

QUADRON CANNATECH CORPORATION

(formerly Quadron Capital Corporation)

Consolidated Financial Statements

(Expressed in Canadian Dollars)

As at and for the years ended April 30, 2017 and 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Quadron Cannatech Corporation

We have audited the accompanying consolidated financial statements of Quadron Cannatech Corporation, which comprise the consolidated statements of financial position as at April 30, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity (deficiency) for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Quadron Cannatech Corporation as at April 30, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Quadron Cannatech Corporation's ability to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

August 28, 2017

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at April 30,

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 1,394,397	\$ 662,960
Inventory (Note 5)	53,817	464,050
Accounts receivable	532,469	140,795
Prepaid expenses	271,837	35,317
Loan receivable (Note 6)	145,000	-
GST recoverable	56,470	55,275
	2,453,990	1,358,397
Promissory note (Note 7)	-	450,000
Equipment (Note 8)	302,669	384,984
	\$ 2,756,659	\$ 2,193,381
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 247,284	\$ 721,991
Amounts payable to related parties (Note 13)	53,842	52,690
Customer deposits	78,478	-
Unearned revenue	30,978	-
	410,582	774,681
Shareholders' equity		
Share capital (Note 11)	5,559,489	2,989,800
Preferred shares (Note 10)	160,875	200
Share-based payment reserve (Note 11)	273,739	103,799
Warrants reserve (Note 11)	14,161	-
Deficit	(3,662,187)	(1,675,099)
	2,346,077	1,418,700
	\$ 2,756,659	\$ 2,193,381

Nature and continuance of operations (Note 1)
Approved on behalf of the Board on August 28, 2017:

"Rosy Mondin"

Rosy Mondin – CEO and President

"Doug McFaul"

Doug McFaul - Director

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

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

As at April 30,

	2017	2016
Sales	\$ 1,789,188	\$ 166,823
Cost of sales	(1,286,868)	(119,724)
	502,320	47,099
Expenses (income)		
Accounting and legal (Note 13)	\$ 187,585	\$ 72,709
Bank charges	5,888	1,758
Consulting fees (Note 13)	185,094	25,375
Depreciation (Note 8)	59,863	73,482
Development and research	117,753	-
Filing fees	21,073	4,554
General and administrative	61,435	34,571
Interest income (Note 7)	(22,419)	(7,663)
Investor relations	30,000	-
Management fees (Note 13)	90,000	34,000
Marketing and research	46,285	47,608
Remuneration and benefits (Note 13)	192,198	45,621
Share-based payment – stock options (Note 11)	169,940	103,799
	(1,144,695)	(435,814)
Share-based payment – Soma acquisition (Note 9)	-	(1,155,903)
Impairment of goodwill (Note 10)	(1,344,713)	-
	(1,344,713)	(1,155,903)
Loss and comprehensive loss for the year	\$ (1,987,088)	\$ (1,544,618)
Weighted average number of common shares outstanding – basic and diluted	38,432,414	17,932,932
Basic and diluted loss per share	\$ (0.05)	\$ (0.09)

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

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Consolidated Statements of Changes of Cash Flows

(Expressed in Canadian dollars)

For the years ended April 30,

	2017	2016
Cash flows from operating activities:		
Net loss for the year	\$ (1,987,088)	\$ (1,544,618)
Items not involving cash:		
Depreciation	59,863	73,482
Share-based payments - options	169,940	103,799
Share-based payments – Soma	-	1,155,903
Impairment of intangible assets	1,344,713	-
Change in non-cash operating working capital:		
Accounts receivable	(310,075)	(112,567)
Accounts payable and accrued liabilities	(375,149)	331,632
Amounts payable to related parties	1,152	(20,347)
GST recoverable	(1,195)	(31,251)
Inventory	844,100	(464,050)
Prepaid expenses	(231,020)	102,183
Customer deposits	78,478	-
Unearned income	(34,919)	-
	(441,200)	(405,834)
Cash flows from investing activities:		
Cash received on amalgamation with subsidiary	-	300,658
Loan to subsidiary prior to Acquisition	-	(250,000)
Purchase of equipment	(435,361)	(111,197)
Cash received on acquisition of subsidiary	46,848	-
	(388,513)	(60,539)
Cash flows from financing activities:		
Issuance of common shares	1,742,900	1,127,750
Share issuance costs	(36,750)	-
Issuance of short term loan	(145,000)	-
	1,560,150	1,127,750
Change in cash and cash equivalents for the year	731,437	661,377
Cash and cash equivalents, beginning of the year	662,960	1,583
Cash and cash equivalents, end of the year	\$ 1,394,397	\$ 662,960
Cash and cash equivalents are comprised of:		
Cash	\$ 1,394,397	\$ 312,960
Guaranteed investment certificate	-	350,000
	\$ 1,394,397	\$ 662,960

Significant non-cash transactions (Note 12)

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

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Consolidated Statements of Shareholders' Equity (Deficiency)

(Expressed in Canadian dollars)

