Supreme.

Condensed Interim Consolidated Financial Statements (Unaudited)

For the Three and Nine Months Ended March 31, 2019

May 13, 2019
(Expressed in Canadian Dollars)

The Supreme Cannabis Company, Inc. | TSX:FIRE

Management's Responsibility for Financial Reporting

To the Shareholders of The Supreme Cannabis Company, Inc. (the "**Company**" or **"Supreme"**):

Management is responsible for the preparation and presentation of the accompanying condensed interim consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards ("**IFRS**"). This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the condensed interim consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of the condensed interim consolidated financial statements.

The Audit Committee is composed of Directors who are neither management nor employees of the Company. The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the condensed interim consolidated financial statements. The Audit Committee has the responsibility of meeting with management and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting findings. The Audit Committee is also responsible for recommending the appointment of the Company's external auditors.

May 13, 2019

(signed)	(signed)
/Nikhil Handa/	/Kenneth McKinnon/
Chief Financial Officer	Director

The Supreme Cannabis Company, Inc.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited - Expressed in Canadian Dollars)

As at:	Note	March 31, 2019	June 30, 2018
ASSETS			(Audited)
Current assets			
Cash		**$ 75,024,882**	$ 55,895,997
Receivables	4	**9,247,691**	8,467,833
Prepaid expenses and deposits		**3,425,738**	1,289,834
Inventory	6	**7,133,795**	4,579,118
Biological assets	7	**6,023,309**	3,283,233
		100,855,415	73,516,015
Non-current assets			
Property, plant and equipment	8	**166,460,621**	101,008,447
Deposits on property, plant and equipment		**564,731**	516,084
Intangible Assets	9	**25,177,358**	8,396,914
Investments	11	**16,877,689**	16,331,609
Other Assets and deposits		**796,325**	15,000
Goodwill	3, 9	**660,463**	-
		$ 311,392,602	$ 199,784,069
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**$ 23,281,371**	$ 22,916,874
Other current liability	9, 10	**997,246**	-
		24,278,617	22,916,874
Long-term liabilities			
Convertible debt	12	**75,496,095**	31,721,913
Other long term liability	9, 10	**5,719,129**	-
Deferred tax liability		**859,160**	-
		106,353,001	54,638,787
SHAREHOLDERS' EQUITY			
Share capital	13	**211,453,949**	156,097,158
Reserves		**53,449,941**	34,892,067
Shares to be issued		**55,250**	-
Accumulated other comprehensive income		**844,635**	844,635
Deficit		**(60,764,174)**	(46,688,578)
		205,039,601	145,145,282
		$ 311,392,602	$ 199,784,069

Commitments (Note 17)

Subsequent events (Note 18)

Approved and authorized by the Board of Directors on May 13, 2019:

"Navdeep Dhaliwal"
Director

"Kenneth McKinnon"
Director

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

The Supreme Cannabis Company, Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

(Unaudited - Expressed in Canadian Dollars)

For the period	**Note**	**Nine Months Ended March 31, 2019**	Nine Months Ended March 31, 2018	**Three Months Ended March 31, 2019**	Three Months Ended March 31, 2018
Gross revenue	5	**$ 23,436,122**	$ 5,309,671	**$ 10,331,276**	$ 2,069,032
Excise taxes		**(608,049)**	-	**(361,466)**	-
Net revenue		**22,828,073**	5,309,671	**9,969,810**	2,069,032
Production costs	6, 8	**(12,612,987)**	(4,265,876)	**(5,701,308)**	(1,695,135)
Fair value changes on growth of biological assets	7	**22,989,010**	6,286,306	**7,673,447**	3,281,251
Realized fair value changes on inventory sold or impaired	6, 7	**(18,474,572)**	(2,749,795)	**(8,435,374)**	(1,808,514)
Operating expenses					
Wages and benefits	15	**$ 9,761,089**	$ 3,278,033	**$ 3,838,790**	$ 1,611,370
Rent and facilities		**1,584,022**	1,054,533	**235,280**	723,460
Professional fees		**2,243,386**	784,621	**907,804**	433,698
Sales, marketing and business development		**3,916,867**	794,977	**1,564,106**	379,311
General and administrative		**1,918,690**	752,274	**766,367**	273,435
Amortization of property, plant and equipment & intangible assets	8, 9	**1,973,949**	173,903	**915,880**	79,995
Share based payments	13, 15	**5,752,712**	3,913,845	**2,093,682**	1,110,460
		27,150,715	10,752,186	**10,321,909**	4,611,729
Other expenses (Income)					
Finance expense, net	8, 12	**$ 3,018,653**	$ 926,051	**$ 2,001,439**	$ 651,796
Loss on disposal of property, plant and equipment	8	**3,891,566**	1,284,198	**-**	590,516
Unrealized gain on investments	11	**(546,080)**	(1,940,900)	**(2,455,700)**	(1,940,900)
		6,364,139	269,349	**(454,261)**	(698,588)
Net loss before taxes		**$ (18,785,330)**	$ (6,441,229)	**$ (6,361,073)**	$ (2,066,507)
Deferred tax recovery (expense)		**4,709,734**	(1,140,262)	**(778,426)**	(1,301,223)
Net loss and total comprehensive loss after taxes		**$ (14,075,596)**	$ (7,581,491)	**$ (7,139,499)**	$ (3,367,730)
Weighted average number of shares		**276,912,294**	213,823,139	**290,554,039**	245,669,261
Basic and Diluted Loss per common share		**$ (0.05)**	$ (0.04)	**$ (0.02)**	$ (0.01)

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

The Supreme Cannabis Company, Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited - Expressed in Canadian Dollars)

For the nine months ended	March 31, 2019	March 31, 2018
Operating activities:		
Net loss after taxes	$ (14,075,596)	$ (7,581,491)
Items not involving cash:		
Amortization	3,452,626	654,189
Accrued interest and accretion, net of payment	683,799	603,609
Flow-through share interest and penalties	7,288	6,933
Share based payments	5,752,712	3,913,845
Loss on disposal of property, plant and equipment	3,891,566	1,284,198
Fair value changes on growth of biological assets	(22,989,010)	(6,286,306)
Realized fair value changes on inventory sold	16,939,348	2,573,709
Impairment adjustment on fair value of inventory	1,535,224	176,086
Deferred tax recovery (expense)	(4,709,734)	1,140,262
Unrealized gain on investments	(546,080)	(1,940,900)
Changes in non-cash working capital:		
Inventory	(830,057)	(448,183)
Receivables	(779,858)	(4,212,798)
Prepaid expenses and deposits	(2,135,904)	(370,853)
Accounts payable and accrued liabilities	364,497	7,667,633
Other Assets	(781,325)	-
	(14,220,504)	(2,820,067)
Investing activities:		
Additions to property, plant and equipment	(68,714,822)	(43,498,819)
Additions to intangible assets	(2,175,317)	-
Acquired cash on business combination	54,628	-
Investments	-	(13,162,107)
Deposits on property, plant and equipment	(48,647)	(482,923)
	(70,884,158)	(57,143,849)
Financing activities:		
Warrants exercised	8,598,139	41,803,021
Stock options exercised	111,250	537,500
Convertible debentures issued (net of issuance costs)	95,524,158	38,438,753
	104,233,547	80,779,274
Net change in cash	19,128,885	20,815,358
Cash, beginning of year	55,895,997	57,681,554
Cash, end of year	$ 75,024,882	$ 78,496,912

