Interim condensed consolidated financial statements

The Canadian Bioceutical Corporation

Three months ended June 30, 2017 (unaudited)

Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements

In accordance with National Instrument 51-102, the Company discloses that its external auditors have not reviewed the accompanying interim condensed consolidated financial statements of the Canadian Bioceutical Corporation.

Contents

The Canadian Bioceutical Corporation
Interim condensed consolidated statements of financial position (unaudited)

(in Canadian dollars)
As at

	June 30, 2017	March 31, 2017
Assets		
Current		
Cash and cash equivalents	$ 10,259,337	$ 21,519,289
Restricted cash	-	133,220
Accounts receivable (Note 5)	1,354,955	764,672
Inventory (Note 6)	1,650,127	1,339,937
Biological assets (Note 7)	685,395	596,191
Prepaid expenses	356,267	181,190
Right of first refusal	194,655	199,830
Due from related parties (Note 21)	2,463,469	-
Asset held for sale	1,829,757	1,878,402
	18,793,962	26,612,731
Non-current		
Property, plant and equipment (Note 8)	9,667,058	4,546,022
Intangible assets (Note 9)	37,757,895	28,514,977
Goodwill (Note 10)	12,841,071	12,857,390
Deposits	462,220	398,992
Total assets	$ 79,522,206	$ 72,930,112
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 11)	$ 1,790,874	$ 1,624,425
Income tax (receivable) payable (Note 12)	(173,930)	545,661
Current portion of promissory note (Note 13)	144,093	147,453
	1,761,037	2,317,539
Non-current		
Term loans (Note 14)	12,977,000	13,322,000
Promissory note (Note 13)	1,259,639	1,303,526
Lease inducement	1,729,309	1,764,162
Convertible debentures (Note 16)	77,851	77,851
Option component of convertible debentures (Note 16)	85,807	185,274
Deferred income taxes	11,914,614	11,821,296
	28,044,220	28,474,109
Total liabilities	29,805,257	30,791,648
Equity		
Share capital	51,271,770	49,147,583
Warrants	3,724,123	3,632,398
Contributed surplus	3,315,382	2,665,730
Accumulated other comprehensive (loss) income	(648,502)	595,434
Deficit	(14,620,571)	(13,600,869)
Equity attributable to shareholders of the Company	43,042,202	42,440,276
Non-controlling interest	6,674,747	(301,812)
	49,716,949	42,138,464
Total liabilities and equity	$ 79,522,206	$ 72,930,112

On Behalf of the Board:

Signed W. Scott Boyes Director   Signed David Layman Director

See accompanying notes to the unaudited interim condensed consolidated financial statements.

The Canadian Bioceutical Corporation
Interim condensed consolidated statements of changes in equity (unaudited)
(in Canadian dollars)
Three months ended June 30, 2017

	Share capital	Warrants	Contributed surplus	Accumulated OCI	Accumulated losses	Non-controlling interest	Total
Balance, March 31, 2016	$ 6,415,525	$ -	$ 1,310,654	$ 100,973	$ (8,368,835)	$ (301,812)	$ (843,495)
Exercise of warrants	25,000	-	-	-	-	-	25,000
Fair value of warrants exercised	1,893	-	(1,893)	-	-	-	-
Exercise of options	16,000	-	-	-	-	-	16,000
Fair value of options exercised	18,987	-	(18,987)	-	-	-	-
Net income (loss) and comprehensive income (loss) for the period	-	-	-	(7,813)	(374,759)	-	(382,572)
Balance, June 30, 2016	$ 6,477,405	$ -	$ 1,289,774	$ 93,160	$ (8,743,594)	$ (301,812)	$ (1,185,067)
Balance, April 1, 2017	$ 49,147,583	$ 3,632,398	$ 2,665,730	$ 595,434	$ (13,600,869)	$ (301,812)	$ 42,138,464
Exercise of options	5,250	-	-	-	-	-	5,250
Fair value of options exercised	6,230	-	(6,230)	-	-	-	-
Private placements	2,300,271	-	-	-	-	-	2,300,271
Share issuance costs - cash	(95,839)	-	-	-	-	-	(95,839)
Share issuance costs - warrants	(91,725)	91,725	-	-	-	-	-
Acquisition	-	-	473,622	-	-	6,990,913	7,464,535
Share-based compensation	-	-	182,260	-	-	-	182,260
Net income (loss) and comprehensive income (loss) for the period	-	-	-	(1,243,936)	(1,019,702)	(14,354)	(2,277,992)
Balance, June 30, 2017	$ 51,271,770	$ 3,724,123	$ 3,315,382	$ (648,502)	$ (14,620,571)	$ 6,674,747	$ 49,716,949

See accompanying notes to the unaudited interim condensed consolidated financial statements.

