company is not required to include the additional disclosures in its

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condensed consolidated interim financial statements and will disclose this information prospectively in its annual consolidated financial statements for the year ended December 31, 2017.

4. New standards and interpretations not yet adopted

The Company has not applied the following new and revised IFRS that have been issued but are not yet effective:

[i] IFRS 9 - Financial Instruments ["IFRS 9"]

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 - *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not compulsory. The Company is in the process of evaluating the impact of IFRS 9 on the Company's consolidated financial statements.

[ii] IFRS 15 - Revenue from Contracts with Customers ["IFRS 15"]

In May 2014, the IASB issued IFRS 15, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The core principle of the new standard is that an entity recognizes revenue to represent the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also provides a model for the recognition and measurement of gains or losses of non-financial assets. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The standard permits the use of either full or modified retrospective application. This new accounting guidance will also result in enhanced disclosures about revenue. The Company is evaluating the effect that IFRS 15 will have on its consolidated financial statements and related disclosures, as well as the transition method to apply the new standard.

[iii] IFRS 16 - Leases ["IFRS 16"]

In January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and a lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. Early adoption is permitted if IFRS 15 has also been adopted. The Company is in the process of evaluating the impact of IFRS 16 on the Company's consolidated financial statements.

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[iv] IFRS 2 – Share-based payments [“IFRS 2”]

IFRS 2 has been amended to address [i] certain issues related to the accounting for cash-settled awards, and [ii] the accounting for equity settled awards that include a “net settlement” feature in respect of employee withholding taxes. IFRS 2 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of evaluating the amendments to IFRS 2 on the Company’s consolidated financial statements.

5. Biological assets

The changes in the carrying value of biological assets, which consist of cannabis on plants, are as follows:

	\$
Balance as at December 31, 2015	9,125
Net increase in fair value less cost to sell due to biological transformation	805,900
Transferred to inventory upon harvest	(690,591)
Balance as at December 31, 2016	124,434
Net increase in fair value less cost to sell due to biological transformation	389,956
Transferred to inventory upon harvest	(305,289)
Balance as at March 31, 2017	209,101

All biological assets are current assets. The fair value measurements for biological assets have been categorized as Level 3 fair value based on the inputs used. The significant assumptions used in determining the fair value of cannabis on plants includes:

- [i] Expected yields for cannabis on plants to be harvested, including wastage and the risk over the period;
- [ii] The costs incurred and costs at different stages in the growing, drying and selling cycle of the plants were estimated by calculating an average of total growing, drying and selling costs over the total production period; and
- [iii] The number of growing weeks incurred as a percentage of total growing weeks was applied to the total fair value per gram, which is determined based on market prices of medical cannabis.

These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The Company estimates the harvest yields for medical cannabis at various stages of growth. As at March 31, 2017, it is expected that the Company’s biological assets will yield approximately 81,000 grams [December 31, 2016 – 104,000 grams] of medical cannabis when harvested. The Company’s estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

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[Unaudited]

[Expressed in Canadian dollars]

March 31, 2017 and 2016

6. Inventory

	March 31, 2017 \$	December 31, 2016 \$
Finished goods – dry cannabis	32,729	77,661
Work-in progress – dry cannabis	351,807	577,303
Seeds	27,398	27,398
Packaging and supplies	64,019	65,826
	475,953	748,188

The cost of inventory recognized as an expense during the three months ended March 31, 2017 and 2016 was \$1,382,473 and \$193,286, respectively.

The Company did not have any inventory write-downs during the three months ended March 31, 2017 and 2016.

7. Property, plant and equipment

	Land \$	Building \$	Security equipment \$	Production equipment \$	Computer equipment \$	Furniture and fixtures \$	Total \$
Balance, beginning of period	618,698	7,383,650	700,002	1,229,570	377,193	170,958	10,480,071
Additions	—	1,457,115	8,558	115,977	103,708	55,778	1,741,136
Cost, March 31, 2017	618,698	8,840,765	708,560	1,345,547	480,901	226,736	12,221,207
Accumulated depreciation, beginning of period	—	407,361	266,636	206,261	82,202	33,744	996,204
Depreciation	—	76,080	35,214	64,346	41,102	15,960	232,702
Accumulated depreciation, March 31, 2017	—	483,441	301,850	270,607	123,304	49,704	1,228,906
Net carrying cost, March 31, 2017	618,698	8,357,324	406,710	1,074,940	357,597	177,032	10,992,301

