

Interim condensed consolidated financial statements

MPX Bioceutical Corporation

Three months ended June 30, 2018 (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 MPX Bioceutical Corporation

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MPX Bioceutical Corporation**Interim condensed consolidated statements of financial position (unaudited)**

(in Canadian dollars)

As at

June 30,

2018

March 31,

2018

Assets

Current

Cash	\$ 30,688,239	\$ 8,503,724
Accounts receivable (Note 5)	2,011,986	1,286,725
Inventory (Note 6)	9,857,670	6,469,970
Biological assets (Note 7)	1,199,283	1,273,424
Prepaid expenses	706,284	587,131
Due from related parties (Note 24)	1,554,243	235,316
Assets held for sale	<u>2,488,752</u>	<u>2,436,966</u>
	48,506,457	20,793,256

Non-current

Property, plant and equipment (Note 8)	37,700,471	27,460,705
Intangible assets (Note 9)	84,323,614	60,295,209
Goodwill (Note 10)	41,790,839	41,226,840
Deposits	<u>617,986</u>	<u>629,642</u>

Total assets**\$ 212,939,367** **\$ 150,405,652**

Liabilities

Current

Accounts payable and accrued liabilities (Note 11)	\$ 6,596,008	\$ 5,018,520
Income tax payable (Note 12)	182,039	33,444
Current portion of mortgage payable (Note 13)	8,345	8,781
Current portion of promissory note (Note 14)	45,751	43,467
Current portion of contingent consideration (Note 15)	1,224,916	1,228,018
Current portion of term loans (Note 16)	-	12,249,300
	<u>8,057,059</u>	<u>18,581,530</u>

Non-current

Mortgage payable (Note 13)	428,688	422,030
Promissory note (Note 14)	1,232,113	1,218,181
Contingent consideration (Note 15)	1,254,114	1,467,764
Term loans (Note 16)	13,168,000	12,894,000
Lease inducement	1,785,083	1,773,136
Convertible debentures and credit facility (Notes 17 and 18)	9,337,723	8,581,166
Option component of convertible debentures and credit facility (Notes 17 and 18)	15,748,387	12,962,330
Convertible loan (Note 19)	33,708,179	-
Option component of convertible loan (Note 19)	17,165,721	-
Deferred income taxes	<u>11,253,426</u>	<u>10,470,923</u>

Total liabilities**105,081,434** **49,789,530**
113,138,493 **68,371,060**

Equity

Share capital	106,565,263	85,173,626
Warrants	18,988,390	14,351,233
Contributed surplus	10,220,277	7,443,121
Accumulated other comprehensive income (loss)	1,123,303	(618,597)
Deficit	<u>(43,761,187)</u>	<u>(31,041,839)</u>
Equity attributable to shareholders of the Corporation	93,136,046	75,307,544
Non-controlling interests	<u>6,664,828</u>	<u>6,727,048</u>
	99,800,874	82,034,592

Total liabilities and equity**\$ 212,939,367** **\$ 150,405,652**

On Behalf of the Board:

Signed _____ "W. Scott Boyes" _____ Director

Signed _____ "Randall Stafford" _____ Director

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

MPX Biocetical Corporation

Interim condensed consolidated statements of changes in shareholders' equity (unaudited)

(in Canadian dollars)

Three months ended June 30, 2018

	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Accumulated losses	Non- controlling interest	Total
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	<u>\$ 51,271,770</u>	<u>\$ 3,724,123</u>	<u>\$ 3,315,382</u>	<u>\$ (648,502)</u>	<u>\$ (14,620,571)</u>	<u>\$ 6,674,747</u>	<u>\$ 49,716,949</u>
Balance, April 1, 2018	\$ 85,173,626	\$ 13,863,068	\$ 7,931,286	\$ (618,597)	\$ (31,041,839)	\$ 6,727,048	\$ 82,034,592
Warrants issued	-	5,565,725	-	-	-	-	5,565,725
Exercise of warrants	1,649,423	-	-	-	-	-	1,649,423
Fair value of warrants exercised	440,403	(440,403)	-	-	-	-	-
Acquisitions	19,301,811	-	-	-	-	-	19,301,811
Share-based compensation	-	-	2,288,991	-	-	-	2,288,991
Net income (loss) and comprehensive income (loss) for the period	-	-	-	1,741,900	(12,719,348)	(62,220)	(11,039,668)
Balance, June 30, 2018	<u>\$ 106,565,263</u>	<u>\$ 18,988,390</u>	<u>\$ 10,220,277</u>	<u>\$ 1,123,303</u>	<u>\$ (43,761,187)</u>	<u>\$ 6,664,828</u>	<u>\$ 99,800,874</u>

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

MPX Bioceutical Corporation**Interim condensed consolidated statements of net loss and comprehensive loss****(unaudited)**

(in Canadian dollars)

Three months ended

	June 30, 2018	June 30, 2017
Sales	\$ 14,464,989	\$ 4,465,438
Cost of sales (Note 7)	<u>11,390,649</u>	<u>2,666,975</u>
Gross profit before unrealized gain from changes in fair value of biological assets	3,074,340	1,798,463
Unrealized gain from changes in fair value of biological assets (Note 7)	<u>1,846,791</u>	<u>936,960</u>
Gross profit	<u>4,921,131</u>	<u>2,735,423</u>
Expenses		
General and administrative (Note 23)	5,730,233	2,206,867
Professional fees	1,374,886	426,232
Share-based compensation (Note 21)	2,288,991	182,260
Amortization and depreciation (Notes 8 and 9)	<u>667,258</u>	<u>397,166</u>
	<u>10,061,368</u>	<u>3,212,525</u>
Loss from operations	(5,140,237)	(477,102)
Other expense (income)		
Foreign exchange	874,858	53,755
Interest income	(33)	(67,136)
Interest and financing charges (Notes 13, 14 and 19)	2,255,673	248,856
Accretion expense (Notes 13, 15, 17, 18 and 19)	597,459	2,127
Changes in fair value of derivative liabilities (Notes 17, 18 and 19)	2,577,780	(99,469)
Loss on the fair value of the convertible loan (Note 19)	622,269	-
Transaction costs	<u>19,269</u>	<u>175,340</u>
	<u>6,947,275</u>	<u>313,473</u>
Net loss	\$ (12,087,512)	\$ (790,575)
Income tax expense	<u>694,056</u>	<u>243,481</u>
Net loss after income taxes	\$ (12,781,568)	\$ (1,034,056)
Net loss attributable to:		
MPX Bioceutical Corporation	\$ (12,719,348)	\$ (1,019,702)
Non-controlling interest	<u>(62,220)</u>	<u>(14,354)</u>
	<u>\$ (12,781,568)</u>	<u>\$ (1,034,056)</u>
Other comprehensive (loss) income		
Exchange differences on translating foreign operations	<u>\$ 1,741,900</u>	<u>\$ (1,240,476)</u>
Comprehensive loss for the period	<u>\$ (11,039,668)</u>	<u>\$ (2,274,532)</u>
Comprehensive loss attributable to:		
MPX Bioceutical Corporation	\$ (10,977,448)	\$ (2,260,178)
Non-controlling interest	<u>(62,220)</u>	<u>(14,354)</u>
	<u>\$ (11,039,668)</u>	<u>\$ (2,274,532)</u>
Loss per share, basic and diluted	<u>(0.03)</u>	<u>(0.01)</u>
Basic and diluted weighted average number of shares outstanding	<u>365,974,613</u>	<u>255,529,866</u>