The Canadian Bioceutical Corporation
Interim condensed consolidated statements of net loss and comprehensive loss (unaudited)
(in Canadian dollars)

Three months ended		June 30, 2017		June 30, 2016
Sales	$	5,105,123	$	-
Cost of sales		3,306,660		-
Gross profit before unrealized gain from changes in biological assets		1,798,463		-
Unrealized gain from changes in fair value of biological assets (Note 7)		936,960		-
Gross profit		2,735,423		-
Expenses				
General and administrative (Note 20)		2,206,867		256,893
Professional fees		426,232		12,113
Share-based compensation (Note 18)		182,260		-
Amortization and depreciation (Notes 8 and 9)		397,166		-
		3,212,525		-
Loss from operations		(477,102)		(269,006)
Other expense (income)				
Foreign exchange		53,755		(12,763)
Interest income		(67,136)		-
Accretion expense (Note 13)		2,127		1,905
Change in fair value of derivative liability (Note 16)		(99,469)		42,466
Interest and financing charges, net (Notes 13 and 14)		248,856		-
Transaction costs		175,340		74,145
		313,473		105,753
Net loss	$	(790,575)	$	(374,759)
Income tax expense		243,481		-
Net loss after income taxes	$	(1,034,056)	$	(374,759)
Net loss attributable to:				
The Canadian Bioceutical Corporation	$	(1,019,702)	$	(374,759)
Non-controlling interest		(14,354)		-
	$	(1,034,056)	$	(374,759)
Other comprehensive income				
Exchange differences on translating foreign operations	$	(1,240,476)	$	(7,813)
Comprehensive loss for the period	$	(2,274,532)	$	(382,572)
Comprehensive loss attributable to:				
The Canadian Bioceutical Corporation	$	(2,260,178)	$	(382,572)
Non-controlling interest		(14,354)		-
	$	(2,274,532)	$	(382,572)
Loss per share, basic and diluted		(0.01)		(0.01)
Basic and diluted weighted average number of shares outstanding		255,529,886		41,408,015

See accompanying notes to the unaudited interim condensed consolidated financial statements.

The Canadian Bioceutical Corporation
Interim condensed consolidated statements of cash flows (unaudited)

(in Canadian dollars)

Three months ended	June 30, 2017	June 30, 2016
Operating activities		
Net loss	$ (1,034,056)	$ (374,759)
Item not affecting cash:		
Amortization and depreciation	397,166	-
Share-based compensation	182,260	-
Accretion expense	2,127	1,905
Change in fair value of derivative liability	(99,469)	42,466
Occupancy cost	-	139,377
Income tax expense	243,481	-
Interest expense	2,090	-
Unrealized foreign exchange gain	53,755	(6,385)
Unrealized gain from changes in fair value of biological assets	(936,960)	-
Income tax payments	(874,185)	-
	(2,063,791)	(197,396)
Changes in non-cash working capital:		
Accounts receivable	(497,818)	3,284
Inventory	484,563	-
Prepaid expenses and deposits	(261,683)	-
Accounts payable and accrued liabilities	(14,516)	56,915
Lease inducement	(16,274)	-
Sales return reserve	-	(4)
	(305,728)	60,195
Net cash used in operations	(2,369,519)	(137,201)
Investing activities		
Purchase of property, plant and equipment	(3,306,404)	-
Purchase of intangible assets	(4,886,114)	-
Net cash used in investing activities	(8,192,518)	-
Financing activities		
Due from related parties	(2,540,194)	-
Proceeds from issuance of convertible debt	-	110,278
Proceeds from private placements, net of issuance costs	2,264,408	-
Proceeds from exercise of warrants	-	25,000
Proceeds from exercise of stock options	3,433	16,000
Repayment of promissory note	37,780	-
Net cash provided by financing activities	(234,573)	151,278
Increase (decrease) in cash	(10,796,610)	14,077
Cash, beginning of period	21,519,289	8,135
Effect of exchange rate fluctuations on cash held	(463,342)	(7,813)
Cash, end of period	$ 10,259,337	$ 14,399

See accompanying notes to the unaudited interim condensed consolidated financial statements.

