

Consolidated financial statements

The Canadian Biocetical Corporation

March 31, 2017

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Independent auditor's report

To the Shareholders of
The Canadian Biocetical Corporation

We have audited the accompanying consolidated financial statements of **The Canadian Biocetical Corporation**, which comprise the consolidated statements of financial position as at March 31, 2017, the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity and the statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **The Canadian Biocetical Corporation** (the “Company”) as at March 31, 2017 and the results of its operations and its cash flow for the year then ended in accordance with International Financial Report Standards.

Other matter

The consolidated financial statements of **The Canadian Biocetical Corporation** for the year ended March 31, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on August 4, 2016.

Signed by **Deloitte LLP**

Toronto, Ontario
September 7, 2017

Chartered Professional Accountants
Licensed Public Accountants

The Canadian Bioceutical Corporation

Consolidated statements of financial position

(in Canadian dollars)

March 31

2017

2016

Assets

Current		
Cash	\$ 21,519,289	\$ 8,135
Restricted cash (3c)	133,220	-
Accounts receivable (Note 5)	764,672	35,273
Inventory (Note 6)	1,339,937	-
Biological assets (Note 7)	596,191	-
Prepaid expenses	181,190	-
Right of first refusal (Notes 4 & 25)	199,830	-
Asset held for sale (Note 4)	<u>1,878,402</u>	<u>-</u>
	26,612,731	43,408
Non-current		
Property, plant and equipment (Note 8)	4,546,022	-
Intangible assets (Note 9)	28,514,977	-
Goodwill (Note 10)	12,857,390	-
Deposits	<u>398,992</u>	<u>44,814</u>
	45,317,381	44,814
Total assets	\$ <u>72,930,112</u>	\$ <u>88,222</u>

Liabilities

Current		
Accounts payable and accrued liabilities (Notes 11 and 21)	\$ 1,624,425	\$ 352,208
Income taxes payable (Note 12)	545,661	-
Due to related parties (Note 21)	-	22,000
Current portion of promissory note (Note 13)	<u>147,453</u>	<u>-</u>
	2,317,539	374,208
Non-current		
Promissory note (Note 13)	1,303,526	-
Term loans (Note 14)	13,322,000	-
Lease inducement (Note 22)	1,764,162	557,509
Convertible debentures (Note 15)	77,851	-
Option component of convertible debentures (Note 15)	185,274	-
Deferred income taxes (Note 19)	<u>11,821,296</u>	<u>-</u>
	28,474,109	557,509
Total liabilities	30,791,648	931,717

Equity

Share capital (Note 16)	49,147,583	6,415,525
Warrants (Note 18)	3,632,398	156,771
Contributed surplus	2,665,730	1,153,883
Accumulated other comprehensive income	595,434	100,973
Deficit attributable to shareholders of the Company	<u>(13,600,869)</u>	<u>(8,368,835)</u>
	42,440,276	(541,683)
Non-controlling interest	<u>(301,812)</u>	<u>(301,812)</u>
Total equity	42,138,464	(843,495)
Total liabilities and equity	\$ <u>72,930,112</u>	\$ <u>88,222</u>

On Behalf of the Board:

Scott Boyes

Director

David Layman

Director

See accompanying notes to the consolidated financial statements.

The Canadian Bioceutical Corporation

Consolidated statements of changes in shareholders' equity

(in Canadian dollars)

Year ended March 31, 2017

	<u>Reserves</u>						
	<u>Share capital</u>	<u>Warrants</u>	<u>Contributed surplus</u>	<u>Accumulated other comprehensive income</u>	<u>Accumulated losses</u>	<u>Non-controlling interest</u>	<u>Total</u>
Balance, March 31, 2015	\$ 5,917,004	\$ 211,669	\$ 1,028,751	\$ 95,826	\$ (5,472,204)	\$ (301,707)	\$ 1,479,339
Exercise of warrants	100,000	-	-	-	-	-	100,000
Fair value of warrants exercised	54,898	(54,898)	-	-	-	-	-
Exercise of options	2,000	-	-	-	-	-	2,000
Fair value of options exercised	2,373	-	(2,373)	-	-	-	-
Private placements	377,500	-	-	-	-	-	377,500
Share-based compensation	(38,250)	-	127,505	-	-	-	89,255
Net income (loss) and comprehensive income (loss) for the year	-	-	-	5,147	(2,896,631)	(105)	(2,891,589)
Balance, March 31, 2016	<u>\$ 6,415,525</u>	<u>\$ 156,771</u>	<u>\$ 1,153,883</u>	<u>\$ 100,973</u>	<u>\$ (8,368,835)</u>	<u>\$ (301,812)</u>	<u>\$ (843,495)</u>
Balance, April 1, 2016	\$ 6,415,525	\$ 156,771	\$ 1,153,883	\$ 100,973	\$ (8,368,835)	\$ (301,812)	\$ (843,495)
Exercise of warrants	47,500	-	-	-	-	-	47,500
Expiry of warrants	-	(58,325)	58,325	-	-	-	-
Fair value of warrants exercised	3,597	(3,597)	-	-	-	-	-
Warrants issued	(3,537,549)	3,537,549	-	-	-	-	-
Exercise of options	35,250	-	-	-	-	-	35,250
Fair value of options exercised	41,831	-	(41,831)	-	-	-	-
Private placements	48,107,305	-	-	-	-	-	48,107,305
Share issuance costs	(3,200,836)	-	-	-	-	-	(3,200,836)
Shares for services performed	1,234,960	-	-	-	-	-	1,234,960
Share-based compensation	-	-	1,495,353	-	-	-	1,495,353
Net income (loss) and comprehensive income (loss) for the year	-	-	-	494,461	(5,232,034)	-	(4,737,573)
Balance, March 31, 2017	<u>\$ 49,147,583</u>	<u>\$ 3,632,398</u>	<u>\$ 2,665,730</u>	<u>\$ 595,434</u>	<u>\$ (13,600,869)</u>	<u>\$ (301,812)</u>	<u>\$ 42,138,464</u>

See accompanying notes to the consolidated financial statements.

The Canadian Bioceutical Corporation

Consolidated statements of net loss and comprehensive loss

(in Canadian dollars)

Year ended March 31

	2017	2016
Sales	\$ 4,383,962	\$ 5,960
Cost of sales	<u>4,291,312</u>	<u>2,083</u>
Gross profit before unrealized gain from changes in biological assets	92,650	3,877
Unrealized gain from changes in fair value of biological assets (Note 8)	<u>936,974</u>	<u>-</u>
Gross profit	<u>1,029,624</u>	<u>3,877</u>
Expenses		
General and administrative (Note 20)	3,187,499	1,328,765
Professional fees	734,755	104,177
Share-based compensation (Note 17)	1,495,353	127,505
Amortization and depreciation (Notes 8 and 9)	<u>338,565</u>	<u>6,413</u>
	<u>5,756,172</u>	<u>1,566,860</u>
Loss from operations	(4,726,548)	(1,562,983)
Other expense (income)		
Foreign exchange	(142,817)	5,166
Interest income	(7,633)	(1,115)
Write-off of goodwill and intangible assets (Notes 9 and 10)	66,190	1,177,166
Write-down of inventory (Note 6)	-	70,264
Accretion expense (Note 13)	11,154	-
Change in fair value of derivative liability (Note 15)	141,874	-
Interest and financing charges (Notes 13 and 14)	328,348	82,272
Transaction costs (Note 4)	<u>524,881</u>	<u>-</u>
	<u>921,997</u>	<u>1,333,753</u>
Net loss	\$ (5,648,545)	\$ (2,896,736)
Income tax recovery	<u>(416,511)</u>	<u>-</u>
Net loss after income taxes	\$ (5,232,034)	\$ (2,896,736)
Net loss attributable to:		
The Canadian Bioceutical Corporation	\$ (5,232,034)	\$ (2,896,631)
Non-controlling interest	<u>-</u>	<u>(105)</u>
	<u>\$ (5,232,034)</u>	<u>\$ (2,896,736)</u>
Other comprehensive income		
Exchange differences on translating foreign operations	\$ 494,461	\$ 5,147
Comprehensive loss for the year	<u>\$ (4,737,573)</u>	<u>\$ (2,891,589)</u>
Comprehensive loss attributable to:		
The Canadian Bioceutical Corporation	\$ (4,737,573)	\$ (2,891,484)
Non-controlling interest	<u>-</u>	<u>(105)</u>
	<u>\$ (4,737,573)</u>	<u>\$ (2,891,589)</u>
Loss per share, basic and diluted	<u>(0.06)</u>	<u>(0.07)</u>
Basic and diluted weighted average number of shares outstanding	<u>77,957,565</u>	<u>40,078,442</u>

See accompanying notes to the consolidated financial statements.