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

MPX Bioceutical Corporation**Interim condensed consolidated statements of cash flows (unaudited)**

(in Canadian dollars)

Three months ended

	June 30, 2018	June 30 2017
Operating activities		
Net loss	\$ (12,781,568)	\$ (1,034,056)
Items not affecting cash:		
Amortization and depreciation	667,258	397,166
Share-based compensation	2,288,991	182,260
Accretion expense	597,459	2,127
Change in fair value of derivative liabilities	2,577,780	(99,469)
Loss on the fair value of the convertible loan	622,269	-
Income tax expense	694,056	243,481
Warrants issued for services rendered	84,214	-
Interest and financing charges	1,685,234	2,090
Unrealized foreign exchange gain	2,036,490	53,755
Unrealized gain from changes in fair value of biological assets	(1,846,791)	(936,960)
Income tax payments	-	(874,185)
	<u>(3,374,608)</u>	<u>(2,063,791)</u>
Changes in non-cash working capital:		
Accounts receivable	(777,730)	(497,818)
Inventory and biological assets	(1,764,137)	484,563
Prepaid expenses and deposits	(125,577)	(261,683)
Accounts payable and accrued liabilities	1,755,336	(14,516)
Lease inducement	60,838	(16,274)
	<u>(851,270)</u>	<u>(305,728)</u>
Net cash used in operations	<u>(4,225,878)</u>	<u>(2,369,519)</u>
Investing activities		
Purchase of property, plant and equipment	(7,049,971)	(3,306,404)
Purchase of intangible assets	(2,646,132)	(4,886,114)
Net cash used in investing activities	<u>(9,696,103)</u>	<u>(8,192,518)</u>
Financing activities		
Proceeds from issuance of convertible loan	51,896,000	-
Due from related parties	(1,318,927)	(2,540,194)
Proceeds from private placements, net of issuance costs	-	2,264,408
Proceeds from exercise of warrants	1,649,423	-
Proceeds from exercise of stock options	-	3,433
Repayment of promissory note	(12,045)	37,780
Repayment of term loan	(12,249,300)	-
Repayment of contingent consideration	(341,968)	-
Interest and financing charges paid	(3,260,804)	-
Net cash provided by financing activities	<u>36,362,379</u>	<u>(234,573)</u>
Increase (decrease) in cash	22,440,398	(10,796,610)
Cash, beginning of period	8,503,724	21,519,289
Effect of exchange rate fluctuations on cash	(255,883)	(463,342)
Cash, end of period	<u>\$ 30,688,239</u>	<u>\$ 10,259,337</u>

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

MPX Bioceutical Corporation

Notes to the interim condensed consolidated financial statements (unaudited)

(in Canadian dollars)

June 30, 2018

1. Nature of operations

MPX Bioceutical Corporation (the "Corporation" or "MPX") was incorporated under the Business Corporations Act (Ontario) on April 2, 1974. The Corporation's registered office is located at 5255 Yonge street, Suite 701, Toronto, ON M2N 6P4, Canada.

The Corporation is a multinational diversified cannabis company focused on the medical and adult use cannabis markets. The Corporation has four dispensaries, two cultivation facilities and one production facility in Arizona, three dispensaries and one production facility in the Baltimore and Bethesda areas of Maryland and one cultivation and production facility in North Las Vegas, Nevada. The Corporation is also developing one cultivation and production facility in Fall River, Massachusetts as well as dispensaries in Fall River and Attleboro. On June 8, 2018, the Corporation acquired a cultivation and production facility in Peterborough, Ontario (Note 4). The Corporation 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 Corporation 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 Corporation's common shares (the "MPX Shares") were voluntarily delisted from the TSX Venture Exchange. On January 27, 2017 the MPX shares commenced trading on the Canadian Securities Exchange ("CSE") under the symbol "BCC". The Corporation is a reporting issuer in Alberta, British Columbia and Ontario, Canada.

On November 30, 2017, the Corporation changed its name to MPX Bioceutical Corporation. The MPX shares began trading on the Canadian Securities Exchange under the new name and new symbol 'MPX' on November 6, 2017. On the OTCQB, the Corporation began trading under a new symbol 'MPXEF' on November 2, 2017.

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, 2018. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Corporation for the year ended March 31, 2018, which have been prepared in accordance with International Accounting Standards Board ("IASB").

These interim condensed consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on August 29, 2018.

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 and credit facility 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 23 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 Corporation 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 currencies of the subsidiaries are outlined below.

MPX Bioceutical Corporation**Notes to the interim condensed consolidated financial statements (unaudited)**

(in Canadian dollars)

June 30, 2018

2. Basis of preparation (continued)**Basis of consolidation**

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

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%
8423695 Canada Inc. ("Canveda")	Ontario, Canada	CAD	100%
CinG-X Corporation ("CinG-X")	Ontario, Canada	USD	100%
CinG-X Corporation of America ("CinG-X America")	Nevada, USA	USD	100%
CGX Life Sciences Inc. ("CGX")	Nevada, USA	USD	100%
Salus Biopharma Corporation ("Salus Biopharma")	Nevada, USA	USD	100%
GreenMart of Nevada NLV, LLC ("GreenMart NV")	Nevada, USA	USD	99%
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-WC")	Arizona, USA	USD	0%
ABACA, LLC ("ABACA")	Arizona, USA	USD	100%
Ambary, LLC ("Ambary")	Arizona, USA	USD	100%
Tarmac Manufacturing, LLC ("Tarmac")	Arizona, USA	USD	100%
Tower Management Holdings, LLC ("Tower")	Arizona, USA	USD	100%
IMT, LLC ("IMT")	Massachusetts, USA	USD	51%
Fall River Developments, LLC ("FRD")	Massachusetts, USA	USD	51%
LMS Wellness, Benefit LLC ("LMS")	Maryland, USA	USD	0%
GreenMart of Maryland, LLC ("GreenMart MD")	Maryland, USA	USD	0%
Rosebud Organics Inc. ("Rosebud")	Maryland, USA	USD	0%
Budding Rose Inc. ("Budding Rose")	Maryland, USA	USD	0%

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

MPX Bioceutical Corporation

Notes to the interim condensed consolidated financial statements (unaudited)

(in Canadian dollars)

June 30, 2018

3. Significant accounting policies

Critical accounting estimates and judgements

The preparation of the interim condensed consolidated financial statements in conformity with IFRS requires the Corporation'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.

Change in accounting policies

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, 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 introduces an 'expected credit loss' model for the impairment of financial assets. The measurement of the Corporation's financial assets and liabilities will not significantly change on transition to IFRS 9. Additionally, the Corporation is exposed to minimal expected credit losses due to the fact that it has an insignificant amount of accounts receivable. The Corporation has adopted the amendments to IFRS 9 in its financial statements for the annual period beginning on April 1, 2018 with no resulting adjustments.