For the years ended April 30,

	Number of Common Shares	Number of Series A and B Preferred Shares	Share Capital	Preferred Shares	Share-based Payment Reserve	Warrants Reserve	Deficit	Total Shareholder's Equity (Deficiency)
Balance, April 30, 2015	7,800,000	-	\$ 120,000	\$ -	\$ -	\$ -	\$ (130,481)	\$ (10,481)
Issuance of common shares – private placements	11,277,500	-	1,127,750	-	-	-	-	1,127,750
Issuance – amalgamation with Soma Labs Scientific Inc. – Note 9	17,422,500	2,000,000	1,742,250	-	-	-	-	1,742,250
Issuance of stock options	-	-	-	-	103,799	-	-	103,799
Net loss for the year	-	-	-	-	-	-	(1,544,618)	(1,544,618)
Balance, April 30, 2016	36,500,000	2,000,000	\$ 2,990,000	\$ -	\$ 103,799	\$ -	\$ (1,675,099)	\$ 1,418,700
Issuance of common shares – private placements, net of costs	8,560,500	-	1,661,189	-	-	14,161	-	1,675,350
Warrants exercised	154,000	-	30,800	-	-	-	-	30,800
Issuance – acquisition of Cybernetic – Note 10	2,700,000	6,150,000	877,500	160,875	-	-	-	1,038,375
Repurchase of Series A Preferred Shares	-	(2,000,000)	-	-	-	-	-	-
Share-based payments	-	-	-	-	169,940	-	-	169,940
Net loss for the year	-	-	-	-	-	-	(1,987,088)	(1,987,088)
Balance, April 30, 2017	47,914,500	6,150,000	\$ 5,559,489	\$ 160,875	\$ 273,739	\$ 14,161	\$ (3,662,187)	\$ 2,346,077

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

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Quadron Cannatech Corporation (formerly Quadron Capital Corporation) (the “Company” or “Quadron”) was incorporated under the British Columbia Business Corporations Act on November 7, 2011 and became a reporting issuer in British Columbia and Alberta on July 25, 2012. The Company’s head office is located at Suite 1600, 609 Granville Street, Vancouver, British Columbia, V7Y 1C3, and its registered and records office is located at Suite 2200, 885 West Georgia Street, Vancouver, BC V6C 3E8. On February 24, 2017, the Company was listed and started trading on the Canadian Securities Exchange (“CSE”) under the trading symbol “QCC”.

The Company is an automated extraction and processing solutions company. Through its subsidiaries, Quadron provides ancillary equipment, products and services, designed and structured to address the complex needs and requirements of authorized cannabis industry participants in North America.

On January 8, 2016, pursuant to a definitive Amalgamation Agreement (“Amalgamation Agreement”), a wholly-owned subsidiary of Quadron completed an amalgamation (the “Amalgamation”) with Soma Labs Scientific Inc. (“Soma”), an arm’s length private company incorporated under the laws of British Columbia (Note 9).

On March 17, 2017, the Company completed an acquisition of Cybernetic Control Systems Inc., an arm’s length company incorporated under the laws of British Columbia (Note 10).

The Company incurred a net loss of \$1,987,088 for the year ended April 30, 2017. As at April 30, 2017, the Company had a history of losses and an accumulated deficit of \$3,662,187. Consequently, continuing business as a going concern is dependent upon the success of the Company’s sale of inventory, generation of positive cash flows and the ability of the Company to obtain additional debt or equity financing all of which are uncertain. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than a process of forced liquidation. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”), and the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). The accounting policies set out in Note 3 have been applied consistently to all years presented in these financial statements.

The financial statements have been prepared on the historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (cont'd...)

Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses. Estimates and associated assumptions applied in determining asset or liability values are based on historical experience and various other factors including other sources that are believed to be reasonable under the circumstances, but are not necessarily readily apparent or recognizable at the time such estimate or assumption is made. Actual results may differ from these estimates.

The information about significant areas of estimation uncertainty considered by management in preparing the financial statements is as follows:

Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

Stock options and warrants

Determining the fair value of warrants and stock options requires estimates related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could have a significant impact on the Company's future operating results or on other components of shareholders' equity (deficiency).

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of inventory includes cost of purchase (purchase price, import duties, transport, handling, and other costs directly attributable to the acquisition of inventories), and other costs incurred in bringing the inventories to their present location and condition. Net realizable value for inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Provisions are made in profit or loss in the period for any difference between book value and net realizable value.

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (cont'd...)

Goodwill and intangible assets

The Company assesses the impairment of goodwill and intangible assets with indefinite lives on an annual basis and finite life intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors which could trigger an impairment review include significant underperformance relative to plan, a change in the Company's business strategy, or significant negative industry or economic trends. Assessing impairment of goodwill and intangible assets with indefinite lives requires significant judgement including making estimates with regards to the amounts and timing of future cash flows and the discount rates used to value such cash flows.

Equipment

The estimated useful lives of assets are reviewed by management and adjusted if necessary. To estimate equipment's useful life, management must use its past experience with the same or similar assets, review engineering estimates and industry practices for similar pieces of equipment and apply statistical methods to assist in its determination of useful life.