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	Land	Building	Security equipment	Production equipment	Computer equipment	Furniture and fixtures	Total
	\$	\$	\$	\$	\$	\$	\$
Balance, beginning of year	618,698	6,827,254	668,755	497,065	43,202	101,560	8,756,534
Additions	—	556,396	31,247	732,505	358,995	69,398	1,748,541
Additions through acquisition	—	—	—	—	46,166	—	46,166
Disposals	—	—	—	—	(71,170)	—	(71,170)
Cost, December 31, 2016	618,698	7,383,650	700,002	1,229,570	377,193	170,958	10,480,071
Accumulated depreciation, beginning of year	—	88,982	128,831	55,152	14,314	7,899	295,178
Disposals	—	—	—	—	(12,440)	—	(12,440)
Depreciation	—	318,379	137,805	151,109	80,328	25,845	713,466
Accumulated depreciation, December 31, 2016	—	407,361	266,636	206,261	82,202	33,744	996,204
Net carrying cost, December 31, 2016	618,698	6,976,289	433,366	1,023,309	294,991	137,214	9,483,867

8. Investment in GrowWise

The Company holds a 50% interest in an entity, GrowWise, a company incorporated and operating in the Province of Ontario, Canada. The remaining 50% is held by White Cedar Pharmacy Corporation ["White Cedar"]. Key management of the Company owns approximately 51% of the issued and outstanding shares of White Cedar. The business of GrowWise is to offer education services and other related services to prospective medical marihuana patients in Canada.

As part of the Company's amended shareholder agreement ["Amended Shareholder Agreement"] with White Cedar with respect to GrowWise dated October 31, 2016, the Company is committed to make available to GrowWise an unlimited revolving loan facility in order to fund all of GrowWise's working capital requirements. The advances to GrowWise under the facility bear interest at a rate of 10%. Payments of interest on, and the principal of, the facility are without recourse to the assets of White Cedar. Until repayment in full of the facility, GrowWise cannot make distributions to White Cedar or the Company. On October 31, 2016, the Company and White Cedar also executed an option agreement ["Option Agreement"] whereby the Company also has an option to purchase White Cedar's 50% interest in GrowWise at any time on or after December 31, 2017 for 50% of the net book value of GrowWise's net assets, excluding related party liabilities. The Company estimates the funding requirements required by GrowWise under the revolving loan facility to be approximately \$1,800,000 up to December 31, 2017 in addition to amounts already funded through December 31, 2016.

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The initial funding commitment prior to the October 31, 2016 Amended Shareholder Agreement was \$500,000 and was previously accounted for as an onerous contract and provided for and expensed in 2014. Such amount was fully funded in 2015 and 2016 and an additional \$527,592 above the \$500,000 commitment was funded in 2016 and prior to October 31, 2016. The Company's initial investment of \$1,000,000 related to GrowWise was impaired in 2014. As at October 31, 2016, the carrying amount of the investment in GrowWise was nil [2015 - nil].

Prior to October 31, 2016, the Company determined that White Cedar had control over GrowWise and the Company as the sole additional 50% shareholder had significant influence. The original shareholder agreement established that decision making power related to GrowWise was with White Cedar. White Cedar also had exposure to variable returns through its 50% ownership interest and entitlement to future distributions and the ability to affect those returns through its decision making power.

On October 31, 2016, with the execution of the Amended Shareholder Agreement and the Option Agreement, the Company assessed whether it had acquired control over GrowWise and determined that the definition of control as defined under IFRS 10 – *Consolidated Financial Statements* was now met.

The fair value of the Company's equity interest in GrowWise before the business combination was determined to be nominal based on the significant deficit that GrowWise has accumulated to date and the current uncertainties associated with the future economic benefits that GrowWise may generate.

The Company also determined that the Option Agreement providing it with the right to acquire White Cedar's interest in GrowWise at a formula price and the expectation is that there will be no equity distributions to the owners of GrowWise prior to the Option Agreement becoming exercisable, means in substance that White Cedar no longer has a present equity ownership in GrowWise and instead the substantial majority of the benefits associated with that equity interest now accrue to the Company. Accordingly, White Cedar's interest in GrowWise from October 31, 2016 is accounted for as a liability rather than as non-controlling interest.

