QUARTERLY REPORT

For the three months ended March 31, 2017 and March 31, 2016

(Expressed in Canadian Dollars)

The attached unaudited interim condensed consolidated financial statements have been prepared by Management of CannaRoyalty and approved by the Board of Directors on May 29, 2017.

CANNAROYALTY CORP.

Unaudited Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

	Note	March 31, 2017	December 31, 2016
ASSETS			
Current			
Cash and equivalents		$ **11,946,417**	$ 2,945,895
Amounts receivable	5	**805,811**	556,170
Inventory	6	**600,265**	641,350
Prepaid		**169,752**	110,834
Loans receivable	7	**728,806**	2,943,161
Assets held for sale	8	**343,160**	-
		14,594,211	7,197,410
Convertible notes receivable	9	**882,526**	864,806
Derivative assets	9	**106,478**	114,505
Interest in equity accounted investees	10	**8,110,778**	3,541,281
Investments	11	**2,228,750**	2,228,750
Royalty investments	12	**5,404,401**	2,593,891
Property and equipment	13	**1,169,528**	1,393,112
Intangible assets and goodwill	14	**14,060,085**	14,264,183
		31,962,546	25,000,528
		$ **46,556,757**	$ 32,197,938
LIABILITIES			
Current			
Accounts payable and accrued liabilities	15	$ **1,380,239**	$ 1,886,189
Loans payable	16	**448,464**	451,618
		1,828,703	2,337,807
Convertible debt	17	**1,438,242**	1,414,414
Derivative liabilities	17	**92,573**	100,586
Deferred tax liability	22	**3,039,847**	3,001,766
		$ **6,399,365**	$ 6,854,573
SHAREHOLDERS' EQUITY			
Share capital	19	$ **43,733,988**	$ 30,636,253
Shares and contingent shares to be issued	19	**4,520,000**	4,520,000
Warrants reserve	19	**3,405,873**	628,623
Contributed surplus		**4,250,404**	3,154,582
Foreign currency translation adjustment		**(189,942)**	(102,762)
Accumulated deficit		**(15,544,112)**	(13,490,327)
Non-controlling interest		**(18,819)**	(3,004)
		40,157,392	25,343,365
		$ **46,556,757**	$ 32,197,938

Subsequent Events (note 28)

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

On behalf of the Board

"Marc Lustig" Director   "Rob Harris" Director

CANNAROYALTY CORP.
Unaudited Condensed Imterim Consolidated Statements of Loss and Comprehsensive Loss
(Expressed in Canadian Dollars)

	Note	Three months ended March 31, 2017	Three months ended March 31, 2016
Revenue	24	$ 301,111	$ -
Cost of sales	24	(56,638)	-
Gross margin		244,473	-
Operating expenses			
Sales and marketing		236,860	8,003
Research and development		476,241	518,383
General and administrative	25	2,137,188	975,687
Amortization of brands and technologies	14	202,472	-
Loss from operations		(2,808,288)	(1,502,073)
Other income (expenses)			
Gain on reclassification to assets held for sale	8	98,674	-
Profit from equity accounted investees, net of tax	10	942,397	-
Penalties from non-completion of transactions	27	(183,475)	-
Listing expense		(38,193)	-
Foreign exchange loss		(125,652)	(64,806)
Interest expense		(17,620)	(177,986)
Interest income		-	8,700
Net loss before tax		(2,132,157)	(1,736,165)
Deferred tax recovery	22	78,372	-
Net and comprehensive loss for the period		$ (2,053,785)	$ (1,736,165)
Net loss per common share - basic and diluted	21	$ (0.05)	$ (0.13)
Weighted average number of common shares outstanding - basic and diluted (note 21)		38,865,970	13,532,830
Net and comprehensive loss for the period attributable to:			
Owners of the company		$ (2,037,970)	$ (1,736,165)
Attributable to non-controlling interest		(15,815)	-
		$ (2,053,785)	$ (1,736,165)

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

CannaRoyalty

CANNAROYALTY CORP.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholder's Equity

(Expressed in Canadian Dollars)