The Canadian Bioceutical Corporation

Consolidated statements of cash flows

(in Canadian dollars)
Year ended March 31

	2017	2016
Operating activities		
Net loss	\$ (5,232,034)	\$ (2,896,736)
Item not affecting cash:		
Amortization and depreciation	338,565	6,413
Income tax expense	(416,511)	-
Write off of goodwill and intangible assets	-	1,177,166
Write-down of inventory	-	70,264
Share-based compensation	1,495,353	127,505
Accretion expense	11,154	-
Change in fair value of derivative liability	141,874	-
Shares issued for services rendered	101,700	-
Interest expense	17,590	-
Unrealized foreign exchange gain	(142,817)	-
Unrealized gain from changes in fair value of biological assets	(936,974)	-
	<u>(4,622,100)</u>	<u>(1,515,388)</u>
Changes in non-cash working capital:		
Accounts receivable	(345,040)	10,447
Inventory	2,679,792	(2,704)
Prepaid expenses and deposits	(106,625)	(17,753)
Accounts payable and accrued liabilities	216,526	204,341
Lease inducement	777,081	557,509
Taxes payable	-	(14,119)
	<u>3,221,734</u>	<u>737,721</u>
Net cash used in operations	<u>(1,400,366)</u>	<u>(777,667)</u>
Investing activities		
Acquisition of subsidiaries, net of cash acquired	(18,305,427)	-
Purchase of property, plant and equipment	(408,730)	-
Purchase of intangible assets	(2,000,050)	(2,207)
Acquisition of asset held for sale	(1,999,950)	-
Net cash used in financing activities	<u>(22,714,157)</u>	<u>(2,207)</u>
Financing activities		
Advances from related parties	(17,776)	22,000
Proceeds from issuance of convertible debt	110,278	-
Proceeds from private placements, net of issuance costs	44,906,469	339,250
Proceeds from exercise of warrants	47,500	100,000
Proceeds from exercise of stock options	35,250	2,000
Repayment of promissory note	(11,638)	-
Interest paid	(15,765)	-
Net cash provided by financing activities	<u>45,054,318</u>	<u>463,250</u>
Increase (decrease) in cash	20,939,795	(316,624)
Cash, beginning of year	8,135	320,027
Effect of exchange rate fluctuations on cash held	571,359	4,732
Cash, end of year	<u>\$ 21,519,289</u>	<u>\$ 8,135</u>

See accompanying notes to the consolidated financial statements.

The Canadian Bioceutical Corporation

Notes to the consolidated financial statements

(in Canadian dollars)
March 31, 2017

1. Nature of operations

The Canadian Bioceutical Corporation (formerly Allegiance Equity Corporation) (the "Company") was incorporated under the Business Corporations Act (Ontario) on April 2, 1974. The Company's registered office is located at 5255 Yonge street, Suite 701, Toronto, ON M2N 6P4, Canada. The Company is involved in the natural health products industry, engaged in the manufacture and distribution of nutraceuticals, i.e. plant-based medicines, to the North American marketplace. During the past year, through its wholly owned subsidiaries in the U.S., the Company commenced providing management, staffing, procurement, advisory, financial, real estate rental, logistics and administrative services to multiple medicinal cannabis enterprises in the United States. The Company is also furthering an application with Health Canada to commence operations as a licensed producer of cannabis and cannabis products in Canada.

On November 18, 2014, the Company acquired CGX Life Sciences Inc., changed its name to The Canadian Bioceutical Corporation and began trading on the TSX Venture Exchange under the symbol "BCC". On January 17, 2017, the Company's shares were delisted from the TSX Venture Exchange. On January 17, 2017 the Company's shares commenced trading on the Canadian Securities Exchange ("CSE") under the symbol "BCC". The Company is a reporting issuer in Alberta, British Columbia and Ontario, Canada.

2. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on September 5, 2017.

Basis of presentation

These consolidated financial statements have been prepared in Canadian dollars on a historical cost basis except for biological assets and option component of convertible debentures measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets. The expenses within the statements of operating and comprehensive loss are presented by function. See Note 20 for details of expenses by nature.

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)
March 31, 2017

2. Basis of preparation (continued)

Presentation currency

These consolidated financial statements are presented in Canadian dollars. The functional currency of the Company is the US dollar which was changed in the fourth quarter of 2017 from the Canadian dollar. This change was due to a change in operations of the the Company in 2017 and an equity raise completed in the fourth quarter which was in US dollars. The functional currency of the subsidiaries are outlined below.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and the following entities which are controlled by the Company:

Entity	Place of incorporation	Functional currency	Effective ownership
Prime Pharmaceutical Corporation ("Prime Pharmaceutical")	Ontario, Canada	CAD	37.4%
Primapharm Funding Corporation ("Primapharm")	Ontario, Canada	CAD	34%
Biocannabis Products Ltd. ("Biocannabis")	Ontario, Canada	CAD	100%
CGX Life Sciences Inc. ("CGX")	Nevada, USA	USD	100%
CinG-X Corporation ("CinG-X")	Ontario, Canada	USD	100%
CinG-X Corporation of America ("CinG-X America")	Nevada, USA	USD	100%
S8 Group of Companies (the "S8 Companies" or "S8") includes: S8 Rentals, LLC S8 Industries, LLC S8 Management, LLC S8 Transportation, LLC	Arizona, USA	USD	100%
H4L Group of Companies (collectively "H4L Management"): H4L Management East, LLC H4L Management North, LLC	Arizona, USA	USD	100%
Health for Life, Inc. ("HFL")	Arizona, USA	USD	0%
Soothing Options, Inc. ("SO")	Arizona, USA	USD	0%
The Healing Center Wellness Center LLC, ("THC")	Arizona, USA	USD	0%

All inter-company transactions and balances with subsidiaries have been eliminated.

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)

March 31, 2017

3. Significant accounting policies

(a) Foreign currency transactions and translation

Foreign currency transactions are translated into the functional currency of the respective entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognized in profit and loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

In the Company's consolidated financial statements, all assets, liabilities and transactions of entities with a functional currency other than the Canadian dollar are translated into Canadian dollars upon consolidation. On consolidation, assets and liabilities have been translated into Canadian currency at the closing rate. Income and expenses have been translated into Canadian currency at the average rate over the reporting period. Exchange differences are credited to other comprehensive income and recognized in the currency translation reserve in equity.

(b) Cash

Cash includes cash on hand and balances with banks.

(c) Restricted cash

Restricted cash includes balances in reserve accounts held at banks, restricted to secure the Company's operating accounts.

(d) Biological assets

The Company measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest. Agricultural produce consisting of cannabis is measured at fair value less cost to sell at the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Gains or losses arising from changes in fair value less cost to sell during the year, including the impact on the carrying amount of inventory, are included in the consolidated statements of net loss and comprehensive loss of the related year.

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)
March 31, 2017

3. Significant accounting policies (continued)

(e) Inventories

Inventories of harvested finished goods and packing materials are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value.

(f) Property, plant and equipment

Property and equipment is measured at cost less accumulated depreciation and impairment losses. Depreciation commences when the assets are available for use and is charged to the income statement on a straight line basis over its useful life as outlined below:

Vehicles	3 years
Buildings	39 years
Equipment	7 years
Furniture and fixtures	7 years
Leasehold improvements	4 - 39 years

An asset's residual value, useful life and amortization method are reviewed at each financial year-end and adjusted if appropriate. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognized in profit or loss.

(g) Leases

Leases that do not transfer to the Company substantially all the benefits and risks incident to ownership of the asset are accounted for as operating leases. These operating leased assets are not recognized in the Companies' statement of financial position. Operating lease payments are recognized in the statement of income and comprehensive income on a straight-line basis over the lease term.

Lease inducements are amortized on a straight-line basis over the term of the lease or useful life of the asset, whichever is shorter.

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)

March 31, 2017

3. Significant accounting policies (continued)

(h) Asset held for sale

The asset held for disposal is no longer depreciated and is presented separately in the statement of financial position at the lower of its carrying amount and fair value less costs to sell. An asset is regarded as held for sale if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use. For this to be the case, the asset must be available for immediate sale and its sale must be highly probable.