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

The Supreme Cannabis Company, Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Unaudited - Expressed in Canadian Dollars)

	Number of Common Shares	Share Capital	Shares to be issued	Reserves	AOCI	Deficit	Total Shareholders' (Deficiency) Equity
Balance, June 30, 2017	**188,832,127 $**	**65,636,030 $**	**- $**	**31,948,022 $**	**844,635 $**	**(39,341,448) $**	**59,087,239**
Warrants exercised	29,546,394	44,967,330	-	(3,164,309)	-	-	41,803,021
Stock options exercised	1,225,000	982,290	-	(444,790)	-	-	537,500
Debenture conversion (Dec 2016), net of tax	31,104,992	39,077,553	-	(3,050,228)	-	-	36,027,325
Convertible debenture (Nov 2017), net of tax	-	-		4,947,474	-	-	4,947,474
Debenture conversion (Nov 2017), net of tax	2,800,000	4,087,734		(444,110)	-	-	3,643,624
Share based payments	-	-	-	3,913,845	-	-	3,913,845
Net loss for the period	-	-	-	-	-	(7,581,491)	(7,581,491)
Balance, March 31, 2018	**253,508,513**	**154,750,937**	**-**	**33,705,904**	**844,635**	**(46,922,939)**	**142,378,537**
Warrants exercised	1,823,088	1,306,573	-	(321,499)	-	-	985,074
Stock options exercised	296,250	294,180	-	(115,742)	-	-	178,438
Debenture conversion (Dec 2016), net of tax	-	-	-	-	-	-	-
Convertible debenture (Nov 2017), net of tax	-	-	-	-	-	-	-
Debenture conversion (Nov 2017), net of tax	109,375	(254,532)	-	(17,348)	-	-	(271,880)
Share based payments	-	-	-	1,640,752	-	-	1,640,752
Net loss for the period	-	-	-	-	-	234,361	234,361
Balance, June 30, 2018	**255,737,226**	**156,097,158**	**-**	**34,892,067**	**844,635**	**(46,688,578)**	**145,145,282**
Warrants exercised	**7,607,337**	**9,493,901**	**55,250**	**(951,012)**	**-**	**-**	**8,598,139**
Stock options exercised	**140,000**	**180,664**	**-**	**(69,414)**	**-**	**-**	**111,250**
Debenture conversions (Nov 2017), net of tax	**22,483,557**	**35,466,876**	**-**	**(3,089,965)**	**-**	**-**	**32,376,911**
Convertible debenture (Oct 2018), net of tax	**-**	**-**	**-**	**18,248,886**	**-**	**-**	**18,248,886**
Shares issued for business combination	**358,423**	**666,667**	**-**	**-**	**-**	**-**	**666,667**
Shares issued for asset acquisition	**5,745,000**	**8,215,350**	**-**	**-**	**-**	**-**	**8,215,350**
Share based payments	**716,846**	**1,333,333**	**-**	**4,419,379**	**-**	**-**	**5,752,712**
Net loss for the period	**-**	**-**	**-**	**-**	**-**	**(14,075,596)**	**(14,075,596)**
Balance, March 31, 2019	**292,788,389 $**	**211,453,949 $**	**55,250 $**	**53,449,941 $**	**844,635 $**	**(60,764,174) $**	**205,039,601**

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

1. Nature of Operations

Supreme is a federally incorporated Canadian company with a global diversified portfolio of distinct cannabis companies, products and brands. Its common shares are publicly traded on the Toronto Stock Exchange ("**TSX**") under the symbol "**FIRE**", Over-the-Counter ("**OTCQX**") under the symbol "**SPRWF**", and on the Frankfurt Stock Exchange ("**FRA**") under the symbol "**53S1**".

Supreme's primary asset is 7ACRES, a Canadian corporation that is wholly owned by Supreme. 7ACRES is a Licensed Producer (as such term is defined in the Access to Cannabis for Medical Purposes Regulations (the "**ACMPR**") which replaced the Marihuana for Medical Purposes Regulations (the "**MMPR**")). On May 23, 2014, Supreme purchased a 342,000 square foot facility including adjacent buildings, which is currently being expanded to 440,000 square feet, situated on approximately sixteen acres of land located in the Bruce Energy Park, in Kincardine, Ontario, approximately 160 kilometers outside of Toronto (the "**Facility**"). The Facility was acquired for the purpose of producing medical cannabis pursuant to the ACMPR (formerly the MMPR). 7ACRES became a Licensed Producer on March 11, 2016 when it was issued a license to cultivate medical cannabis, pursuant to the MMPR (the "**License**"), at its Facility. On June 28, 2017 the Company was granted permission to sell cannabis.

The Company's head office and registered records office is located at 178R Ossington Avenue, Toronto, ON, Canada.

2. Significant Accounting Policies

a) Statement of compliance

These condensed interim consolidated financial statements ("**Financial Statements**") have been prepared in accordance and in compliance with International Accounting Standard 34 – Interim Financial Reporting as issued by the International Accounting Standards Board, following the same accounting policies, including estimates and judgments and methods of application as those disclosed in the annual audited consolidated financial statements for the year ended June 30, 2018 except as described in the notes to the Financial Statements. The Financial Statements should be read in conjunction with the annual financial statements of the Company for the year ended June 30, 2018, which have been prepared in accordance with IFRS.

These Financial Statements were authorized for issuance by the Company's Board of Directors on May 13, 2019.

b) Basis of measurement

These Financial Statements have been prepared on a historical cost basis except for certain financial instruments and biological assets which have been measured at fair value. In addition, these Financial Statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Basis of consolidation

These Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, 8528934 Canada Ltd., d/b/a/, 7ACRES, 10695181 Canada Ltd., d/b/a, Cambium Plant Sciences, 8408432 Canada Ltd., d/b/a, Bayfield Strategy, Inc., and 11095668 Canada Ltd. All significant intercompany balances and transactions were eliminated on consolidation.

d) Functional and presentation of foreign currency

The Financial Statements are presented in Canadian dollars unless otherwise noted. The presentation currency and functional currency of the Company and its subsidiaries is the Canadian dollar.

(Unaudited - Expressed in Canadian Dollars)

2. Significant Accounting Policies (continued)

e) New Accounting Standards effective July 1, 2018

The Company adopted the following new accounting standards effective July 1, 2018:

i. IFRS 9 – Financial Instruments ("**IFRS 9**")

Effective July 1, 2018, the Company adopted IFRS 9. In July 2014, the IASB issued the final publication of the IFRS 9 standard, which supersedes IAS 39 – Financial Instruments: recognition and measurement ("**IAS 39**"). IFRS 9 includes revised guidance on the classification and measurement of financial instruments and new guidance for measuring impairment on financial assets. The Company has made a policy choice to adopt IFRS 9 on a retrospective basis where the cumulative impact of adoption will be recognized in retained earnings as of July 1, 2018; thus, prior period comparatives will not be restated.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("**FVOCI**"), and fair value through profit and loss ("**FVTPL**"). Under IFRS 9, the Company has irrevocably elected to present subsequent changes in the fair value of equity investments that are not held-for-trading in other comprehensive income ("**OCI**"). For these equity investments, any subsequent changes in fair value or impairment on the instrument will be recorded in OCI, and cumulative gains or losses in OCI will not be reclassified into net income on disposal. Any subsequent changes in fair value or impairment on equity investments that are held-for-trading will continue to be realized in net income.