	Number of shares	Share capital	Shares to be issued	Warrants Reserve	Contributed Surplus	Foreign CTA	Deficit	Non Controlling Interest	Total Shareholders' Equity
Balance at December 31, 2015	**13,020,010**	**$ 2,608,390**	**$ 684,486**	**$ -**	**$ -**	**$ -**	**$ (1,439,687)**	**$ -**	**$ 1,853,189**
Comprehensive loss for the period	-	-	-	-	-	-	(1,736,165)	-	(1,736,165)
Shares issued for cash - private placement	3,333,333	2,500,000 -	684,486	-	-	-	-	-	1,815,514
Share issuance costs - cash	-	51,968						-	51,968
Balance at March 31, 2016	**16,353,343**	**$ 5,056,422**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (3,175,852)**	**$ -**	**$ 1,880,570**
Balance at December 31, 2016	**36,006,956**	**$ 30,636,253**	**$ 4,520,000**	**$ 628,623**	**$ 3,154,582**	**$ (102,762)**	**$ (13,490,327)**	**$ (3,004)**	**$ 25,343,365**
Comprehensive loss for the period	-	-	-	-	-	-	(2,053,785)	-	**(2,053,785)**
Change in foreign currency translation adjustment	-	-	-	-	-	(87,180)	-	-	**(87,180)**
Shares and warrants issued in bought deal financing	5,000,000	12,213,000	-	2,787,000	-	-	-	-	**15,000,000**
Share issuance costs - cash	-	(1,249,951)	-	-	-	-	-	-	**(1,249,951)**
Shares issued for exercise of restricted share units	15,400	30,800	-	-	(30,800)	-	-	-	-
Witholding taxes on exercise of restricted share units	-	-	-	-	(13,110)	-	-	-	**(13,110)**
Stock based compensation	-	-	-	-	1,158,396	-	-	-	**1,158,396**
Shares issued in acquisitions of equity interests	689,568	2,021,222	-	-	-	-	-	-	**2,021,222**
Shares issued for exercise of warrants	19,500	29,250	-	(9,750)	9,750	-	-	-	**29,250**
Share options exercised	25,000	53,414	-	-	(28,414)	-	-	-	**25,000**
Minority Interest of Achelois LLC	-	-	-	-	-	-	-	(15,815)	**(15,815)**
Balance at March 31, 2017	**41,756,424**	**$ 43,733,988**	**$ 4,520,000**	**$ 3,405,873**	**$ 4,250,404**	**$ (189,942)**	**$ (15,544,112)**	**$ (18,819)**	**$ 40,157,392**

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

CannaRoyalty CORP.

CANNAROYALTY CORP.

Unaudited Condensed Interim Consolidated Statement of Cash Flows

(Expressed in Canadian Dollars)

	For the three months ended March 31, 2017	For the three months ended March 31, 2016
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Comprehensive loss for the period	**$ (2,053,785)**	$ (1,736,165)
Items not affecting cash:		
Bad debts recovery (note 7)	**(13,318)**	-
Income from equity accounted investees (note 10)	**(942,397)**	-
Non controlling interest	**(15,815)**	-
Amortization of property and equipment (note 13)	**41,742**	-
Amortization of intangibles (note 14)	**202,472**	-
Amortization of royalties (note 12)	**21,121**	-
Share based compensation (note 20)	**1,158,396**	-
Deferred tax recovery (note 22)	**(78,372)**	-
Gain on reclassification to assets held for sale (note 8)	**(98,674)**	-
	(1,778,630)	(1,736,165)
Changes in non-cash items relating to operations:		
Increase in amounts receivable	**(249,641)**	-
Decrease in inventory	**41,085**	-
Increase in prepaid	**(58,918)**	(69,494)
Increase (decrease) in accounts payable and accruals	**(408,506)**	1,064,081
	(2,454,610)	(741,578)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of property and equipment (note 13)	**(70,304)**	(73,818)
Increase in share subscription receivable	-	(2,500)
Purchase of equity investments (note 10)	**(1,601,218)**	(93,790)
Loans advanced to debtors, net of repayment	**(664,535)**	-
Convertible loans advanced to debtors, net of repayment	-	(129,987)
	(2,336,057)	(300,095)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Proceeds from shares in private placements, net of issuance costs (Note 19)	-	2,448,032
Proceeds from shares in bought deal financing, net of issuance costs (Note 19)	**10,963,049**	-
Proceeds from issuance of warrants, including broker warrants (Note 19)	**2,787,000**	-
Proceeds from exercise of warrants (Note 19)	**29,250**	-
Proceeds from issuance of stock options (Note 20)	**25,000**	-
Tax witholding paid on exercise of restricted share units	**(13,110)**	
Increase in share subscriptions payable (Note 19)	-	(684,486)
Net repayments to lenders	-	(774,639)
	13,791,189	988,907
INCREASE (DECREASE) IN CASH	**9,000,522**	(52,766)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**2,945,895**	58,923
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 11,946,417**	$ 6,157

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

1. Nature of Operations

CannaRoyalty Corp. ("the Company" or "CannaRoyalty") is a fully integrated, active investor and brand operator in the legal cannabis sector. Specifically, CannaRoyalty provides strategic capital and functional expertise to accelerate the commercialization of its diversified portfolio of holdings. Currently, the Company is focused on three high-value segments of the cannabis market, including research/intellectual property; brands; and infrastructure, with holdings in four U.S. States, Canada and Puerto Rico. CannaRoyalty has invested its capital via royalties, equity, licenses and convertible debt.