(i) Intangible assets

The Company's intangible assets consist of the management agreements arising from the business combination and asset acquisition described in Note 4, customer relationships, both wholesale and retail, brands and non-competition agreement arising from the acquisition of Health for Life, Inc. and Soothing Options, Inc. Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. They are amortized on a straight-line basis over their estimated useful lives. The estimated useful life of the management agreements is 60 years. Customer relationships and brands have useful lives of 15 years and the non-competition agreement has a useful life of 3 years.

(j) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of an acquired business. The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the venture, less the net recognized amount (fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit. The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

(k) Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of returns and discounts.

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)

March 31, 2017

3. Significant accounting policies (continued)

(k) Revenue recognition (continued)

Revenue from the sale of inventory is recognized when the Company has transferred the significant risks and rewards of ownership to the customer, the amount of revenue can be reliably measured and it is probable that the economic benefits of the transaction will flow to the Company. Significant risks and rewards are generally considered to be transferred when the Company has shipped the product to customers. Revenue is recognized at the fair value of consideration received or receivable.

(l) Share-based compensation

The fair value of share-based payments granted to employees and non-employees is recognized as an expense over the vesting period with a corresponding increase in equity. For equity-settled share-based payment transactions with non-employees, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

For equity-settled share-based payment transactions with employees and other providing similar services, the fair value is measured at the grant date and recognized over the period during which the share-based payments vest. The fair value of the share-based payments granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the share-based payments were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share-based payments that are expected to vest.

(m) Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise warrants and share options issued.

(n) Income taxes

Income tax on the consolidated statements of loss for the periods presented comprises current and deferred tax. Income tax is recognized in the consolidated statements of loss and comprehensive income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)

March 31, 2017

3. Significant accounting policies (continued)

(n) Income taxes (continued)

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(o) Convertible debentures

Convertible debentures were initially recorded at amortized cost and accounted for as a hybrid financial instrument with separate debt and derivative liability components. The derivative liability is recorded at fair value and deducted from the principal of the debt to arrive at the net principle to be accreted to face value of the life of the note. The derivative liability is measured at fair value each period subsequent to initial recognition.

(p) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value on the date that they are originated. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All financial assets (including assets designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company classifies its financial assets as financial assets as loans and receivables.

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)
March 31, 2017

3. Significant accounting policies (continued)

(p) Financial instruments (continued)

Financial liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies its financial liabilities as either financial liabilities at fair value through profit or loss or other liabilities. Subsequent to initial recognition other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in profit or loss.

Classification of financial instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

Financial assets:	Classification:
Cash	Loans and receivables
Restricted cash	Loans and receivables
Accounts receivable and deposits	Loans and receivables

Financial liabilities:	Classification:
Accounts payable and accrued liabilities	Other financial liabilities
Term loan	Other financial liabilities
Promissory note	Other financial liabilities
Convertible debentures	Other financial liabilities
Option component of convertible debentures	Fair value through profit or loss

Impairment of financial assets

Financial assets, other than those classified at fair value through profit or loss, are assessed for indicators of impairment at the end of the year. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Fair value hierarchy

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

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)

March 31, 2017

3. Significant accounting policies (continued)

(p) Financial instruments (continued)

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(q) Impairment of non-financial assets

Non-financial assets include property, plant and equipment, intangible assets and goodwill. The Company's intangibles with finite lives are reviewed for an indication of impairment at each balance sheet date. Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. If indication of impairment exists, the asset's recoverable amount is estimated. The recoverable amount is the greater of the asset's fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss. An impairment loss, other than goodwill impairment, is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been previously recognized.

(r) Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgements, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)

March 31, 2017

3. Significant accounting policies (continued)

(r) Critical accounting estimates and judgements (continued)

Determination of functional currency

In accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, the Company determined that its functional currency is the US dollar. The Company makes judgement in defining the functional currency of group entities and structured entities based on economic substance of the transactions relevant to these entities. See Note 2 for a comprehensive list of entities and their functional currency.

Income taxes and recoverability of deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Valuation of biological assets and inventory

Biological assets, consisting of cannabis plants and agricultural produce consisting of cannabis, are measured at fair value less costs to sell up to the point of harvest.

Determination of the fair values of the biological assets and the agricultural produce requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the cannabis up to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle.

The valuation of biological assets at the point of harvest is the cost basis for all cannabis based inventory and thus any critical estimates and judgements related to the valuation of biological assets are also applicable for inventory. The valuation of work in process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)

March 31, 2017

3. Significant accounting policies (continued)

(r) Critical accounting estimates and judgements (continued)

Allowance for doubtful accounts

The Company makes an assessment of whether accounts receivable are collectible from customers. Accordingly, we establish an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer credit-worthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected.

Share-based compensation

In calculating the share-based compensation expense, key estimates such the rate of forfeiture of options and warrants granted, the expected life of the option and warrants, the volatility of the value of the Company's common shares and the risk free interest rate are used.

Estimated useful lives and depreciation of property and equipment and intangible assets

Depreciation of property and equipment and finite-life intangible assets is dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Business combinations

In a business combination, the Company may acquire assets and assume certain liabilities of an acquired entity. Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. Estimates are made as to the fair value of property and equipment, intangible assets, and goodwill, among other items. In certain circumstances, such as the valuation of property and equipment, intangible assets and goodwill acquired, the Company may rely on independent third party valuers. The determination of these fair values involves a variety of assumptions, include revenue growth rates, expected operating income, discount rates, and earnings multiples.

The Company measures all the assets acquired and liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acquiree are measured on the basis of the non-controlling interests' proportionate share of this equity in the acquiree's identifiable net assets. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements.) The excess of the aggregate of (a) the consideration transferred to obtain control, the amount of any non-controlling interest in the acquiree over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)

March 31, 2017

3. Significant accounting policies (continued)

(s) New standards and interpretations not yet adopted

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

IFRS 9 – Financial Instruments

IFRS 9 was issued by the International Accounting Standards Board ("IASB") in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with earlier application permitted. The Company is assessing the potential impact of IFRS 9.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, and must be applied retrospectively. Early adoption is permitted. The Company is assessing the potential impact of IFRS 15.

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter will recognise, 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 assessing the potential impact of IFRS 16.

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)

March 31, 2017

3. Significant accounting policies (continued)

(s) New standards and interpretations not yet adopted (continued)

Amendments to IAS 7 – Statements of Cash Flows

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments apply prospectively for annual periods beginning on or after January 1, 2017, with early application permitted. The Company is in process of determining the impact of the amendments to IAS 7 on its consolidated financial statements.

Amendments to IAS 12 – Income Taxes

On January 19, 2017, the IASB issued Recognition of Deferred Tax Assets or Unrealized Losses (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The Company is in the process of determining the impact of the amendments to IAS 12 on its consolidated financial statements.

4. Acquisitions

Acquisition of Arizona Medical Cannabis Management Group

On January 19, 2017, pursuant to the definitive purchase agreement effective January 1, 2017 (the "AZ Purchase Agreement"), the Company, through its wholly-owned subsidiary CGX, completed the acquisition of all of the issued and outstanding membership interests of (i) S8 Industries, LLC, an Arizona limited liability company, (ii) S8 Management, LLC, (iii) S8 Rental Services, LLC, (iv) S8 Transportation, LLC, (v) H4L Management East, LLC and (vi) H4L Management North, LLC (together, the "Acquisition") for the purchase price of \$33,595,000 (USD \$25,000,000) to be satisfied by a cash payment of \$20,157,000 (USD \$15,000,000), subject to adjustments and term loan in the principal amount of \$13,438,000 (USD \$10,000,000) payable to the sellers (see Note 14).

Concurrent with the Acquisition, the Company undertook a private placement for \$35,481,809 (USD \$27,033,759) through the issuance of 177,409,011 common shares pursuant to a capital advisory agreement with Chrystal Capital dated September 9, 2016 (see Note 16).

In addition, S8 Management entered into management services agreements with each of HFL (the "HFL Management Services Agreement") and SO (the "SO Management Services Agreement"). S8 Management will earn a fee equal to 5% of gross revenues earned by HFL and SO and an incentive fee equal to 90% of net revenues.

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)

March 31, 2017

4. Acquisitions (continued)

Acquisition of Arizona Medical Cannabis Management Group (continued)

The initial term of each of the HFL Management Services Agreement and the Soothing Options Management Services Agreement is twenty years and S8 Management shall have the right to renew each of the HFL Management Services Agreement and the Soothing Options Management Services Agreement for two further twenty year terms. These agreements give the S8 Companies control over Health for Life Inc. and Soothing Options Inc. Therefore, these entities have been consolidated in these financial statements.