Determination of market value of Quadron common shares

For transactions prior to the completion of its listing on the CSE, management was required to estimate the fair market value of the Company's shares when using its shares to procure assets or financing. Management has estimated the shares' value by comparing other public companies of a similar size and nature as Quadron's and applying some of their metrics to Quadron's current situation.

Determination of fair value of Quadron preferred shares

The valuation of the Company's preferred shares requires management to make certain estimates regarding the probability of Soma and Cybernetic achieving revenue milestones.

The information about significant areas of judgment considered by management in preparing the financial statements is as follows:

Going concern

The assessment of the Company's ability to continue as a going concern as discussed in Note 1 involves judgment regarding future funding available for its operations and working capital requirements.

Business combinations

Determination of whether a set of assets acquired and liabilities assumed constitute the acquisition of a business or asset may require the Company to make certain judgments as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 – Business Combinations. If an acquired set of assets and liabilities includes goodwill, the set is presumed to be a business. Based on an assessment of the relevant facts and circumstances, the Company concluded that the acquisition disclosed in Note 10 did meet the criteria for accounting as a business combination.

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

a) Cash and cash equivalents

Cash and cash equivalents includes cash on deposit and highly liquid short-term interest bearing variable rate investments which are readily convertible into a known amount of cash. Cash and cash equivalents are held with Canadian financial institutions.

b) Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances, transactions and any unrealized gains and losses arising from intercompany transactions, have been eliminated. The Company's subsidiaries are as follows:

Entity	Country of Incorporation	Effective Interest
Soma Labs Scientific Inc. ("Soma")	Canada	100%
Greenmantle Products Limited ("Greenmantle")	Canada	100%
Cybernetic Control Systems Inc. ("Cybernetic")	Canada	100%

c) Revenue recognition

The Company's revenue is comprised of sales of its various product lines and the provision of research and laboratory services. In the case of its product lines, revenues are recognized when persuasive evidence of a sale arrangement exists, delivery has occurred, the price is fixed or determinable, and collectability is reasonably assured. For its services, revenue is recognized when the service has been rendered.

d) Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

All inventories are periodically reviewed for impairment due to slow-moving and obsolete inventory. The provisions for obsolete, slow-moving or defective inventories are recognized in profit or loss. Previous write-downs to net realizable value are reversed to the extent there is a subsequent increase in the net realizable value of the inventories.

e) Equipment

Equipment is recorded at cost less accumulated depreciation and impairment losses. The Company provides for depreciation using the following methods at rates designed to amortize the cost of the equipment over its period of expected use by the Company. A full year of depreciation is recorded in the year of acquisition. No depreciation is recorded in the year of disposal. The estimated useful lives of assets are reviewed by management and adjusted if necessary. The annual depreciation rates and methods are as follows:

Furniture and equipment: straight-line, 5 years
Computer hardware: straight-line, 3 years

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

e) Equipment (cont'd...)

Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to profit or loss during the period they are incurred.

When the Company routinely sells its items of equipment that it has held for rental to others, the Company transfers the equipment to inventory at its carrying amount when it ceases to be rented and becomes held for sale.

f) Impairment of non-financial assets

The carrying amounts of the Company's long-lived assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be individually tested are grouped together into the smallest group of assets that generate cash inflows or CGUs.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

g) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

h) Share-based payments

The stock option plan allows Company directors, officers, employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from reserves to share capital.

In situations where equity instruments are issued to non-employees and some or all of the services received by the entity as consideration cannot be specifically identified, they are all measured at the fair value of the share-based payment, otherwise, share-based payments are measured at the fair value of the services received.

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

i) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost. The Company does not have any provisions for the periods presented.

j) Financial instrument measurement and valuation

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 assets or liability either directly or indirectly
- Level 3 - Inputs that are not based on observable market data.

The measurement of the Company's financial instruments is disclosed in Note 16 to these financial statements. Any financial instrument that is valued using level 2 or 3 inputs will involve estimation uncertainty.

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

k) Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

i. Fair value through profit or loss ("FVTPL")

This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in profit or loss.

ii. Held to maturity

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

iii. Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

iv. Available-for-sale ("AFS")

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

k) Financial instruments (cont'd...)

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

- i. Fair value through profit or loss
This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in profit or loss.
- ii. Other financial liabilities
This category consists of liabilities carried at amortized cost using the effective interest method. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company has classified its cash and cash equivalents as fair value through profit or loss. Accounts receivable, loan receivable, GST recoverable and the promissory note are classified as loans and receivables. The Company's accounts payable and accrued liabilities, and amounts payable to related parties are classified as other financial liabilities.

l) Loss per share

Basic loss per share represents the loss for the period, divided by the weighted average number of common shares in issue during the period. Diluted earnings represents the profit for the period, divided by the weighted average number of common shares in issue during the period plus the weighted average number of dilutive shares that could result from the exercise of stock options, warrants and other similar instruments where the inclusion of these items would not be anti-dilutive. When a loss per share calculation based on the fully diluted number of shares would be less than the loss per share calculated on the basic number of shares, diluted losses per share is anti-dilutive and accordingly, the diluted loss per share would be the same as the basic loss per share.

m) Income tax

Income tax on the earnings or loss for the periods presented comprises current and deferred tax. Income tax is recognized in earnings or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

m) Income tax (cont'd...)