CannaRoyalty is a reporting issuer listed for trading on the Canadian Securities Exchange in the Province of Ontario under the trading symbol "CRZ". During February 2017, CannaRoyalty was listed for trading on the OTCQB markets in the U.S. under the trading symbol "CNNRF". CannaRoyalty was incorporated as "McGarry Minerals Inc." on August 19, 1985. In connection with a corporate reorganization, the Company changed its name to "Bonanza Blue Corp." ("Bonanza Blue") on August 16, 2000. The Company further changed its name to "CannaRoyalty Corp." on December 5, 2016, prior to the completion of a reverse takeover transaction ("RTO") between Bonanza Blue Corp. and Cannabis Royalties Holdings Corp. "CRHC". CannaRoyalty's head office is located at 333 Preston Street, Preston Square Tower 1, Suite 610, Ottawa, Ontario K1S 5N4.

On March 11, 2016, the Company incorporated Cannroy Delaware Inc. ("Cannroy Delaware"). On May 3, 2016, the Company incorporated Cannroy Distribution LLC ("Cannroy Distribution"), a wholly owned subsidiary of Cannroy Delaware. On September 22, 2016, the Company dissolved Desert Growers Association LLC, an inactive company which had no impact on the Company's consolidated financial statements. In October and November 2016, the Company purchased full or controlling interests in Electric Medialand Inc. ("EML"), Dreamcatcher Labs, Inc. ("Dreamcatcher"), and Achelois LLC ("Achelois").

2. Going Concern Uncertainty

In the past 12 months, CannaRoyalty has continued to implement its strategy of raising equity financing, significantly growing its portfolio of business holdings and completing a going public transaction. CannaRoyalty's holdings are generally in the early stages of development or commercialization and operate in the U.S. cannabis sector, a sector with legislative uncertainty.

CannaRoyalty has incurred net losses of $2,053,785 for the three months ended March 31, 2017 and $10,314,475 for the nine months ended December 31. 2016. As of March 31, 2017, the Company has cash of $11,946,417 and working capital of $12,765,508 which will be used for acquisitions, investment in current holdings and for operational needs. If sufficient revenue cannot be generated from its early stage investees, the Company's ability to fully meet operational needs may be dependent on its ability to obtain financing. While the Company has been successful in raising financing in the past, including the current quarter, there is no assurance that it will be able to obtain additional financing or that such financing will be available on reasonable terms.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes 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 business. Accordingly, no adjustments to the carrying values of the assets and liabilities have been made in these audited financial statements. Should the Company no longer be able to continue as a going concern, certain assets and liabilities may require restatement on a liquidation basis which may differ materially from the going concern basis.

3. Basis of Preparation

These interim condensed consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements of the Company for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Accordingly, they do not include all of the information and footnotes required under IFRS for complete financial statements. In the opinion of management, these interim condensed consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the Corporation's financial position and results of operations for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year. All intercompany accounts and transactions have been eliminated.

The Company's independent auditor has not performed an audit or review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants.

Convertible debt and derivative liabilities are presented as non-current liabilities for the period ended March 31, 2017. This accounting treatment is in accordance with IAS 1, paragraph 69(d), which states that terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. Since the debt is repayable in more than 12 months, it is classified as a non-current liability. The convertible debt and derivative liabilities balances as at December 31, 2016 of $1,414,414 and $100,586, respectively, have been reclassified to non-current liabilities to comply with the presentation adopted in the current year. The reclassification has no impact on the consolidated statements of loss and comprehensive loss, shareholders' equity, cash flows or notes to the consolidated financial statements.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on May 29, 2017.

4. Significant Accounting Policies and New Standards

These condensed interim consolidated financial statements have been prepared following the same accounting policies used in the preparation of the audited financial statements of the Company for the year ended December 31, 2016.

In the current interim period, the Company has adopted the amended disclosure requirements for IAS 7 – Statement of Cash Flow. This results in additional disclosures for liabilities arising from financing activities. Since the amendments were issued one year before the effective date, comparative information is not necessary in the first year of application. These updated disclosures are reflected in note 16 and note 17 of these statements.