The Company also received the option ("Right of first refusal") to purchase 49% of membership interests in GreenMart of Nevada LLC ("Greenmart"), a licensed cultivation, production and wholesale business located in Las Vegas, Nevada.

The following table summarizes the preliminary allocation of the purchase price of \$33,595,000 (USD \$25,000,000) to the identifiable assets and liabilities of the Acquisition on January 19, 2017. The assets acquired and liabilities assumed are to be recorded at their estimated fair market values, which are based on preliminary management estimates and are subject to final valuation adjustments.

Cash	\$ 1,851,573
Restricted cash	133,220
Amounts receivable	317,796
Inventory	3,114,885
Biological assets	585,672
Prepaid expenses	49,721
Right of first refusal	201,570
Plant, property and equipment	4,215,004
Intangible assets (Note 9)	25,569,167
Goodwill (Note 10)	12,969,344
Deposits	459,580
Accounts payable and accrued liabilities	(1,037,734)
Income tax payable	(421,281)
Lease inducement	(433,635)
Promissory note (Note 13)	(1,486,243)
Deferred income taxes	<u>(12,493,639)</u>
Net assets acquired	\$ <u>33,595,000</u>
Cash	\$ 20,157,000
Term loan	<u>13,438,000</u>
Total consideration paid for acquisition	\$ <u>33,595,000</u>

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)
March 31, 2017

4. Acquisitions (continued)

Acquisition of assets from PerkAZ Property LLC

On March 14, 2017, the Company completed the acquisition of the assets belonging to PerkAZ Property LLC, an Arizona registered company active in the cannabis space.

Assets acquired:

Land	\$ 1,879,953
Management agreement	<u>3,453,247</u>
Assets acquired	\$ <u>5,333,200</u>

Consideration paid:

Cash	\$ 3,999,900
Shares	<u>1,333,300</u>
Total consideration paid for acquisition	\$ <u>5,333,200</u>

S8 Management will earn a fee equal to 5% of gross revenues earned by The Healing Center Wellness Center LLC (THC) and an incentive fee of 90% of net revenues. The percentage of Net Revenues may be adjusted from time to time by mutual agreement in writing between S8 Management and each of the THC Board (in respect of the THC Management Services Agreement) to reflect the level of input of each of the respective parties to the success of the operation. The initial term of the management agreement is twenty years and S8 Management shall have the right to renew the agreement for two further twenty year terms. This management services agreement gives the S8 Companies control over THC. Therefore, this entity has been consolidated in these financial statements.

As the transaction has been accounted for as an asset acquisition, the purchase price of consisting of cash and common shares has been allocated to assets acquired on the basis of their relative fair values. The land acquired was classified as held for sale subsequent to acquisition.

5. Accounts receivable

	<u>2017</u>	<u>2016</u>
Trade receivables	\$ 96,421	\$ -
Amounts receivable	629,218	-
HST receivable	39,033	10,181
Deposits – current	<u>-</u>	<u>25,092</u>
	\$ <u>764,672</u>	\$ <u>35,273</u>

Bad debt expense amounts for the years ended are \$Nil and \$Nil, respectively.

All of the Company's trade and other receivables have been reviewed for indicators of impairment. No impairment was identified. Accounts receivable more than 90 days past due totaled \$Nil at March 31, 2017.

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)
March 31, 2017

6. Inventory	<u>2017</u>	<u>2016</u>
Dry Cannabis		
Finished goods	\$ <u>716,362</u>	\$ _____ -
Cannabis Oils		
Finished goods	151,511	-
Work-in-process	96,570	-
Raw materials	<u>116,032</u>	-
	364,113	-
Products for resale	<u>259,462</u>	-
	\$ <u>1,339,937</u>	\$ _____ -

As at March 31, 2017, the Company held 89,560g of dry cannabis (finished goods), 17,639g of cannabis oils (9,720g finished goods, 7,919 work-in process), and 59,595g of raw materials waiting for extraction.

During the year ended March 31, 2017, the Company recorded a write down of \$Nil (March 31, 2016 - \$70,264) of inventory due to expired products.

7. Biological assets

Biological assets consist of cannabis on plants and other biological assets. The changes in the carrying value of biological assets for the years ended March 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	-	-
Acquired biological assets	585,672	-
Net increase in fair value less cost to sell due to biological transformation	936,974	-
Transferred to inventory upon harvest	(921,046)	-
Foreign exchange	<u>(5,409)</u>	-
Balance, end of year	\$ <u>596,191</u>	\$ _____ -

As at March 31, 2017, included in the carrying amount of biological assets was \$596,191 in live plants.

The significant assumptions used in determining the fair value of cannabis on plants includes:

- a) Wastage of plants based on their various stages;
- b) The costs incurred and costs at different stages in the growing cycle of the plants were estimated by calculating an average of total growing costs over the total production period;
- c) Expected yields for cannabis on plants to be harvested, by strain of plant; and

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)
March 31, 2017

7. Biological assets (continued)

- d) The percentage of costs incurred as a percent of total cost was applied to the total fair value per gram, which is determined based on market prices of medical cannabis.

On average, the grow cycle is 13 weeks. All of the plants are to be harvested as agricultural produce (i.e., medical cannabis) and as at March 31, 2017, on average, were 33% complete. The Company estimates the harvest yields for the cannabis on plants at various stages of growth. As of March 31, 2017, it is expected that the Company's biological assets will yield approximately 235,373 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.

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)

March 31, 2017

8. Property, plant and equipment

Gross carrying amount	Vehicle	Land	Building	Leasehold Improvements	Equipment	Furniture and Fixtures	Total
Balance, April 1, 2016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Acquisitions through business combinations (Note 4)	16,713	550,260	2,570,333	518,564	544,658	14,476	4,215,004
Additions	-	-	-	327,350	80,249	1,132	408,731
Net exchange differences	(242)	(4,750)	(15,266)	(3,171)	(5,318)	(185)	(28,932)
Balance, March 31, 2017	<u>\$ 16,471</u>	<u>\$ 545,510</u>	<u>\$ 2,555,067</u>	<u>\$ 842,743</u>	<u>\$ 619,589</u>	<u>\$ 15,423</u>	<u>\$ 4,594,803</u>
Depreciation							
Balance, April 1, 2016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net exchange differences	90	-	1,550	716	959	68	3,383
Depreciation	(1,235)	-	(17,033)	(7,762)	(26,134)	-	(52,164)
Balance, March 31, 2017	<u>\$ (1,145)</u>	<u>\$ -</u>	<u>\$ (15,483)</u>	<u>\$ (7,046)</u>	<u>\$ (25,175)</u>	<u>\$ 68</u>	<u>\$ (48,781)</u>
Carrying amount March 31, 2017	<u>\$ 15,326</u>	<u>\$ 545,510</u>	<u>\$ 2,539,584</u>	<u>\$ 835,697</u>	<u>\$ 594,414</u>	<u>\$ 15,491</u>	<u>\$ 4,546,022</u>

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)

March 31, 2017

9. Intangible assets

<u>Gross carrying amount</u>	<u>Website</u>	<u>License application</u>	<u>Management agreements</u>	<u>Customer relationships - retail</u>	<u>Customer relationships - wholesale</u>	<u>Non-compete agreement</u>	<u>Brand</u>	<u>Total</u>
Balance, April 1, 2015	\$ 17,608	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,608
Additions	2,207	-	-	-	-	-	-	2,207
Net exchange differences	415	-	-	-	-	-	-	415
Write-off	(20,230)	-	-	-	-	-	-	(20,230)
Balance, March 31, 2016	-	-	-	-	-	-	-	-
Acquisitions – Health for Life and Soothing Options (Note 4)	-	-	11,920,191	8,504,910	993,068	235,165	3,915,833	25,569,167
Acquisitions – THC (Note 4)	-	-	3,453,247	-	-	-	-	3,453,247
Acquisitions	-	66,190	-	-	-	-	-	66,190
Write-off	-	(66,190)	-	-	-	-	-	(66,190)
Net exchange differences	-	-	(101,398)	(73,416)	(8,572)	(2,030)	(33,802)	(219,218)
Balance, March 31, 2017	-	\$ -	\$ 15,272,040	\$ 8,431,494	\$ 984,496	\$ 233,135	\$ 3,882,031	\$ 28,803,196
<u>Amortization and impairment</u>								
Balance, April 1, 2015	\$ (2,571)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,571)
Amortization for the year	(6,413)	-	-	-	-	-	-	(6,413)
Write-off	8,984	-	-	-	-	-	-	8,984
Balance, March 31, 2016	-	-	-	-	-	-	-	-
Net exchange differences	-	-	(298)	(886)	(103)	(123)	(408)	(1,818)
Amortization for the year	-	-	(46,859)	(139,639)	(16,305)	(19,305)	(64,293)	(286,401)
Balance, March 31, 2017	\$ -	\$ -	\$ (47,157)	\$ (140,525)	\$ (16,408)	\$ (19,428)	\$ (64,701)	\$ (288,219)
Carrying amount, March 31, 2016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Carrying amount, March 31, 2017	\$ -	\$ -	\$ 15,224,883	\$ 8,290,969	\$ 968,088	\$ 213,707	\$ 3,817,330	\$ 28,514,977

