FORM 5

QUARTERLY LISTING STATEMENT

Name of Listed Issuer: **ALLIANCE GROWERS CORP.** (the “Issuer”)

Trading Symbol: **ACG**

# SCHEDULE A

# February 28, 2017 Financial Statements

# SCHEDULE B

# Supplementary Information

**SCHEDULE C**

February 28, 2017 Management Discussion and Analysis

**Certificate Of Compliance**

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Quarterly Listing Statement.
2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 5 Quarterly Listing Statement is true.

Dated: September 29, 2017

**DENNIS PETKE**   
Name of Director or Senior Officer

*“Dennis Petke”*   
Signature

**DIRECTOR AND CEO**   
Official Capacity

**Issuer Details**

|  |  |  |
| --- | --- | --- |
| *Name of Issuer*  **ALLIANCE GROWERS CORP.** | *For Quarter Ended*  **FEBRUARY 28, 2017** | *Date of Report (YY/MM/DD)*  **2017/09/29** |
| *Issuer Address*  **SUITE 500 – 666 BURRARD STREET** | | |
| *City/Province/Postal Code*  **VANCOUVER, BC V6C 3P6** | *Issuer Fax No.*  **(778) 653-0750** | *Issuer Telephone No.*  **(778) 558-7434** |
| *Contact Name*  **Dennis Petke** | *Contact Position*  **CEO** | *Contact Telephone No.*  **(778) 558-7434** |
| *Contact Email Address*  [dennis@q4financial.com](mailto:dennis@q4financial.com) | *Web Site Address*  [www.alliancegrowers.com](http://www.alliancegrowers.com) | |

Schedule A

**Alliance Growers Corp.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

February 28, 2017

(Expressed in Canadian Dollars)

NOTICE OF NO AUDIT OR REVIEW

The accompanying financial statements for Alliance Growers Corp. (the “Company”) have been prepared by management in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). These interim consolidated financial statements, which are the responsibility of management, are unaudited and have not been reviewed by the Company’s auditors. Management believes the consolidated financial statements are free of material misstatement and present fairly, in all material respects, the financial position of the Company as at February 28, 2017 and the results of its operations and its cash flows for the six months ended February 28, 2017.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

**ASSETS Current**

**February 28, 2017 August 31, 2016**

**Note (Unaudited) (Audited)**

Cash $ 45,817 $ 1,207

GST receivable 21,154 11,092

Prepaid expenses 57,500 2,000

Prepaid expenses – related parties 10 9,786 - Marketable securities 5 136,800 180,000

271,057 194,299

Investement in BRIM Licence 7 75,000 - Investment in PharmaGreen 8 65,000 -

Investment in CanWe 9 25,000 -

|  |  |  |
| --- | --- | --- |
| **Total assets** | $ 436,057 | $ 194,299 |
| **LIABILITIES AND SHAREHOLDERS’ EQUITY (DEFICIENCY)** |  |  |
| **Current** |  |  |
| Accounts payable and accrued liabilities | $ 278,471 | $ 251,226 |
| Due to related parties 10 | 108,879 | 81,022 |
| Convertible loan payable 11 | 27,000 | - |
| Total liabilities | 414,350 | 332,248 |
| **Shareholders’ deficiency** |  |  |
| Share capital 12 | 1,514,847 | 1,118,787 |
| Subscription received 12 | 10,000 | - |
| Obligation to issue shares 12 | 62,425 | 1,800 |
| Contributed surplus 12 | 364,751 | - |
| Warrants 12 | 235,440 | - |
| Accumulated other comprehensive income | 73,800 | 117,000 |
| Deficit | (2,239,556) | (1,375,536) |
| Total shareholders’ equity (deficiency) | 21,707 | (137,949) |
| **Total liabilities and shareholders’ equity (deficiency)** | $ 436,057 | $ 194,299 |

Nature of operations and going concern (Note 1) Contingencies (Note 14)

Subsequent Events (Note 15)

Approved on behalf of the Board of Directors on May 2, 2017:

|  |  |  |
| --- | --- | --- |
| *“Rupert Shore”* |  | *“Dennis Petke”* |
| Rupert Shore, Director |  | Dennis Petke, Director |

*The accompanying notes are an integral part of these financial statements*

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Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars) (Unaudited)

Three Months Ended February 28,

Three Months Ended February 29,

Six Months Ended February 28,

Six Months Ended February 29,

Note 2017 2016 2017 2016

**Expenses**

Legal Fees $ 28,667 $ - $ 38,778 $ - Accounting and audit 1,485 9,969 2,985 16,757

Consulting 10 84,025 6,500 151,340 11,000

General and administrative 18,972 8,037 38,356 16,098

Shareholder communication 71,943 - 86,796 - Management fees 10 45,125 13,500 95,550 23,500

Director fees 10 15,500 4,250 27,425 4,250

Rent and office facility 4,500 5,000 9,000 8,000

Meals, entertainment and travel 2,877 425 7,287 425

Stock based compensation 12 298,818 - 376,301 -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Loss from operations | (571,912) | (47,681) | (833,818) | (80,030) |
| **Other expenses**  Impairment of investment in BCMM | - | (30,000) | - | (30,000) |
| Interest expense | - | - | (122) | - |

Loss on settlement of debt - - (30,080) -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Net loss** | (571,912) | (77,681) | (864,020) | (110,030) |
| Unrealized gain (loss) on fair |  |  |  |  |

value of investment (28,800) - (43,200) 135,000

**Comprehensive income (loss)** $ (600,712) $ (77,681) $ (907,220) $ 24,970

Loss per share, basic and

diluted $ (0.02) $ (0.00) $ (0.03) $ (0.00)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Weighted average number of |  | | | |
| common shares outstanding, |  |  |  |  |
| basic and diluted | 34,515,971 | 26,332,480 | 33,419,455 | 26,026,257 |

*The accompanying notes are an integral part of these financial statement*

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars) (Unaudited)

**Six Months ended Six Months ended**

**February 28, 2017 February 29, 2016 Cash flows used in operating activities**

Loss for the period $ (864,020) $ (110,030)

Items not involving cash:

Impairment of investment - 30,000

Interest accrued on convertible debt 122 - Loss on settlement of debt 30,080 - Services compensated by common shares 80,275 4,500

Option based compensation 376,301 -

Changes in non-cash working capital items:

Prepaid expense (55,500) - Prepaid expense – related party (9,786) - GST receivable (10,062) (3,430) Accounts payable and accrued liabilities 85,085 30,306

Due to related parties 60,235 46,468

Net cash used in operating activities (307,270) (2,186)

**Cash flows used in investing activities**

Investment in BRIM licence (75,000) - Investment in Pharmagreen (65,000) - Investment in CanWe (25,000) - Net cash used in investing activities (165,000) -

**Cash flows provided by financing activities**

Convertible loan 27,000 - Shares issued for cash, net of issuance cost 402,000 - Proceeds from disposition of treasury shares 2,880 - Shares issued for warrants exercised 20,000 -

Shares issued for options exercised 65,000 -

Net cash provided by financing activities 516,880 -

|  |  |  |
| --- | --- | --- |
| Change in cash | 44,610 | (2,186) |
| Cash, beginning | 1,207 | 1,906 |
| Cash (bank indebtedness), ending | $ 45,817 | $ (280) |

|  |  |  |
| --- | --- | --- |
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid for interest | $ - | $ - |
| Cash paid for income taxes | $ - | $ - |

|  |  |  |
| --- | --- | --- |
| **Supplemental non-cash investing and financing transactions:** | | |
| Shares issued for debt settlement | $ 90,240 | $ - |
| Shares issued for investment in BCMM | $ - | $ 30,000 |

*The accompanying notes are an integral part of these financial statements*

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**Alliance Growers Corp.**

Consolidated Statement of Changes in Shareholders’ Equity (Deficiency)

(Expressed in Canadian dollars)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | **Accumulated** |  |
|  |  | **Obligation** |  |  |  |  | **Other** |  |
| **Number of** | **Share** | **to Issue** | **Subscription** |  | **Contributed** |  | **Comprehensive** |  |
| **Shares** | **Capital** | **Shares** | **Received** | **Warrants** | **Surplus** | **Deficit** | **Income** | **Total** |

**# $ $ $ $ $ $ $ $**

**Balance, August 31, 2015 (Audited) 25,691,352 1,079,812 - - - - (1,097,082) - (17,270)**

Shares issued for settlement of debt 767,175 11,507 - - - - - **-** 11,507

Shares issued for investment in BCMM 600,000 9,000 - - - - - **-** 9,000

Net loss for the period **- - -** - - - (110,030) **-** (110,030)

Unrealized gain on marketable securities **- - -** - - - - 135,000 135,000

**Balance, February 29, 2016 (Unaudited) 25,691,352 1,079,812 - - - - (1,207,112) 135,000 28,207**

Shares issued and to be issued for

services performed 720,000 20,600 1,800 - - - - - 22,400

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Repurchase of shares for cash | (100,000) | (2,132) | - - - - - | - (2,132) |
| Net loss for the period | - | - | - - - - (168,424) | - (168,424) |

Unrealized gain on marketable securities - - - - - - - (18,000) (18,000)