Accounting standards and amendments issued but not yet applied

A number of new standards, amendments to standards and interpretations applicable to the Company are not yet effective for the period ended March 31, 2017 and have not been applied in preparing these consolidated financial statements.

IFRS 2 – Share-based Payment, effective January 1, 2018, with early adoption permitted, introduces new requirements for the classification and measurement of share-based payment transactions.

IFRS 9 – Financial Instruments: This standard applies to classification and measurement of financial assets and liabilities as defined in IAS 39. This amendment is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is assessing the impact of the standard on its convertible notes receivable and its investments where it holds less than significant influence. These investments are currently recorded at cost. Upon implementation of IFRS 9, these investments will need to be recorded at fair value and the Company is currently assessing available information and practicable methods to determine their fair value.

(Expressed in Canadian Dollars)

IAS 12 – Income Taxes, effective for annual periods beginning on or after January 1, 2017, with early adoption permitted, amended to clarify the following aspects:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;
- The carrying amount of an asset does not limit the estimation of probable future taxable profits;
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; and

An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

IFRS 15 – Revenue from Contracts with Customers: This standard establishes a comprehensive framework for determining whether, how much, and when revenue is recognized. It replaces existing revenue guidance including IAS 18 *Revenue.* IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company continues to assess the impact of the standard on its recently acquired subsidiaries with a focus on service contracts.

IFRS 16 – Lease: This standard specifies the recognition, measurement, presentation and disclosure of leases. This standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing any effect on its consolidated financial statements from the adoption of this standard. Based on its current assets, interests and investments no significant impact is anticipated from the new standard.

The Company is assessing the impact of these new and revised standards.

5. Amounts receivable

		March 31, 2017		December 31, 2016
Trade account receivables	$	189,465	$	163,289
Royalty receivables		558,205		351,113
HST and sales tax receivable		8,006		17,708
Other receivables		50,135		24,060
Total Amounts Receivable	$	805,811	$	556,170

The Company generally does not hold any collateral as security for trade receivables; however, it minimizes its credit risk associated with its trade receivables by requiring customer deposits or prepayments in some cases and performing credit evaluation, approval and monitoring processes. As of March 31, 2017, the allowance for doubtful trade accounts was $nil (December 31, 2016 – $nil).

(Expressed in Canadian Dollars)

The aging of trade receivables at the reporting date was:

		March 31, 2017	December 31, 2016
Current		$ 70,220	$ 64,067
Past due:	Less than 30 days	6,819	-
	31 - 60	9,382	59,831
	61 - 90	25,242	21,164
	Greater than 90 days	77,802	18,227
Total trade accounts receivable		$ 189,465	$ 163,289

At March 31, 2017, two customers accounted for 75% of total trade receivables, the largest accounting for 63% (December 31, 2016 – three customers, 91% total, largest 62%). Since March 31, 2017 and through May 11, 2017, the Corporation has collected $115,321, including $57,632 of balances greater than 90 days from the above outstanding trade receivables. Management does not believe that any significant trade receivables not provided for are not collectible.

Since March 31, 2017, the Company has yet to collect on its largest royalty receivable. This receivable is expected to be collected in fiscal 2017 in accordance with the terms in the royalty financing arrangement.

6. Inventory

	March 31, 2017	December 31, 2016
Finished goods	$ 137,682	$ 165,558
Raw materials	462,583	475,792
Total Inventory	$ 600,265	$ 641,350

For the three months ended March 31, 2017, certain inventory was consumed or written off as part of our product research and development activities.

7. Loans receivable

	March 31, 2017	December 31, 2016
SBPCHC (1)	$ 13,318	$ -
Stokes Confections (2)	67,630	68,255
Rich Extracts (3)	207,612	2,428,672
Cascadia (4)	332,587	337,581
CannaCraft (5)	70,368	71,018
Other advances (6)	37,291	37,635
Total Loans Receivable	$ 728,806	$ 2,943,161

(1) The Company entered into a loan agreement with Santa Barbara Patients Collective and Healing Center ("SBPCHC") on August 19, 2015 for $100,000 USD to assist SBPCHC in opening a collective and healing center in Santa Barbara, California. The interest rate on the loan is 20% per annum. The principal and accrued interest was due on August 19, 2016. The loan is unsecured.

The advance was fully provided for at December 31, 2016 as the amount was over 120 days past due and no payments had been received. The Company engaged legal counsel to assist in aggressively pursuing collection of the entire amount of the loan and all accrued interest.