Under IFRS 9, the loss allowance for trade receivables must be calculated using the expected lifetime credit loss and recorded at the time of initial recognition. A portion of the Company's trade receivables required a loss allowance of $36,506 which has been written off. The Company has estimated the expected loss allowance as at March 31, 2019 using the lifetime credit loss approach to estimate the bad debt expense for the current period to be $30,165. There is no significant effect on the carrying value of the Company's other financial instruments under IFRS 9 related to this new requirement.

Below is a summary showing the classification and measurement bases of the Company's financial instruments as at July 1, 2018 as a result of adopting IFRS 9 (along with a comparison to IAS39).

Financial Instrument	IAS 39	IFRS 9
Financial Assets		
Cash	FVTPL	FVTPL
Accounts Receivable	Loans and receivables	Amortized cost
Investments:		
BlissCo shares	Held-for-trading (FVTPL)	FVTPL
MediGrow	Available-for-sale (Note 1)	FVOCI (Note 2)
Financial Liabilities		
Accounts Payable and Accrued Liabilities	Other financial liabilities	Amortized cost
Other liabilities	N/A	Amortized cost
Convertible Debentures	Other financial liabilities (Note 3)	Amortized cost

2. Significant Accounting Policies (continued)

e) New Accounting Standards effective July 1, 2018 (continued)

i. IFRS 9 – Financial Instruments (continued)

Note 1: Subsequently measured at fair value with changes recognized in other comprehensive income. The net change subsequent to initial recognition, in the case of investments, is reclassified into net income upon disposal of the investment or when the investment becomes impaired.

Note 2: Subsequently measured at fair value with changes recognized in OCI. The net change subsequent to initial recognition, in the case of investments, is not reclassified into net income upon disposal of the investment or when the investment becomes impaired.

Note 3: Subsequently measured at amortized cost using the effective interest rate.

ii. IFRS 15 – Revenue from contracts with customers ("**IFRS 15**")

Effective July 1, 2018, the Company adopted IFRS 15. IFRS 15 supersedes previous accounting standards for revenue, including International Accounting Standards IAS 18 – Revenue.

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 business to business sale of cannabis to legal and licensed Canadian retailers for a fixed price is recognized when the Company transfers control of the good to the customer. The Company has elected to adopt IFRS 15 on a cumulative effective basis, with no restatement of the comparative period. The Company assessed the impact of adopting IFRS 15 retrospectively and determined that no retroactive adjustments were necessary.

f) Recent accounting pronouncements not yet adopted

i. IFRS 16 – Leases ("**IFRS 16**")

In 2016, the IASB issued IFRS 16, Leases, replacing International Accounting Standards IAS 17 – Leases, and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019 and is to be applied retrospectively. Early adoption is permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of the new standard on its consolidated financial statements and will adopt IFRS 16 starting July 1, 2019.

3. Business Combination

Accounting Policy:

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date where the Company obtains control of the acquiree. The identifiable assets acquired, and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Acquisition costs are expensed to profit or loss.

Contingent consideration, if any, is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates with the corresponding gain or loss being recognized in profit or loss.

Non-controlling interest in the acquiree, if any, is recognized either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets, determined on an acquisition-by-acquisition basis. For each acquisition, the excess of total consideration, the fair value of previously held equity interest prior to obtaining control and the non-controlling interest in the acquiree, over the fair value of the identifiable net assets acquired, is recorded as goodwill.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. The measurement period is the period from the acquisition date to the date complete information about facts and circumstances that existed as of the acquisition date is received. However, the measurement period does not exceed one year from the acquisition date.

Use of Estimates:

Determination of fair value of assets acquired, liabilities assumed and the fair value of total purchase consideration, including contingent consideration, requires the use of various estimates made by management.

Use of Judgment:

Classification of a transaction as a business combination depends on whether the assets acquired constitute a business in accordance with the criteria set forth in IFRS 3 – Business Combinations, which can be a complex judgment.

Explanatory Information:

On November 30, 2018 the Company acquired Bayfield Strategy, Inc. ("**Bayfield**"), a privately held Canadian communications company which provides expertise in the area of strategic communications, public affairs, and shareholder services. The Company acquired this business to bring these services in-house and subsequently shut down all operations of Bayfield, effectively rendering the acquiree company dormant. The transaction was accounted for as a business combination.

The Company acquired all of the issued and outstanding shares of Bayfield for share consideration of 358,423 common shares of the Company, with a fair value of $666,667 and forgiveness of a loan of $200,000. As part of this transaction, the Company acquired the following net identifiable assets, which are measured at a fair value of $206,204, resulting in total goodwill of $660,463;

(Unaudited - Expressed in Canadian Dollars)

3. Business Combination (continued)

Explanatory Information (continued):

		November 30, 2018
Cash	$	54,628
Receivables		197,258
Prepaid expenses and deposits		6,364
Accounts payable and accrued liabilities		(52,046)
Net assets	**$**	**206,204**

Goodwill represents expected synergies, future income and growth, and other intangibles that do not qualify for separate recognition, as well as the deferred tax liability recognized for all taxable temporary differences. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes. Management has initially allocated the purchase price as noted above. As the acquisition is within the measurement period, management will continue to refine and finalize the allocations. During the three months ended March 31, 2019 there has not been any adjustments to the purchase price allocation.

On the acquisition date, the Company also made share-based payment advances to Bayfield employees for a total of 716,846 common shares of the Company, with a fair value of $1,333,333. The share-based payment advances have certain performance and claw-back agreements attached to them, which expire over a period of two years. The Company will amortize these share-based payment advances to profit and loss, over a period of two years, as the employees provide services to the Company.

For the nine months ended March 31, 2019 Bayfield accounted for a recovery of $5,280 of net expenses on the statement of comprehensive loss.

4. Accounts Receivable

The Company's accounts receivable consists of trade receivable, sales tax receivable and other receivable. The breakdown of the accounts receivable balance is as follows:

		March 31, 2019		June 30, 2018
Trade accounts receivable (net of allowance)	$	9,247,691	$	4,800,313
Sales tax receivable		-		3,502,566
Other receivable		-		164,954
Total accounts receivable	**$**	**9,247,691**	**$**	**8,467,833**

5. Revenue

Accounting Policy

As described in Note 2 (e) (ii), the Company adopted IFRS 15 on July 1, 2018. 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:

a) Identify the contract with a customer;

b) Identify the performance obligations in the contract;

c) Determine the transaction price;

d) Allocate the transaction price to the performance obligations in the contract; and

e) Recognize revenue when (or as) the entity satisfies a performance obligation.