**Balance, August 31, 2016 (Audited) 27,678,527 1,118,787 1,800** - - - **(1,375,536) 117,000 (137,949)**

Shares issued and to be issued for

services performed 195,000 31,200 60,625 - - (11,550) - - 80,275

Shares issued for settlement of debt 752,000 120,320 **-** - - - - - 120,320

Priate placement at $0.05 per unit

(net of issuance costs) 4,300,000 105,112 **-** - 104,988 - -

-

210,100

Privte placement at $0.20 per unit 960,000 99,610 **-** - 92,390 - - - 192,000

Shares issued for option exercise 1,300,000 65,000 **-** - - - - - 65,000

Shares issued for warrant exercise 100,000 14,883 **-** (4,883) - - - 10,000

Sale of repurchasd shares for cash 100,000 2,880 **-** - - - - - 2,880

Broker warrants for private placement **- (42,945) -** - 42,945 - - - - Subscription received **- - -** 10,000 - - - - 10,000

Stock based compensation **- - -** - - 376,301 - - 376,301

Net loss for the period **- - -** - - - (864,020) - (864,020)

Unrealized loss on marketable securities **- - -** - - - - (43,200) (43,200)

**Balance, February 28, 2017 (Unaudited) 35,385,527 1,514,847 62,425 10,000 235,440 364,751 (2,239,556) 73,800 21,707**

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

*- 4 --*

**1. NATURE OF OPERATIONS AND GOING CONCERN**

Alliance Growers Corp. (formerly Sheslay Mining Inc.) (“Sheslay”) was incorporated under the British Columbia *Business Corporation Act* on June 19, 2014. On October 3, 2014, Sheslay became a reporting issuer in British Columbia and Alberta.

On June 8, 2015, Sheslay completed the amalgamation of Alliance Biotech Corp. (formerly Alliance Growers Corp.), a British Columbia corporation (“Biotech”) pursuant to an amalgamation agreement dated December 9, 2014 (the “Agreement”), with Sheslay Acquisition Corp., a wholly-owned subsidiary of Sheslay (“Sheslay Acquisition”), and BC Maramed Production Ltd., a British Columbia corporation and 45%-owned subsidiary of Biotech (“BCMM”). Pursuant to the Agreement, on June 8, 2015 Biotech amalgamated with Sheslay Acquisition to form a new entity (the “Amalgation”) under the name Alliance Biotech Corp. (Note 4). On completion of the Amalgation, the Company’s common shares began trading on the Canadian Securities Exchange (the “CSE”). These consolidated financial statements present the historical financial information of Biotech prior to the closing of the Amalgamation and the financial information of Sheslay and its subsidiaries (collectively, the “Company”) subsequent to the Amalgamation.

The registered and records office of the Company is located at 500-666 Burrard Street, Vancouver, British

Columbia.

**Going Concern**

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has incurred operating losses since inception and has no current source of operating cash flow. The Company’s ability to continue as a going concern is dependent upon its ability to obtain the financing necessary to acquire projects and develop them as well as fund ongoing administration expenses. There are no assurances that sufficient funding will be available to further develop its projects.

Management intends to obtain additional funding by issuing common stock in private placements. There can be no assurance that management’s future financing actions will be successful. Management is not able to assess the likelihood or timing of improvements in the equity markets for raising capital for future acquisitions or expenditures.

These uncertainties indicate the existence of material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern in the future. If the going concern assumption were not appropriate for these consolidated financial statements, liquidation accounting would apply and adjustments would be necessary to the carrying values and classification of assets, liabilities, the reported income and expenses, and such adjustments could be material.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES Basis of Presentation and Statement of Compliance**

These unaudited interim financial statements (“interim financial statements”) are in compliance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board ("IASB"), have been omitted. These interim financial statements should be read in conjunction with the Company’s consolidated financial statements for the year ended August 31, 2016.

These interim financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on May 2, 2017.

These consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, the functional currency of the Company and its subsidiaries.

**Consolidation**

The consolidated financial statements include the accounts of the Company and its controlled entities from the date of acquisition on June 8, 2015 (Note 4). Control occurs when the Company is exposed to, or has right to, variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee.

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

**Significant estimates and assumptions**

The preparation of these consolidated financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company’s management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include, fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets, and contingent liabilities.

**Significant judgments**

The preparation of these consolidated financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company’s consolidated financial statements include:

- The assessment of the Company’s ability to continue as a going concern and whether there are events

or conditions that may give rise to significant uncertainty;

- The determination of whether an acquisition constitutes a business combination or an acquisition of assets;

- the classification of financial instruments; and

- the determination of the functional currency of the parent company and its subsidiaries.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Financial instruments**

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables, or fair value through profit or loss (“FVTPL”). Financial assets classified as loans and receivables and held-to-maturity assets are measured at amortized cost. The Company’s cash is classified as loans and receivables. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in profit or loss. The Company’s investment in Laguna Blends has been designated as an available-for-sale financial asset.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. The Company has not classified any financial liabilities as FVTPL.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The Company’s trade payables and due to related parties are classified as other financial liabilities.

**New accounting standards and interpretations**

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in October 2010 and will replace IAS 39 – Financial Instruments: Recognition and Measurement (“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. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 will be effective January 1, 2018. Earlier adoption is permitted. The Company is in the process of assessing the impact of this pronouncement.

Other new accounting standards and interpretations are either not applicable or not expected to have a significant impact on the Company’s consolidated financial statements.

**3. FINANCIAL RISKS AND CAPITAL MANAGEMENT**

The Company’s financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments at February 28, 2017 are summarized below. The board of directors reviews with management the principal risks affecting the Company and the systems that have been put in place to manage these risks.

*Foreign currency risk*

The Company’s functional currency is the Canadian dollar. The Company is not exposed to significant currency risk at this time.

*Interest Risk and Credit Risk*

The Company has no credit risk on its note receivable and no significant interest rate risk. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by reputable financial institutions with which it keeps its bank accounts and management believes the risk of loss to be low.

The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

*Liquidity Risk*

The Company intends to manage liquidity risk by maintaining sufficient cash balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short term obligations. As at February 28, 2017, the Company had a cash balance of $45,817 to settle current liabilities of

$414,350. The Company will need to source additional financing to pay its obligations as they come due.

**Capital Management**

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to pursue the development of its projects and to maintain a flexible capital structure for its projects for the benefit of its stakeholders. As the Company is in the development stage, its principal source of funds is from the issuance of common shares.

In the management of capital, the Company includes the components of shareholders’ equity (deficiency), net of cash.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, enter into joint arrangements, acquire or dispose of assets or adjust the amount of cash and investments. There were no changes in the Company’s approach to capital management during the year.

**3. FINANCIAL RISKS AND CAPITAL MANAGEMENT** (continued)

**Fair Value**

The carrying value of the Company’s financial instruments including cash, accounts payables, and due to related parties approximates their fair value due to the immediate or short term maturity of these financial instruments.

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

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

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

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

The investment in Laguna Blends was recorded at fair value determined based on its historical cost (the cost approach – a level 3 input). During the year ended August 31, 2016, the underlying shares of this investment began trading on the CSE and the value of the marketable securities are now determined based on the market price of the shares (a level 1 input).

**4. AMALGAMATION**

Pursuant to the Amalgamation completed on June 8, 2015 (Note 1) the issued common shares Biotech were exchanged for common shares of Sheslay on a one-for-one basis. On June 8, 2015, Biotech had 21,473,157 issued common shares and Sheslay had 3,579,995 issued common shares. Because the Amalgamation resulted in the existing shareholders of Biotech holding 85.7% of the issued common shares of the Company, the transaction was accounted for as an acquisition by Biotech of Sheslay.

The cost of the acquisition was determined based on the fair value of the consideration given, which was the existing

3,579,995 issued common shares of Sheslay valued at $0.10 per share, for total consideration of $358,000. Upon completion of the transaction, the Company’s shares began trading on the CSE. Sheslay did not constitute a business as defined by IFRS 3, Business Combinations. Consequently, the excess of the consideration paid over the net assets (liabilities) acquired was accounted for as an expense of listing the Company’s shares (a “Listing fee”).

The total purchase price of $358,000 has been allocated as follows:

|  |  |  |
| --- | --- | --- |
| Loan receivable \* | $ | 20,000 |
| Accounts payable and accrued liabilities |  | (82,405) |
| Listing fee |  | 420,405 |
|  | $ | 358,000 |

\* As at August 31, 2015, the Company determined that the loan receivable acquired of $20,000 was uncollectible, and as a result, wrote off the entire amount to the statement of loss and comprehensive loss. The loan was due from a company with a director in common with the Company.

**5. MARKETABLE SECURITIES**

As at August 31, 2015, the Company had loaned $105,000 to Laguna Blends Inc. (“Laguna”), a company with common shareholders. On January 30, 2015, the Company converted the $105,000 loan into 3,000,000 common shares of Laguna (1,200,000 common shares after Laguna shares’ 2.5:1 consolidation in January, 2016). This investment was designated as available-for-sale measured at fair value on initial recognition with the related unrealized gains and losses recorded as a component of other comprehensive income (loss).