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 27, 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 interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard 34 Interim Financial Reporting ("IAS 34"), in accordance with subparagraph 3.2(1) (b) of NI 52-107, following the same accounting policies and methods of application as those disclosed in the annual audited financial statements for the year ended March 31, 2017. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Company for the year ended March 31, 2017, which have been prepared in accordance with 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 28, 2017.

Basis of presentation

These interim condensed 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 interim condensed consolidated statements of net loss and comprehensive loss are presented by function. See Note 19 for details of expenses by nature.

Presentation currency

These interim condensed consolidated financial statements are presented in Canadian dollars. The functional currency of the parent 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 consolidated group 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.

(in Canadian dollars)

2. Basis of preparation (continued)

Basis of consolidation

These interim condensed 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%
IMT, LLC (“IMT”)	Massachusetts, USA	USD	51%
Fall River Developments, LLC (“FRD”)	Massachusetts, USA	USD	51%

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

3. Significant accounting policies

Critical accounting estimates and judgments

The preparation of interim condensed consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the interim condensed consolidated financial statements and related notes to the interim condensed consolidated 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 judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

Change in accounting policies

Amendments to IAS 7 – Statements of Cash Flows

Amendments to IAS 7 – Statement of Cash Flows 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 earlier application permitted. The Company has adopted the amendments to IAS 7 in its financial statements for the annual period beginning on April 1, 2017 and has disclosed the required information.

Amendments to IAS 12 – Income Taxes

On January 19, 2016, the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017 and 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. The Company has adopted the amendments to IAS 12 in its financial statements for the annual period beginning on April 1, 2017 with no resulting adjustments.

3. Significant accounting policies (continued)

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.

(in Canadian dollars)

4. Acquisitions

Acquisition of IMT, LLC and Fall River Developments, LLC

On June 14, 2017 the Company, through its wholly-owned subsidiary, CGX, entered into the definitive purchase agreement effective June 14, 2017 to acquire 51% interest of (i) IMT and (ii) FRD (together, the "Acquisition") for the purchase price of (i) cash payment of $6,736,590 (USD $5,100,000) and (ii) 2,000,000 stock options in BCC with an exercise price equal to $0.39 valued at $473,622 (USD $358,560). As part of consideration, the Company also agreed to (i) make available a USD $10,000,000 line of credit to IMT, (ii) pay $66,045 (USD $50,000) finder's fee and (iii) pay USD $800,000 per additional marijuana license for up to two additional licenses Cannatech Medicinals Inc. ("Cannatech") is in the process of securing.

In January 2016 IMT entered into a management agreement to provide Cannatech with certain financing, real estate and other goods and services. IMT does not have the unilateral right to direct Cannatech's activities and therefore does not control Cannatech.

The following table summarizes the allocation of the purchase price of $7,276,257 (USD $5,508,560) to the identifiable assets on June 14, 2017.

Land and building	3,934,555
Management agreement	10,332,615
Non-controlling interest	(6,990,913)
Net assets acquired	$ 7,276,257
Cash	$ 6,736,590
Stock options	473,622
Finder's fee	66,045
Total consideration paid for acquisition	$ 7,276,257

5. Accounts receivable

	June 30, 2017	March 31, 2017
Trade receivables	**$ 579,212**	$ 96,421
Other receivables	**649,186**	629,218
HST receivable	**126,557**	39,033
	$ 1,354,955	$ 764,672

Bad debt expense for the three months ended June 30, 2017 was $Nil (June 30, 2016 - $Nil). 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 June 30, 2017 (March 31, 2017 - $Nil).

(in Canadian dollars)

6. Inventory

	June 30, 2017	March 31, 2017
Dry cannabis		
Finished goods	**$ 686,991**	$ 716,362
Work-in-process	**198,810**	$ -
	885,801	716,362
Cannabis oils		
Finished goods	**224,851**	151,511
Work-in-process	**147,145**	96,570
Raw materials	**151,823**	116,032
	523,819	364,113
Products for resale	**240,507**	259,462
	$ 1,650,127	$ 1,339,937

As at June 30, 2017, the Company held 134,022g of dry cannabis (105,956g finished goods, 28,066g work-in-process) (March 31, 2017 - 89,560g finished goods), 22,668g of cannabis oils (15,135g finished goods, 7,533g work-in process) (March 31, 2017 - 17,639g (9,720g finished goods, 7,919g work-in process)), and 89,701g of raw materials waiting for extraction (March 31, 2017 - 59,595g).