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)
March 31, 2017

10. Goodwill

	<u>2017</u>	<u>2016</u>
Balance, April 1, 2016	\$ -	\$ 1,165,920
Acquisitions - Health for life and Soothing Options (Note 4)	12,969,344	-
Net exchange differences	(111,954)	-
Write-off	<u>-</u>	<u>(1,165,920)</u>
	<u>\$ 12,857,390</u>	<u>\$ -</u>

During the year ended March 31, 2016, the Company wrote down \$1,165,920 of goodwill to its recoverable amount of \$Nil. The write-down was the result of a change in the Company's business strategy.

11. Accounts payable and accrued liabilities

	<u>2017</u>	<u>2016</u>
Accounts payable	\$ 1,306,865	\$ 352,208
Sales tax payable	107,368	-
Interest payable	210,192	-
	<u>\$ 1,624,425</u>	<u>\$ 352,208</u>

12. Income tax payable

	<u>2017</u>	<u>2016</u>
Income tax payable, acquired on acquisition (Note 4)	\$ 420,661	\$ -
Income tax payable, current year	125,000	-
	<u>\$ 545,661</u>	<u>\$ -</u>

13. Promissory note

In connection with the Acquisition (Note 4), the Company acquired \$1,529,580 (USD \$1,138,250) by way of a promissory note and transaction costs totaling \$53,536 (USD \$39,839) for net proceeds of \$1,486,243 (USD \$1,098,411). The promissory note bears interest at a rate of 9.25% per annum (payable monthly), is secured and due on November 1, 2031. During the year ended March 31, 2017, the Company repaid \$15,812 (USD \$11,900) of principal resulting in a remaining principal balance owing of \$1,500,748 (USD \$1,126,350). As at March 31, 2017, the balance of \$1,450,979 (USD \$1,089,160) (2016 - \$Nil) on the consolidated statement of financial position is net of deferred financing charges of \$49,769 (USD \$37,190) (2016 - \$Nil).

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)
March 31, 2017

13. Promissory note (continued)

	<u>Maturity date</u>	<u>Effective interest rate</u>	<u>2017</u>	<u>2016</u>
Promissory note bearing interest at 9.25%. Principal is repayable in monthly repayments	November 2031	9.02%	\$ 1,450,979	\$ -
Current portion			<u>147,453</u>	-
			\$ 1,303,526	\$ -

The Companies' expected principal repayments and accretion expense as follows:

	<u>Principal repayments</u>	<u>Accretion expense</u>	<u>Net amount</u>
2018	\$ 153,937	\$ 7,500	\$ 146,437
2019	51,155	6,588	44,567
2020	56,093	5,899	50,194
2021	61,507	5,258	56,249
2022	67,444	4,660	62,784
2022 and thereafter	<u>1,100,927</u>	<u>19,989</u>	<u>1,080,938</u>
	\$ 1,491,063	\$ 49,894	\$ 1,441,169

- a) For the year ended March 31, 2017, accretion expense of \$11,154 (March 31, 2016 - \$Nil) was recorded. As at March 31, 2017, \$11,597 (2016 - \$Nil) of interest is payable and is recorded in accrued liabilities
 - b) The promissory note agreement has a balloon payment feature that requires a principal repayment of \$106,496 (USD \$79,250) on or before December 1, 2017.
 - c) The promissory note agreement is secured by the deed of trust, security agreement, assignment of leases and rents and fixture financing statement related to the Companies' land and buildings (Note 8).
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The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)

March 31, 2017

14. Term loan

In order to acquire all issued and outstanding membership interests of companies outlined in the "AZ Purchase Agreement" (Note 4), the Company through its wholly owned subsidiary CGX, agreed to jointly and severally pay to the order of Christine Flores and Lonnie E. Davis, co-trustees of the Elizabeth Stavola 2016 NV Irrevocable Trust dated April 21, 2016 (the "Trust") the principal sum of \$13,438,000 (USD \$10,000,000) along with accrued and unpaid interest which is due three (3) years after the effective date of January 1, 2017. Through the Maturity Date, simple interest on the unpaid balance of the principal amount of this Note shall accrue at a per annum rate equal to eight percent (8.00%) (calculated on the basis of a 360-day year), and shall be cumulative. Interest only payments are due on the last day of every three (3) months. Repayment of this Note is secured by a security interest granted by CGX in favour of the Trust over all the assets of the Acquisition, including a first priority mortgage on all real property owned by the Acquisition pursuant to a security agreement dated January 19, 2017 between the Company, CGX and the Trust.

For the year ended March 31, 2017, interest expense of \$206,835 (USD \$157,778) (March 31, 2016 - \$Nil) was recorded. As at March 31, 2017, \$210,192 (USD \$157,778) (2016 - \$Nil) of interest is payable and is recorded in accounts payable and accrued liabilities.

15. Convertible debentures

On April 4, 2016 and June 7, 2016 the Company closed convertible debenture tranches of \$72,743 and \$37,535, respectively, of its private placement offering of the Debentures to arm's length investors. No fees or commissions were paid as part of the financing.

The Debentures are unsecured and pay 6% interest per annum, calculated and paid annually and mature three years from the date of issuance. The Debentures are convertible into units of the Company (the "Units") at the option of the subscriber at any time until maturity at a price of either (a) \$0.35 per Share; or (b) on the same terms and conditions (including (without limitation) at the same price per share) as those applicable to any sale of capital stock to any other investor at any time between the date of issuance and the date the subscriber exercises its right of conversion, but, in any case, not less than \$0.35 (the "Conversion Price").

Each Unit is comprised of one common share in the capital of the Company (a "Common Share") and one common share purchase warrant of the Company (a "Warrant"). Each Warrant entitles the holder thereof to purchase one Common Share (a "Warrant Share") for thirty-six months following the closing date at either (at the option of the holder): (a) \$0.65 per Warrant Share; or (b) on the same terms and conditions (including (without limitation) at the same price per share) as those applicable to any sale of capital stock to any other investor at any time between the date of issuance of the debenture and the date of the holder exercising its right of conversion, but, in any case, not less than \$0.65 (the "Warrant Share Price").

The Debentures, and any common shares issuable upon conversion thereof, will be subject to a four-month hold period in accordance with applicable securities laws.

The Canadian Bioceutical Corporation

Notes to the financial statements

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15. Convertible debentures (continued)

The Company used the residual value method to allocate the principal amount of the convertible debentures between the liability and option component of convertible debentures. The option component of convertible debentures is considered a derivative liability. The Company valued the conversion option of the debentures by using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend of 0%; expected volatility of 163%; risk free interest rate of 0.53%; and an expected life of 3 years. The liability component of convertible debentures was initially valued as the difference between the face value of the debentures and the conversion option calculated above. Based on this calculation, the liability component was \$66,878 and the option component of convertible debentures was \$43,400 on issuance.

On March 31, 2017, the fair value of the option component of convertible debentures was estimated at \$185,274 using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield of 0%; expected volatility of 105%; risk free interest rate of 0.74%; and an expected life of 2 years. As a result the Company recorded an unrealized loss on option component of convertible debentures for the year ended March 31, 2017 of \$160,058.