During the year ended August 31, 2016 the Company sold 480,000 common shares of Laguna at a realized gain of

$25,998.

As at February 28, 2017 and August 31, 2016, the Company had 720,000 common shares of Laguna with a fair value of $136,800 and $180,000 respectively based on their market trading prices. During the six months ended February 28, 2017 and the six months ended February 28, 2016, the Company recorded an unrealized loss of

$43,200 and an unrealized gain of $135,000 respectively, resulting from the change in the fair market value of these shares.

**6. INVESTMENT IN BCMM**

On August 22, 2014, the Company, through Biotech, entered into an agreement to acquire BCMM, a company located in Kelowna, British Columbia. Pursuant to the terms of the agreement, Biotech paid $225,000 for a 45% interest in BCMM. By amended agreements dated December 9 and December 10, 2014, Biotech agreed to issue

6,600,000 common shares of either the Company or Biotech to the owners of BCMM for the remaining 55% interest, subject to receipt of BCMM’s license under Health Canada’s new Marijuana for Medical Purposes Regulations by December 31, 2015. In addition, three of the five owners of BCMM have the option to enter into employment contracts with BCMM.

During the year ended August 31, 2016 the Company issued 600,000 common shares to a former officer of the Company to acquire an additional 5% interest in BCMM. These shares had a fair value of $0.015 per share, resulting in an additional investment in BCMM of $9,000.

BCMM owns a leasehold interest and equipment for a production facility in Kelowna, British Columbia, and is in the process of applying to become a licensed producer of medical marijuana under Health Canada’s new Marihuana for Medical Purposes Regulations. During the year ended August 31, 2015, the Company fully impaired the investment as BCMM had insignificant net assets, and there was significant uncertainty that it would receive the required license by December 31, 2015. As at August 31, 2016, the Company determined that the additional investment in BCMM was unlikely to be recovered, and recorded an impairment of $9,000.

**7. INVESTMENT IN BRIM**

Effective January 22, 2017 the Company executed the following agreements with Botanical Research In Motion International Inc. (“BRIM.”), a corporation incorporated pursuant to the Canada Business Corporattions Act and extra provincially registered in British Columbia.

1. *Exclusive License Agreement* allowing the Company to jointly develop and operate cannabis focused botany centres in Canada with consideration as follows:

a. Cash payment of $150,000 of which $75,000 upon signing Letter of Understanding (paid),

$25,000 upon completion of various conditions prior to closing and $50,000 upon closing;

b. Issuance of 6,000,000 common shares and 3,000,000 warrants to be issued as follows:

i. 2,000,000 shares and 1,000,000 warrants upon breaking ground for the construction of the botany centre;

ii. 2,000,000 shares and 1,000,000 warrants upon completion of construction of tissue culture lab of the botany centre; and

iii. 2,000,000 shares and 1,000,000 warrants upon the botany center generating its first

$100,000 sales; and

|  |  |  |
| --- | --- | --- |
|  |  | c. Royalty payment equal to a maximum of 5% of gross sales from the botany center. |
| 2. | *Consulting Agrement* whereby BRIM provides consulting services for the construction of the botany center and obtaining all required permits from Health Canada for $3,000 for the month of January, 2017 and  $6,000 per month from February, 2017 until completion of the construction. |
| **8.** |  | **INVESTMENT IN PHARMAGREEN** |

Effective November 15, 2016 the Company entered into a letter agreement with WFS PharmaGreen Inc. (“PharmaGreen”), a company incorporated pursuant to the Business Act of British Columbia, that owns the worldwide rights to its cannabis science based proprietary supplement formulation geared towards pets and animals.

In accordance with the letter agreement, for total proceeds of $300,000 the Company is to purchase 1,200,000 units of PharmaGreen at $0.25 per unit with each unit consisting of one common share and one share purchase warrant exercisable into one common share at $0.275 over four years. The letter agreement also provides the Company with a long term CBD oil supply contract when PharmaGreen when it becomes legal in Canada.

**9. INVESTMENT IN CANWE**

Effetive February 16, 2017 the Company closed the first tranche instalment of its subscription for a total of 375,000 common shares at $1.00 per share, representing 5% of the outstanding shares of New Maple Holdings. Ltd. (“New Maple”), the parent company of Canwe Growers Inc. (“Canwe”) (www.canwe.ca), an Ontario-based company preparing to apply for a producer’s license under the Access to Cannabis for Medical Purposes Regulations (the “ACMPR”). The Company acquired an initial common share of New Maple upon its incorporation and the first tranche acquisition is 25,000 common shares for $25,000. The Company is expected to fulfil its commitment to acquire the remaining 350,000 shares by April 30, 2017 for an additional $350,000, failing which New Maple can repurchase all of its shares from Alliance Growers at the original issuance price. As of the date of this report the Company retains its subscriptions.

**10. RELATED PARTY TRANSACIONS**

Related parties include the Board of Directors, officers, key management personnel, close family members and enterprises that are controlled by these individuals. Key management personnel are those having authority and responsibility for planning and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

During the six months ended February 28, 2017, the Company incurred the following fees to related parties:

a) Management fees:

(i) $60,000 (2016 - $22,500) cash based fees and 60,000 common shares fair valued at $9,700 (2016 – 90,000 common shares fair valued at $1,600) to the President of the Company who was also the CFO of the Company to April 30, 2016; and

(ii) $21,000 (2016 - $Nil) cash based fees and 30,000 common shares fair valued at $4,850 (2016 – Nil) to the

CFO of the Company.

b) Consulting fees:

(i) $31,500 (2016 - $Nil) cash based fees and 75,000 common shares fair valued at $12,175 (2016 – 15,000 common shares fair valued at $600) to a director of the Company; and

(ii) 30,000 common shares fair valued at $4,850 (2016 - $Nil) to a director of the Company.

c) Directors fees:

(i) $10,500 (2016 - $4,250) cash based fees and 105,000 common shares fair valued at $16,925 (2016 - 35,000 common shares fair valued at $900) to directors of the Company; and

(ii) $Nil (2016 – $Nil cash based fees and 100,000 common shares fair valued at $1,500) to a former director who resigned during the year ended August 31, 2016.

As at February 28, 2017, $9,786 was prepaid (August 31, 2016 - $7,500 owed) to the CEO of the Company for expenses incurred for the Company, $29,000 (August 31, 2016 - $14,000) was owed to the CFO of the Company,

$48,832 was owed to three directors (August 31, 2016 - $14,082 to two then directors and $35,000 to the director appointed in January, 2017) of the Company, $3,500 (August 31, 2016 - $3,500) was owed to a relative of a former director of the Company, who was appointed and resigned as President during the year ended August 31, 2016, and

$27,546 (August 31, 2016 - $27,546) was owed to a former director of the Company and a company controlled by that director.

The amounts due to related parties are unsecured, non-interest bearing, and have no fixed terms of repayment.

The Company is committed to paying its President and CEO wages of $10,000 and the CFO $3,500 per month on a monthly basis with no fixed term.

**11. CONVERTIBLE LOAN PAYABLE**

On February 16, 2017 the Company issued an unsecured convertible loan for gross proceeds of $27,000, bearing simple interest rate of 10% per annum, repayable upon demand, convertible into the Company’s common shares at the greater of the following prices provided the minimum trading price is $0.05 per share.

- Closing price less a discount of 25% on the trading day prior to the date of version, and

- The average of the previous 10 days’ trading prices before the conversion date less a 10% discount

**12. SHARE CAPITAL**

Authorized:

The Company is authorized to issue an unlimited number of common shares and preferred shares without par value.

Issued:

*During the six months ended February 28, 2017:*

On October 7, 2016 the Company issued 752,000 common shares to settle outstanding debt of $120,320 at $0.12 per share. A loss of $30,080 was recorded in relation to the debt settlement.

On October 7, 2016 the Company issued 195,000 common shares fair valued at $31,200 to settle obligation to issue shares of $19,650. A deficit of $11,550 was recorded to the equity reserve.

On October 19, 2016 the Company issued 4,300,000 units of private placement at $0.05 per unit for gross proceeds of

$215,000, with each unit comprised of one common share and half share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.10 per share for a period of two years from the closing of the private placement.

On October 28, 2016 the Company issued 100,000 common shares for warrants exercised at $0.10 per share for gross proceeds of $10,000.

On January 20, 2017 the Company issued 960,000 units of private placement at $0.20 per unit for gross proceeds of

$192,000, with each unit comprised of one common share and share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.30 per share for a period of two years from the closing of the private placement.

During the six months ended February 28, 2017 the Company issued 1,300,000 common shares for options exercised at

$0.05 per share.

*During the year ended August 31, 2016:*

a) Issued 90,000 shares at $0.05 per share for consulting services of $4,500.

b) Issued 767,175 shares with a fair value of $11,507 to settle debts of $38,358, result ing in a gain on debt settlement of $26,851.

c) Issued 600,000 shares fair valued at $9,000 to purchase 5% equity interest of BCMM.

d) Issued 630,000 shares fair valued at $16,100 for director, management and consulting services.