During April 2017, the Company received a payment proposal from SBPCHC which would repay the principal portion of the loan. A payment of $13,318 ($10,000 USD) was received and has therefore been recorded as an asset of $13,318 at March 31, 2017, and a recovery of the same amount has been recorded within general and administrative expenses for the three months ending March 31, 2017.

(2) On May 15, 2016, the Company entered into a letter of intent with Progressive Marketing Partners LLC ("Stokes Confections"), which is based in California and produces low dose, cannabis infused edibles. An advance of $66,590 ($50,000 USD) was made as an up-front fee, but was to be refunded in full with annual interest of 2.5% if a definitive agreement was not finalized by December 31, 2016. At March 31, 2017, the total receivable includes $1,040 of accrued interest (December 31, 2016 – $1,050). The advance is unsecured and due on demand. The Company expects to complete a definitive agreement in a future period.

(3) On February 9, 2017, CannaRoyalty entered into a binding term sheet regarding a royalty financing arrangement with Rich Extracts LLC ("Rich Extracts") whereby CannaRoyalty will receive a 30% royalty on Rich Extracts' gross revenues in perpetuity (See note 12). In exchange for the royalties, Rich Extracts has received financing of $2,812,200 ($2,150,000 USD). As of March 31, 2017, the Company has provided additional advances of $207,612 ($155,888 USD) will need to be repaid to CannaRoyalty. These advances are secured by a general security agreement, whereby the Company has rights to the Debtor's Collateral including all of the Debtor's present and after-acquired personal property. These advances have no fixed repayments terms and are non-interest bearing. An additional $154,489 ($116,000 USD) has been advanced since March 31, 2017.

(4) CannaRoyalty has advanced a total of $332,587 ($249,727 USD) to provide Cascadia Holdings LLC ("Cascadia") additional working capital. Cascadia is one of the Company's royalty investments. These advances are non-interest bearing, unsecured and have no set terms for repayment.

(5) The Company advanced funds of $332,950 ($250,000 USD) to CannaCraft, Inc. ("CannaCraft") on May 16, 2016. This advance has been partially offset by the purchase of equipment and product from CannaCraft valued at $262,582 ($197,163 USD). The balance of the advance at March 31, 2017, is $70,368 ($52,837 USD). This advance is not part of the joint venture agreement between the two companies. This advance is non-interest bearing, unsecured and has no set terms for repayment.

(6) These advances are to unrelated parties and are non-interest bearing, unsecured and have no set terms for repayment.

8. Assets held for sale

Equipment in the amount of $343,160 has been classified as assets held for sale in connection with the consideration transferred for the Company's acquiring 20% equity interest in Anandia Laboratories Inc. ("Anandia") (see note 10).

As a result of this transaction, the equipment that will be delivered to Anandia represents a disposal group and under the equipment is classified and presented as "Assets Held for Sale" on the Consolidated Statements of Financial Position at March 31, 2017. The carrying value of this equipment was $244,486 prior to being classified as assets held for sale.

The carrying value of the assets held for sale was $343,160, which represents the expected sale price of $350,000 less estimated transaction costs of $6,840. The Corporation has recorded a gain of $98,674 during the three months ended March 31, 2017 which has been included in other income within the Consolidated Statements of Loss and Comprehensive Loss.

(Expressed in Canadian Dollars)

9. Convertible notes receivable

	Notes Receivable				Derivative Assets			
		March 31, 2017		December 31, 2016		**March 31, 2017**		December 31, 2016
Eureka (1)	**$**	**473,118**	$	461,691	**$**	**97,078**	$	102,092
BAS (2)		**409,408**		403,115		**9,400**		12,413
Total	**$**	**882,526**	$	864,806	**$**	**106,478**	$	114,505

(1) During February 2016, the Company entered into a loan agreement with Eureka Management Services Inc. ("Eureka"), a California corporation that manages Magnolia Wellness, a medical cannabis dispensary in Oakland, California. The loan was provided to assist Eureka in expanding its operations. The loan was made in exchange for a convertible promissory note receivable with a face value of $200,000 USD. During August 2016, the Company advanced a further $200,000 USD to Eureka as part of a second convertible promissory note.

Commencing on the third anniversary of the loans (February 2019 and August 2019 respectively), the Company has the option to convert all or part of the principal and accrued interest into a 5% equity interest for each loan for an aggregate stake of up to 10% in Eureka. If the conversion options are not exercised, commencing on the third anniversary date, principal shall be paid monthly in arrears on the last day of each month in equal monthly instalments of $4,167 USD for each loan until paid in full at maturity. Interest accrues at 10% per annum. If the conversion options are not exercised, the accrued interest shall be paid monthly in arrears on the last day of each month in equal monthly instalments. Principal and accrued interest can be repaid in advance without penalty. These notes are pari passu to all other unsecured notes that were part of these financings.