The Canadian Bioceutical Corporation

Notes to the financial statements

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16. Share capital

a) Authorized

Unlimited number of common shares without par value

b) Common shares issued

	Number of common shares	Value
Balance, March 31, 2015	38,150,981	\$ 5,917,004
Shares issued on private placements	1,078,572	377,500
Transaction costs	-	(38,250)
Exercise of warrants	2,000,000	100,000
Fair value of warrants	-	54,898
Exercise of options	40,000	2,000
Fair value of options	-	2,373
Balance, March 31, 2016	<u>41,269,553</u>	<u>6,415,525</u>
Exercise of warrants	475,000	47,500
Fair value of warrants	-	3,597
Allocated to warrants	-	(3,537,549)
Exercise of options	705,000	35,250
Fair value of options	-	41,831
Shares issued on private placements (i)	202,660,003	48,107,305
Share issuance costs (i)	4,274,090	(3,200,836)
Shares for services performed (ii)	<u>3,285,300</u>	<u>1,234,960</u>
Balance, March 31, 2017	<u>252,668,946</u>	<u>\$ 49,147,583</u>

- i) On January 25, 2017, the Company closed a private placement for gross proceeds of \$35,481,809 (USD \$27,033,759) through the issuance of 177,409,011 common shares. Financing costs in relation to equity financing includes: (i) a 9% work fee - \$3,200,835 paid in cash, (ii) 15,913,655 warrants (valued at \$3,182,731), each with an exercise price of \$0.20 and an expiration of 60 months, (iii) consulting fees of \$500,000 (paid with 2,500,000 common shares), and (iv) advisory fees of \$354,818 (paid in 1,774,090 common shares)

On March 31, 2017, the Company completed the first tranche of a private placement with gross proceeds of \$12,625,496 through the issuance of 25,250,992 common shares. The Company completed the second and final tranche of the private placement on May 5, 2017 (see Note 27(c)).

- ii) The Company issued 3,285,300 common shares to settle amounts owed to vendors with respect to services performed during the year ended March 31, 2017.
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The Canadian Bioceutical Corporation

Notes to the financial statements

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17. Stock options

The Company has a stock option plan (the "Plan") under which the directors of the Company may grant options to acquire common shares of the Company to qualified directors, officers, employees, and consultants of the Company. The maximum number of shares allocated to be made available to be issued under the Plan shall not exceed 10% of the issued and outstanding shares at the time of grant. Exercise prices cannot be less than the closing price of the Company's shares on the trading day preceding the date of grant and the maximum term of any option cannot exceed five years. The following summarizes the stock option activities under the Plan:

The following table shows the continuity of options:

	<u>Number of options</u>	<u>Weighted average exercise price</u>
Balance, March 31, 2015	3,032,000	\$ 0.08
Granted (a)	300,000	0.19
Exercised	<u>(40,000)</u>	<u>0.05</u>
Balance, March 31, 2016	<u>3,292,000</u>	<u>0.10</u>
Granted (b)	19,080,000	0.42
Exercised	(705,000)	0.05
Expired	<u>(332,000)</u>	<u>0.30</u>
Balance, March 31, 2017	<u>21,335,000</u>	<u>\$ 0.08</u>

- a) On July 9, 2015, the Company granted 300,000 stock options to two officers of the Company with an exercise price of \$0.1875. The fair value of the options has been estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 155%; (iii) risk-free interest rate of 0.46%; (iv) share price of \$0.31; forfeiture rate of 0; and (v) expected life of 3 years. The expected volatility is based on the Company's historical trading prices. The stock options vested immediately and the Company recognized an expense of \$73,230 in the consolidated statement of loss and comprehensive loss.
- b) On January 24, 2017, the Company granted stock options to certain directors, officers, consultants and employees of the Corporation and its subsidiaries to purchase up to 12,080,000 common shares at an exercise price of \$0.20 per common shares, which shall vest immediately, 3,500,000 common shares at an exercise price of \$0.60 per common share which shall vest after the second anniversary of Ms. Stavola's employment with CGX and 3,500,000 common shares at an exercise price of \$1.00 per common share, which shall vest after the third anniversary of Ms. Stavola's employment with CGX.

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Notes to the financial statements

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17. Stock options (continued)

Number of options	Remaining life (years)	Average exercise price	Expiry date
300,000	0.27	\$ 0.1875	July 9, 2017
1,955,000	0.71	0.05	Dec 16, 2017
12,080,000	4.82	0.20	Jan 25, 2022
3,500,000	4.82	0.60	Jan 25, 2022
<u>3,500,000</u>	<u>4.82</u>	<u>1.00</u>	Jan 25, 2022
<u>21,335,000</u>	<u>4.82</u>	<u>\$ 0.38</u>	

18. Warrants

	Number of warrants	Amount
Balance, March 31, 2015	15,846,155	\$ 211,669
Exercised	<u>(2,000,000)</u>	<u>(54,898)</u>
Balance, March 31, 2016	<u>13,846,155</u>	<u>156,771</u>
Granted	17,687,745	3,537,549
Exercised	(475,000)	(3,597)
Expired	<u>(846,155)</u>	<u>(58,325)</u>
Balance, March 31, 2017	<u>30,212,745</u>	<u>\$ 3,632,398</u>

On January 25, 2017, the Company closed a private placement for gross proceeds of \$35,481,809 (USD \$27,033,759) through issuance of 177,409,011 common shares. 15,913,655 warrants valued at \$3,182,731 and 1,774,090 warrants valued at \$354,818 with an exercise price of \$0.20 per share and an expiration of 60 months were issued as a result of financing costs incurred for the private placement. The warrants were valued at the fair value of services received as the fair value of the services could be measured reliably.

The following table reflects the outstanding warrants as at March 31, 2016:

Number of warrants	Exercise price	Expiry date
12,525,000	\$ 0.10	Dec 15, 2017
<u>17,687,745</u>	<u>\$ 0.20</u>	<u>Jan 25, 2022</u>
<u>30,212,745</u>		

The Canadian Bioceutical Corporation

Notes to the financial statements

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19. Income taxes

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 26.5% (2016 -26.5%) to the income for the year and is reconciled as follows:

	<u>2017</u>	<u>2016</u>
Loss before income taxes	\$ (5,648,545)	\$ (2,896,736)
Income tax recovery based on statutory rate	(1,496,864)	(767,635)
Adjustment to expected income tax benefit:		
Non-deductible expenses	190,301	-
Share-based compensation	383,091	33,789
Current period temporary differences – occupancy costs	-	147,740
Current period temporary differences – impairment	-	330,536
Current period temporary differences – other	-	46,657
Current period temporary differences – financing fees	(848,222)	-
Effect of foreign tax rates	(98,045)	(55,340)
Change in benefit of tax assets not recognized	1,641,243	264,253
Other	(188,015)	-
Income tax recovery	<u>\$ (416,511)</u>	<u>\$ -</u>
Income tax expense comprises:		
Current tax expense	\$ 125,000	-
Deferred tax expense:		
Origination and reversal of temporary differences	(541,511)	-
Income tax recovery	<u>\$ (416,511)</u>	<u>\$ -</u>

<u>Deferred tax liabilities (assets)</u>	<u>April 1, 2016</u>	<u>Recognized in business combination</u>	<u>Recognized in other comprehensive income</u>	<u>Recognized in profit or loss</u>	<u>March 31, 2017</u>
Non-current assets					
Property, plant and equipment	\$ -	\$ 87,807	\$ (816)	\$ (3,913)	\$ 83,078
Intangible assets	-	9,369,128	(83,705)	(189,409)	9,096,014
Current assets					
Inventory	-	801,419	(13,904)	(467,853)	319,662
Current liabilities					
Accounts payable and accrued liabilities	-	-	(1,151)	(77,103)	(78,254)
Deferred revenue	-	2,235,285	(14,157)	360,289	2,581,417
Unused tax losses	-	-	(17,099)	(163,522)	(180,621)
	<u>\$ -</u>	<u>\$ 12,493,639</u>	<u>\$ (130,832)</u>	<u>\$ (541,511)</u>	<u>\$ 11,821,296</u>

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)

March 31, 2017

19. Income taxes (continued)

The following deductible temporary differences and non-capital loss carry-forwards have not been recognized in the consolidated financial statements:

	<u>2017</u>	<u>2016</u>
Unutilized non-capital losses	\$ 7,069,105	\$ 1,046,433
Share issue costs	2,681,644	8,109
Equipment and intellectual property	431,411	105,511
Lease inducement	<u>1,065,955</u>	-
	<u>\$ 11,248,115</u>	<u>\$ 1,160,053</u>

The Company has unutilized non-capital losses available for carryforward in Canada and the US. The operating losses will expire as follows:

	<u>Canada</u>	<u>USA</u>	<u>Total</u>
2026	\$ 48,828	\$ -	\$ 48,828
2027	34,000	-	34,000
2028	122,000	-	122,000
2029	236,463	-	236,463
2030	324,368	-	324,368
2031	208,219	-	208,219
2032	303,187	-	303,187
2033	362,384	-	362,384
2034	79,003	-	79,003
2035	496,256	450,737	946,993
2036	1,428,630	475,205	1,903,835
2037	<u>2,006,797</u>	<u>493,028</u>	<u>2,499,825</u>
	<u>\$ 5,650,135</u>	<u>\$ 1,418,970</u>	<u>\$ 7,069,105</u>

The Company has \$6,900,000 of taxable temporary differences related to investments in its US subsidiaries for which no deferred tax liability has been recognized in the consolidated financial statements as the Company controls the timing of the reversal of these temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

20. General and administrative expenses

	<u>2017</u>	<u>2016</u>
Occupancy costs	\$ 659,677	\$ 557,509
Office and general	519,071	144,343
Repairs and maintenance	36,900	-
Salaries and benefits	1,826,015	447,127
Project costs	-	66,707
Sales and marketing	42,126	5,191
Regulatory expenses	<u>103,710</u>	<u>107,888</u>
	<u>\$ 3,187,499</u>	<u>\$ 1,328,765</u>

The Canadian Bioceutical Corporation

Notes to the financial statements

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21. Related party transactions

Related party transactions not disclosed elsewhere are summarized below:

During the year ended March 31, 2017, the President and CEO advanced \$22,000 to the Company. The advance is interest free, has no fixed repayment date and is due on demand. The advance was repaid during the year.

As at March 31, 2017, the Company has an outstanding term loan of \$13,322,000 (USD \$10,000,000), due to a trust whose beneficiary is an officer of the Company (note 13). In connection with this loan, the Company recorded interest expense of \$206,835 (USD \$157,778) (March 31, 2016 - \$Nil) As at March 31, 2017, \$210,192 (USD \$157,778) (2016 - \$Nil) of interest is payable and is recorded in accounts payable and accrued liabilities.

Key management are those persons having authority and responsibility for planning, directing and controlling activities, directly or indirectly, of the Company. Remuneration of directors and key management personnel of the Company was as follows:

	<u>2017</u>	<u>2016</u>
Salaries and benefits	\$ 357,897	\$ 211,000
Share-based compensation	<u>1,297,722</u>	<u>73,230</u>
	<u>1,655,619</u>	284,230

The above noted transactions are in the normal course of business and are measured at the exchange amount as agreed to by the parties, and approved by the Board of Directors in strict adherence to conflict of interest laws and regulations.

At March 31, 2017, each of the directors with control of less than 10% of the common shares of the Company collectively control 7,289,559 common shares of the Company or approximately 2.72% of the total common shares outstanding.

22. Commitments and contingency

Legal Claims

2014 Claim

On May 28, 2014, a legal claim was filed against a former director of the Company and Prime Pharmaceutical. The claim is related to a traffic accident involving the plaintiff and the former director. The plaintiff is seeking damages of \$1,000,000 and additional legal costs from the former director and Prime Pharmaceutical. Management believes that this claim is without merit. Prime Pharmaceutical's insurance provider is managing the legal defense and will vigorously defend the claim. As such, a contingent liability has not been recorded in the unaudited condensed interim consolidated statements of financial position.

The Canadian Bioceutical Corporation

Notes to the financial statements

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22. Commitments and contingency (continued)

2017 Claim

On June 22, 2017, the Company was served with an amended statement of claim by Marrelli Support Services Inc. ("MSSI"). The Claim was commenced in the Ontario Superior Court of Justice and seeks damages for breach of contract, inducing breach of contract, breach of honest dealings, breach of fiduciary and trust duties, knowingly assisting in the breach of said duties and unjust enrichment in the amount of \$500,000, plus punitive and exemplary damages in the amount of \$50,000.

The Company is vigorously defending the Claim and has filed its Defence with the Court. Pleadings have not closed and documentary discovery has not been completed. As a result, it is premature to further assess the merits of the allegations at this time.

Leases

Owen Sound, ON:

On February 25, 2015, BioCannabis entered into a lease of a facility in Owen Sound for the production of medical marijuana (the "Old Lease"). The term of the Old Lease was 15 years and six months, beginning April 1, 2015. However, due to the delay by Health Canada issuing a license to the Company under the Marihuana for Medical Purposes Regulations, a delay outside the control of the Company, the landlord and the Company have cancelled the Old Lease. On March 24, 2017, the parties entered into a new lease agreement for a smaller portion of the facility (the "New Lease"). The term of the New Lease is 10 years and six months, beginning April 1, 2017.

During the year ended March 31, 2017, the Company recognized \$508,446 (2016 - \$557,509) of non-cash occupancy costs related to this property. As of March 31, 2017, no cash payments have been paid or accrued. As at March 31, 2017, the Company has \$44,814 included in deposits (2016 - \$44,814) in connection with this lease.

Toronto, ON:

The Company entered into a lease agreement for office space beginning on July 1, 2017. The term of the lease is 3 years, beginning July 1, 2017.

Mesa, AZ:

S8 Rental entered into a lease of a building in Mesa, Arizona for the production and sale of medical marijuana. The term of the original lease is 10 years, beginning November 9, 2016. For the year ended March 31, 2017 the company recognized \$141,165 (USD \$105,964) (2016 - \$Nil) in occupancy costs. In addition to the lease commitments below, the Company has agreed to spend at least USD \$500,000 in leasehold improvements with the landlord to develop the facility, of which USD \$472,000 is reimbursable back to the Companies. As at March 31, 2017, \$624,846 (USD \$472,000) (December 31, 2016 - \$Nil) is reimbursable and is included in other amounts receivables on the consolidated statement of financial position.

The Canadian Bioceutical Corporation

Notes to the financial statements

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March 31, 2017

22. Commitments and contingency (continued)

Mesa, AZ: (continued)

As at March 31, 2017, the Company has \$330,956 (USD \$250,000) included in deposits (December 31, 2016 \$Nil) in connection with this lease. The deposit is to be applied to payments at the beginning of the second and third years, with the remaining balance reimbursable on expiration of the lease.

The Company's minimum lease payments are as follows:

2018	\$ 778,624
2019	789,195
2020	789,195
2021	757,481
2022	746,910
2023 and beyond	<u>3,712,261</u>
	\$ 7,573,666

Services Agreement

On April 1, 2017, the Corporation entered into a services agreement (the "Tequesta Agreement") with Tequesta Properties Inc. ("Tequesta") whereby Tequesta will provide the following services to BCC for a service fee of US\$30,000.00 per month: (a) support and analysis for the acquisition of cannabis dispensary, cultivation and production entities in the United States; (b) general administrative services, including, accounting, treasury management, bookkeeping, financial analysis, contract management, project management, human resources support, procurement services, corporate governance, and oversight of company policies and procedures; and (c) assisting with the structuring and evaluation of financing proposals as required to further the growth and profitability of BCC. The term of the Tequesta Agreement is twenty-four (24) months.

23. Financial instruments and risk management

Fair values

The carrying values of cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity. The promissory note receivable, term loan and convertible notes were originally recorded at fair value and subsequently at amortized cost that approximates the fair value of the instruments due to current market rates and consistency of credit spread.

Interest risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not subject to any interest rate volatility as its promissory note, term loan and convertible notes are carried at a fixed interest rate throughout their term.

The Canadian Bioceutical Corporation

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23. Financial instruments and risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable and promissory note receivable. As at March 31, 2017, and March 31, 2016 the Company is not exposed to any significant credit risk related to counterparty performance.

The carrying amount of cash and restricted cash of \$21,519,289 (2016 - \$8,135) and accounts receivable of \$764,672 (2016 - \$Nil) represent the maximum exposure to credit risk. The cash balances are held by Canadian and US banks.

The Company's credit risk is primarily attributable to its accounts receivables. The amounts disclosed in the consolidated statement of financial position are net of allowance for doubtful accounts, estimated by the management of the Company based on its assessment of the current economic environment.

The Company does not have significant exposure to any individual customer and has estimated bad debts of \$Nil and \$Nil at March 31, 2017 and 2016, respectively.

The Canadian Bioceutical Corporation

Notes to the financial statements

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23. Financial instruments and risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. At March 31, 2017, the Company had \$21,519,289 (2016 - \$8,135) of cash, \$133,220 (2016 - \$Nil) of restricted cash and working capital of \$24,295,192 (2016 - (\$330,800)).