(Unaudited - Expressed in Canadian Dollars)

5. Revenue (continued)

Accounting Policy (continued)

The amount of recognized revenue is impacted by excise taxes as explained below. Excise taxes are applicable to the cannabis industry. The Company performed an analysis to assess whether the excise taxes are sales-related or effectively a production tax. Excise taxes are effectively a production tax as excise becomes payable when goods are moved from the Company's warehouse to the end consumer and are not based on the retail sales value. Increases in excise tax are not always (fully) passed on to customers and the Company cannot, or can only partly, reclaim the excise tax in the case products are eventually not sold to customers. Excise tax is borne by the Company and included in revenue.

To provide full transparency on the impact of the accounting for excise, the Company presents the excise tax expense on a separate line below revenue in the consolidated statement of comprehensive loss. A new subtotal called 'Net revenue' is added. This 'Net revenue' subtotal is revenue as defined in IFRS 15 after discounts minus the excise tax expense.

Use of Estimates

The Company estimates whether certain vendors will exercise the right to early payment discounts based on past experience with each vendor.

Use of Judgements

Due to the complexity in tax legislations, significant judgement is applied in the assessment whether taxes are borne by the Company or collected on behalf of a third party impacting the net or gross presentation of revenue.

Explanatory information

During the three and nine months ended March 31, 2019 the Company recognized gross revenue of $10,331,276 (March 31, 2018: $2,069,032) and $23,436,122 (March 31, 2018: $5,309,671), respectively, from the sale of cannabis products. Included in gross revenue for the three and nine months ended March 31, 2019, are excise taxes of $361,466 (March 31, 2018: $nil) and $608,049 (March 31, 2018: $nil), respectively. Gross revenue for the three months ended December 31, 2018 would have been $7,964,934 if the Company used its current presentation of gross revenue.

6. Inventory

Carrying amount as at		March 31, 2019		June 30, 2018
Supplies	$	921,304	$	245,724
Seeds		224,394		-
Work in progress		4,359,443		2,101,910
Finished goods		1,628,654		2,231,484
Total inventory	**$**	**7,133,795**	**$**	**4,579,118**

Finished goods inventories consist of dried cannabis that is complete and available for sale. Work-in progress inventory includes cannabis, after harvest, in the processing stage. Supplies and seed inventory consists of consumables for use in the transformation of biological assets and other inventory used in production.

During the three and nine months ended March 31, 2019 inventory recognized as expense was $10,406,730 (March 31, 2018: $2,170,518) and $22,600,210 (March 31, 2018: $3,111,799), respectively. Inventory recognized as expense includes the fair value changes related to biological assets previously recognized, as described in Note 7, and capitalized post-harvest costs. For the three and nine months ended March 31, 2019 a total of $1,971,356 (March 31, 2018: $362,004) and $4,125,638 (March 31, 2018: $362,004), respectively, has been recorded as production costs on the consolidated statement of comprehensive loss related to capitalized post-harvest costs expensed during the period as cannabis inventory is sold.

(Unaudited - Expressed in Canadian Dollars)

6. Inventory (continued)

Impairment charges related to inventory for the three and nine months ended March 31, 2019 was $986,579 (March 31, 2018: $176,086) and $1,535,224 (March 31, 2018: $176,086), respectively. The impairment charge is due to the cost of certain inventory exceeding net realizable value for the three and nine months ended March 31, 2019. The amount has been expensed through realized fair value changes on inventory sold or impaired.

7. Biological Assets

Use of Estimates:

Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. 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 as at March 31, 2019:

a) Selling prices – selling prices are based on the Company's historical adjusted average selling price per gram for the preceding nine months. Selling prices averaged $6.28 for cannabis flower and $2.86 for cannabis trim.

b) Post-harvest costs – the costs are based on actual processing costs incurred by drying, trimming, testing and packaging activities incurred in the period, including overhead allocations for these activities. Post-harvest processing costs averaged $1.01 per gram.

c) The stage of plant growth – the stage of plant growth is estimated by the number of days into the growing stage as compared to the estimated growing time for a full harvest. The estimated stage of growth of the cannabis plants as at March 31, 2019 averages 56%.

d) Expected yield – the expected yield per plant is based on the Company's adjusted historical average yield per plant. Expected yield per plant is 35.87 grams of cannabis trim and 62.79 grams of cannabis flower.

Explanatory Information:

As at March 31, 2019, the Company's biological assets consist of cannabis plants. The changes in the fair value of biological assets are as follows:

Carrying amount, June 30, 2017	**$**	**459,519**
Changes in fair value less costs to sell due to biological transformation		12,460,812
Transferred to inventory upon harvest		(9,637,098)
Carrying amount, June 30, 2018		**3,283,233**
Changes in fair value less costs to sell due to biological transformation		22,989,010
Transferred to inventory upon harvest		(20,248,934)
Carrying amount, March 31, 2019	**$**	**6,023,309**

The Company expects that a $1 increase or decrease in the wholesale market price per gram of dried cannabis would increase or decrease the fair value of biological assets by $1,625,250 (March 31, 2018: $570,254). 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 by $301,165 (March 31, 2018: $91,304). Additionally, an increase or decrease of 10% in the post-harvest costs would decrease or increase the fair value of biological assets by $163,364 (March 31, 2018: $87,444).

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

Unrealized change in fair value of biological assets	$	4,514,438
Realized fair value increments on inventory sold or impaired		18,474,572

(Unaudited - Expressed in Canadian Dollars)

7. Biological Assets (continued)

Explanatory Information (continued):

Realized fair value changes on inventory sold or impaired included on the Company's consolidated statement of comprehensive loss is entirely comprised of the amount of changes in fair value due to biological transformation and inventory impairment charges that have been expensed during the three and nine months ended March 31, 2019 as cannabis inventory is sold or impaired.

Unrealized change in fair value of biological assets is the net amount of changes in fair value due to biological transformation charges that have been added to biological assets and inventory during the three and nine months ended March 31, 2019.

As at March 31, 2019, biological assets and inventory include a total of $11,695,716 (June 30, 2018: $7,207,801) of unrealized fair value of biological assets charges which are yet to be expensed as the related cannabis inventory is not yet sold. For the three and nine months ended March 31, 2019 a total of $8,435,374 (March 31, 2018: $1,808,514) and $18,474,572 (March 31, 2018: $2,749,795), respectively, has been recognized as realized fair value changes on inventory sold or impaired.

8. Property, Plant and Equipment

	Facility	Land	Furniture, equipment and leaseholds	Total Property, Plant and Equipment
Cost				
Balance, June 30, 2017	$ 25,849,301	$ 1,203,319	$ 391,669	$ 27,444,289
Additions	67,408,641	2,231,541	1,765,617	71,405,799
Disposals	(1,447,733)	-	(4,543)	(1,452,276)
Borrowing costs	5,525,833	-	-	5,525,833
Balance, June 30, 2018	97,336,042	3,434,860	2,152,743	102,923,645
Additions	62,123,637	2,462,213	4,128,972	68,714,822
Disposals	(4,415,890)	-	-	(4,415,890)
Borrowing costs	4,029,713	-	-	4,029,713
Balance, March 31, 2019	**$ 159,073,502**	**$ 5,897,073**	**$ 6,281,715**	**$ 171,252,290**
Accumulated Amortization				
Balance, June 30, 2017	$ 680,714	$ -	$ 124,670	$ 805,384
Amortization	953,236	-	218,115	1,171,351
Disposals	(57,909)	-	(3,628)	(61,537)
Balance, June 30, 2018	1,576,041	-	339,157	1,915,198
Amortization	2,431,251	-	969,544	3,400,795
Disposals	(524,324)	-	-	(524,324)
Balance, March 31, 2019	**$ 3,482,968**	**$ -**	**$ 1,308,701**	**$ 4,791,669**
Net carrying cost, June 30, 2018	$ 95,760,001	$ 3,434,860	$ 1,813,586	$ 101,008,447
Net carrying cost, March 31, 2019	**$ 155,590,534**	**$ 5,897,073**	**$ 4,973,014**	**$ 166,460,621**

As at March 31, 2019 the Company had $58,744,608 (June 30, 2018: $63,868,045) of Facility under development. Each phase of construction is considered under development until such time that it has been approved by Health Canada. Once Health Canada approval is granted the asset is amortized as it is available for use. During the nine months ended March 31, 2019, a total of $66,829,334 of facility additions became available for use.