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company does not provide for temporary differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date applicable to the period in which realization or settlement can reasonably be expected.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

n) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from equity.

o) Warrants

The company issues equity-settled incentives to certain employees, Directors and consultants in the form of warrants. Equity-settled warrants are measured at fair value at the date of acceptance. Fair value of warrants is measured by use of the Black-Scholes model.

p) Business combinations

Business combinations are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values at the date of acquisition, of assets transferred, liabilities incurred or assumed, and equity instruments issued by the Company. The acquiree's identifiable assets and liabilities assumed are recognized at their fair value at the acquisition date. Acquisition-related costs are recognized in earnings as incurred. The excess of the consideration over the fair value of the net identifiable assets and liabilities acquired is recorded as goodwill. Any gain on a bargain purchase is recorded in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. Any goodwill that arises is tested annually for impairment.

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

4. RECENT ACCOUNTING PRONOUNCEMENTS

A number of new IFRS standards, amendments to standards and interpretations are not yet effective for the year ended April 30, 2017, and have not been applied in preparing these financial statements. None of these is expected to have an effect on the Company's financial statements:

- IFRS 9 - New standard that replaced IAS 39 for classification and measurement, tentatively effective for annual periods beginning on or after January 1, 2018.
- IFRS 15 - New standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers, effective for annual periods beginning on or after January 1, 2018.
- IFRS 16: A new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lease accounting model.

5. INVENTORY

Inventory	2017	2016
Premium Disposal Vapour Pens	\$ 13,489	\$ 464,050
Electrical supplies for automation services	40,328	-
Total inventory	\$ 53,817	\$ 464,050

6. LOAN RECEIVABLE

The Company extended a short-term loan to expedite leasehold improvements which will be used by the Company for special purpose testing of equipment. The loan does not bear interest and is repayable upon demand.

7. PROMISSORY NOTE

Prior to the Amalgamation, on November 5, 2015, Soma Labs advanced \$450,000 to Odorchem Manufacturing Corporation ("Odorchem") by way of a Promissory Note ("Note") issued to Soma. Interest accrues on the Note at the simple rate of 5.5% per annum and is payable on the maturity date, November 5, 2017. Odorchem may repay the Note and all accrued interest thereon at any time from time to time without notice or penalty. Odorchem shall pay all amounts due and owing under the Note on or before November 5, 2017. During the year ended April 30, 2017, \$100,000 of the principle and interest accrued to date was offset against the Note for design and engineering work Odorchem provided to Quadron. All amounts due and owing under the Note are secured by way of a General Security Agreement over all of Odorchem's present and after acquired assets.

From the date of the Amalgamation on January 8, 2016 to April 30, 2017, \$26,310 in interest has been accrued and disclosed on the consolidated statements of loss and comprehensive loss as interest income. On March 20, 2017, the balance owing under the Note was extinguished as part of the acquisition of Cybernetic (Note 10).

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

8. EQUIPMENT

	Furniture and Equipment	Computer Hardware	Total
Costs:			
Balance, April 30, 2015	\$ -	\$ -	\$ -
Additions ⁽¹⁾	449,998	8,468	458,466
Balance, April 30, 2016	449,998	8,468	458,466
Additions	358,465	-	358,465
Acquisition of Cybernetic	4,777	3,619	8,396
Transfer to inventory ⁽²⁾	(500,466)	-	(500,466)
Balance, April 30, 2017	\$ 312,774	\$ 12,087	\$ 324,861
Accumulated Depreciation:			
Balance, April 30, 2015	\$ -	\$ -	\$ -
Amortization	71,365	2,117	73,482
Balance, April 30, 2016	71,365	2,117	73,482
Amortization	55,075	4,788	59,863
Transfer to inventory ⁽²⁾	(111,153)	-	(111,153)
Balance, April 30, 2017	\$ 15,287	\$ 6,905	\$ 22,192
Net Book Value:			
April 30, 2016	\$ 378,633	\$ 6,351	\$ 384,984
April 30, 2017	\$ 297,487	\$ 5,182	\$ 302,669

⁽¹⁾ \$270,373 of the amount from the previous fiscal year represents the equipment acquired on the Acquisition of Soma (Note 9).

⁽²⁾ During the year ended April 30, 2017, the Company transferred equipment with a carrying value of \$389,313 to inventory. The equipment was previously held for rental to others and during the year ended April 30, 2017, it became held for sale.

9. AMALGAMATION AGREEMENT

Effective January 8, 2016, Quadron acquired all the issued and outstanding share capital of Soma. As consideration, Quadron issued 17,422,500 common shares and 2,000,000 Series A preferred shares in exchange for all common and preferred shares of Soma issued and outstanding immediately prior to the completion of the Amalgamation. The Company also issued one warrant for each Soma warrant held immediately prior to the date of the completion of the Amalgamation (4,361,250 warrants issued). The warrants had an original value, and value on reissuance, of \$nil. (See also Note 11).