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. The Corporation's revenues are derived from sale of cannabis to retail and wholesale customers. Under IFRS 15, the Corporation has determined that revenue will be recognized at point of sale for retail customers and at point of shipment of for wholesale customers which is consistent with the Corporation's revenue recognition policy under IAS 18. The Corporation has adopted the amendments to IFRS 15 in its financial statements for the annual period beginning on April 1, 2018 with no resulting adjustments.

New standards and interpretations not yet adopted

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 recognise 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 recognise 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 Corporation is assessing the potential impact of IFRS 16.

MPX Bioceutical Corporation

Notes to the interim condensed consolidated financial statements (unaudited)

(in Canadian dollars)

June 30, 2018

4. Acquisitions

Acquisition of the Canveda Company

On June 7, 2018 the Corporation, through its wholly-owned subsidiary, CGX, entered into the definitive purchase agreement effective June 8, 2018 to acquire 100% of the issued and outstanding commons shares of 8423695 Canada Inc. operating as Canveda (the "Canveda Acquisition") by paying the purchase price of (i) \$3,120,000 (USD \$2,407,036) in cash, (ii) \$19,071,428 (USD \$14,713,338) through the issuance of 21,428,571 common shares of MPX issued at a price of \$0.89 and (iii) \$4,030,898 (USD \$3,109,781) in the issuance of 6,000,000 common share purchase warrants each exercisable into one (1) common share at an exercise price of \$0.84 for a period of five (5) years from the date of issuance. The Corporation incurred \$252,921 of transaction costs and \$22,538 was paid in form of cash. The remaining \$230,383 was paid through the issuance of 258,857 commons shares on the date of acquisition.

The Canveda Acquisition has been accounted for as an asset acquisition. The following table summarizes the asset acquired and liabilities assumed of Canveda which have been recorded at their fair values.

Cash	\$	738
Amounts receivable		90,336
Prepays		67,389
Property, plant and equipment		3,263,975
Intangible asset		23,066,749
Accounts payable and accrued liabilities		<u>(13,940)</u>
Net assets acquired	\$	<u>26,475,247</u>
Cash	\$	3,120,000
Common shares		19,071,428
Warrants		4,030,898
Transaction cost		<u>252,921</u>
Total consideration paid for acquisition	\$	<u>26,475,247</u>

5. Accounts receivable

	June 30, 2018	March 31, 2018
Trade receivables	\$ 842,301	\$ 296,403
Other receivables	687,469	689,122
HST receivable	<u>482,216</u>	<u>301,200</u>
	<u>\$ 2,011,986</u>	<u>\$ 1,286,725</u>

Bad debt expense for the three months ended June 30, 2018 was \$Nil (June 30, 2017 – \$Nil). Accounts receivable more than 90 days past due totalled \$Nil at June 30, 2018 (March 31, 2018 – \$Nil).

MPX Bioceutical Corporation**Notes to the interim condensed consolidated financial statements (unaudited)**

(in Canadian dollars)

June 30, 2018

6. Inventory	June 30, 2018	March 31, 2018
Dry cannabis		
Finished goods	\$ 817,890	\$ 1,313,464
Work-in-process	<u>2,523,647</u>	<u>1,710,981</u>
	3,341,537	3,024,445
Cannabis oils		
Finished goods	1,231,127	857,723
Work-in-process	<u>2,455,955</u>	<u>606,165</u>
Raw materials	<u>825,018</u>	<u>1,134,281</u>
	4,512,100	2,598,169
Products for resale	1,250,426	648,273
Supplies	<u>753,607</u>	<u>199,123</u>
	\$ 9,857,670	\$ 6,469,970

As at June 30, 2018, the Corporation held 901,702 grams of dry cannabis (248,364 grams of finished goods, 653,338 grams of work-in-process) (March 31, 2018 – 632,332 grams (281,588 grams of finished goods, 350,744 grams of work-in-process)), 179,978 grams of cannabis oils (41,737 grams of finished goods, 138,241 grams of work-in process) (March 31, 2018 – 72,249 grams (30,026 grams of finished goods, 42,223 grams of work-in process)), and 668,973 grams of raw materials waiting for extraction (March 31, 2018 – 1,549,846 grams).

7. Biological assets

Biological assets consist of cannabis on plants and biological assets. The changes in the carrying value of biological assets for the three months ended June 30, 2018 and the year ended March 31, 2018 are as follows:

	June 30, 2018	March 31, 2018
Balance, beginning of period	\$ <u>1,273,424</u>	\$ 596,191
Acquired biological assets	-	531,591
Net increase in fair value less cost to sell due to biological transformation	1,846,791	4,125,080
Transferred to inventory upon harvest	(1,946,081)	(3,961,361)
Foreign exchange	<u>25,149</u>	<u>(18,077)</u>
Balance, end of period	\$ 1,199,283	\$ 1,273,424

As at June 30, 2018, included in the carrying amount of biological assets was \$1,199,283 (March 31, 2018 – \$1,273,424) in live plants.

Management has made the following estimates in the model:

- Average number of days in the growing and processing cycle;
- Average harvest yield, which incorporates estimates around wastage;
- Average selling price, which varies depending on locations and strains;
- Standard costs to grow and process; and
- Average costs to sell.

MPX Bioceutical Corporation**Notes to the interim condensed consolidated financial statements (unaudited)**

(in Canadian dollars)

June 30, 2018

7. Biological assets (continued)

In Management's view, the following are significant unobservable inputs into the model:

Significant unobservable inputs	Range	Average	Sensitivity
Average harvest yield, which incorporates estimates around wastage	21 to 45 grams for flower	31 grams	A slight increase in the expected yield per plant would result in a significant increase in fair value, and vice versa
Average selling prices, which varies depending on locations and strains	USD \$6.98 to USD \$9.88 per gram	USD \$8.23 per gram	A slight increase in the selling price per strain would result in a significant increase in fair value, and vice versa
Standard costs	USD \$0.98 to USD \$1.95 per gram	USD \$1.45 per gram	Standard costs are used to attribute fair value based on the plant's stage of growth. Changes to standard costs relative to the plant's stage of growth may increase or decrease fair value.
Stage of growth	1 to 13 weeks	7 weeks	Standard costs are used to attribute fair value based on the plant's stage of growth. Changes to standard costs relative to the plant's stage of growth may increase or decrease fair value.