8. Property, Plant and Equipment (continued)

During the nine months ended March 31, 2019 a total of $4,029,713 (March 31, 2018: $3,743,779) of borrowing costs were capitalized. Borrowing costs include a non-cash accretion expense of $2,263,944 (March 31, 2018: $1,814,790). Amortization expense of $693,676 (March 31, 2018: $205,052) and $1,478,677 (March 31, 2018: $480,286) has been recorded as production costs or capitalized to inventory for the three and nine months ended March 31, 2019, respectively.

9. Intangible Assets and Goodwill

Accounting Policy:

Initial recognition – Intangible assets:

Upon initial recognition, the Company measures intangible assets at cost unless they are acquired through a business combination, in which case they are measured at fair value. For internally generated intangible assets, research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically, and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset.

The Company begins recognizing amortization of intangible assets with finite useful lives when the asset is ready for its intended use. Subsequently, the asset is carried at cost less accumulated amortization and accumulated impairment losses. The estimated useful lives, residual values, and amortization methods are reviewed at each period end, and any changes in estimates are accounted for prospectively.

The Company does not amortize intangible assets with indefinite lives.

Initial recognition – Goodwill:

The Company initially recognizes goodwill when it arises from business combinations. The Company measures goodwill as the difference between the purchase consideration for the acquisition and the fair value of the separately identifiable assets acquired and liabilities assumed as part of the acquisition. If the fair value of the purchase consideration transferred is lower than the sum of the separately identifiable assets acquired and liabilities assumed, the Company immediately recognizes the difference as a gain in the statement of comprehensive loss.

The Company allocates Goodwill to a cash-generating unit ("**CGU**"), or a group of CGUs, that are expected to benefit from the synergies of the business combination from which the goodwill arose.

Impairment of intangible assets and goodwill:

An intangible asset or goodwill is impaired if the recoverable amount of the asset is less than its carrying amount. The recoverable amount of an intangible asset or the CGU to which the goodwill has been allocated, is the higher of its fair value less costs to sell and value in use.

The Company tests intangible assets with finite useful lives for impairment whenever an event or change in circumstances indicates that the assets' carrying amount may not be recoverable. For indefinite life intangible assets and goodwill, the Company conducts impairment tests on every annual reporting period end, or more frequently if any event or change in circumstances indicate that the assets' carrying amount may not be recoverable.

If an asset is considered impaired, the Company immediately recognizes the impairment loss in the statement of comprehensive loss.

(Unaudited - Expressed in Canadian Dollars)

9. Intangible Assets and Goodwill (continued)

Use of Estimates:

The Company uses estimates in determining the useful life and residual values of its definite life intangible assets. The definite life intangible assets that are not under development and are ready for use, are amortized on a straight-line basis, based on the estimated useful lives as described in the table below:

Asset Class	Basis	Estimated useful life
Assets under development	Not amortized	N/A
Database & System Technologies	Straight-line	3-5 years
Product License	Straight-line	Expected term of agreement

Use of Judgements:

Intangible assets:

The Company uses judgement to assess if an intangible asset is an indefinite or a definite life intangible. Additionally, in the case of internally generated intangibles, further judgment is required to assess if the costs incurred are part of research or development stage and whether future economic benefits are probable.

Goodwill:

The Company uses judgment in determining the allocation of goodwill to CGU, or groups of CGUs, for the purpose of impairment testing.

As at March 31, 2019 the Company only had one CGU and all the goodwill was allocated to that CGU.

Explanatory Information:

	Database & System Technologies	Product License	Health Canada License	Total Intangible Assets	Goodwill
	Note 9A	**Note 9B**	**Note 9C**		**Note 9D**
Cost					
Balance, June 30, 2017	$ -	$ -	$ 8,396,914	$ 8,396,914	$ -
Additions	-	-	-	-	-
Balance, June 30, 2018	-	-	8,396,914	8,396,914	-
Additions	1,110,742	15,721,533	-	16,832,275	660,463
Balance, March 31, 2019	**$ 1,110,742**	**$ 15,721,533**	**$ 8,396,914**	**$ 25,229,189**	**$ 660,463**
Accumulated Amortization					
Balance, June 30, 2017	$ -	$ -	$ -	$ -	$ -
Amortization	-	-	-	-	-
Balance, June 30, 2018	-	-	-	-	-
Amortization	51,831	-	-	51,831	-
Balance, March 31, 2019	**$ 51,831**	**$ -**	**$ -**	**$ 51,831**	**$ -**
Net carrying cost, June 30, 2018	$ -	$ -	$ 8,396,914	$ 8,396,914	$ -
Net carrying cost, March 31, 2019	**$ 1,058,911**	**$ 15,721,533**	**$ 8,396,914**	**$ 25,177,358**	**$ 660,463**

9. Intangible Assets and Goodwill (continued)

Explanatory Information (continued):

As at March 31, 2019 the Company had $15,726,000 (June 30, 2018: $nil) of intangible assets under development, which would be classified as definite life intangibles, upon completion of development. For the three and nine months ending March 31, 2019 the Company has not recorded any amortization on these assets, as they are not ready for use yet.

Note 9A:

The Company implemented an enterprise resource planning ("**ERP**") software and internally developed its website and database. The development costs associated with these projects have been capitalized as part of an internally generated, definite life intangible asset.

During the three and nine months ended March 31, 2019 the Company recognized amortization expense on the ERP software in the amounts of $16,099 (March 31, 2018: $nil) and $16,099 (March 31, 2018: $nil), respectively. During the same period, the Company also recognized amortization expense on the website and database intangible asset in the amounts of $17,329 (March 31, 2018: $nil) and $35,732 (March 31, 2018: $nil), respectively.

Note 9B:

On December 6, 2018 the Company entered into an agreement with Khalifa Kush Enterprises Canada ULC ("**KKE**"), which gives the Company an exclusive right to sell products under the KKE or KK brand across Canada, and international markets (other than the United States), in addition to certain product development services (the "**Agreement**"). This product license has been capitalized as a definite life intangible, as there is a defined useful life, in accordance with the terms of the Agreement. The Company issued 5,745,000 common shares valued at $1.43 each, along with a cash consideration of $1,000,000 for a total fair value of purchase consideration of $9,215,350. The Company incurred total transaction costs of $64,574 which have been capitalized.