The Amalgamation has been accounted for as an asset acquisition. Soma's results of operations are included in the Company's consolidated results from January 8, 2016, onwards.

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

9. AMALGAMATION AGREEMENT (cont'd...)

The net assets of Soma had a fair value of \$586,347, on January 8, 2016, as follows:

Cash	\$	300,658
Receivables		28,228
GST recoverable		22,785
Prepaid expenses		137,500
Promissory note- Odorchem		450,000
Equipment		270,373
Loan payable to Quadron		(250,000)
Amounts payable to related parties		(63,409)
Accounts payable and accrued liabilities		(309,788)
	\$	586,347

The fair value of the common and Series A preferred shares issued in connection with this Amalgamation was \$1,742,250. The excess of \$1,155,903 over the fair value of Soma's net assets was allocated as a share-based payment in the 2016 fiscal year.

10. ACQUISITION OF CYBERNETIC CONTROL SYSTEMS INC.

On March 17, 2017, the Company acquired 100% of the issued and outstanding share capital of Cybernetic Control Systems Inc. ("Cybernetic"). Pursuant to the acquisition, the shareholders of Cybernetic received an aggregate of 2,700,000 common shares of the Company in consideration for all of the issued and outstanding share capital in Cybernetic.

The Company also issued 6,150,000 Series B preferred shares to Cybernetic shareholders, which shall convert into one common share of Quadron in the event Cybernetic achieves revenue of not less than \$2,500,000 for the fiscal year ended April 30, 2018. If revenue of Cybernetic is less than \$2,500,000 during that period, the number of Series B preferred shares convertible into common shares of the Company shall be reduced on a pro-rata basis by 4.17 shares for every dollar that revenue is below \$2,500,000. If revenues do not exceed \$1,025,000 during the fiscal year ended April 30, 2018, no Series preferred shares shall be convertible into common shares of the Company. The Company applied probability estimates to each of the scenarios under the revenue thresholds based on management's projections, with a 75% probability that no Series B preferred shares shall be converted.

The transaction qualifies as a business combination and was accounted for using the acquisition method of accounting. To account for the transaction, the Company has determined the fair value of the assets and liabilities of Cybernetic at the date of the acquisition and a purchase price allocation. These fair value assessments require management to make significant estimates and assumptions as well as applying judgement in selecting appropriate valuation techniques.

Cybernetic designs, manufactures, supplies custom, standard machines, and automated control packages to the process manufacturing and industrial sectors. The acquisition of Cybernetic is consistent with the Company's corporate growth strategy in the cannabis industry.

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

10. ACQUISITION OF CYBERNETIC CONTROL SYSTEMS INC. (cont'd...)

The purchase price allocation of Cybernetic is as follows:

Consideration:

Common shares	\$	877,500
Forgiveness of promissory note		350,000
Preferred shares		160,875
	\$	1,388,375

Purchase Price Allocation:

Cash	\$	46,848
Accounts receivable		81,599
Prepaid expenses		5,500
Inventory		44,454
Equipment		8,396
Goodwill		1,344,713
Accounts payable and accrued liabilities		(77,338)
Unearned income		(65,797)
	\$	1,388,375

Following the completion of the acquisition of Cybernetic, management impaired the carrying value of the intangible assets to \$Nil.

As at April 30, 2017, the Company performed impairment tests on the equipment automation CGU and recognized a loss as the carrying value of this CGU, which exceeded the estimated value in use, which is negative.

Significant assumptions involved in the impairment test included future revenues, estimated expenditures and the Company's weighted average cost of capital. In accordance with the above impairment test, the Company recognized an impairment of \$1,344,713 during the year ended April 30, 2017.

11. SHARE CAPITAL AND SHARE-BASED PAYMENT RESERVE

a) Authorized

Unlimited common shares without par value.

Unlimited Series A preferred shares without par value – 2,000,000 issued and outstanding as at April 30, 2016 and were subject to Soma achieving \$1,000,000 in earnings before interest, taxes, depreciation and amortization (the "Financial Milestone"). For the fiscal year ending April 30, 2017, each Series A preferred share will automatically convert into one common share of the Company. As Soma did not achieve the Financial Milestone, the Company repurchased and cancelled the Series A preferred shares at a \$Nil price in the year ended April 30, 2017.

Unlimited Series B preferred shares without par value – 6,150,000 issued and outstanding as at April 30, 2017 and are convertible to 6,150,000 common shares of the Company, subject to Cybernetic achieving certain revenue milestones, of up to \$2,500,000, for the fiscal year ending April 30, 2018. If Cybernetic fails to achieve the revenue milestones, the Series B preferred will be cancelled without further consideration.