The Corporation estimates the harvest yields for the cannabis on plants at various stages of growth. As at June 30, 2018, it is expected that the Corporation's biological assets will yield approximately 452,316 grams (March 31, 2018 – 440,888 grams) of medical cannabis and 864,855 grams (March 31, 2018 – 1,034,304 grams) of whole wet plant (WWP) cannabis for processing when harvested. The Corporation'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 effect of changes in the fair value of biological assets and inventory during the three months ended June 30, 2018 and 2017 is as follows:

	June 30, 2018	June 30, 2017
Unrealized change in fair value of biological assets	\$ 1,846,791	\$ 936,960
Realized fair value increments on inventory sold during the period	(1,229,916)	(305,337)
Net effect of changes in fair value of biological assets and inventory	\$ 616,875	\$ 631,623

MPX Bioceutical Corporation

Notes to the interim condensed consolidated financial statements (unaudited)

(in Canadian dollars)

June 30, 2018

8. Property, plant and equipment

<u>Gross carrying amount</u>	<u>Vehicle</u>	<u>Land</u>	<u>Building</u>	<u>Leasehold improvements</u>	<u>Equipment</u>	<u>Furniture and fixtures</u>	<u>Total</u>
Balance, April 1, 2018	\$ 15,942	\$ 1,066,311	\$ 14,602,113	\$ 7,319,977	\$ 4,795,594	\$ 234,906	\$ 28,034,843
Additions	-	-	5,458,955	2,445,562	1,887,589	150,203	9,942,309
Net exchange differences	339	22,657	331,650	200,492	114,764	5,010	674,912
Balance, June 30, 2018	\$ <u>16,281</u>	\$ <u>1,088,968</u>	\$ <u>20,392,718</u>	\$ <u>9,966,031</u>	\$ <u>6,797,947</u>	\$ <u>390,119</u>	\$ <u>38,652,064</u>
<u>Depreciation</u>							
Balance, April 1, 2018	\$ (5,572)	\$ -	\$ (90,161)	\$ (177,274)	\$ (292,413)	\$ (8,718)	\$ (574,138)
Depreciation	(846)	-	(22,182)	(119,288)	(186,535)	(5,458)	(334,309)
Net exchange differences	(161)	-	(24,212)	(7,241)	(11,250)	(282)	(43,146)
Balance, June 30, 2018	\$ <u>(6,579)</u>	\$ <u>-</u>	\$ <u>(136,555)</u>	\$ <u>(303,803)</u>	\$ <u>(490,198)</u>	\$ <u>(14,458)</u>	\$ <u>(951,593)</u>
Carrying amount June 30, 2018	\$ <u>9,702</u>	\$ <u>1,088,968</u>	\$ <u>20,256,163</u>	\$ <u>9,662,228</u>	\$ <u>6,307,749</u>	\$ <u>375,661</u>	\$ <u>37,700,471</u>
Carrying amount March 31, 2018	\$ <u>10,370</u>	\$ <u>1,066,311</u>	\$ <u>14,511,952</u>	\$ <u>7,142,703</u>	\$ <u>4,503,181</u>	\$ <u>226,188</u>	\$ <u>27,460,705</u>

MPX Bioceutical Corporation

Notes to the interim condensed consolidated financial statements (unaudited)

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9. Intangible assets

<u>Gross carrying amount</u>	<u>Management agreements</u>	<u>Customer relationships - retail</u>	<u>Customer relationships - wholesale</u>	<u>Non-compete agreement</u>	<u>Brand</u>	<u>Licenses</u>	<u>Total</u>
Balance, April 1, 2018	\$ 25,555,632	\$ 8,160,613	\$ 515,760	\$ 225,645	\$ 3,757,312	\$ 23,639,764	\$ 61,854,726
Additions	-	-	-	-	-	23,086,503	23,086,503
Net exchange differences	543,062	173,414	10,960	4,795	79,843	502,548	1,314,622
Balance, June 30, 2018	<u>\$ 26,098,694</u>	<u>\$ 8,334,027</u>	<u>\$ 526,720</u>	<u>\$ 230,440</u>	<u>\$ 3,837,155</u>	<u>\$ 47,228,815</u>	<u>\$ 86,255,851</u>
<u>Amortization and impairment</u>							
Balance, April 1, 2018	\$ (440,391)	\$ (680,051)	\$ (31,946)	\$ (94,019)	\$ (313,110)	\$ -	\$ (1,559,517)
Amortization for the period	(106,621)	(136,188)	(8,608)	(18,828)	(62,704)	-	(332,949)
Net exchange differences	(11,482)	(17,164)	(850)	(2,373)	(7,902)	-	(39,771)
Balance, June 30, 2018	<u>\$ (558,494)</u>	<u>\$ (833,403)</u>	<u>\$ (41,404)</u>	<u>\$ (115,220)</u>	<u>\$ (383,716)</u>	<u>\$ -</u>	<u>\$ (1,932,237)</u>
Carrying amount, June 30, 2018	<u>\$ 25,540,200</u>	<u>\$ 7,500,624</u>	<u>\$ 485,316</u>	<u>\$ 115,220</u>	<u>\$ 3,453,439</u>	<u>\$ 47,228,815</u>	<u>\$ 84,323,614</u>
Carrying amount, March 31, 2018	<u>\$ 25,115,241</u>	<u>\$ 7,480,562</u>	<u>\$ 483,814</u>	<u>\$ 131,626</u>	<u>\$ 3,444,202</u>	<u>\$ 23,639,764</u>	<u>\$ 60,295,209</u>

MPX Bioceutical Corporation**Notes to the interim condensed consolidated financial statements (unaudited)**

(in Canadian dollars)

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10. Goodwill

The effect of changes in the goodwill for the three months ended June 30, 2018 and the year ended March 31, 2018 is as follows:

	<u>June 30, 2018</u>	<u>March 31, 2018</u>
Balance, April 1	\$ 41,226,840	\$ 12,857,390
Acquisition of GreenMart NV	-	8,371,996
Acquisition of Arizona Companies	-	19,992,879
Net exchange differences	<u>563,999</u>	<u>4,575</u>
	<u>\$ 41,790,839</u>	<u>\$ 41,226,840</u>

11. Accounts payable and accrued liabilities

	<u>June 30, 2018</u>	<u>March 31, 2018</u>
Trade payables	\$ 4,445,089	\$ 2,549,516
Accrued liabilities	1,898,606	1,975,805
Sales tax payable	252,313	235,319
Interest payable	<u>-</u>	<u>257,880</u>
	<u>\$ 6,596,008</u>	<u>\$ 5,018,520</u>

12. Income tax payable

	<u>June 30, 2018</u>	<u>March 31, 2018</u>
Income tax payable, current year	\$ 182,039	\$ 33,444
	<u>\$ 182,039</u>	<u>\$ 33,444</u>

13. Mortgage payable

In connection with the Acquisition of Arizona Companies on March 5, 2018, the Corporation acquired a 30-year mortgage that commenced on October 1, 2015. The principal amount of the mortgage is \$451,290 (USD \$350,000) and bears interest of 4% per annum (payable monthly). As at June 30, 2018, the balance of the principal was \$437,033 (USD \$331,879) (March 31, 2018 - \$430,811 (USD \$334,117)). The mortgage is secured by the property on which the mortgage is held.