In addition, the Company owes certain minimum royalty payments to KKE over the course of the Agreement. As further discussed in Note 10, the initial liability amount was determined to be $6,369,798 which has been capitalized to intangible asset. During the three and nine months ended March 31, 2019 the Company incurred $274,766 (March 31, 2018: $nil) and $346,577 (March 31, 2018: $nil), respectively, in non-cash accretion expense, of which $71,811 (March 31, 2108: $nil) was capitalized to the intangible asset.

As at March 31, 2019 the Company was still in the product development stage of its KKE products. As such, the Company has not recorded any amortization expense for the nine months ended March 31, 2019.

Note 9C:

The indefinite life intangible asset represents the value attributed to an in-process Health Canada application on acquisition of 7ACRES. Subsequent to acquisition, the Company was granted a license to cultivate cannabis. ACMPR licenses are issued by Health Canada for a maximum term of 3 years and are to be renewed before expiry unless the Company has significantly breached compliance. Accordingly, the useful life of the License is considered indefinite and has not been amortized. The License is tested for impairment annually by comparing the recoverable amount to its carrying value. The Company did not have any impairment losses in the current period and the carrying amount of this intangible asset continues to be carried at $8,396,914 (June 30, 2018: $8,396,914).

Note 9D:

The Company has recorded goodwill arising from the Bayfield acquisition transaction, as discussed in Note 3. The Company has allocated the goodwill to its only CGU, the cannabis cultivation operations in Kincardine, Ontario. The CGU is tested for impairment annually or if there are any events or change in circumstances that might indicate that the assets' carrying value is not recoverable.

9. Intangible Assets and Goodwill (continued)

Explanatory Information (continued):

Note 9D (continued):

The Company did not have any impairment losses in the current period and the goodwill continues to be carried at $660,463 (June 30, 2018: $nil).

10. Provisions

Accounting Policy:

The Company recognizes a provision when a past event creates a legal or constructive obligation that can be reasonably estimated and is likely to result in a future outflow of economic resources. The estimated cash outflows are discounted at a pre-tax rate that reflects the current market assessment of the time value of money and specific risks. The Company recognizes a provision even when the timing or amount of the obligation may be uncertain, which can require the Company to make significant estimates. The Company measures provisions for one-off events at the most likely amount and for large populations of events at a probability-weighted expected value.

The Company currently has one provision for royalty payments owed to KKE over the expected term of the Agreement, which is a one-off event.

Use of Estimates:

The Company's best estimate of the royalty payments owed to KKE is the future minimum fixed royalty payments owed to KKE over the expected term of the Agreement and the timing of the payments. The initial carrying amount of the financial liability was determined by discounting the stream of future minimum royalty payments at a market interest rate of 18.31%. During the three months ended March 31, 2019 the Company updated its estimated timing of the royalty payments resulting in an increase to the carrying value of the financial liability and the related asset by $176,499.

Use of Judgements:

Significant judgment is required to determine when the Company is subject to unavoidable costs arising from onerous contracts. These judgments may include, for example, whether a certain promise is legally binding or whether the Company may be successful in negotiations with the counterparty. The Company uses judgement in determining the timing of future outflows of economic resources.

Explanatory Information:

As discussed in Note 9B, the Company owes certain minimum royalty payments to KKE over the course of the Agreement. The initial liability amount attached to this future stream of payments was determined to be $6,369,798. The Company has capitalized this amount to Product License intangible asset, on a prospective basis. During the three and nine months ended March 31, 2019 the Company incurred $274,766 (March 31, 2018: $nil) and $346,577 (March 31, 2018: $nil), respectively, in non-cash accretion expense. $71,811 (March 31, 2018: $nil) of that accretion expense was capitalized to the intangible asset, as the related asset is still considered under development, as per terms of the Agreement. As at March 31, 2019 the Company has an outstanding current and long-term liability of $997,246 (June 30, 2018: $nil) and $5,719,129 (June 30, 2018: $nil), respectively, related to the minimum royalty payments due.

(Unaudited - Expressed in Canadian Dollars)

11. Investments

Use of Estimates:

The Company uses the Black-Scholes pricing model to estimate the value of its investment in the warrants of BlissCo Cannabis Corp ("**BlissCo**"). The following estimates were used as inputs into the model as at March 31, 2019:

	2019
Share price	$ 0.46
Expected dividend yield	0.00%
Stock price volatility	84.90%
Expected life of warrants	0.88 years
Forfeiture rate	-
Risk free rate	1.55%

The Company uses the discounted cash flows valuation method to estimate the value of its FVOCI investments considered a Level 3 categorization on the IFRS fair value hierarchy.

The significant unobservable input into the valuation models of these investments is the discount rate, which has been estimated to be between 20%-25%. Changes in discount rates will result in changes in the fair values of these investments.

Explanatory Information:

		Carrying amount, June 30, 2018	Investment	Fair value March 31, 2019	Unrealized Gain / (Loss) on investment	Carrying amount, March 31, 2019
Level 1 on fair value hierarchy						
BlissCo shares	Note 11A	$ 4,000,000	-	4,600,000	600,000	4,600,000
		$ 4,000,000	-	4,600,000	600,000	4,600,000
Level 2 on fair value hierarchy						
BlissCo warrants	Note 11A	$ 1,095,860	-	1,041,940	(53,920)	1,041,940
		$ 1,095,860	-	1,041,940	(53,920)	1,041,940
Level 3 on fair value hierarchy						
Trellis Solutions Inc.	Note 11B	$ 1,073,642	-	1,073,642	-	1,073,642
MediGrow	Note 11C	$ 10,162,107	-	10,162,107	-	10,162,107
		$ 11,235,749	-	11,235,749	-	11,235,749
		$ 16,331,609	**-**	**16,877,689**	**546,080**	**16,877,689**

Note 11A:

On February 26, 2018, Supreme closed an investment in BlissCo, an early stage vertically integrated distribution focused cannabis company. The Company purchased 10,000,000 units for $3,000,000. Each unit is comprised of one common share and one common share purchase warrant of BlissCo. The common share purchase warrant is exercisable until February 23, 2020 at $0.60 per common share. The Company has valued the common shares and common share purchase warrant separately. The Company does not exercise significant influence or control. The investment has been classified as a fair value through profit and loss financial instrument. The Company revalued the investment as at March 31, 2019 and adjusted the carrying value of common shares to $4,600,000 which is based on the common share price of BlissCo quoted on the Canadian Securities Exchange, resulting in an unrealized gain of $600,000 (March 31, 2018: $1,628,910).

11. Investments (continued)

Explanatory Information (continued):

Note 11A (continued):

The Company revalued the common share purchase warrants as at March 31, 2019 using the Black-Scholes pricing model to estimate the fair value of warrants at the period then ended, resulting in an unrealized loss of $53,920 (March 31, 2018: unrealized gain of $311,990).

Note 11B:

On April 22, 2016, Supreme closed an investment in Trellis Solutions Inc., a software company focused on providing enterprise resource planning solutions to the cannabis industry. The Company purchased 285,714 common shares for $100,000. The Company does not exercise significant influence or control.

The investment has been classified as a fair value through other comprehensive income financial instrument. The Company revalued the investment on June 30, 2017 and adjusted the carrying value to $1,073,642 due to follow-on financing round establishing a current fair value. During the three and nine months ended March 31, 2019 there were no adjustments necessary to the carrying value of the investment (March 31, 2018: $nil). The Company intends to continue as a passive shareholder.