**12. SHARE CAPITAL** (continued)

Options

The Company has a stock option plan whereby the maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares of the Company, as at the date of the grant. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of the grant. Options may be granted for a maximum term of ten years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as a director or officer of the Company and, in the case of death, expire within one year thereafter. Upon death, the options may be exercised by legal representation or designated beneficiaries of the holder of the option. Stock options vest at the discretion of management according to any vesting schedule to which the options are subject.

During the six months ended February 28, 2017, the Company recorded stock-based compensation of $376,301 (2016 - $Nil) as a general and administrative expense.

On September 15, 2016, the Company granted 2,750,000 options to directors, officers and consultants of the Company. The options vested immediately and are exercisable into the Company’s common stock at $0.05 per share until September 15, 2021. The fair value of options was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 0.57%, expected volatility of 354%, an expected option life of 1.25 years and no expected dividends. The weighted average fair value of options granted was $0.03 per option.

On January 18, 2017, the Company granted 1,750,000 options to directors, officers and consultants of the Company. The options vested immediately and are exercisable into the Company’s common stock at $0.185 per share until January 18, 2022. The fair value of options was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 0.72%, expected volatility of 318%, an expected option life of 1.50 years and no expected dividends. The weighted average fair value of options granted was $0.17 per option.

There were no option activities from the Company’s inception to August 31, 2016. The following is a summary of option activities during the six months ended February 28, 2017:

**Number of options**

**Weighted average exercise price**

**$**

Outstanding at August 31, 2016 - - Granted 2,750,000 0.05

Exercised (1,300,000) 0.05

Granted 1,750,000 0.185

Outstanding at February 28, 2017 3,200,000 0.12

**12. SHARE CAPITAL** (continued)

Options (continued)

The following options were outstanding at February 28, 2017:

|  |  |  |  |
| --- | --- | --- | --- |
| **Expiry Date** | **Exercise price** | **Number of options** | **Remaining contractual life (years)** |
| **$** | | | |
| September 15, 2021 | 0.05 | 1,450,000 | 4.54 |
| January 18, 2022 | 0.185 | 1,750,000 | 4.89 |
| Options Outstanding |  | 3,200,000 |  |

Options Exercisable 3,200,000

Warrants

On October 19, 2016 the Company issued 2,150,000 warrants upon closing the 4,300,000 units of private placement at

$0.05 per unit for gross proceeds of $215,000, with each unit comprised of one common share and half share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.10 per share for a period of two years from the closing of the private placement. The fair value of the warrants included in the units was estimated to be $0.05 per warrant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 0.56%, expected volatility of 341%, an expected life of 1.25 years and no expected dividends.

On October 19, 2016 in relation to the private placement 300,000 warrants were issued to brokers. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.10 per share for a period of two years from the closing of the private placement. The fair value of the warrants included in the units was estimated to be $0.05 per warrant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 0.56%, expected volatility of 341%, an expected life of 1.25 years and no expected dividends. The total fair value of $42,945 of the 300,000 warrants was recorded as share issuance cost.

On January 20, 2017 the Company issued 960,000 warrants upon closing the 960,000 units of private placement at

$0.20 per unit for gross proceeds of $192,000, with each unit comprised of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.30 per share for a period of two years from the closing of the private placement. The fair value of the warrants included in the units was estimated to be $0.16 per warrant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 0.73%, expected volatility of 313%, an expected life of 1.50 years and no expected dividends.

During February, 2017 the Compay received proceeds of $10,000 as payment for execising 100,000 warrants exercisable into 100,000 common shares of the Company at $0.10 per share. The shares were issued in March, 2017.

**12. SHARE CAPITAL** (continued)

Warrants (continued)

There were no warrant activities from the Company’s inception to August 31, 2016. The following is a summary of warrant activities during the six months ended February 28, 2017:

**Number of options**

**Weighted average exercise price**

**$**

Outstanding at August 31, 2016 - - Issued 2,450,000 0.10

Exercised (100,000) 0.10

Issued 960,000 0.30

Outstanding at February 28, 2017 3,310,000 0.16

The following warrants were outstanding at February 28, 2017:

|  |  |  |  |
| --- | --- | --- | --- |
| **Expiry Date** | **Exercise price** | **Number of warrants** | **Remaining contractual life (years)** |
| **$** | | | |
| October 19, 2018 | 0.10 | 2,350,000 | 1.63 |
| January 20, 2019 | 0.30 | 960,000 | 1.88 |
| Warrants Outstanding |  | 3,310,000 |  |
| Warrants Exercisable |  | 3,310,000 |  |

**13. TREASURY SHARES**

During the year ended August 31, 2016 the Company purchased 550,000 of its common shares in the market for an amount totalling $12,822 and disposed of 450,000 of these shares for proceeds of $10,690. The net cash outflow of

$2,132 was recorded as a charge to share capital during the year ended August 31, 2016.

During the six months ended February 28, 2017 the remaining 100,000 common shares were sold for proceeds of

$2,880 which was recorded as a charge to share capital.

**14. CONTINGENICES**

The Company is subject to various claims by former consultants for amounts owed in respect of contractual agreements in the amount of approximately $106,000. The Company disputes the amounts claimed and intends to defend its postion that these do not constitute liabilities of the Company.

The outcome of these claims is uncertain but, in the event that mangement’s estimate of the future resolution of these matters changes, the effect of the change in estimate of the outcome of these claims will be recognized in the fiscal period in which the change occurs.

**15. SUBSEQUENT EVENTS**

On March 14, 2017 the Company cancelled 1,550,000 of the 1,750,000 options granted on January 18, 2017. On March 16, 2017 the Company issued 200,000 common shares for options exercised at $0.05 per share.

On March 29, 2017 the Company issued 100,000 common shares for warrants exercised at $0.10 per share in February,

2017.

On March 29, 2017 the Company issued 1,785,641 common shares for debt settlement and for services provided at

$0.10 per share.

On April 6, 2017 the Company amended the warrants issued with the private placement closed on January 20, 2017. Each amended warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.15 per share for a period of two years from the closing of the private placement.

On April 24, 2017 the Company granted 2,200,000 options to directors, officers and consultants of the Company. The options vested immediately and are exercisable into the Company’s common stock at $0.11 per share until April 24,

2022.

On April 28, 2017 the Company issued 500,000 units of private placement at $0.11 per unit for gross proceeds of

$55,000, with each unit comprised of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.21 per share for a period of two years from the closing of the private placement.

On April 28, 2017 the Company issued 400,000 shares for options exercised at $0.11 per share.

Schedule B

Please refer to Schedule A

Schedule C

**Management’s Discussion & Analysis**

**For the six months ended February 28, 2017**

**Date of Report:** May 3, 2017

The following Management’s Discussion & Analysis (“MD&A”) has been prepared by management in accordance with the requirements of National Instrument 51 -102 for the six months ended February 28,

2017 and should be read in conjunction with the un audited consolidated financial statements and accompanying notes for the six months ended February 28, 2017 prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) , as well as the audited consolidated financial statements and accompanying notes for the year ended August 31, 2016, which was prepared in accordance with International Financial Reporting Standards (“IFRS”). The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company.

All financial information in this MD&A has been prepared in accordance with IFRS and all dollar amounts are quoted in Canadian dollars, the reporting and functional currency of the Company, unless specifically noted.

**FORWARD-LOOKING STATEMENTS**

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by and information currently available to t h e m . When used in this document, the words “*anticipate*”, “*believe*”, “*estimate*”, “*expect*” and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for its operations. Such statements reflect the current views of management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

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**BACKGROUND AND CORE BUSINESS**

Alliance Growers Corp. (formerly Sheslay Mining Inc.) (the "Company” or “Alliance”) was incorporated under the British Columbia *Business Corporation Act* on June 19, 2014. On October 3, 2014, the Company became a reporting issuer in British Columbia and Alberta. The head office of the Company and records office is 500-666 Burrard Street, Vancouver, British Columbia.

***Amalgamation***

On June 8, 2015, the Company completed an amalgamation with Sheslay Acquisition Corp., a wholly-owned subsidiary of the Company, Alliance Biotech Corp. (formerly Alliance Growers Corp.), a British Columbia corporation (“Alliance Biotech”), and BC Maramed Production Ltd. (“BCMM”), a British Columbia corporation, over which the Company has significant influence due to its ownership of 45% of the issued and outstanding shares of BCMM.

The Company changed its name from Sheslay Mining Inc. to Alliance Growers Corp. on June 8, 2015 in conjunction with the amalgamation. The Company’s common shares are listed on the Canadian Securities Exchange under the symbol “ACG” and on the Frankfurt Stock Exchange under the Symbol 1LA

(WKN: A2DFYX: ISIN: CA01861C1095).

The Company issued an aggregate of 21,473,157 common shares of the Company (“Shares”) to the shareholders of Alliance Biotech on the basis of one Share for every one Alliance Biotech share held by the Alliance Biotech shareholders. Alliance Biotech is now a wholly-owned subsidiary of the Company. Currently there are

38,371,168 Shares issued and outstanding. Of the 21,473,157 Shares issued on the closing of the Amalgamation, 3,994,040 Shares are subject to escrow with 1/4 of such escrowed Shares released upon the date that the Shares were listed on the Canadian Securities Exchange, being June 22, 2015 (the “Listing Date”), 1/3 of the remaining escrowed Shares released upon the date that is 6 months from the Listing Date, being December

22, 2015, 1/2 of the remaining escrowed Shares to be released upon the date that is 12 months from the Listing

Date and the remaining escrowed Shares to be released upon the date that is 18 months from the Listing Date.