The business combination was accounted for using the purchase method and identified a net working capital deficiency of \$17,248, capital assets of \$46,166 and a liability to White Cedar of \$28,918 representing application of the formula price in the Option Agreement based on circumstances as at October 31, 2016. The purchase price consideration was nil and no intangible assets or goodwill were identified as part of the purchase price equation.

The results of the operations of GrowWise, as well as its assets and liabilities, are now included in the consolidated financial statements of the Company effective October 31, 2016 at 100%.

As at October 31, 2016, the balance owed by GrowWise to the Company under the facility of \$1,027,592 was determined to be impaired in full, which resulted in an impairment charge of \$39,713 for the three month period ended March 31, 2016 and \$527,592 from the period January 1, 2016 to October 31, 2016. Funding of \$375,116 in 2015 and \$124,884 in 2016 up to October 31, 2016 was applied to the provision recorded in 2014.

The liability to White Cedar was re-measured to \$20,715 at March 31, 2017 [December 31, 2016 - \$42,301] based on circumstances as at that date. The liability is included in Due to Related Parties in the condensed interim

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consolidated statements of financial position. The change in the liability of \$21,586 is included in other income in the condensed interim consolidated statements of operations and comprehensive loss.

9. Class A preferred shares financial liability

KindCann completed private placements in 2014 and 2015 for 701,886 and 349,760 units ["Pref Share Units"] respectively. Each Pref Share Unit includes 20 Class A preferred shares, warrants to acquire 10 common shares and a royalty interest related to the Company's interest in GrowWise. The components of the Pref Share Units were initially recognized based on their fair values. Due to the nominal fair value ascribed to the royalty interests from GrowWise, the proceeds from the private placement were attributed to the Class A preferred shares financial liability and the common share purchase warrants. The Class A preferred shares are non-voting and rank in priority to the common shares and to any other class of shares with respect to the payment of dividends.

At issuance, it was determined that the Class A preferred shares did not meet the IFRS definition of equity due to the variability of the conversion rate ratio from 1 Class A preferred share to 1 common share or 1 Class A preferred share to 1.25 common shares if KindCann fails to go public by a specified date, mandatory dividends for two years, and certain redemption provisions in the event that KindCann does not pay dividends when due, a cultivation license is not obtained by a specified date, KindCann's producer's license application is rejected by Health Canada or withdrawn, and certain other events of default. Accordingly, the fair value of the Class A preferred shares was treated as a financial liability measured at fair value through profit or loss.

The holders of Class A preferred shares were entitled to cumulative dividends in the amount of \$0.05 per share per annum, payable semi-annually. In 2015, KindCann passed a motion, which was approved by a majority of preferred shareholders, to allow the Board of Directors, at its discretion, to allow these dividends on the Class A preferred shares to be paid in cash or by issuing common shares, with the number of common shares to be determined based on the market price of such shares.

In 2015, a holder of 2,000,000 Class A preferred shares dissented to certain resolutions of KindCann and is seeking to have the company to repurchase the shares for \$1,000,000. The provision related to a dissenting shareholder of \$600,000 is subject to an ongoing process which will ultimately determine the settlement amount; the outcome may be materially different than the provision recorded.

For the three months ended March 31, 2016, KindCann recognized an expense of \$237,253 for dividends on Class A preferred shares.

On August 18, 2016, all outstanding Class A preferred shares were converted into common shares of KindCann. In connection with this conversion, the holders of the Class A preferred shares also surrendered their rights for any dividend that was accrued and unpaid as at the date of conversion.

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March 31, 2017 and 2016

10. Long-term debt

	March 31, 2017 \$	December 31, 2016 \$
During the year ended December 31, 2016, the Company entered into a promissory note in the amount of \$5,500,000. The note is secured by first charge on the property and a general security agreement with a fixed charge over all assets of the Company and a share pledge of all ECC and GrowWise shares. Interest-only payments at a rate of 8% per annum are due monthly. The promissory note is repayable in full on December 12, 2019. The Company has an option to repay in full on December 12, 2018.	5,500,000	5,500,000
	5,500,000	5,500,000
Long-term debt is presented net of transaction costs. Transaction costs are recognized in results of operations over the term of the long-term debt using the effective interest rate method.	(152,992)	(165,387)
	5,347,008	5,334,613

11. Share capital**[a] Authorized**

An unlimited number of common shares are available for issue.

[b] Issued and outstanding

On January 4, 2017, the Company issued 300,000 restricted common shares to a non-employee in exchange for services to the Company over a 3 year period. The common shares are held in escrow and are released ratably over a three-year period as services are received with share-based compensation expense recognized over the same period.