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

11. SHARE CAPITAL AND SHARE-BASED PAYMENT RESERVE

b) Private placements

For the year ended April 30, 2017

On February 21, 2017, the Company completed a non-brokered private placement for aggregate gross proceeds of \$1,712,100. The placement consisted of 8,560,500 common shares of the Company at a price of \$0.20 common share. The Company issued 183,750 brokers warrants as a finders' fee in connection with the February 2017 private placement share issuance valued at \$14,161 (Note 11(e)) and paid finder's fees of \$36,750. Each broker warrant is exercisable at \$0.20 per share and expires February 21, 2018.

For the year ended April 30, 2016

On November 6, 2015, the Company closed a non-brokered private placement of 6,640,000 units at \$0.10 per unit for gross proceeds of \$664,000. Each unit was comprised of one common share and one-half of one share purchase warrant. Each whole warrant entitled the holder to purchase one additional common share of the Company at a price of \$0.20 per share for 24 months from the date of issuance. Upon completion of the Amalgamation, the expiry date was changed to August 24, 2018. The residual value of the warrants attached to the units was determined to be \$nil.

On December 31, 2015, the Company closed a non-brokered private placement of 4,637,500 units at \$0.10 per unit for gross proceeds of \$463,750. Each unit was comprised of one common share and one-half of one share purchase warrant. Each whole warrant entitled the holder to purchase one additional common share of the Company at a price of \$0.20 per share for 24 months from the date of issuance. Upon completion of the Amalgamation, the expiry date was changed to August 24, 2018. The residual value of the warrants attached to the units was determined to be \$nil.

c) Stock options

During the year ended April 30, 2016 the Company adopted a Stock Option Plan under which the Board of Directors may, from time to time, in its discretion, and in accordance with regulatory policies, grant to directors, officers, employees and consultants of the Company, options to purchase shares, provided that the number of shares reserved for issuance, together with those to be issued pursuant to options previously granted, does not exceed 10% of the issued and outstanding shares at the time of the grant. In addition, the number of shares which may be reserved for issuance to any one individual may not exceed 5% of the issued shares on a yearly basis, or 2% if the optionee is a consultant. All options granted to a participant under the Plan will become vested on the grant date, or at such other time as may be established by the Board at the time of the grant in compliance with requirements of the Exchange. The expiry date for each option shall be set by the Board at the time of issue of the option and shall not be more than ten years after the grant date.

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

11. SHARE CAPITAL AND SHARE-BASED PAYMENT RESERVE (cont'd...)

c) Stock options (cont'd...)

A summary of the Company's stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price
Balance, April 30, 2015	-	\$ -
Granted	1,400,000	0.10
Balance, April 30, 2016	1,400,000	0.10
Granted	2,350,000	0.20
Balance, April 30, 2017	3,750,000	\$ 0.16

A summary of the Company's stock options as at April 30, 2017 are as follows:

Grant Date	Number of Options outstanding	Number of Options exercisable	Weighted Average Exercise Price	Expiry date	Weighted Average Remaining contractual life (years)
February 15, 2016	1,400,000	1,400,000	\$ 0.10	February 15, 2021	3.73
February 1, 2017	350,000	87,500	0.20	February 1, 2022	4.76
February 21, 2017	2,000,000	250,000	0.20	February 21, 2022	4.82
Total	3,750,000	1,737,500	\$ 0.16		4.41

During the year ended April 30, 2017, the Company recorded share-based payments of \$169,940 (2016 - \$103,799) as a result of stock options vesting during the year. The fair value of stock options was estimated at the grant date based on the Black-Scholes option pricing model, using the following weighted average assumptions:

	2017	2016
Risk-free interest rate	1.16%	0.76%
Expected dividend yield	0%	0%
Expected forfeiture	0%	0%
Expected life	5 years	5 years
Expected volatility	100%	100%
Fair value per option granted	\$0.15	\$0.07

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions may have a material effect on the fair value of the Company's stock options and results of operations.

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

11. SHARE CAPITAL AND SHARE-BASED PAYMENT RESERVE (cont'd...)

d) Warrants

A summary of the Company's warrant activity is as follows:

	Number of warrants outstanding	Weighted average exercise price
Balance, April 30, 2015	-	\$ -
Issued	5,638,750	0.20
Outstanding Soma warrants converted to Quadron warrants upon Amalgamation	4,361,250	0.20
Balance, April 30, 2016	10,000,000	0.20
Exercised	(154,000)	0.20
Balance, April 30, 2017	9,846,000	\$ 0.20

A summary of warrants outstanding are as follows:

Issue Date	Number of Warrants outstanding	Weighted Avg. Exercise Prices	Expiry date	Weighted Avg. Remaining contractual life (years)
January 8, 2016	4,332,250	\$ 0.20	August 24, 2018 ¹	1.32
November 6, 2015	3,195,000	\$ 0.20	August 24, 2018 ¹	1.32
December 31, 2015	2,318,750	\$ 0.20	August 24, 2018 ¹	1.32
	9,846,000	\$ 0.20		1.32

¹ On February 24, 2017, the Company completed a Going Public Transaction and as a result under the terms of the warrants, each warrant's expiry date reverted to a period expiring 18 months from the date of the Going Public Transaction. All other terms of the warrants remained unchanged.

e) Brokers' warrants

A summary of the Company's broker warrant activity is as follows:

	Number of warrants outstanding	Weighted average exercise price
Balance, April 30, 2015 and 2016	-	\$ -
Issued	183,750	0.20
Balance, April 30, 2017	183,750	\$ 0.20

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

11. SHARE CAPITAL AND SHARE-BASED PAYMENT RESERVE (cont'd...)

e) Brokers' warrants (cont'd...)