Note 11C:

On March 20, 2018, Supreme closed an investment in MediGrow Lesotho (Pty) Limited (“MediGrow”), a licensed producer of medical cannabis based in the Kingdom of Lesotho. MediGrow is focused on medical cannabis oil production for export to federally legal medical cannabis markets globally.

The Company purchased 278,000 common shares for $10,074,145 and incurred $87,962 of transaction costs that have been capitalized. The Company does not exercise significant influence or control. The investment has been classified as a fair value through other comprehensive income financial instrument. For the three and nine months ending March 31, 2019 there were no adjustments necessary to the carrying value of the investment (March 31, 2018: $nil).

12. Convertible Debentures

December 2016 Convertible Debenture:

On December 13, 2016, the Company received gross proceeds of $55,000,000 from a brokered private placement issuance of 10% coupon, unsecured debentures, which are convertible into common shares at a conversion price of $1.30 per share at any time and mature December 31, 2019. Concurrently, the lenders received 42,350,000 warrants exercisable at $1.70 until December 13, 2019, subject to accelerated expiry in some circumstances. The effective interest rate used to value the convertible debenture is 20.6%. The proceeds were primarily used for the construction of the Company’s Facility, resulting in the capitalization of borrowing costs.

The Company incurred cash finders’ fees of $1,807,125, share issue fees of $495,122 and issued 1,273,965 finders’ warrants valued at $857,669. These transaction costs have been allocated to the liability and equity components based on their pro-rata values. On January 22, 2018, the Company exercised its accelerated condition included in the indenture relating to the December 2016 Convertible Debenture resulting in all the outstanding convertible debentures being exercised and converted to common shares of the Company. As at March 31, 2019, the principal amount outstanding of December 2016 Convertible Debentures was $nil (June 30, 2018: $nil).

November 2017 Convertible Debenture:

On November 14, 2017, the Company received gross proceeds of $40,250,000 from a brokered private placement issuance of 8% coupon, unsecured debentures, which are convertible into common shares at a rate of $1.60 per share at any time and mature on November 14, 2019.

(Unaudited - Expressed in Canadian Dollars)

12. Convertible Debentures (continued)

Concurrently, the lenders received 12,598,250 warrants exercisable at $1.80 until November 14, 2020. Both the unsecured debentures and the warrants are subject to accelerated expiry in some circumstances. The effective interest rate used to value the convertible debenture is 20.6%.

The Company incurred expenses of $1,594,111 related to the private placement and $217,136 of legal and regulatory fees. These transaction costs have been allocated to the liability and equity components based on their pro-rata values.

On November 6, 2018 the Company exercised its accelerated condition included in the indenture relating to the November 2017 Convertible Debenture resulting in all the outstanding convertible debentures being exercised and converted to common shares of the Company. As at March 31, 2019 the principal amount outstanding of November 2017 Convertible Debentures was $nil (June 30, 2018: $35,595,000).

October 2018 Convertible Debenture:

On October 19, 2018, the Company received gross proceeds of $100,000,000 from a bought deal offering issuance of 6% coupon, unsecured debentures, which are convertible into common shares at a rate of $2.45 per share at any time and mature on October 19, 2021. The unsecured debentures are subject to accelerated expiry in some circumstances. The effective interest rate used to value the convertible debenture is 18.61%.

The Company incurred expenses of $4,154,425 related to the bought deal offering and $321,417 of legal and other fees. These transaction costs have been allocated to the liability and equity components based on their pro-rate values. As at March 31, 2019, the principal amount outstanding of October 2018 Convertible Debentures was $100,000,000 (June 30, 2018: $nil).

The October 2018 Convertible Debenture is comprised of a liability component and a conversion feature. As the debentures are convertible into common shares, the liability and equity components are presented separately. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at a market interest rate of 18.31%. Using the residual method, the carrying amount of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability. The equity component is recorded in reserves on the statement of financial position. The debentures, net of the equity component and issue costs are accreted using the effective interest method over the term of the debentures, such that the carrying amount of the financial liability will equal the principal balance at maturity.

Convertible debentures consist of the following:		**Debt component**	**Equity component conversion option**
Balance June 30, 2017	**$**	**31,705,456 $**	**3,050,228**
Conversion (Dec 2016 Debentures)		(32,873,148)	(3,050,228)
Accretion (Dec 2016 Debentures)		1,167,692	-
Issue of convertible debt, net		31,566,984	4,947,474
Conversion (Nov 2017 Debentures)		(3,764,962)	(461,458)
Accretion and unpaid interest (Nov 2017 Debentures)		3,919,891	-
Balance, June 30, 2018	**$**	**31,721,913 $**	**4,486,016**
Conversion (Nov 2017 Debentures)		(30,959,495)	(3,089,966)
Accretion and interest (Nov 2017 Debentures)		(762,418)	-
Issue of convertible debt, net (Oct 2018 Debentures)		70,673,684	24,850,474
Accretion and interest, net of payments (Oct 2018 Debentures)		4,822,411	-
Balance, March 31, 2019	**$**	**75,496,095 $**	**26,246,524**

(Unaudited - Expressed in Canadian Dollars)

13. Share Based Compensation

During the nine months ended March 31, 2019 the Company granted 1,100,000 incentive stock options to employees as follows:

Grant Date	# of options	Expiry Date	Exercise price		Vesting Period
August 23, 2018	375,000	August 23, 2023	$	1.50	3 years (1/3rd vesting each of the first 3 years)
October 17, 2018	200,000	October 17, 2023	$	2.05	3 years (1/3rd vesting each of the first 3 years)
January 2, 2019	75,000	January 2, 2024	$	1.50	3 years (1/3rd vesting each of the first 3 years)
February 14, 2019	150,000	February 14, 2024	$	1.80	3 years (1/3rd vesting each of the first 3 years)
March 5, 2019	300,000	March 5, 2024	$	2.05	3 years (1/3rd vesting each of the first 3 years)

Significant estimates are used to determine the fair value of stock options, the table below shows the estimates and assumptions used in applying the Black-Scholes option pricing model for options granted during the nine months ending March 31, 2019:

		2019
Share price	$	1.47 - 2.02
Expected dividend yield		0.00%
Stock price volatility		54.73% - 84.70%
Expected life of options		5 Years
Forfeiture rate		-
Risk free rate		1.75% - 2.41%

During the nine months ended March 31, 2019, there were 140,000 common share issuances upon exercise of stock options and 821,925 stock options forfeited or cancelled in the period then ended.