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 three months ended June 30, 2017 and the year ended March 31, 2017 are as follows:

	June 30, 2017	March 31, 2017
Balance, beginning of period	**596,191**	-
Acquired biological assets	**-**	585,672
Net increase in fair value less cost to sell due to biological transformation	**936,960**	936,974
Transferred to inventory upon harvest	**(828,788)**	(921,046)
Foreign exchange	**(18,968)**	(5,409)
Balance, end of period	**$ 685,395**	$ 596,191

As at June 30, 2017, included in the carrying amount of biological assets was $685,395 in live plants.

7. Biological assets (continued)

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

a) 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

b) Expected yields for cannabis on plants to be harvested, by strain of plant

c) 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

The Company estimates the harvest yields for the cannabis on plants at various stages of growth. As at June 30, 2017, it is expected that the Company's biological assets will yield approximately 222,387 grams (March 31, 2016 - 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 in the gain or loss on biological assets in future periods.

(in Canadian dollars)

8. Property, plant and equipment

Gross carrying amount	Vehicle	Land	Building	Leasehold improvements	Equipment	Furniture and fixtures	Total
Balance, April 1, 2017	$ 16,471	$ 545,510	$ 2,555,067	$ 842,743	$ 619,589	$ 15,423	$ 4,594,803
Acquisitions through business combinations	-	1,727,610	2,206,946	-	-	-	3,934,556
Additions	-	-	784,075	574,586	53,882	17,852	1,430,395
Net exchange differences	(427)	(44,470)	(104,931)	(21,825)	(16,046)	(399)	(188,098)
Balance, June 30, 2017	$ 16,044	$ 2,228,650	$ 5,441,157	$ 1,395,504	$ 657,425	$ 32,876	$ 9,771,656
Depreciation							
Balance, April 1, 2017	$ (1,145)	$ -	$ (15,483)	$ (7,046)	$ (25,175)	$ 68	$ (48,781)
Net exchange differences	70	-	1,020	635	1,583	32	3,340
Depreciation	(1,160)	-	(17,637)	(12,884)	(26,528)	(948)	(59,157)
Balance, June 30, 2017	$ (2,235)	$ -	$ (32,100)	$ (19,295)	$ (50,120)	$ (848)	$ (104,598)
Carrying amount June 30, 2017	$ 13,809	$ 2,228,650	$ 5,409,057	$ 1,376,209	$ 607,305	$ 32,028	$ 9,667,058

(in Canadian dollars)

9. Intangible assets

Gross carrying amount	Management agreements	Customer relationships - retail	Customer relationships - wholesale	Non-compete agreement	Brand	License application	Total
Balance, April 1, 2017	$ 15,272,040	$ 8,431,494	$ 984,496	$ 233,135	$ 3,882,031	$ -	$ 28,803,196
Acquisitions – IMT and FRD	10,332,616	-	-	-	-	-	10,332,616
Additions	-	-	-	-	-	40,512	40,512
Net exchange differences	(460,187)	(218,351)	(25,496)	(6,037)	(100,533)	(1,581)	(812,185)
Balance, June 30, 2017	$ 25,144,469	$ 8,213,143	$ 959,000	$ 227,098	$ 3,781,498	$ 38,931	$ 38,364,139
Amortization and impairment							
Balance, April 1, 2017	$ (47,157)	$ (140,525)	$ (16,408)	$ (19,428)	$ (64,701)	$ -	$ (288,219)
Net exchange differences	4,519	9,299	1,007	1,191	3,968	-	19,984
Amortization for the quarter	(93,968)	(142,546)	(16,565)	(19,613)	(65,317)	-	(338,009)
Balance, June 30, 2017	$ (136,606)	$ (273,772)	$ (31,966)	$ (37,850)	$ (126,050)	$ -	$ (606,244)
Carrying amount, June 30, 2017	$ 25,007,863	$ 7,939,371	$ 927,034	$ 189,248	$ 3,655,448	$ 38,931	$ 37,757,895

(in Canadian dollars)