The Corporation's expected principal repayments and interest expense is as follows:

	<u>Payment amount</u>	<u>Interest expense</u>	<u>Principal reduction</u>
2019	\$ 17,602	\$ 11,584	\$ 6,018
2020	26,404	17,070	9,334
2021	26,404	16,690	9,714
2022	26,404	16,294	10,110
2023	26,404	15,882	10,522
2024 and thereafter	<u>594,108</u>	<u>202,773</u>	<u>391,335</u>
	<u>\$ 717,326</u>	<u>\$ 280,293</u>	<u>\$ 437,033</u>

MPX Bioceutical Corporation**Notes to the interim condensed consolidated financial statements (unaudited)**

(in Canadian dollars)

June 30, 2018

14. Promissory note

In connection with the acquisition of Arizona Medical Cannabis Management Group during the year ended March 31, 2017, the Corporation acquired \$1,529,580 (USD \$1,138,250) by way of a promissory note and transaction costs totalling \$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 three months ended June 30, 2018, the Corporation repaid \$12,045 (USD \$9,329) of principal (June 30, 2017 – \$12,330 (USD \$9,168)) resulting in a remaining principal balance owing of \$1,317,770 (USD \$1,000,736) (June 30, 2017 - \$1,450,077 (USD \$1,117,182)). As at June 30, 2018, the balance of \$1,277,864 (USD \$970,431) (March 31, 2018 - \$1,261,648 (USD \$978,477)) on the interim condensed consolidated statement of financial position is net of deferred financing charges of \$39,906 (USD \$30,305) (March 31, 2018 - \$40,731 (USD \$31,589)).

	<u>Maturity date</u>	<u>Effective interest rate</u>	<u>June 30, 2018</u>	<u>March 31, 2018</u>
Promissory note bearing interest at 9.25%. Principal is repayable in monthly repayments	November 2031	9.02%	\$ 1,277,864	\$ 1,261,648
Less: current portion			<u>45,751</u>	<u>43,467</u>
			<u>\$ 1,232,113</u>	<u>\$ 1,218,181</u>

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

	<u>Principal repayments</u>	<u>Accretion expense</u>	<u>Net amount</u>
2019	\$ 38,599	\$ 4,848	\$ 33,751
2020	55,796	5,868	49,928
2021	61,182	5,230	55,952
2022	67,087	4,636	62,451
2023	73,563	4,079	69,484
2024 and thereafter	<u>1,021,543</u>	<u>15,245</u>	<u>1,006,298</u>
	<u>\$ 1,317,770</u>	<u>\$ 39,906</u>	<u>\$ 1,277,864</u>

- For the three months ended June 30, 2018, accretion expense of \$1,657 (June 30, 2017 - \$2,127) was recorded. As at June 30, 2018, \$Nil (March 31, 2018 - \$Nil) of interest is payable and is recorded in accrued liabilities
- The promissory note agreement had a balloon payment feature that required a principal repayment of \$106,496 (USD \$79,250) on or before December 1, 2017 (paid).
- 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 Corporation's land and buildings in Mesa Arizona (Note 8).

15. Contingent consideration

As part of the agreement to acquire all of the issued and outstanding membership interests of the companies outlined in the "THC Purchase Agreement", the Corporation, through its wholly owned subsidiary CGX, promised to pay William Abbott, Cindy Abbott, Dan Hayden, Jason Kaplan and Eric Nauhaus up to an amount of \$7,900,800 (USD \$6,000,000).

MPX Bioceutical Corporation**Notes to the interim condensed consolidated financial statements (unaudited)**

(in Canadian dollars)

June 30, 2018

15. Contingent consideration (continued)

The Corporation will pay \$79,008 (USD \$60,000) monthly and the monthly payments shall be subject to a quarterly true up where the Corporation shall pay within twenty business days after each quarter, an additional payment of \$79,008 (USD \$60,000) and one half of an agreed percentage scale on revenues in excess of an agreed revenue target during such calendar quarters. If the revenues are below the agreed revenue target during any quarter, the next succeeding monthly payment shall be reduced by an amount equal to the difference of the agreed revenue target and the actual revenue in such calendar quarter. The underlining agreement expires in August 2020 at which point any remaining balance will not be subject to payment unless the agreement is renewed for a period beyond August 2020. The note shall not accrue any interest.

Based on current trends and historical monthly revenues, the Corporation expects the agreed revenues will exceed the revenue target in each quarter. Based on this expectation the Corporation has estimated that an additional \$90,859 (USD \$69,000) will be payable in each quarter. The Corporation has measured the contingent consideration up until the expiry of the agreement in August 2020 based on estimated revenues which have been derived based on current revenue trends. As at June 30, 2018, the Corporation has valued this liability at \$2,479,030 (USD \$1,882,617) (March 31, 2018 - \$2,695,782 (USD \$2,090,726)) on the interim condensed consolidated statement of financial position. The Corporation has used the present value method at a discount rate of 8% to measure this liability as at June 30, 2018.

	Discount rate	June 30, 2018	March 31, 2018
Present value of expected repayments	8.00%	\$ 2,479,030	\$ 2,695,782
Less: current portion		<u>1,224,916</u>	<u>1,228,018</u>
		<u>\$ 1,254,114</u>	<u>\$ 1,467,764</u>

The Corporation's expected repayments are follows:

	Principal repayments
2019	\$ 949,897
2020	1,181,315
2021	<u>347,818</u>
	<u>\$ 2,479,030</u>

16. Term loans*Acquisition of Arizona Medical Cannabis Management Group*

In order to acquire all issued and outstanding membership interests of companies outlined in the "AZ Purchase Agreement", the Corporation, 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 \$12,480,000 (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 of the Arizona Medical Cannabis Management Group, including a first priority mortgage on all real property owned by the Acquisition pursuant to a security agreement dated January 19, 2017 between the Corporation, CGX and the Trust.

MPX Bioceutical Corporation

Notes to the interim condensed consolidated financial statements (unaudited)

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June 30, 2018

16. Term loans (continued)

For the three months ended June 30, 2018, interest expense of \$263,360 (USD \$200,000) (June 30, 2017 - \$268,976 (USD \$200,000)) was recorded. As at June 30, 2018, \$Nil (USD \$Nil) (March 31, 2018 - \$257,880 (USD \$200,000)) of interest is payable and is recorded in accounts payable and accrued liabilities.

Acquisition of GreenMart NV

In order to acquire 99% of the membership interests of GreenMart NV, companies outlined in the "NLV Purchase Agreement", the Corporation, through its wholly owned subsidiary CGX, promised to pay to the order of Joel A. Laub and Kimberly L. Laub, Co-Trustees of the Joel A. Laub and Kimberly L. Laub Family Trust, dated March 1, 1988 (the "Laub Trust"), Christine Flores, in her individual capacity ("Flores"), and Margaret A. McLetchie and Lonnie E. Davis, Co-Trustees of the Trust (the "Trust" and together with the Laub Trust and Flores, each a "Lender" and collectively, the "Lenders"), the principal sum of \$12,249,300 (USD \$9,500,000) on or before June 30, 2018, the maturity date. The note did not accrue any interest through the maturity date. The principal balance of \$12,509,600 (USD \$9,500,000) was paid in full prior to the June 30, 2018 maturity date.

17. 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, MPX will pay a 2.0% arrangement fee on each advance made to the Corporation by the Lender.

On October 24, 2017, the Corporation made an initial drawdown of USD \$10 million under the USD \$25 million revolving credit facility. The funds drawn down against the facility were earmarked specifically for making further acquisitions, capacity expansion and the development of new facilities in Massachusetts and Maryland.

The lender shall have the right to convert outstanding principal amount of the initial drawdown plus any accrued interest (accruing at the rate of 7% per annum calculated and compounding on a monthly basis) into MPX Shares at a conversion price of \$0.50 per share.