As at March 31, 2019, the Company had 24,245,608 stock options outstanding as follows:

	Options Outstanding		**Weighted Average Exercise Price**
Outstanding and exercisable, June 30, 2017	15,423,783	$	1.28
Granted	11,410,000		1.76
Exercised	(1,521,250)		(0.47)
Expired / Forfeited	(1,205,000)		(1.58)
Outstanding and exercisable, June 30, 2018	24,107,533	$	1.54
Granted	1,100,000		1.79
Exercised	(140,000)		(0.79)
Expired / Forfeited	(821,925)		(0.66)
Outstanding and exercisable, March 31, 2019	**24,245,608**	**$**	**1.59**

(Unaudited - Expressed in Canadian Dollars)

13. Share Based Compensation (continued)

The stock options outstanding are exercisable as follows:

Exercise Price		Expiry Date	Number of Options	Weighted Average Remaining Life (years)
$	0.41	October 14, 2019	250,000	0.54
$	0.50	January 10, 2021	905,000	1.78
$	0.75	April 25, 2021	800,000	2.07
$	0.75	August 29, 2021	3,522,483	2.42
$	1.45	September 25, 2022	2,915,000	3.49
$	2.00	December 15, 2026	6,500,000	7.72
$	3.05	January 5, 2023	500,000	3.77
$	2.05	March 5, 2023	200,000	3.93
$	1.80	May 15, 2023	300,000	4.13
$	1.70	June 25, 2023	400,000	4.24
$	1.80	March 29, 2028	6,903,125	9.00
$	1.50	August 23, 2023	375,000	4.40
$	2.05	October 17, 2023	200,000	4.55
$	1.50	January 2, 2024	25,000	4.76
$	1.80	February 14, 2024	150,000	4.88
$	2.05	March 5, 2024	300,000	4.93
			24,245,608	**5.98**

14. Share Capital

Authorized share capital:

Unlimited number of voting common shares

10,000,000 Class “A” preference shares

10,000,000 Class “B” preference shares

Share Capital: Common shares issued and outstanding

On March 31, 2019 the Company had 292,788,389 common shares issued and outstanding.

During the nine months ended March 31, 2019 the Company issued 22,483,557 common shares upon conversion of $35,595,000 of its outstanding convertible debt and the related accrued interest payment. Additionally, 7,607,337 common shares were issued as a result of warrant exercises, and 140,000 issued as a result of option exercises, during the nine months ended March 31, 2019.

The Company also issued 1,075,269 shares in connection with a business acquisition completed in the nine months ended March 31, 2019, as described in Note 3. Additionally, the Company issued 5,745,000 shares in connection to its Agreement with KKE, as described in Note 9B.

Share Capital: Share purchase warrants

During the nine months ended March 31, 2019, various warrant holders exercised 7,607,337 warrants generating proceeds of $8,542,889.

On March 31, 2019, the Company had 57,744,444 share purchase warrants outstanding as follows:

(Unaudited - Expressed in Canadian Dollars)

14. Share Capital (continued)

	Warrants Outstanding		Weighted Average Exercise Price
Outstanding, June 30,2017	87,697,600	$	1.09
Granted	12,598,250		1.80
Exercised	(31,369,482)		(1.36)
Expired	(3,574,587)		(0.48)
Outstanding, June 30, 2018	65,351,781	$	1.12
Exercised	(7,607,337)		(1.12)
Outstanding, March 31, 2019	**57,744,444**	**$**	**1.12**

The warrants outstanding are exercisable as follows:

Exercise Price		Expiry Date	Number of Warrants	Weighted Average Remaining Life (years)
$	0.50	June 20, 2019	7,557,057	0.22
$	0.32	April 23, 2020	4,511,904	1.07
$	0.50	July 15, 2019	744,593	0.29
$	0.50	August 30, 2019	15,335,273	0.42
$	1.70	December 13, 2019	17,263,417	0.70
$	1.80	November 14, 2020	12,332,200	1.63
			57,744,444	**0.78**

Reserves:

Reserves are comprised of share-based payments, the equity component of convertible debt and initial fair value of warrants, offset by the exercise of these instruments.

15. Related Party Transactions

The remuneration awarded to directors and executives for the nine-month period ended March 31, 2019, includes the following:

For nine months ended		March 31, 2019		March 31, 2018
Share based payments	$	5,146,574	$	3,653,776
Salaries and wages		3,059,100		839,697
	$	**8,205,674**	**$**	**4,493,473**

16. Financial Risk Management and Financial Instruments

Use of Estimates:

Financial instruments measured at fair value are classified into one of the levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

16. Financial Risk Management and Financial Instruments (continued)

Explanatory Information:

For the three and nine months ended March 31, 2019 the Company has recognized an unrealized gain from investments of $2,455,700 (March 31, 2018: $1,940,900) and $546,080 (March 31, 2018: $1,940,900), respectively, due to the changes in fair value. The unrealized gain was determined using Level 1 and Level 2 inputs.

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

Credit risk:

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and receivables. To minimize the credit risk the Company places cash with a high credit quality financial institutions in Canada, for receivables, the Company evaluates the credit worthiness of the counterparty before credit is granted. As at March 31, 2019 a total of $264,890 (March 31, 2018: $nil) of trade accounts receivable were considered overdue. The Company has estimated the expected loss allowance using the lifetime credit loss approach to estimate the bad debt expense for the current period to be $30,165 (March 31, 2018: $nil). During the three and nine months ended March 31, 2019 the Company wrote off $36,506 (March 31, 2018: $nil) of accounts receivable, which was previously recorded as bad debt expense.

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company typically settles its financial obligations out of cash and occasionally will settle liabilities with the issuance of common shares. The ability to settle obligations with cash relies on the Company raising funds in a timely manner and by maintaining sufficient cash in excess of anticipated needs. As at March 31, 2019, the Company had a cash balance of $75,024,882 and current liabilities of $24,278,617.

The Company's current resources are sufficient to settle its current liabilities. All the Company's liabilities are due within one year, other than convertible debt and KKE royalty payemnts.

Interest rate risk:

The Company is not subject to interest rate risk on future cash flows, as all its instruments bear fixed rates of interest.

Capital management:

Capital is comprised of the Company's shareholders' equity and any debt it may issue, other than trade payables in the normal course of operations. As at March 31, 2019, the Company's shareholders' equity was $205,039,601 (June 30, 2018: $145,145,282) and liabilities other than trades payable and accruals were $83,071,630 (June 30, 2018: $31,721,913). The Company's objective when managing capital is to safeguard its accumulated capital in order to provide adequate return to shareholders by maintaining a sufficient level of funds in order to support its ongoing activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable.

The Company is dependent on external financing to fund its activities. The Company will spend its existing working capital on operations, development of the Facility and raise additional amounts as needed. The Company is not subject to any externally imposed capital requirements. There have been no changes in the Company's approach to capital management during the nine months ended March 31, 2019.

(Unaudited - Expressed in Canadian Dollars)

17. Commitments

The Company has operating leases under which it is committed to pay the following amounts:

For the fiscal year ending June 30,	
2019	975,631
2020	1,662,471
2021	1,638,562
2022	1,650,653
2023 and beyond	9,173,745
	$ 15,101,062

18. Subsequent Events

Warrant conversions:

Subsequent to the nine months ended March 31, 2019, various warrant holders exercised 1,090,675 warrants for total proceeds of $759,869.

Option conversions:

Subsequent to the nine months ended March 31, 2019, various option holders exercised 221,666 options for total proceeds of $173,249.

Incentive stock options issued:

On April 1, 2019 the Company issued 940,000 incentive stock options to various employees of the Company at an exercise price of $2.30 expiring on April 1, 2024. The incentive stock options will vest in equal instalments of 1/3 on each of the dates that are 12 months, 24 months and 36 months from April 1, 2019.

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