10. Goodwill

	June 30, 2017	March 31, 2017
Balance, April 1, 2017	**$ 12,857,390**	$ -
Acquisition of Arizona Medical Cannabis Management Group	**-**	12,969,344
Net exchange differences	**(16,319)**	(111,954)
	$ 12,841,071	$ 12,857,390

11. Accounts payable and accrued liabilities

	June 30, 2017	March 31, 2017
Accounts payable	**$ 1,427,258**	$ 1,306,865
Sales tax payable	**104,076**	107,368
Interest payable	**259,540**	210,192
	$ 1,790,874	$ 1,624,425

12. Income tax (receivable) payable

	June 30, 2017	March 31, 2017
Income tax payable, acquired on acquisition	**$ -**	$ 420,661
Income tax (receivable) payable, current period	**(173,930)**	125,000
	$ (173,930)	$ 545,661

13. Promissory note

In connection with the acquisition of Arizona Medical Cannabis Management Group during the year ended March 31, 2017, the Company previously 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 note bears interest at a rate of 9.25% per annum (payable monthly), is secured and due on November 1, 2031. During the quarter ended June 30, 2017, the Company repaid $12,330 (USD $9,168) of principal resulting in a remaining principal balance owing of $1,450,077 (USD $1,117,182). As at June 30, 2017, the balance of $1,403,732 (USD $1,081,468) (March 31, 2017 - $1,450,979 (USD $1,089,160)) on the interim condensed consolidated statement of financial position is net of deferred financing charges of $46,345 (USD $35,714) (March 31, 2017 - $49,769 (USD $37,190)).

(in Canadian dollars)

13. Promissory note (continued)

	Maturity date	Effective interest rate	**June 30, 2017**	March 31, 2017
Promissory note bearing interest at 9.25%. Principal is repayable in monthly repayments	November 2031	9.02%	**$ 1,403,732**	$ 1,450,979
Less: current portion			**144,093**	147,453
			$ 1,259,639	$ 1,303,526

The Company's expected principal repayments and accretion expense is as follows:

	Principal repayments	Accretion expense	Net amount
2018	$ 139,005	$ 5,420	$ 133,585
2019	50,146	6,458	43,688
2020	54,897	5,783	49,114
2021	60,294	5,155	55,139
2022	66,114	4,569	61,545
2023 and thereafter	1,079,221	19,595	1,059,626
	$ 1,449,677	$ 46,980	$ 1,402,697

a) For the three months ended June 30, 2017, $2,127 (June 30, 2016 - $Nil) of accretion expense was recorded. As at June 30, 2017, $11,297 (March 31, 2017 - $11,597) 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).

14. Term loan

In order to acquire all issued and outstanding membership interests of companies outlined in the "AZ Purchase Agreement", 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 $12,977,000 (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 three months ended June 30, 2017, interest expense of $268,976 (USD $200,000) (June 30, 2016 - $Nil) was recorded. As at June 30, 2017, $259,540 (USD $200,000) (March 31, 2017 - $210,192 (USD $157,778)) of interest is payable and is recorded in accounts payable and accrued liabilities.

15. Credit facility

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 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 USD $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 USD $10 million, and less than USD $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 USD $20 million, and less than USD $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.

16. 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 comprises 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 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 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 if 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 June 30, 2017, the fair value of the option component of convertible debentures was estimated at $85,807 (March 31, 2017 - $185,274) using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield of 0% (March 31, 2017 – 0%); expected volatility of 97% (March 31, 2017 – 105%); risk free interest rate of 1.10% (March 31, 2017 – 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 three months ended June 30, 2017 of $99,469 (March 31, 2017 - $160,058).

(in Canadian dollars)

17. Share capital

a) Authorized

Unlimited number of common shares without par value

b) Common shares issued

	Number of common shares	Value
Balance, March 31, 2017	252,668,946	49,147,583
Shares issued on private placements (i)	4,600,541	2,300,271
Share issuance costs (i)	40,986	(95,839)
Allocated to warrants	-	(91,725)
Exercise of options	105,000	5,250
Fair value of options	-	6,230
Balance, June 30, 2017	257,415,473	$ 51,271,770

(i) 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) a cash fee of $91,725 (US$66,894); 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) a cash fee of $4,114 (USD $3,000); and (b) 1,040,986 common shares of which 1,000,000 were issued in last reporting period.