Alliance Biotech is being treated as the accounting parent (legal subsidiary) and the Company is being treated as the accounting subsidiary (legal parent) in these consolidated financial statements. As Alliance Biotech was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these consolidated financial statements at their historical carrying values. The Company’s results of operations have been included from the date of the amalgamation. The legal capital continues to be that of the Company, the legal parent.

***Investment in Laguna Blends Inc.***

In August, 2014, the Company loaned $40,000 to Laguna Blends Inc. (“Laguna”), a CSE listed company with common shareholders. During the three month period ended November 30, 2014, the Company loaned an additional $65,000 to Laguna, On January 30, 2015, the Company converted the $105,000 in loans into

1,200,000 common shares of Laguna. (formerly 3,000,000 shares prior to a share consolidation effective

January 6, 2016).

During the year ended August 31, 2016 the Company sold 480,000 common shares of Laguna at a realized gain of $25,998.

As at February 28, 2017 and August 31, 2016, the Company had 720,000 common shares of Laguna with a fair value of $165,600 and $180,000 respectively based on their market trading prices. During the six months ended February 28,

2017 and the six months ended February 29, 2016, the Company recorded an unrealized loss of $14,400 and an unrealized gain of $495,000 respectively, resulting from the change in the fair market value of these shares.

***Investment in BCMM***

On August 22, 2014, the Company entered into an agreement to acquire BCMM, a company located in Kelowna, British Columbia. Pursuant to the terms of the agreement, the Company paid $225,000 for a 45% interest in BCMM.

Subsequently, the Company entered into the following amendment agreements with respect to an acquisition of additional interests in BCMM:

1. In December 2014, the Company agreed to issue 6,600,000 common shares in its capital stock to the five shareholders of BCMM to purchase the remaining 55% interest in BCMM, which acquisition was subject to BCMM receiving a medical marijuana production and distribution license issued by Health Canada e under the Marihuana for Medical Purposes Regulations (the “License”) on or before December

31, 2015.

2. Effective December 31, 2015, two BCMM shareholders, holding an aggregate of 17.5% of the remaining 55% interest in BCMM, agreed to extend their respective agreements with the Company to December 31, 2016.

3. On January 8, 2016, one of the shareholders agreed to sell their 5% interest to the Company in consideration of the issuance of 600,000 common shares in the capital of the Company. The shares were issued on January 25, 2016, although the 5% interest in BCMM has yet to be transferred to Alliance, but is expected to be completed during May 2017.

Accordingly, the Company now holds a 45% interest in and exercises significant influence over BCMM and is in discussions with the other shareholders of BCMM on the partnership. Therefore, the Company accounts for its investment under the equity method.

As at February 28, 2017, BCMM owned a leasehold interest and equipment for a production facility in Kelowna, British Columbia, and is in the process of applying to become a licensed producer of medical marijuana under Health Canada’s new Marihuana for Medical Purposes Regulations. The Company has f ully impaired the investment as BCMM has insignificant net assets, and there is significant uncertainty that it will receive the required license.

***Current Development***

Alliance’s strategy for achieving global leadership in the cannabis space is supported by its “Four Pillar” business model announced on May 26, 2016. The Company has organized into four divisions, which includes owning interests in Marijuana for Medical Purposes Regulations (“MMPR”) licensed facilities, strong distribution networks, high-quality consumer products and industry-leading R&D.

**Botanical Research In Motion Inc.**

***License Agreement***

On September 26, 2016, Alliance announced that it had signed a Memorandum of Understanding (“MOU”) with Botanical Research In Motion Inc. (“BRIM”) to build a 40,000 square foot facility (the “Botany Centre”) to service the Cannabis market specifically and the agriculture market in general. BRIM will also grant to Alliance an exclusive Canadian license (the “License”) regarding certain of BRIM’s proprietary technology.

The License granted to Alliance will allow it to jointly develop and operate multiple Cannabis Botany Centres in

Canada and will include the following:

1 - BRIM’s proprietary “Chibafreen Invitro Plant Production System”

Utilizing its proprietary state of art clean tissue culture lab room designed to produce over one million Tissue Culture Plantlets per year. The design is scalable and designed for all flora to serve the entire agriculture industry.

2 - BRIM’s proprietary Cryotissue Cold Storage

Utilizing the one-of-a-kind Cryotissue Cold Storage technology for tissue culture preservation and regeneration as needed on long term basis.

3 – Extraction Lab

Provide custom profiles for extraction for botanicals oils for retail market. Provide extraction services as retail services to cultivators.

4 - BRIM’s proprietary research for cannabis for large commercial scale micro propagation production when permitted.

The MOU was superseded by a definitive agreement (the “Exclusive License Agreement”) executed in January,

2017. Alliance Growers and BRIM have now executed the Exclusive License Agreement and corresponding Consulting Services Agreement whereby B.R.I.M. has granted Alliance Growers an Exclusive License to develop Cannabis Botany Centres in Canada.

The significant terms of the deal include the following:

1. Alliance will issue to BRIM a total of 6,000,000 common shares and 3,000,000 warrants to be released in stages;

2. Cash payments of $75,000 on execution of the MOU (paid) and $75,000 on execution of the Definitive

Agreement;

3. Pay a Royalty to BRIM on each Botany Centre in Canada that is consistent with similar commercial operations.

The initial Cannabis Botany Centre and land shall be held by a wholly owned subsidiary of Alliance. Alliance shall be solely responsible for the cost of construction of the Botany Centre, and be responsible for all management fees, salaries, consulting fees and other operating costs related to the Botany Centre.

BRIM has also agreed to grant Alliance first right of refusal on exclusive licenses in various states in the US, and other countries or regions as they are identified, whereby Alliance will jointly operate the clean room certified laboratories making up a similar Botany Centre in those locations.

According to BRIM, growing Cannabis using tissue culture propagation, specifically the “Chibafreen Invitro Plant Production System”, assures consistent composition and purity of each plantlet for the growers, regardless of where and by whom the plants are cultivated. Their proprietary process provides tremendous advantages including rapid and efﬁcient growth of plants that will result in 30-50% shorter production period. Plantlets that are produced under a uniformly controlled environment in the protected area are free from pest insects/pathogens and the disturbance of outside weather. Additionally, such plantlets are of a very high quality, disease free and geared for optimal growth. Each plantlet will always have the same genetic makeup as its parent stock.

The development of the Cannabis Botany Centre, together with the undernoted partnerships and investments are designed to provide Alliance with the following:

Produce revenue from the sale of cannabis and other plantlets, under contract;

Generate revenue from the processing and resale of cannabidiol (CBD) oil in Canada, USA and offshore;

Providing cold storage facilities utilizing the one-of-a-kind Cryotissue Cold Storage technology for tissue culture preservation and regeneration as needed on a long term basis.

Provide extraction services as retail services for cultivators and create custom profiles for extraction of botanicals oils for retail market.

Concurrent with the execution of the Exclusive License Agreement, Alliance and BRIM have entered into a

Consulting Agreement and the usual Non-Disclosure Agreement pertaining to the Proprietary Technology.

***Consulting Agreement***

This consulting agreement is about BRIM’s duties and compensation. The principle terms are as follows:

(i) one year renewable term.

(ii) advise during the pre-construction phase of the Botany Centre, planning of the location and assistance in the application for zoning and building permits.

(iii) supervise the construction and engineering according to the specifications in the Work Agreement. (iv) assist in all phases of the construction of a Botany Centre in the lower mainland of British Columbia.

(v) assist Alliance Growers in its applications to obtain appropriate permits from Health Canada in order for the Botany Centre to legally produce and extract cannabis products and sell them.

(vi) assist Alliance Growers to manage and operate the Botany Centre.

Alliance Growers shall accrue a consulting fee payable to BRIM at the rate of $3,000 for the month of January,

2017. Thereafter, Alliance Growers shall pay BRIM a consulting fee of $6,000 per month, commencing February 1,

2017, for the duration of the pre-construction phase until the completion of the acquisition of the property for the Botany Centre (the “Property”). These fees may be accrued until the Botany Centre is fully permitted and licensed for commercial production and commercial sale of cannabis products.

Upon acquisition of the Property and completion of all building plans, including all engineering and permitting and the receipt of all licenses and permits required to operate the Botany Centre (“Approvals”) (excluding MMPR or comparable license from Health Canada), Alliance Growers shall enter into contracts with BRIM for the provision of the necessary management services as agreed to by both parties to construction completion, in any case not to exceed

$18,000 per month. Monthly fees in excess of $12,000 shall be accrued until the Botany Centre is fully permitted and licensed for commercial production and commercial sale of cannabis products.

Upon receipt of the MMPR or comparable License from Health Canada Alliance Growers shall enter into contracts with BRIM for the provision of the necessary management services as agreed to by both parties for the management of the Botany Centre, based on commercial rates of pay for work performed. All other personnel will be hired or contracted directly by Alliance Growers, or its wholly owned subsidiary.