The Lender shall have the following rights to convert future principal amounts into MPX shares, as follows:

- (1) any principal drawn down in excess of the initial USD \$10 million, and less than USD \$20 million, shall be convertible into MPX shares at a conversion price of \$1.00 per MPX share.
- (2) 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 \$1.50 per common share.

MPX Bioceutical Corporation

Notes to the interim condensed consolidated financial statements (unaudited)

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17. Credit facility (continued)

The Corporation used the residual value method to allocate the principal amount of the secured and convertible revolving credit note (the "Credit Note") between the liability and option component of Credit Note. The option component of the Credit Note is a derivative liability. The Corporation valued the conversion option of the Credit Note by using the Black Scholes option pricing model with the following weighted average assumptions: expected dividend of 0%; expected volatility of 90%; risk free interest rate of 1.66%; and an expected life of 3 years. The liability component of the Credit Note was initially valued as the difference between the face value of the Credit Note and the conversion option calculated above. Based on this calculation, the liability component was \$7,579,617 (USD \$6,070,006) and the option component of the Credit Note was \$4,907,383 (USD \$3,929,994) on issuance. A 2% origination fee of \$249,740 (USD \$200,000) was paid to ARG Advisory Services, of which \$159,644 (USD \$121,236) is included in deferred financing costs at June 30, 2018.

On June 30, 2018, the fair value of the option component of the Credit Note was estimated at \$15,461,917 (March 31, 2018 – \$12,743,678) using the Black Scholes option pricing model with the following weighted average assumptions: expected dividend yield of 0%; expected volatility of 99%; risk free interest rate of 1.90%; and an expected life of 2.3 years. As a result, the Corporation recorded an unrealized gain on the change in fair value of derivative liability for the three months ended June 30, 2018 of \$2,399,666.

18. Convertible debentures

On April 4, 2016 and June 7, 2016, the Corporation 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 Corporation (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 MPX share and one common share purchase warrant of the Corporation (a "Warrant"). Each Warrant entitles the holder thereof to purchase one MPX 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 Corporation 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 Corporation 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 June 30, 2018, the fair value of the option component of convertible debentures was estimated at \$286,470 (March 31, 2018 – \$218,651) using the Black Scholes option pricing model with the following weighted average assumptions: expected dividend yield of 0% (March 31, 2018 – 0%); expected volatility of 90% (March 31, 2018 – 96%); risk free interest rate of 1.90% (March 31, 2018 – 1.76%); and an expected life of 0.76 years. As a result, the Corporation recorded an unrealized gain on the change in fair value of derivative liability for the three months ended June 30, 2018 of \$61,916 (June 30, 2017 – \$99,469).

MPX Bioceutical Corporation

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19. Convertible loan

On May 25, 2018, the Company completed a \$51,896,000 (USD \$40,000,000) secured convertible original issue discount loan (the "Convertible Loan") maturing on May 25, 2021 (the "Maturity Date"). The convertible loan is non-interest bearing and has been issued at a discount price of US \$812.06 per US \$1,000 of principal and will accrue value at a rate of 7% per annum compounding on a quarterly basis until the Maturity Date. The maximum value of the Convertible Loan if held to maturity is USD \$49,257,572. The proceeds will be used primarily for accretive activities including capacity expansion, acquisitions, and to support activities involved with securing new cannabis extraction, production and dispensary licenses in various jurisdictions in both the United States and Canada. In addition, USD \$9,500,000 will be reserved for payment of the seller notes due on June 30, 2018 in respect of the acquisition of 99% of the membership units of GreenMart of Nevada NLV, LLC in December 2017.

The Convertible Loan is convertible into units (the "Units") of MPX at the option of the holder at any time prior to the Maturity Date at a conversion price of \$0.74 per Unit which is based on an exchange rate of \$1.2801 at the date of issuance. Each Unit is comprised of one (1) common share in the capital of MPX (the "MPX Shares") and one-half (1/2) common share purchase warrant (each whole warrant, a "Warrant"). Each whole Warrant entitles the holder thereof to purchase one (1) MPX Share at a price of CAD\$1.01 per MPX Share on or prior to the Maturity Date, subject to acceleration at the Company's option if MPX's share price exceeds \$3.20 for 10 consecutive trading date. The Convertible Loan may also be redeemed by the Company at any time after November 25, 2018 until the Maturity Date. The amount to be converted or redeemed will include the growth of the principal amount up until conversion or redemption, as applicable. Further, the conversion price of \$0.74 will be adjusted in the future upon the occurrence of a corporate reorganization or rights offering.

The conversion feature is an embedded derivative that is not considered closely related to the host instrument, and as a result it must be accounted for separately. In addition, it does not meet the definition of equity under IAS 32, and as a result it must be accounted for as a liability, initially and subsequently measured at fair value.

The fair value of the host instrument (the debt) on May 25, 2018 was \$48,237,000 (USD \$37,180,000) and was determined using a binomial lattice model with a risk adjusted interest rate of 9.12%. The debt has been subsequently measured at amortized cost using an effective interest rate of 11.69%, which takes into consideration transaction costs. At May 25, 2018, the fair value of the option component was at \$22,678,552 (USD \$17,480,000) and was determined using a binomial lattice model with the following assumptions: risk free interest rate of 2.06%; share price of \$0.88; expected dividend yield of 0% and expected volatility of 99%.

At June 30, 2018, the fair value of the option component was at \$23,136,176 (USD \$17,570,000) and was determined using a binomial lattice model with the following assumptions: risk free interest rate of 1.98%; share price of \$0.87; expected dividend yield of 0% and expected volatility of 99%.

The fair value of the both components of the Convertible Loan is \$70,915,884 (USD \$54,660,000), which exceeds the transaction price of \$51,896,000 (USD \$40,000,000) giving rise to a loss on initial recognition of \$19,019,884 (USD \$14,660,000). Since the valuation models used to determine the fair value of the Convertible Loan do not incorporate inputs solely from observable markets, the loss on initial recognition has been deferred and will be recognized in income over the expected term of the instrument.

In connection with services related to the issuance of the Convertible Loan, the Company paid cash fees and commission of \$3,008,942 (USD \$2,321,020) and issued an aggregate of 1,704,178 commission warrants (the "Commission Warrants"). Each Commission Warrant entitles the holder to acquire one (1) Units at an exercise price of CAD \$0.74 per Unit until the Maturity Date with the exercise price of the underlying Warrants that form part of such Units being CAD\$1.01 per MPX Share. The Commission Warrants have been valued at \$1,450,613 (USD \$1,118,093) using the Black-Scholes option pricing model with the following weighted average assumptions: share price of \$0.88; expected dividend yield of 0%; expected volatility of 99%; risk free interest rate of 2.06%; and an expected life of 3 years.

Financing fees of \$1,419,953 (USD \$1,099,812) were allocated to the conversion options and were recorded in the interim condensed consolidated statements of net loss and comprehensive loss.