In January 2017, the Company issued 100,000 common shares to a non-employee to settle an obligation. The common shares issued vested immediately on issuance.

On January 31, 2017, the Company closed an underwritten private placement [the "Offering"] of 4,385,668 special warrants of the Company [the "Special Warrants"] at a price of \$3.63 per Special Warrant for gross proceeds of \$15,919,975.

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On March 17, 2017, the Company obtained a receipt for a short form prospectus that qualified for distribution the units ["Units"] underlying the Special Warrants and, as a result of which, each Special Warrant was automatically exercised for one Unit. Each Unit was comprised of one common share of the Company and one-half of one common share purchase warrant [each whole warrant, a "Warrant"]. Each Warrant entitles the holder to purchase one common share at an exercise price of \$4.75 for a period of 36 months from January 31, 2017. The expiry date of the Warrants may be accelerated upon notice from the Company if the volume weighted average trading price of the Common Shares is equal to or greater than \$7.00 over a period of 10 consecutive trading days. The fair value of these Warrants was estimated at \$1.24 per share using the Black-Scholes option pricing model with a market price per common share of \$3.02, a risk-free interest rate of 0.92%, an expected annualized volatility of 80% and expected dividend yield of 0%. Gross proceeds of \$15,919,975 were allocated to common shares and Warrants in the amount of \$13,200,861 and \$2,719,114 respectively.

Issuance costs for the Offering were \$1,479,167 paid in cash and were allocated to common shares and Warrants in the amount of \$1,226,527 and \$252,640 respectively.

Pursuant to December 2016 financings, the Company accrued for transaction costs in the amount of \$240,392 which were settled in January 2017 by issuance of 209,037 common shares and 104,518 Warrants.

During the three months ended March 31, 2017, 679,324 Warrants were exercised at a price of \$0.51 and 20,000 stock options were exercised at a price of \$0.40 for gross proceeds of \$356,067.

[c] Stock options

On March 13, 2017, the Company granted 1,165,000 incentive stock options [the "March Options"] to independent directors, non-executive employees and consultants of the Company. The March Options are exercisable at a price of \$2.58 per share for a period of five years and are subject to vesting as to one-third of the number of March Options granted on each of March 31, 2018, 2019 and 2020.

During the three months ended March 31, 2017, 20,000 stock options were exercised and 143,334 stock options were forfeited.

Total share-based compensation expense for the three months ended March 31, 2017 and 2016 was \$304,753 and 83,329 respectively.

12. Related party transactions**Transactions and balances with related parties**

Prior to the acquisition of GrowWise, all transactions with GrowWise were related party transactions. Details of these transactions are discussed in note 8.

Due to related parties of \$20,715 represents a liability to White Cedar related to its interest in GrowWise which is discussed in note 8. In addition, included in due to related parties is \$5,214 representing the amount receivable from White Cedar by the Company for services provided.

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13. Loss per ordinary share

Weighted average number of ordinary shares includes common shares and special shares.

The diluted loss per ordinary share equals basic loss per ordinary share due to the anti-dilutive effect of common share purchase warrants, restricted shares and stock options. The outstanding number and type of securities that could potentially dilute basic net loss per share in the future but that were not included in the computation of diluted net loss per ordinary share because to do so would have reduced the loss per ordinary share [anti-dilutive] for the year presented consist of the following:

	Outstanding	Number of common shares issuable on exercise
	#	#
Common share purchase warrants	30,864,258	30,864,258
Restricted shares	300,000	300,000
Stock options	5,834,999	5,834,999
	36,999,257	36,999,257

14. Subsequent events

On April 17, 2017, the Company granted 280,000 incentive stock options [the "April Options"] to a consultant performing investor relations activities and employees of the Company. The April Options are exercisable at a price of \$2.60 per share for a period of five years and are subject to vesting as to one-third of the number of April Options granted on each of April 30, 2018, 2019 and 2020.

On May 24, 2017, the Company's board of directors approved that management proceed with the purchase of two contiguous parcels of land, subject to certain conditions including, but not limited to, the receipt of all necessary approvals including the final approval of the TSX Venture Exchange, aggregating approximately 80 acres of industrially zoned lands within close proximity to the Company's current production facilities in Paris, Ontario for an aggregate purchase price of \$7.7 million,