In addition to the commitments disclosed in Note 22, the Company is obligated to the following contractual maturities of undiscounted cash flows:

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Accounts payable and accrued liabilities	\$ 1,624,425	\$ 1,624,425	\$ 1,624,425	\$ -	\$ -	\$ -	\$ -
Income taxes payable	545,661	545,661	545,661	-	-	-	-
Term loan	13,322,000	16,252,840	1,065,760	1,065,760	14,121,320	-	-
Promissory note	1,450,979	2,663,659	288,362	173,802	173,802	173,802	1,853,890
Convertible debentures	77,851	123,765	6,707	6,689	110,369	-	-
Derivative liability	185,274	185,274	-	185,274	-	-	-
	<u>\$ 17,206,190</u>	<u>\$ 21,395,624</u>	<u>\$ 3,530,915</u>	<u>\$ 1,431,525</u>	<u>\$ 14,405,491</u>	<u>\$ 173,802</u>	<u>\$ 1,853,890</u>

Foreign currency risk

The Company has operations in Canada and the US and is exposed to foreign exchange risk due to fluctuations in the US dollar and Canadian dollar. Foreign exchange risk arises from financial assets and liabilities denominated in currency other than the US dollar. The sensitivity of the Company's net loss to a 10% change in the Canadian dollar exchange rate relative to the US dollar would not have a material impact on the Company's net loss.

The Canadian Bioceutical Corporation

Notes to the financial statements

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March 31, 2017

24. Capital management

The Company manages its capital with the following objectives:

- To ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- To maximize shareholder return through enhancing the share value.

The Company considers its capital to be total equity. The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. Selected information is provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the year ended March 31, 2017. The Company is not subject to any external capital requirements.

25. Supplemental cash flow information

Non-cash transactions:

	<u>2017</u>	<u>2016</u>
Term loan issued for acquisition of Arizona Medical Cannabis Management Group (Note 4)	\$13,438,000	\$ -
Shares issued for acquisition of assets from PerkAZ Property LLC (Note 4)	1,333,260	-
Share issuance costs settled via equity instruments	4,035,549	-

26. Segmented information

The Company currently operates in one segment, the production and sale of medical cannabis.

Non-current assets located outside of Canada total \$46,272,568 and are made up of property, plant and equipment, deposits, intangible assets, and goodwill.

All revenues generated during the year ended March 31, 2017 were done so outside of Canada.

The Canadian Bioceutical Corporation

Notes to the financial statements

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27. Subsequent events

- (a) The Corporation completed the acquisition of 51% interests in each of IMT, LLC (“IMT”) and Fall River Developments, LLC (“Fall River”), Massachusetts-based companies active in the cannabis industry for total consideration of US\$5.1 million and 2,000,000 stock options to acquire common shares in the capital of the Corporation at an exercise price of CAD\$0.39 per common share. In compliance with Massachusetts regulations, while not cultivating or selling cannabis products itself, IMT, pursuant to long-term management agreements, provides material support to Cannatech Medicinals Inc (“CMI”), a not-for-profit licensee, which can directly cultivate, produce, own, possess and sell cannabis and cannabis-infused products.

The transaction includes a 40,000 square foot property zoned and licensed for cannabis cultivation and retail dispensary sales, which is partially developed.

The Corporation will also pay up to US\$1,600,000 (US\$800,000 each) in cash for the right to manage two additional dispensaries once zoning and other required permits have been granted.

Concurrently with the acquisition of the 51% interest in IMT, a line of credit, note and security agreement (the “IMT LOC Agreement”) was entered into between IMT, as borrower, Fall River as guarantor and CGX, as lender. Pursuant to the IMT LOC Agreement, CGX agreed to provide a non-revolving line of credit to IMT in the aggregate amount of principal and accrued and unpaid interest not exceeding US\$10,000,000. The proceeds of the loan shall be used for the purposes of completing the buildout of the cultivation facility and for working capital of CMI.

The principal amount remaining from time to time unpaid and outstanding shall bear interest to be paid monthly at eight percent (8.0%) per annum prior to an event of default and fifteen percent (15%) following an event of default. IMT may prepay all or any portion of the principal amount of the loan then outstanding upon ten (10) days written notice only if all accrued and unpaid interest any expenses or other amounts owing to CGX have been paid first.

The principal remaining, and any interest accrued, shall be repayable, in full, on or before June 1, 2024.

The obligations owed to CGX under the IMT LOC Agreement are secured pursuant to a collateral security agreement with a first priority lien and security interest in all of IMT’s and Fall River’s respective assets, real property and personal property, of any kind and nature and wherever located, tangible or intangible, and rights in respect thereof or covered thereby now existing or which become vested in or acquired by IMT or Fall River and Fall River has agreed to guarantee all obligations under the IMT LOC Agreement.

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)

March 31, 2017

27. Subsequent events (continued)

- (b) On May 4, 2017, the Company announced that through its wholly owned U.S. subsidiary CGX Life Sciences Inc., is acquiring a 99% interest (including its Right of first refusal) in GreenMart of Nevada NLV LLC (“Greenmart”), an award winning licensed cultivation, production and wholesale business located in Las Vegas, Nevada. The total consideration for the acquisition will be US\$17.82 million, payable as follows:
- US\$9.32 million, non-interest bearing promissory note, payable in full on or before the first anniversary of the closing of the acquisition.
 - US\$8.5 million in units of the Company, each unit, priced at CAD\$0.75 consisting of one full common share and one quarter of one warrant to acquire one common share at CAD\$0.75.

Greenmart has developed a state-of-the-art cultivation facility and operates best-in-class extraction technologies, which enabled MPX to win the coveted 2016 Jack Herrer Cup for best hybrid concentrate.

Greenmart has a fully operational, fully staffed, state-of-the-art licensed production facility, with capacity to produce 1.6 million grams of dried flower and 85,000 grams of high-margin concentrate. Greenmart operations include production of concentrates, as well as edible and other high-margin infused products. Addressing the higher margin market of edibles, Greenmart has installed a professional-grade custom kitchen operation, enabling it to carry a well-diversified portfolio of high-end products. Greenmart is also applying for a dispensary license.

- (c) On May 5, 2017, the Company completed the second and final tranche of a private placement for gross proceeds of \$2,300,271 (USD \$1,683,700) through the issuance of 4,600,541 common shares. In relation to the private placement, the Company paid finder's fees to: (1) Chrystal Capital as follows: (a) US\$38,286.00 cash fee; and (b) compensation options to acquire 182,782 Common Shares in the Corporation at an exercise price of \$0.50 per Common Share for a period of sixty (60) months from the date of issuance; and (2) ARG Advisory Services, LLC as follows: (a) USD \$3,000.00 cash fee; and (b) 1,040,986 Common Shares.
- (d) The Company entered into non-binding letters of intent to acquire three management companies that each provide operational and other services to three medical marijuana dispensaries (only 109 dispensary licences granted state-wide) located in the Baltimore-Bethesda region and one production operation.
- (e) The Company entered into a non-binding letter of intent to acquire a management company that provides services to an operational licensee with a cultivation, production and dispensary license located in the Phoenix area.
- (f) The Corporation arranged a USD \$25 million revolving credit facility (the “Hi-Med Facility”) with Hi-Med, LLC (the “Lender”) of Florida. The funds drawn down against the line of credit will be earmarked specifically for making further acquisitions, as well as, where needed, the development of assets obtained in any transaction.

The Canadian Bioceutical Corporation

Notes to the financial statements

(in Canadian dollars)

March 31, 2017

27. Subsequent events (continued)

(f) (continued)

The principal amount remaining from time to time unpaid and outstanding shall bear interest at seven percent (7.0%) per annum. The principal remaining, and any interest accrued, shall be repayable, in full, 36 months from the date of closing. In connection with the facility, BCC will pay a 2.0% arrangement fee on each advance made to the Corporation by the Lender.

The Lender shall have the following rights to convert outstanding principal amounts into common shares of the Corporation, as follows:

- (1) up to an initial US\$10 million of the principal outstanding, shall be convertible into common shares at a conversion price of CAD\$0.50 per common share.
 - (2) any principal drawn down in excess of the initial US\$10 million, and less than US\$20 million, shall be convertible into common shares at a conversion price of CAD\$1.00 per common share.
 - (3) any principal drawn down in excess of US\$20 million, and less than US\$25 million plus outstanding interest payable on the outstanding loan amount shall be convertible into common shares at a conversion price of CAD\$1.50 per common share.
- (g) Subsequent to the year ended March 31, 2017, a director exercised 105,000 stock options at \$0.05 per share.