The option to settle payments in common shares represents an embedded derivative in the form of a call option to the Company. This derivative asset is initially recognized by comparing a similar instrument without the conversion option and discounting the fair value of the host contract with the non-convertible instrument interest rate. The fair value of the derivative assets related to both convertible loans total is $97,078 at March 31, 2017 (December 31, 2016 - $102,092).

As at March 31, 2017, the notes receivable totalled $473,118 (December 31, 2016 - $461,691), which includes $37,475 of interest accrued and receivable (December 31, 2016 - $26,143).

(2) During July 2016, CannaRoyalty advanced $300,000 USD to BAS Research in two separate tranches of $150,000 USD. BAS Research ("BAS") is a fully licensed and compliant lab and manufacturing and processing facility located in Berkeley, California. Two senior convertible promissory notes were received in exchange.

The loans mature in January 2018 after an eighteen-month term. The notes accrue interest at an annual rate of 7% and can only be prepaid at the option of CannaRoyalty. Upon maturity or at any time after the maturity date, in lieu of demanding payment, CannaRoyalty may at its option and sole discretion, elect to convert all or part of the outstanding principal amount plus any accrued and unpaid interest into a number of shares of BAS common stock or shares of the authorized class of series of preferred stock most recently issued by BAS. If CannaRoyalty elects to convert the notes receivable into common or preferred shares, the potential stake would not result in CannaRoyalty having significant influence over BAS.

The option to settle payments in common shares represents an embedded derivative in the form of a call option to the Company. This derivative asset is initially recognized by comparing a similar instrument without the conversion option and discounting the fair value of the host contract with the non-convertible instrument interest rate. The fair value of this derivative asset is $9,400 at March 31, 2017 (December 31, 2016 - $12,413).

(Expressed in Canadian Dollars)

As at March 31, 2018, the note receivable totalled $409,408 (December 31, 2016 - $403,115) which includes $19,269 of interest accrued and receivable (December 31, 2016 - $12,298).

10. Interest in equity accounted investees

		March 31, 2017		December 31, 2016
Associated Companies				
Resolve (1)	$	3,609,004	$	2,589,202
Wagner Dimas (2)		751,725		759,539
Anandia (3)		3,557,509		-
		7,918,238		3,348,741
Joint Ventures				
Mobile Medicine (4)		192,540		192,540
Total Equity accounted investments	$	8,110,778	$	3,541,281

Associated Companies

(1) On November 16, 2015, a letter of intent was signed between CannaRoyalty, Vida Cannabis Corp. ("Vida"), and Resolve Digital Health Inc. ("Resolve"), whereby CannaRoyalty invested $750,000 in Resolve in return for an 11% equity interest. On April 1, 2016, the Company purchased Vida's rights and obligations to acquire an additional 24% of the common shares of Resolve for consideration of $1,695,000 in CannaRoyalty common shares and cash. Since CannaRoyalty is deemed to have significant influence over Resolve due to its equity interest and its right to appoint a director to Resolve's board, this investment became valued under the equity method. In December 2016, Resolve entered into a subscription agreement with an independent investor which reduced CannaRoyalty's equity interest to 33.3%. In accordance with the equity accounting method this represented a deemed disposal and the Company recorded a gain of $238,050.

On March 28, 2017, CannaRoyalty made an additional equity investment of $80,000 in Resolve Digital. This investment was part of a $5,000,000 financing round at $0.50/unit. As a result of this financing round, CannaRoyalty's total equity interest was reduced to 27.2% of the non-diluted shares of Resolve. In accordance with the equity accounting method this represented a deemed disposal, and the Company recorded a gain of $1,132,107 which has been included in the profit from equity accounted interests on the statement of operations for the three months ending March 31, 2017. Based on the share price in this financing, the Resolve shares held by CannaRoyalty have an implied value of approximately $7.1 million.

(2) On May 25, 2016, CannaRoyalty acquired a 20% equity interest in Wagner Dimas, Inc. ("Wagner Dimas"), a Nevada Corporation which has an innovative process for creating highly-scalable machine rolled products. The Company purchased 2,000,000 shares of Wagner Dimas for $818,125 ($625,000 USD).