***Right of First Refusal (“ROFR”)***

BRIM has the ROFR to purchase the Botany Centre prior to completion of construction if the Corporation cannot complete the construction of the Botany Centre. The purchase price will be the greater of (i) fair market value as determined by the Alliance’s professional advisors and (ii) not less than input costs expended or owing by Alliance in acquiring the Lands and all costs of designing, developing and building the Botany Centre to the date of purchase plus Alliance’s borrowing costs if any.

***Non-Disclosure Agreements***

BRIM and the Company have signed agreements to protect their confidential information.

***Future Employment Agreement***

The Company has signed an agreement with Brim and its chief scientist**,** Dr. Fawzia Afreen, that in the event she ceases employment with Brim that she can be employed directly by Alliance Growers.

An arms-length finders’ fee shall be payable in cash and/or shares in the amount of $68,250 equal to 10% of the first $300,000 and 7.5% on the remainder of the deemed value of the acquisition of $810,000 to David J. Kwiatkowski, Vancouver, B.C.

As the cannabis market continues to grow and Health Canada begins to tighten regulations in terms of product consistency and potency, the ability to produce thousands of disease-free and genetically-perfect plant lines for any strain will become increasingly important for Canada’s cannabis growers and Alliance will be a leading supplier.

On November 15, 2016, the Company announced that it was negotiating a strategic equity arrangement to assist in financing Canna Companion Products, Inc. (“Canna”). Canna is a wholly owned subsidiary of WFS PharmaGreen Inc. that produces and sells safe and effective cannabinoid infused pet products.

The arrangement calls for Alliance to invest CAD$300,000 on favourable financial terms with regard to pricing and warrants, in return for an exclusive long term (“Cannabinoid”) CBD oil supply contract when Canna Companion expands to the Canadian market planned for 2017.

This strategic alliance is the first of many planned initiatives that will provide Alliance with future revenues from the sales of its pharmaceutical grade CBD oil to the $21Billion Marijuana and Hemp Industry.

On November 28, 2016, Alliance announced the listing of its common shares for trading on the Frankfurt Stock Exchange under the Symbol 1LA (WKN: A2DFYX: ISIN: CA01861C1095). The Frankfurt Stock Exchange is the world's 10th largest stock exchange by market capitalization and largest of Germany’s seven stock exchanges. The Company anticipates the Frankfurt listing will increase trading liquidity and facilitate investment in the Company by investors across Europe. This increased exposure to worldwide markets enables Europeans to trade the Company’s common shares in Euros.

On December 1, 2016, the Company announced the engagement of a clean room qualified architect and a construction consultant for the design and development of its cannabis Botany Centre, under license from B.R.I.M. Alliance and B.R.I.M. identified and agreed on the engagement of Gary Fields Architecture, a senior architecture firm from British Columbia that is qualified in designing clean room labs and also has clearances for high security construction projects such as Health Canada’s MMPR commercial facilities, federal level airports, etc. Gary Fields Architecture will not only bring the design to the project, but also act as a general contractor, making them an effective one stop solution for the overall project construction.

To assist in monitoring the entire construction process and serving as the Company’s representative, Alliance has engaged a 25 year experienced construction consultant, Kruger Pacific Ltd.

**Other Businesses Potentials**

Alliance is building strategic partnerships and distribution networks while securing long-term plantlet supply contracts and flower off-take agreements for CBD oil extractions. On December 6, 2016, management announced that it had entered negotiations to acquire a 10% non-dilutive interest in a private company in Ontario that has assembled a top tier growing team with management that has the expertise to expedite the license producer application process. Following the execution of a Letter of Intent, it is proposed that Alliance will invest up to

$750,000 in this venture. This agreement will include supplying plantlets to the private grower from Alliance’s

Cannabis Botany Centre.

Through a serious of strategic alliances and investments in Licensed Producers at various stages in the license process, Alliance is focused on securing long term plantlet supply contracts and offtake agreements at wholesale cost for flower to be used for CBD oil extraction. The CBD market is growing at a very high rate and is expected to reach over $2 billion by 2020. Alliance Growers will also target the U.S. market where 28 states plus the District of Columbia have legalized medical marijuana and 15 other states that currently allow for the sale of CBD products.

On December 9, 2016, Alliance entered into discussions with an Israeli medical cannabis company to create a joint venture to develop pharmaceutical grade cannabidiol oil (CBD Oil).

Included in the discussions is the joint development of 45 hectares of land for the growth of high quality cannabis plants, as legally permitted in an offshore, low operating cost jurisdiction. It is anticipated that the majority of the plant production would be processed for the extraction of pharmaceutical grade CBD Oil. In contrast with current commercial extraction methods, the Israeli company’s innovative extraction technology removes impurities allowing for the production of the highest quality CBD oil. This would facilitate the importation of the CBD Oil into various states in the USA, into Canada when legalized, and into other countries as permitted.

The potential partner has extensive expertise cultivating world-class marijuana in technical greenhouses. They have a team of scientists, designers, and engineers committed to developing high quality medical cannabis using greenhouses in geographic locations that offer an abundance of natural light. The joint venture partner’s R&D, based in Israel, involves both scientific and academic research, as well as current ongoing registered medical marijuana clinical studies.

The Company has planned an equity investment to finance Canna Companion Products, Inc. (“Canna”). Canna is a wholly owned subsidiary of WFS PharmaGreen Inc. (“Pharmagreen”) that produces and sells whole-plant hemp pet supplements. Canna, a Washington State incorporated company, is the manufacturing, fulfillment and sales centre for the Canna products. The arrangement calls for Alliance Growers to invest CAD$300,000 on favourable financial terms with regard to pricing and warrants, in return for an exclusive long term (“Cannabinoid”) CBD oil supply contract when Canna expands to the Canadian market, planned for later 2017.

The Company has closed the first tranche of instalment of its subscription for common shares in New Maple Holdings. Ltd. (“New Maple”), the parent company of Canwe Growers Inc. (“Canwe”). Canwe is an Ontario- based company preparing to apply for a producer’s license under the *Access to Cannabis for Medical Purposes Regulations* (the “ACMPR”). Canwe has access to a 22 acre property 1.5 hours north-west of Toronto, where it plans to build a facility focused on producing clean, premium quality cannabis. Canwe has amassed a stellar team which includes licensed producer MedReleaf Corp.’s former Head Grower and his number two aide, both of whom are expert cannabis growers who intimately know the cannabis cultivation cycle from seed to sale. With Alliance Growers’ four-pillar strategy and Canwe’s experienced team, the two companies plan to work together to form business synergies with the goal of creating a strong presence in Canada’s fast-growing medical cannabis space.

Alliance Growers has subscribed for a total of 375,000 common shares of New Maple at a cost of $1.00 per share, which would represent approximately 5% of the outstanding shares of New Maple if the subscription was filled in its entirety today. Alliance Growers acquired an initial common share of New Maple upon incorporation and has acquired an additional 25,000 common shares for $25,000. Alliance Growers is expected to fulfil its commitment to acquire the remaining 350,000 shares by April 30, 2017 for an additional $350,000, failing which New Maple can repurchase all of its shares from Alliance Growers at the original issuance price. The funds are expected to be used by Canwe to prepare its application for a producer’s license in accordance with the ACMPR.

In conjunction with the investment, New Maple and Alliance Growers have entered into a non-binding letter of intent for the negotiation of a business arrangement for the purchase and sale between the parties of live cannabis plants, tissue culture plantlets and other cannabis products and services subject to applicable law and the availability of products between the parties. Alliance Growers will not be able to acquire any such products from Canwe unless Canwe obtains its producer’s license from Health Canada and agrees to enter into a business arrangement with Alliance Growers.

Edmund Obasi has joined the Company’s Advisory Board. Edmund Obasi has 14 year of relevant business experience, specializing in public companies business financing, private placements and medical marijuana related investments. Mr. Obasi is currently serving as the Chief Executive Officer, Chief Investment Officer and Director of Obasi Investment Limited, a private investment company registered in Alberta.

**SUMMARY OF QUARTERLY RESULTS**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Description** | **Three months**  **ended**  **Feb 28, 2017**  **$** | **Three months**  **ended**  **Nov 30, 2016**  **$** | **Three** | **months** | **T** | **hree months** |
| **ended**  **Aug 31 2016**  **$** | | **ended**  **May 31, 2016**  **$** | |
| *Total Revenue* | *Nil* | *Nil* | *Nil* | | *Nil* | |
| *Total Expenses* | *571,912* | *261,906* | *161,275* | | *80,998* | |
| *Total loss* | *(571,912)* | *( 297,186)* | *(90,001)* | | *(78,423)* | |
| *Loss per share* | *(0.02)* | *(0.01)* | *(0.00)* | | *(0.00)* | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description** | **Three months**  **ended**  **Feb 29, 2016**  **$** | **Three months**  **ended**  **Nov 30, 2015**  **$** | **Three months ended**  **Aug 31 2015**  **$** | **Three months**  **ended**  **May 31, 2015**  **$** |
| *Total Revenue* | *Nil* | *Nil* | *Nil* | *Nil* |
| *Total Expenses* | *47,681* | *32,349* | *790,798* | *26,130* |
| *Total loss* | *(77,681)* | *(32,349)* | *(790,798)* | *(26,130)* |
| *Loss per share* | *($0.00)* | *($0.00)* | *($0.01)* | *($0.00)* |

Since inception the Company has not generated any revenue.