MPX Bioceutical Corporation**Notes to the interim condensed consolidated financial statements (unaudited)**

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19. Convertible loan (continued)

The carrying amounts for the Convertible Loan are as follows:

	<u>Convertible loan</u>	<u>Option component</u>
Fair value on May 25, 2018	\$ 48,237,332	\$ 22,678,552
Less:		
Deferred loss	(12,937,418)	(6,082,466)
Financing fees	(3,035,010)	-
Add:		
Amortization of deferred loss	429,405	201,883
Amortization of financing fees	100,735	-
Accretion expense	425,570	-
Change in fair value	-	117,882
Foreign exchange	<u>487,564</u>	<u>249,870</u>
Carrying value and fair value on June 30, 2018	<u>\$ 33,708,178</u>	<u>\$ 17,165,721</u>

20. Share capital**a) Authorized**

Unlimited number of common shares without par value

b) Common shares issued

	<u>Number of common shares</u>	<u>Value</u>
Balance, April 1, 2017	<u>252,668,946</u>	<u>\$ 49,147,583</u>
Shares issued on private placements	4,600,541	2,300,271
Share issuance costs	40,986	(95,839)
Share issuance costs - warrants	-	(91,725)
Exercise of options	105,000	5,250
Fair value of options	<u>-</u>	<u>6,230</u>
Balance, June 30, 2017	<u>257,415,473</u>	<u>\$ 51,271,770</u>
Balance, April 1, 2018	<u>360,464,473</u>	<u>\$ 85,173,626</u>
Acquisition of Canveda (Note 4)	21,687,428	19,301,811
Exercise of warrants	2,577,222	1,649,423
Fair value of warrants	<u>-</u>	<u>440,403</u>
Balance, June 30, 2018	<u>384,729,123</u>	<u>\$ 106,565,263</u>

MPX Bioceutical Corporation**Notes to the interim condensed consolidated financial statements (unaudited)**

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21. Stock options

The Corporation has a stock option plan (the "Plan") under which the directors of the Corporation may grant options to acquire MPX Shares of the Corporation to qualified directors, officers, employees, and consultants of the Corporation. 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 MPX Shares at the time of grant. Exercise prices cannot be less than the closing price of the MPX Shares on the trading day preceding the date of grant and the maximum term of any option cannot exceed five years.

The following table shows the continuity of options:

	Number of options	Weighted average exercise price
Balance, April 1, 2017	<u>21,335,000</u>	<u>\$ 0.38</u>
Granted	2,000,000	0.39
Exercised	<u>(105,000)</u>	<u>0.05</u>
Balance, June 30, 2017	<u>23,230,000</u>	<u>0.39</u>
Balance, April 1, 2018	<u>30,715,762</u>	<u>0.55</u>
Granted (a)	<u>4,992,500</u>	<u>0.81</u>
Balance, June 30, 2018	<u>35,708,262</u>	<u>\$ 0.58</u>

- (a) On May 31, 2018, the Corporation granted 750,000 stock options to a director and 4,242,500 stock options to employees of the Corporation at an exercise price of \$0.81 per MPX Share and expiring on May 31, 2023. 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 99%; (iii) risk-free interest rate of 2.1%; (iv) share price of \$0.81; forfeiture rate of 0; and (v) expected life of 5 years. The expected volatility is based on the historical trading prices of similar companies. 750,000 of the stock options vested immediately and the remaining 4,242,500 stock options shall vest on May 31, 2019.

The following table reflects the outstanding stock options as at June 30, 2018:

Number of options	Remaining life (years)	Average exercise price	Expiry date
10,880,000	3.58	0.20	Jan 25, 2022
3,500,000	3.58	0.60	Jan 25, 2022
3,500,000	3.58	1.00	Jan 25, 2022
2,000,000	3.96	0.39	Jun 14, 2022
2,350,000	4.34	0.405	Oct 30, 2022
8,485,762	4.55	0.86	Jan 15, 2023
<u>4,992,500</u>	<u>4.92</u>	<u>0.81</u>	<u>May 31, 2023</u>
<u>35,708,262</u>	<u>4.07</u>	<u>\$ 0.58</u>	

MPX Bioceutical Corporation**Notes to the interim condensed consolidated financial statements (unaudited)**

(in Canadian dollars)

June 30, 2018

22. Warrants

	<u>Number of warrants</u>	<u>Amount</u>
Balance, April 1, 2017	<u>30,212,745</u>	<u>\$ 3,632,398</u>
Granted	<u>182,782</u>	<u>91,725</u>
Balance, June 30, 2017	<u>30,395,527</u>	<u>3,724,123</u>
Balance, April 1, 2018	<u>58,239,337</u>	<u>13,863,068</u>
Granted (a) (b) (Note 4)	<u>7,704,178</u>	<u>5,565,725</u>
Exercised	<u>(2,577,222)</u>	<u>(440,403)</u>
Balance, June 30, 2018	<u>63,366,293</u>	<u>\$ 18,988,390</u>

- (a) On May 25, 2018, the Corporation issued 1,704,178 Units of commission warrants at a price of \$0.74 per Unit in connection with the issuance of the new convertible debt (Note 18). Each Unit issued consisted of one MPX Share and one half of one Warrant. Each Warrant entitles the holder thereof, pursuant to and in accordance with the warrant indenture, to acquire one MPX Share at a price of \$1.01 per MPX Share for a period of 36 months. The fair value of the Warrants 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 99%; (iii) risk-free interest rate of 2.06%; (iv) share price of \$0.89; and (iv) expected life of 3 years. The expected volatility is based on the historical trading prices of similar companies.
- (b) On June 8, 2018, the Corporation acquired Canveda (Note 4) and issued 6,000,000 common share purchase warrants to acquire MPX Shares exercisable at a price of \$0.84 per share for a period of sixty (60) months as part of the consideration. The fair value of the warrants 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 99%; (iii) risk-free interest rate of 2.15%; (iv) share price of \$0.89; and (iv) expected life of 5 years. The expected volatility is based on the historical trading prices of similar companies.

The following table reflects the outstanding warrants as at June 30, 2018:

<u>Number of warrants</u>	<u>Exercise price</u>	<u>Expiry date</u>
3,525,934	\$ 0.75	Dec 7, 2019
332,442	\$ 0.47	Dec 19, 2019
2,374,585	\$ 0.64	Dec 19, 2019
25,586,240	\$ 0.64	Dec 22, 2019
1,704,178	\$ 0.74	May 25, 2021
13,211,745	\$ 0.20	Jan 19, 2022
182,782	\$ 0.50	May 05, 2022
900,000	\$ 0.60	Oct 30, 2022
900,000	\$ 1.00	Oct 30, 2022
3,948,387	\$ 0.47	Dec 22, 2022
4,700,000	\$ 0.67	Mar 02, 2023
<u>6,000,000</u>	<u>\$ 0.84</u>	<u>Jun 08, 2023</u>
<u>63,366,293</u>	<u>\$ 0.58</u>	

MPX Bioceutical Corporation**Notes to the interim condensed consolidated financial statements (unaudited)**

(in Canadian dollars)

June 30, 2018

23. General and administrative expenses

	June 30, 2018	June 30, 2017
Occupancy costs	\$ 521,949	\$ 150,424
Consulting fees	811,984	-
Office and general	1,491,916	417,181
Repairs and maintenance	65,927	48,511
Salaries and benefits	2,596,827	1,205,018
Sales and marketing	138,892	40,825
Regulatory expenses	102,738	344,908
	\$ 5,730,233	\$ 2,206,867

24. Related party transactions

Related party transactions not disclosed elsewhere are summarized below:

As at June 30, 2018, the Corporation has an outstanding term loan of \$13,168,000 (USD \$10,000,000) (March 31, 2018 - \$12,894,000 (USD \$10,000,000)), due to a trust whose beneficiary is an officer of the Corporation (Note 16). In connection with this loan, the Corporation recorded interest expense of \$258,128 (USD \$200,000) (March 31, 2018 - \$1,026,960 (USD \$800,000)). As at June 30, 2018, \$Nil (USD \$Nil) (March 31, 2018 - \$257,880 (USD \$200,000)) of interest is payable and is recorded in accounts payable and accrued liabilities.