(3) On February 17, 2017, CannaRoyalty acquired a 20% entity stake in Anandia, a biotechnology company with a focus on providing leading analytical testing services and developing cannabis strains for safe and effective medical applications. CannaRoyalty agreed to provide aggregate consideration of $4,042,439 in exchange for the 20% equity interest which was satisfied through a combination of $500,000 in equipment and services to be provided by CannaRoyalty in the second quarter of fiscal 2017, $1,521,218 in cash, and 689,568 CannaRoyalty shares. CannaRoyalty received 5,079,441 shares of Anandia and an additional 716,941 shares of Anandia will be issued to CannaRoyalty on delivery of the equipment and related services valued at $500,000.

(Expressed in Canadian Dollars)

The following table summarizes, in aggregate, the financial information of CannaRoyalty's associates as included in their own financial statements, adjusted for fair value at acquisition. The table also reconciles the summarized financial information to the carrying amount of CannaRoyalty's interest at March 31, 2017 and December 31, 2016.

		March 31, 2017		December 31, 2016
Current assets	$	9,851,939	$	1,158,000
Non-current assets		28,463,128		10,466,345
Current liabilities		(465,132)		(56,097)
Non-current liabilities		(1,040,596)		-
Net assets		36,809,339		11,568,248
Carrying amount of interest in associate	$	7,918,238	$	3,348,741

The following is a summary of the gain and losses from the equity accounted associates for the three months ending March 31, 2017 and March 31, 2016,

		March 31, 2017		March 31, 2016
Revenue	$	793,477	$	-
Loss from continuing operations and total comprehensive loss		(559,538)		-
CannaRoyalty's share of loss and total comprehensive loss		(189,710)		-
Add - gain on deemed disposal after dilution		1,132,107		-
CannaRoyalty's profit from equity acounted investees	$	942,397	$	-

(i) CannaRoyalty's share of profit is based solely on the period from which the company gained significant influence.

Joint Venture

(4) On July 22, 2016, the Company entered into a joint venture with CannaCraft Inc., a California corporation that supplies equipment and cannabis-based medicines. The joint venture is conducted under the name Mobile Medicine, whose purpose is to manufacture and lease mobile gelatin encapsulation machines. CannaCraft will contribute one third of the funds required, and will be responsible for the design and manufacturing of the machines. CannaCraft will also manage and operate the machines. CannaRoyalty will contribute two thirds of the funding required for a 50% equity interest, of which $192,540 ($150,000 USD) has been advanced at March 31, 2017 (December 31, 2016 - $192,540).

As of March 31, 2017, the joint venture has incurred capital spending of $221,846 ($166,576 USD), and has yet to begin commercial activity (December 31, 2016 - $221,777 ($165,000 USD).

11. Investments

The following table summarizes the Company's investments recorded at cost:

		March 31, 2017		December 31, 2016
AltMed (1)	$	1,850,070	$	1,850,070
Bodhi (2)		250,000		250,000
Eureka (3)		128,680		128,680
Total Investments	$	2,228,750	$	2,228,750

(Expressed in Canadian Dollars)

(1) The Company purchased 1,500 Class A units in Alternative Medical Enterprises, LLC ("AltMed"), a Florida limited liability company focused on medical cannabis. AltMed owns 100% of NuTrae, a company developing drug delivery systems and products such as the transdermal patch, a meter-dosing inhaler and aerosolizer, creams, lotions and balms. AltMed also has an interest in a licensed cultivation operation in Arizona, and an interest in a company with real estate and agriculture holdings focused on the cannabis sector in Colorado. The units purchased for $1,850,070 ($1,500,000 USD) represent an 8.2% equity interest which is accounted for at cost.

(2) On April 7, 2016, the Company entered into an agreement to purchase a 10% equity interest in Bodhi Research Inc. ("Bodhi") for $250,000. The investee is an Ontario corporation that is conducting research trials for exploring the use of cannabis in the treatment of concussions and post–concussive syndrome.

(3) On May 5, 2016, the Company acquired a 6% equity interest in Eureka. The consideration given was $128,680 ($100,000 USD) for 350,000 common shares in Eureka.