During the three months ended August 31, 2015 the Company recorded listing fees of $420,405 and impairment of its investment in BCMM of $225,000 that resulted in higher total expenses and losses than other quarters.

From the quarter ended November 30, 2015 to the current period, the Company became increasingly active with its business activities and administrative support, therefore total expenses and losses increased consistently over the six quarters.

**RESULTS OF OPERATIONS**

***Six months ended February 28, 2017***

The Company had a net loss of $864,020 for the six months ended February 28, 2017, compared to a net loss of

$110,030 for the six months ended February 29, 2016. During the six months ended February 29, 2016 the

Company was largely inactive with its business operations, while during the six months ended February 28,

2017 the Company was actively pursuing business opportunities with its “four pillar” directions. As a result, all expenses except accounting and audit expenses increased from the previous period to the six months ended February 28, 2017. Accounting and audit expenses were recorded at $2,985 in the current period, a decrease of

$13,772 from $16,757 in the prior period, because in the current period significant amount of such services were included in the CFO’s services. Details of the expenses are as follows:

**Six months**

**Ended**

**Six months**

**Ended**

**February 28, 2017 February 29, 2016**

**Expenses**

|  |  |  |
| --- | --- | --- |
| Accounting and audit | $ 2,985 | $ 16,757 |
| Consulting | 151,340 | 11,000 |
| Director fees | 27,425 | 4,250 |
| General and administrative | 38,356 | 16,098 |
| Shareholder communication | 86,796 | - |
| Legal | 38,778 | - |
| Management fees | 95,550 | 23,500 |
| Rent and office expense | 9,000 | 8,000 |
| Meals and entertainment | 7,287 | 425 |
| Stock based compensation | 376,301 | - |

Total operating expenses 833,818 80,030

Stock based compensation of $376,301 recorded for the six months ended February 28, 2017 was for the

4,500,000 options granted and vested during the period.

During the six months ended February 28, 2017 the Company recorded loss on shares for debt settlement of $30,080 for 752,000 common shares issued to settle outstanding debt of $90,240 at $0.12 per share while the shares’ market- trading price was $0.16.

During the six months ended February 28, 2017 and February 29, 2016, basic and diluted loss per share was $0.03 and $0.00 respectively.

During the six months ended February 28, 2017 the Company recorded unrealized loss of $43,200 on the fair value of its Laguna Blends shares based on their market trading price change from August 31, 2016 to February 28,

2017. For the six months ended February 28, 2016 the Company recorded an unrealized gain of $135,000 on the market value change of its Laguna Blends share holdings.

***Three months ended February 28, 2017***

The Company had a net loss of $571,912 for the three months ended February 28, 2017, compared to a net loss of

$77,681 for the three months ended February 29, 2016. During the three months ended February 29, 2016 the

Company was largely inactive with its business operations, while during the three months ended February 28,

2017 Alliance was actively pursuing business opportunities with it’s “four pillar” directions. As a result, all expenses except accounting and audit expenses increased from the previous period to the three months ended February 28, 2017. Accounting and audit expenses were reco rded at $1,485 in the current period, a decrease of

$8,484 from $9,969 in the prior period, because in the current period significant accounting services are included in the CFO’s services. Details of the expenses are as follows:

|  |  |  |
| --- | --- | --- |
|  | **Three months**  **Ended**  **February 28, 2017** | **Three months**  **Ended**  **February 29, 2016** |
| **Expenses**  Accounting and audit | $ 1,485 | $ 9,969 |
| Consulting | 84,025 | 6,500 |
| Director fees | 15,500 | 4,250 |
| General and administrative | 18,972 | 8,037 |
| Shareholder communication | 71,943 | - |
| Legal | 28,667 | - |
| Management fees | 45,125 | 13,500 |
| Rent and office expense | 4,500 | 5,000 |
| Meals and entertainment | 2,877 | 425 |
| Stock based compensation | 298,818 | - |
| Total operating expenses | 571,912 | 47,681 |

Stock based compensation of $298,818 recorded for the three months ended February 28, 2017 was for the

1,750,000 options granted and vested during the period.

During the three months ended February 28, 2017 and February 29, 2016, basic and diluted loss per share was

$0.02 and $0.00 respectively.

During the three months ended February 28, 2017 Alliance recorded unrealized loss of $28,800 on the fair value of its Laguna Blends shares based on their market trading price change from November 30, 2016 to February 28,

2017. For the three months ended February 28, 2017 Alliance did not record such gain or loss as there was no change to the market value of its Laguna Blends share holdings.

During the three months ended February 29, 2016, as the Company recorded impairment of $30,000 on investment in BCMM as the Company determined that the investment in BCMM was unlikely to be recovered. The book value has been $Nil from August 31, 2016, therefore no such impairment was recorded in the current period.

***Cash flows for the six months ended February 28, 2017 and 2016***

***Operating Activities***

During the six months ended February 28, 2017 and February 29, 2016, operating activities used cash of

$307,270 and $2,186 respectively.

***Investing Activities***

During the six months ended February 28, 2017 Alliance used $75,000 for its investment in BRIM, $65,000 for its investment in PharmaGreen and $25,000 for its investment in CanWe. There was no cash investment activity in the six months ended February 29, 2016.

***Financing Activities***

During the six months ended February 28, 2017 Alliance raised $516,880 from sale of debt and equity instruments. No funds were raised during the six months ended February 29, 2016 via financing activities.

**LIQUIDITY AND CAPITAL RESOURCES**

As at February 28, 2017 the Company had a working capital deficit of $143,293 compared to a working capital deficit of $137,949 at August 31, 2016.

As at February 28, 2017 the Company had a cash balance of $ 4 5 , 8 1 7 compared to a cash balance of $1,207 at August 31, 2016.

The Company’s continued development is contingent upon its ability to raise sufficient financing both in the short and long-term. There are no guarantees that additional sources of funding will be available to the Company; however, management is committed to pursuing all possible sources of financing in order to execute its business plan. Due to the uncertainty of its ability to meet its current operating and capital expenses, in the notes to its audited financial statements for the year ended August 31, 2016, the Company’s independent auditors included an explanatory paragraph regarding their substantial doubt about the Company’s ability to continue as a going concern.

**OFF BALANCE SHEET ARRANGEMENTS**

The Company has not had any off balance sheet arrangements as of February 28, 2017 or the date of this report.

**RELATED PARTY TRANSACTIONS**

Related parties include the Board of Directors and executive officers and enterprises that are controlled by these individuals. Key management personnel are those having authority and responsibility for planning and controlling the activities of the Company directly or indirectly, including any directors (executive and non - executive) of the Company.

The Company incurred the following fees to related parties during the six months ended February 28, 2017:

Related parties include the Board of Directors, officers, key management personnel, close family members and enterprises that are controlled by these individuals. Key management personnel are those having authority and responsibility for planning and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

During the six months ended February 28, 2017, the Company incurred the following fees to related parties:

a) Management fees:

(i) $60,000 (2016 - $22,500) cash based fees and 60,000 common shares fair valued at $9,700 (2016 – 90,000 common shares fair valued at $1,600) to the President of the Company who was also the CFO of the Company to April 30, 2016; and

(ii) $21,000 (2016 - $Nil) cash based fees and 30,000 common shares fair valued at $4,850 (2016 – Nil) to the

CFO of the Company.

b) Consulting fees:

(i) $31,500 (2016 - $Nil) cash based fees and 75,000 common shares fair valued at $12,175 (2016 – 15,000 common shares fair valued at $600) to a director of the Company; and

(ii) 30,000 common shares fair valued at $4,850 (2016 - $Nil) to a director of the Company.

c) Directors fees:

(i) $10,500 (2016 - $4,250) cash based fees and 105,000 common shares fair valued at $16,925 (2016 - 35,000 common shares fair valued at $900) to directors of the Company; and

(ii) $Nil (2016 – $Nil cash based fees and 100,000 common shares fair valued at $1,500) to a former director who resigned during the year ended August 31, 2016.

As at February 28, 2017, $9,786 was prepaid (August 31, 2016 - $7,500 owed) to the CEO of the Company for expenses incurred for the Company, $29,000 (August 31, 2016 - $14,000) was owed to the CFO of the Company,

$48,832 was owed to three directors (August 31, 2016 - $14,082 to two then directors and $35,000 to the director appointed in January, 2017) of the Company, $3,500 (August 31, 2016 - $3,500) was owed to a relative of a former director of the Company, who was appointed and resigned as President during the year ended August 31, 2016, and

$27,546 (August 31, 2016 - $27,546) was owed to a former director of the Company and a company controlled by that director.

The amounts due to related parties are unsecured, non-interest bearing, and have no fixed terms of repayment.

The Company is committed to paying its current President and CEO wages of $7,500 per month to December,

2016 and $10,000 from January, 2017, and the CFO $3,500 per month on a monthly basis with no fixed term.

**DISCLOSURE OF OUTSTANDING SHARE DATA Authorized**

The Company is authorized to issue an unlimited number of common shares and preferred shares without par value.