A summary of broker warrants outstanding are as follows:

Issue Date	Number of Warrants outstanding	Weighted Avg. Exercise Prices	Expiry date	Weighted Avg. Remaining contractual life (years)
February 21, 2017	183,750	\$ 0.20	February 21, 2018	0.81

The fair value of the brokers' warrants issued during the year ended April 30, 2017 was \$14,161 (2016 - \$Nil). The fair value is recorded as a share issue cost. The fair value of brokers' warrants was estimated at the issuance date based on the Black-Scholes option pricing model, using the following weighted average assumptions:

	2017	2016
Risk-free interest rate	0.78%	-
Expected dividend yield	0%	-
Expected forfeiture	0%	-
Expected life	1 year	-
Expected volatility	100%	-
Fair value per finders' warrant granted	\$0.08	-

12. SIGNIFICANT NON-CASH ACTIVITY

The significant non-cash investing and financing transactions of the Company during the year ended April 30, 2017 consisted of:

- (i) As part of the consideration for Cybernetic, the Company issued 2,700,000 common shares valued at \$877,500, 6,150,000 preferred shares having a fair value of \$160,875 and forgave a promissory note with a value of \$350,000 (Note 10).
- (ii) Issued 183,750 brokers' warrants valued at \$14,161 (Note 11(e)).
- (iii) Transferred equipment with a carrying value of \$389,313 to inventory (Note 8).
- (iv) Offset \$100,000 in principle and accrued interest of the promissory note against accounts payable and accrued liabilities (Note 7).

The significant non-cash investing and financing transactions of the Company during the year ended April 30, 2016 consisted of:

- (i) As part of the Amalgamation with Soma, the Company issued 17,422,500 common shares and 2,000,000 preferred shares having a fair value of \$1,742,250, in consideration for Soma (Note 9).
- (ii) A total of \$76,896 of equipment purchases is included in accounts payable and accrued liabilities.

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

13. RELATED PARTY TRANSACTIONS

Key management personnel:

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

Summary of expenses incurred:

Type of Service	Nature of Relationship	2017	2016
Consulting fees ¹	To an officer, and to a company with a director in common with the Company	\$ 30,100	\$ 25,000
Legal fees	To a law firm, a partner of which is a director of the Company	97,483	52,609
Management fees	To a company with officers and directors in common with the Company	90,000	34,000
Remuneration and benefits ¹	To officers of the Company	90,000	15,000
Share-based payments ¹	To officers and directors of the Company	82,561	103,799
Total		\$ 390,144	\$ 230,408

¹Key management personnel

Summary of amounts due to related parties:

Type of Service	Nature of Relationship	2017	2016
Consulting fees ¹	To an officer, director and to a company that has a director in common with the Company	\$ 45	\$ 18,310
Loans payable	To a company that has a director in common with the Company	-	1,650
Management fees	To a company with officers and directors in common with the Company	525	8,400
Legal Fees ¹	To law firms that a director of the Company was and/or is a partner in	52,182	15,130
Administrative expenses	To a company with an officer and director in common with the Company and an officer of the Company	1,090	9,200
Due to related parties		\$ 53,842	\$ 52,690

¹Key management personnel

Unless otherwise specified, amounts due to related parties referred to above are non-interest bearing, unsecured, receivable or payable on demand, and have arisen from the provision of services as described above.

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

14. INCOME TAXES

The Company has temporary differences that have not been included on the statement of financial position as follows:

Temporary differences	2017	Expiry Date Range	2016	Expiry Date Range
Property and equipment	\$ 22,000	N/A	\$ 74,000	N/A
Share issue costs	29,000	2018 - 2022	-	N/A
Non-capital losses available for future	925,000	2032 to 2037	526,000	2032 - 2036

The Company's non-capital losses expire between 2032 and 2037 and the Company's temporary differences from equipment have no expiry date.

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	2017	2016
Net loss for the year before taxes	\$ (1,987,088)	\$ (1,544,618)
Canadian statutory income tax rate	26.00%	26.00%
Expected tax recovery	(517,000)	(402,000)
Permanent difference	50,000	329,000
Temporary differences	365,000	-
Impact of asset acquisition	-	(49,000)
Change in unrecognized deductible temporary differences	104,000	122,000
Income tax payable (recovery)	\$ -	\$ -

15. CAPITAL MANAGEMENT

The Company defines capital as consisting of shareholders' equity. The Company's objectives when managing capital are to support the further advancement of the Company's business objectives and existing product lines, as well as to ensure that the Company is able to meet its financial obligations as they become due.

The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. As at April 30, 2017, the Company is not subject to any externally imposed capital requirements or debt covenants. There was no change to the Company's approach to capital management during the year ended April 30, 2017.