As at June 30, 2018, the Corporation was owed \$79,008 (USD \$60,000) (March 31, 2018 - \$77,364 (USD \$60,000)) from an officer of the Corporation and this amount is included in due from related parties. This amount was paid back subsequent to the three months ended June 30, 2018.

As at June 30, 2018, the Corporation was owed \$1,475,235 (USD \$1,120,318) (March 31, 2018 - \$157,952 (USD \$122,500)) from companies at which a principal is an officer of the Corporation and this amount is included in due from related parties.

As at June 30, 2018, the Corporation was owed \$25,271 (March 31, 2018 - \$25,146) from an employee of the Corporation and this amount is included in accounts receivable.

The Corporation has a USD \$25 million revolving credit facility with a company at which two officers are Directors of the Corporation. As at June 30, 2018, the Corporation has drawn down USD \$10 million on the facility. During the three months ended June 30, 2018, this company also participated in the convertible loan (Note 19) for gross proceeds to the company of USD \$15 million. Related to this loan, the corporation paid fees of USD \$750,000 to companies at which two officers are Directors of the Corporation.

For the three months ended June 30, 2018, the Corporation recorded \$84,213 (USD \$65,571) (June 30, 2017 - \$Nil) of consulting fees to a company of which directors of the Corporation are senior members. These fees are associated with warrants granted in a prior period.

For the three months ended June 30, 2018, the Corporation recorded \$116,199 (USD \$90,000) (June 30, 2017 - \$Nil) of consulting fees to a company of which directors of the Corporation are senior members.

For the three months ended June 30, 2018, the Corporation recorded \$16,946 (USD \$13,125) (June 30, 2017 - \$Nil) of consulting fees to a director of the Corporation.

MPX Bioceutical Corporation

Notes to the interim condensed consolidated financial statements (unaudited)

(in Canadian dollars)

June 30, 2018

24. Related party transactions (continued)

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

	June 30, 2018	June 30, 2017
Salaries and benefits	\$ 273,853	\$ 184,194
Share-based compensation	<u>785,343</u>	<u>114,114</u>
	<u>\$ 1,059,196</u>	<u>\$ 298,308</u>

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, 2018, each of the directors with control of less than 10% of the common shares of the Corporation collectively control 6,581,986 common shares of the Corporation or approximately 1.71% of the total common shares outstanding.

25. Commitments and contingencies

Legal Claims

2017 Claim

On June 22, 2017, the Corporation 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 Corporation 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

The Corporation's minimum lease payments are as follows:

2019	\$ 1,244,811
2020	1,338,228
2021	1,280,511
2022	1,285,232
2023	1,216,319
2024 and beyond	<u>3,782,919</u>
	<u>\$ 10,148,020</u>

Services Agreements

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 MPX 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 MPX. The term of the Tequesta Agreement is twenty-four (24) months.

MPX Bioceutical Corporation

Notes to the interim condensed consolidated financial statements (unaudited)

(in Canadian dollars)

June 30, 2018

25. Commitments and contingencies (continued)

On October 30, 2017, the Corporation entered into an agreement with Canadian Capital to provide the Corporation with executive management, operations, administrative, finance and tax services for term of three (3) years. In consideration of the services rendered hereunder, the Corporation issued 900,000 MPX Shares and the following common share purchase warrants (the "Warrants") expiring on October 30, 2022 as follows:

- (1) 1,200,000 Warrants at an exercise price of CAD \$0.35 vesting immediately;
- (2) 900,000 Warrants at an exercise price of CAD \$0.60 which shall vest on the one (1) year anniversary of the agreement;
- (3) 900,000 Warrants at an exercise price of CAD \$1.00 which shall vest on the two (2) year anniversary of agreement.

As further consideration of the services rendered hereunder, the Corporation shall issue to Canadian Capital the following:

- (4) 900,000 common shares on the one (1) year anniversary of the agreement; and
- (5) 900,000 common shares on the two (2) year anniversary of the agreement.

Members of Canadian Capital include certain directors of the Corporation.

26. Capital management

The Corporation 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 Corporation considers its capital to be total equity. The Corporation manages capital through its financial and operational forecasting processes. The Corporation 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 Corporation. The Corporation's capital management objectives, policies and processes have remained unchanged during the three months ended June 30, 2018. The Corporation is not subject to any external capital requirements.

27. Supplemental cash flow information

Non-cash transactions:

	June 30, 2018	June 30, 2017
Common shares issued for acquisition of Canveda	\$ 19,071,428	\$ -
Equity instruments issued for acquisition of Canveda	4,030,898	-
Finder's fee for acquisition of Canveda settled via common shares	230,383	-
Financing fees settled via equity instruments	1,450,613	-
Consulting fees settled via equity instruments	84,213	-
Share based compensation	2,288,991	-
Equity instruments issued for acquisition of FRD and IMT	-	473,622
Share issuance costs settled via equity instruments	-	91,725

MPX Bioceutical Corporation**Notes to the interim condensed consolidated financial statements (unaudited)**

(in Canadian dollars)

June 30, 2018

28. Segmented information

The Corporation currently operates substantially entirely in one segment, the production and sale of medical and adult use cannabis.

Non-current assets located outside of Canada total \$137,932,716 and are made up of property, plant and equipment, deposits, intangible assets, and goodwill.

All revenues generated during the three months ended June 30, 2018 were done so outside of Canada.

29. Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current period.

30. Subsequent events

- (a) On July 19, 2018, the Corporation announced an agreement with Case Farms Collective ("Case Farms"), the largest cannabis processing facility in Southern California. The agreement with Case Farms represents the Corporation's initial entry into the California market.

Under the terms of the agreement, Case Farms will provide full scale cannabis processing services to the Corporation, with all concentrate products manufactured to the Corporation's proprietary specifications and guidelines to ensure continued consistency in the Corporation's concentrate products nationally. Case Farms will distribute the MPX-branded cannabis concentrates to its network of licensed dispensaries throughout California.

- (b) On August 1, 2018, the Corporation announced through its indirect wholly-owned subsidiary, S8 Management, LLC that it has received final licensing approval by the Maryland Medical Cannabis Commission for the opening of two managed dispensaries, LMS Wellness, Benefit LLC, operating as Health for Life White Marsh, and GreenMart of Maryland, LLC, operating as Health for Life Baltimore.