***Common shares***

***During the six months ended February 28, 2017:***

On October 7, 2016 the Company issued 882,000 common shares to settle outstanding debt of $105,840 at $0.12 per share. A loss of $35,280 was recorded in relation to the debt settlement.

On October 19, 2016 the Company issued 4,300,000 units of private placement at $0.05 per unit for gross proceeds of

$215,000, with each unit comprised of one common share and half share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.10 per share for a period of two years from the closing of the private placement. In relation to the private placement 300,000 warrants were

issued to brokers. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.10 per share for a period of two years from the closing of the private placement.

On October 28, 2016 the Company issued 100,000 common shares for warrants exercised at $0.10 per share for gross proceeds of $10,000.

On December 15, 2016 the Company issued 1,100,000 common shares for options exercised at $0.05 per share for gross proceeds of $55,000.

On January 20, 2017 the Company issued 960,000 units of private placement at $0.20 per unit for gross proceeds of

$192,000, with each unit comprised of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.30 per share for a period of two years from the closing of the private placement.

On February 2, 2017, the Company issued 200,000 common shares from exercise of stock options at $0.05 per share. Please see subsequent events for common shares issued after February 29, 2017.

As of the date of this report, the Company has 38,371,168 common shares issued and outstanding.

***Options***

On September 15, 2016, the Company granted 2,750,000 options to directors, officers and consultants of the

Company. The options are exercisable into the Company’s common stock at $0.05 per share until September 15,

2021. 1,500,000 of these options were exercised between August 31, 2016 and the date of this report. As of the date of this report, 1,250,000 of these options are outstanding and exercisable.

On January 18, 2017, the Company granted 1,750,000 options to directors, officers and consultants of the Company.

The options are exercisable into the Company’s common stock at $0.185 per share until January 18, 2022. On March

14, 2017, the Company cancelled 1,550,000 of these options.

On April 25, 2017, the Company granted 2,200,000 options to directors, officers and consultants of the Company, which options are exercisable into common shares of the Company at a price of $0.11 per share. Subject to the rules of the Canadian Securities Exchange and the Company's Stock Option Plan, the options have a term of five years and will expire on April 24, 2022. On April 28, 2017 400,000 of these options were exercised.

Following is the options outstanding as at the date of this report.

|  |  |  |
| --- | --- | --- |
| **Expiry Date** | **Exercise price** | **Number of options** |
|  | **$** | **#** |
| September 15, 2021 | 0.05 | 1,250,000 |
| January 18, 2022 | 0.185 | 200,000 |
| April 25, 2022 | 0.11 | 1,800,000 |
| Options Outstanding and Exercisable |  | 3,250,000 |

***Warrants***

On October 19, 2016, the Company issued 2,150,000 warrants with the closing of the $0.05 private placement. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.10 per share for a period of two years from the closing of the private placement. If during the exercise period of the warrants, but after the resale restrictions on the shares have expired, the Company's shares trade at or above a weighted average trading price of $0.15 per share for 10 consecutive trading days, the Company may accelerate the expiry time of the warrants by giving written notice to warrant holders that the warrants will expire 30 days from the date of providing such notice. On October 28, 2016, 100,000 of these warrants were exercised. As of the date of this report, 2,050,000 of these warrants are outstanding.

The Company also issued 300,000 broker warrants to Canaccord Genuity Corp, exercisable at the same terms and conditions as the Unit warrants. 100,000 of the broker warrants were exercised in February, 2017 for which common shares were issued on March 29, 2017. As of the date of this report 200,000 of these broker warrants are outstanding.

On January 20, 2017, the Company issued 960,000 warrants with the closing of the initial tranche of the $0.20 private placement. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.30 per share for a period of two years from the closing of the private placement. If during the exercise period of the warrants, but after the resale restrictions on the shares have expired, the Company's shares trade at or above a weighted average trading price of $0.45 per share for 10 consecutive trading days, the Company may accelerate the expiry time of the warrants by giving written notice to warrant holders that the warrants will expire 30 days from the date of providing such notice. As of the date of this report, 960,000 of these warrants are outstanding. On April 6, 2017, the Company announced an amendment to the exercise price, which has been set at

$0.15 such that each full share purchase warrant will now entitle the holder to acquire one additional common share in the capital of the Company at a price of $0.15 per share instead of $0.30 per share, for a period of two years from the date the Units were issued. If during the exercise period of the warrants, but after the resale restrictions on the shares have expired, the Company's shares trade at or above a weighted average trading price of

$0.19 per share for 10 consecutive trading days, the Company shall accelerate the expiry time of the warrants by giving written notice to warrant holders that the warrants will expire 30 days from the date of providing such notice.

On April 28, 2017, the Company issued 500,000 warrants with the closing of the initial tranche of the $0.11 private placement. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.21 per share for a period of two years from the closing of the private placement. If during the exercise period of the warrants, but after the resale restrictions on the shares have expired, the Company's shares trade at or above a weighted average trading price of $0.30 per share for 10 consecutive trading days, the Company may accelerate the expiry time of the warrants by giving written notice to warrant holders that the warrants will expire 30

days from the date of providing such notice. As of the date of this report, all 500,000 of these warrants are outstanding.

Following is the warrants outstanding as at the date of this report.

**Exercise price**

**Number of options**

**Expiry date $ #**

October 19, 2018 0.10 2,050,000

October 19, 2018 0.10 200,000

January 23, 2019 0.15 960,000

April 28, 2019 0.21 500,000

3,710,000

**Critical Accounting Policies and Estimates**

***Significant estimates and assumptions***

The preparation of these consolidated financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company’s management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include, fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets, and contingent liabilities.

***Significant judgments***

The preparation of these consolidated financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company’s consolidated financial statements include:

- The assessment of the Company’s ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;

- The determination of whether an acquisition constitutes a business combination or an acquisition of assets;

- the classification of financial instruments; and

- the determination of the functional currency of the parent company and its subsidiaries.

***New Accounting Standards and Interpretations***

Please refer to Note 2 of the audited consolidated financial statements.

**FINANCIAL INSTRUMENTS**

The Company’s financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments at February 28, 2017 are summarized below. The board of directors reviews with management the principal risks affecting the Company and the systems that have been put in place to manage these risks.

***Foreign currency risk***

The Company’s functional currency is the Canadian dollar. The Company is not exposed to significant currency

risk at this time.

***Interest Risk and Credit Risk***

The Company has no credit risk on its note receivable and no significant interest rate risk. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by reputable financial

institutions with which it keeps its bank accounts and management believes the risk of loss to be low.

The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

***Liquidity Risk***

The Company intends to manage liquidity risk by maintaining sufficient cash balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short term obligations. As at February 28, 2017, the Company had a cash balance of $45,817 to settle current liabilities of

$414,350. The Company will need to source additional financing to pay its obligations as they come due.

***Capital Management***

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to pursue the development of its projects and to maintain a flexible capital structure for its projects for the benefit of its stakeholders. As the Company is in the development stage, its principal source of funds is from the issuance of common shares.

In the management of capital, the Company includes the components of shareholders’ equity (deficiency), net of

cash.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, enter into joint arrangements, acquire or dispose of assets or adjust the amount of cash and investments. There were no changes in the Company’s approach to capital management during the year.

***Fair Value***

The carrying value of the Company’s financial instruments including cash, accounts payables, and due to related parties approximates their fair value due to the immediate or short term maturity of these financial instruments. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

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

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

The investment in Laguna Blends was recorded at fair value determined based on its historical cost (the cost approach – a level 3 input). During the year ended August 31, 2016, the underlying shares of this investment began trading on the CSE and the value of the marketable securities are now determined based on the market price of the shares (a level 1 input).

**SUBSEQUENT EVENTS**

On March 14, 2017 the Company cancelled 1,550,000 of the 1,750,000 options granted on January 18, 2017. On March 16, 2017 the Company issued 200,000 common shares for options exercised at $0.05 per share.

On March 29, 2017 the Company issued 100,000 common shares for warrants exercised at $0.10 per share in

February, 2017.

On March 29, 2017 the Company issued 1,785,641 common shares for debt settlement and for services provided at

$0.10 per share.

On April 6, 2017 the Company amended the warrants issued with the private placement closed on January 20, 2017. Each amended warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.15 per share for a period of two years from the closing of the private placement.

On April 24, 2017 the Company granted 2,200,000 options to directors, officers and consultants of the Company. The options vested immediately and are exercisable into the Company’s common stock at $0.11 per share until April 24,

2022.

On April 28, 2017 the Company issued 500,000 units of private placement at $0.11 per unit for gross proceeds of

$55,000, with each unit comprised of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.21 per share for a period of two years from the closing of the private placement.

On April 28, 2017 the Company issued 400,000 shares for options exercised at $0.11 per share.

**ADDITIONAL INFORMATION**

The information provided in this MD&A is not intended to be a comprehensive review of all matters concerning the Company. This MD&A should be read in conjunction with other disclosure documents provided by the Company, which can be a ccessed at [www.sedar.com](http://www.sedar.com/)

No securities commission or regulatory body has reviewed the accuracy or adequacy of the information presented herein.