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

16. FINANCIAL INSTRUMENTS

a) Fair value risk

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, promissory note, loan receivable, GST recoverable, accounts payable and accrued liabilities and amounts payable to related parties.

The Company's financial instruments with the exception of cash and cash equivalents approximate their fair value due to their short-term maturities and with respect to the promissory note due to its market value and interest rate. The Company's other financial instrument, cash, under the fair value hierarchy are based on level one quoted prices in active markets for identical assets or liabilities.

b) Market risk

Market risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of changes in market prices or prevailing conditions. Market risk comprises three types of risk: currency risk, interest rate risk and price risk and are disclosed as follows:

(i) Currency risk

Currency risk is the risk of change in profit or loss that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. The Company has only a nominal amount of assets or liabilities denominated in foreign currencies and engaged in very few transactions denominated in a foreign currency; therefore, its exposure to foreign exchange risk is limited.

(ii) Interest rate risk

The Company is not exposed to interest rate risk because it does not have any assets or liabilities that are affected by changes in interest rates except for cash and cash equivalents which poses an insignificant risk exposure to changes in interest rates.

(iii) Price risk

The Company has limited exposure to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market.

c) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

All the Company's cash and cash equivalents are held through a Canadian chartered bank and accordingly, the Company's exposure to credit risk is considered to be limited. The Company's GST recoverable are refunds due from the Government of Canada and the exposure to credit risk on these amounts are considered to be limited.

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

16. FINANCIAL INSTRUMENTS (cont'd...)

c) Credit risk (cont'd...)

The Company's current accounts receivable consists of amounts due from its contract with Odorchem (considered fully collectible) and various other customers (amounts considered fully collectible); however, these receivables do pose a moderate credit risk. The loan receivable has been assessed by the Company as low risk. The leasehold improvements were completed subsequent to year end; consequently, the borrower will commence repayment of the associated loan (Note 6).

d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. At April 30, 2017, the Company has a cash and cash equivalents balance of \$1,394,397 to settle current liabilities of \$410,582. The Company manages its liquidity risk by attempting to maintain sufficient cash and cash equivalents balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities are all current. As the Company has limited sources of revenue, it may require additional financing to accomplish its long term strategic objectives.

17. SEGMENTED INFORMATION

The Company has three principle reporting segments: sale of premium disposable vaporizer pens and related materials; extraction and processing laboratory (including research and development) service; and corporate and administration. The reportable segments were determined based on the nature of the services provided and goods sold.

Reportable segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Consolidated statements of loss and comprehensive loss	2017	2016
Sales to external customers		
Sale of premium disposable vaporizer pens and related materials	\$ 1,020,861	\$ 144,354
Extraction and processing laboratory, research and development services and equipment	679,564	22,469
Equipment automation	88,763	-
	<u>\$ 1,789,188</u>	<u>\$ 166,823</u>
Income (loss) before income taxes		
Sale of premium disposable vaporizer pens and related materials	\$ 183,240	\$ (19,971)
Extraction and processing laboratory, research and development services	(117,477)	(142,043)
Equipment automation	(1,366,641)	-
Corporate and administration	(686,210)	(1,382,604)
	<u>\$ (1,987,088)</u>	<u>\$ (1,544,618)</u>

Continued...

Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Consolidated Financial Statements

As at and for the years ended April 30, 2017 and 2016

(Expressed in Canadian dollars)

17. SEGMENTED INFORMATION (cont'd...)

Consolidated statements of loss and comprehensive loss	2017	2016
<i>....Continued</i>		
Depreciation and amortization		
Extraction and processing laboratory, research and development services	\$ 59,134	\$ 73,482
Equipment automation	729	-
	<u>\$ 59,863</u>	<u>\$ 73,482</u>

The Company evaluates performance based on several factors, of which the primary financial measure is business segment income before taxes. The following tables summarize the operations of the Company's reportable segments for the years ended April 30, 2017 and 2016:

Consolidated statements of financial position	2017	2016
Identifiable assets		
Sale of premium disposable vaporizer pens and related materials	\$ 166,096	\$ 825,604
Extraction and processing laboratory, research and development services and equipment leasing	1,061,234	936,407
Equipment automation	259,088	-
Corporate and administration	1,270,241	431,370
Total assets	<u>\$ 2,756,659</u>	<u>\$ 2,193,381</u>
Liabilities		
Sale of premium disposable vaporizer pens and related materials	\$ (79,557)	\$ (595,575)
Extraction and processing laboratory, research and development services and equipment leasing	(67,688)	(142,565)
Equipment automation	(154,576)	-
Corporate and administration	(108,761)	(36,541)
	<u>\$ (410,582)</u>	<u>\$ (774,681)</u>
Additions to non-current assets		
Extraction and processing laboratory, research and development services and equipment leasing	\$ 349,830	\$ 458,466
Equipment automation	8,635	-
	<u>\$ 358,465</u>	<u>\$ 458,466</u>

As at April 30, 2017 and 2016 all of the Company's identifiable assets are located in Canada.