18. 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:

(in Canadian dollars)

18. Stock options (continued)

The following table shows the continuity of options:

	Number of options	Weighted average exercise price
Balance, March 31, 2017	21,335,000	0.38
Granted (i) (Note 4)	2,000,000	0.39
Exercised	(105,000)	0.05
Balance, June 30, 2017	23,230,000	$ 0.39

(i) As part of the acquisition of IMT and FRD, the Company granted 2,000,000 stock options in BCC with an exercise price equal to $0.39 valued at $473,622 (USD $358,560). 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 97%; (iii) risk-free interest rate of 1.1%; (iv) share price of $0.39; forfeiture rate of 0; and (v) expected life of 3 years. The expected volatility is based on the historical trading prices of similar companies. The stock options shall vest on June 14, 2018.

Number of options	Remaining life (years)	Average exercise price	Expiry date
300,000	0.02	$ 0.8175	July 9, 2017
1,955,000	0.46	0.05	Dec 16, 2017
12,080,000	4.58	0.20	Jan 25, 2022
3,500,000	4.58	0.60	Jan 25, 2022
3,500,000	4.58	1.00	Jan 25, 2022
2,000,000	3.96	0.39	Jun 14, 2021
23,230,000	4.58	$ 0.39	

19. Warrants

	Number of warrants	Amount
Balance, March 31, 2017	30,212,745	3,632,398
Granted (i)	182,782	91,725
Balance, June 30, 2017	30,395,527	$ 3,724,123

(in Canadian dollars)

19. Warrants (continued)

(i) 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 Chrystal Capital with 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. The warrants were valued at the fair value of services received as the fair value of the services could be measured reliably. An alternative fair value model does not need to be used.

The following table reflects the outstanding warrants as at June 30, 2017:

Number of warrants	Exercise price	Expiry date
12,525,000	$ 0.10	Dec 15,2017
17,687,745	$ 0.20	Jan 25, 2022
182,782	$ 0.50	May 05, 2022
30,395,527		

20. General and administrative expenses

	June 30, 2017	June 30, 2016
Occupancy costs	**$ 150,424**	$ 139,377
Office and general	**417,181**	22,756
Repairs and maintenance	**48,511**	-
Salaries and benefits	**1,205,018**	67,083
Sales and marketing	**40,825**	-
Regulatory expenses	**344,908**	27,677
	$ 2,206,867	$ 256,893

21. Related party transactions

Related party transactions not disclosed elsewhere are summarized below:

As at June 30, 2017, the Company has an outstanding term loan of $12,977,000 (USD $10,000,000) (March 31, 2017 - $13,322,000 (USD $10,000,000)), due to a trust whose beneficiary is an officer of the Company. In connection with this loan, the Company recorded interest expense of $268,976 (USD $200,000) (June 30, 2016 - $Nil). As at June 30, 2017, $259,540 (USD $200,000) (March 31, 2017 - $210,192 (USD $157,778)) of interest is payable and is recorded in accounts payable and accrued liabilities.

As at June 30, 2017, the Company was owed $2,463,469 (March 31, 2017 - $Nil) from companies controlled by an officer of the Company.

(in Canadian dollars)

21. Related party transactions (continued)

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:

		June 30, 2017		June 30, 2016
Salaries and benefits	**$**	**184,194**	$	44,000
Share-based compensation		**114,114**		-
	$	**298,308**	$	44,000

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 June 30, 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 2.67% 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 interim condensed consolidated statements of financial position.

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.

(in Canadian dollars)

22. Commitments and contingency (continued)

Leases

The Company's minimum lease payments are as follows:

2018	$ 426,805
2019	775,204
2020	775,204
2021	743,491
2022	732,919
2023 and beyond	3,648,138
	$ 7,101,761

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 USD $30,000 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. 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 three months ended June 30, 2017. The Company is not subject to any external capital requirements.

(in Canadian dollars)

24. Supplemental cash flow information

Non-cash transactions:

		June 30, 2017	June 30, 2016
Equity instruments issued for acquisition of FRD and IMT	**$**	**473,622**	-
Share issuance costs settled via equity instruments		**91,725**	-

25. Segmented information

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

Non-current assets located outside of Canada total $60,599,034 and are made up of property, plant and equipment, deposits, intangible assets, and goodwill.

All revenues generated during the three months ended June 30, 2017 were done so outside of Canada.

26. Subsequent events

(a) 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.

(b) 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.