12. Royalty investments

The following is a summary of the CannaRoyalty's royalty investments with related terms and accounting basis:

	Term	Accounting Basis	March 31, 2017	December 31, 2016
Cascadia (1)	Perpetuity	Cost	**1,047,297**	$ 1,027,866
NuTrae (2)	10 years	Amortized Cost	**1,108,879**	1,130,000
Three Leaf (3)	2 years	Amortized Cost	**100,000**	100,000
Natural Ventures (4)	10 years	Amortized Cost	**336,025**	336,025
Rich Extracts (5)	Perpetuity	Cost	**2,812,200**	-
Total			**$ 5,404,401**	$ 2,593,891

Cost	December 31, 2016	Additions	Acquisitions	**March 31, 2017**
Cascadia (1)	$ 1,027,866	$ 19,431	$ -	**$ 1,047,297**
NuTrae (2)	1,130,000	-	-	**1,130,000**
Three Leaf (3)	100,000	-	-	**100,000**
Natural Ventures (4)	336,025	-	-	**336,025**
Rich Extracts (5)	-	2,812,200	-	**2,812,200**
Total	$ 2,593,891	$ 2,831,631	$ -	**$ 5,425,522**

Accumulated Amortization	December 31, 2016	Amortization	**March 31, 2017**
Cascadia (1)	$ -	$ -	**$ -**
NuTrae (2)	-	(21,121)	**(21,121)**
Three Leaf (3)	-	-	-
Natural Ventures (4)	-	-	-
Rich Extracts (5)	-	-	-
Total	$ -	$ (21,121)	**$ (21,121)**
Net Book Value	$ 2,593,891		**$ 5,404,401**

(1) During July 2016, CannaRoyalty finalized a royalty agreement with Cascadia. As part of this agreement the Company has provided cash advances totaling $1,047,297 ($808,474 USD), and provided the use of its equipment in consideration for a thirty percent royalty stream on Cascadia's gross revenues in perpetuity.

During the three months ending March 31, 2017, the Company provided advances of $19,431.

Cascadia is incorporated in the state of Washington and is in the business of leasing turnkey built-out solutions to companies that produce and process cannabis products pursuant to a license issued by the Washington State Liquor and Cannabis Board. The royalty investment streams are secured by Cascadia's lease at this property.

This royalty investment has an indefinite life, and in accordance with the Company's accounting policy, is measured at acquisition cost and is reviewed for impairment at each reporting period.

(2) Pursuant to an agreement dated April 1, 2016 between CannaRoyalty and Vida, the Company purchased the following interests:

- 3.5 % royalty on the net revenue of NuTrae LLC ("NuTrae") for a period of 10 years, commencing January 1, 2016; and
- Vida's rights and obligations to acquire 50,531 common shares of Resolve (note 10)

The total consideration for this purchase was $2,825,000, of which $1,130,000 was allocated to the NuTrae royalty stream. NuTrae is a Colorado based company developing drug delivery systems and products.

This royalty investment stream is for a definite period and it is recorded at amortized cost. NuTrae has demonstrated commercial operations that generate revenue in February 2017, and accordingly amortization commenced in the three months ending March 31, 2017.

(3) In accordance with a private placement on March 17, 2016, in which Three Leaf Holdings Corporation ("Three Leaf") subscribed to 666,666 common shares in CannaRoyalty for $500,000, the Company agreed to make an investment in Three Leaf of $100,000. This investment provides the Company a 1.5% royalty on total Three Leaf revenue for a period of two years subsequent to March 12, 2016, plus a 2% fee on the gross value of all Three Leaf's referrals for one year subsequent to March 12, 2016.

As this royalty investment stream is for a definite period it is recorded at amortized cost. Three Leaf has yet to demonstrate commercial operations which would result in royalty revenue and therefore this investment has not been amortized.

On April 10, 2017, CannaRoyalty amended its royalty financing arrangement with Three Leaf such that the end of the 2% referral fee period was extended from May 12, 2017 until May 12, 2018. Furthermore, this amendment contained a guarantee whereby if the total royalties earned from the arrangement were less than $100,000 total, Three Leaf would pay the difference to CannaRoyalty. Due to this guarantee and uncertainty whether future royalty revenues will exceed $100,000, the Company will apply future royalty payments against the royalty investment. If royalty payments exceed $100,000 they will then be recorded as royalty revenue.

(4) On December 20, 2016, CannaRoyalty entered into a binding term sheet with Natural Ventures PR, LLC ("Natural Ventures") regarding a royalty financing arrangement of $336,025 ($250,000 USD). Pursuant to the arrangement, Natural Ventures agreed to grant CannaRoyalty a 2.5% royalty on Natural Ventures' net income, and a further 10% referral royalty on revenue generated from products licensed by Natural Ventures from CannaRoyalty for the Puerto Rican market over a 10-year period.

The 10-year period to earn revenue, and to record amortization, will begin in the first quarter after Natural Ventures has generated net income.

(5) On February 9, 2017, the Company entered into a binding term sheet regarding a royalty financing arrangement whereby CannaRoyalty earns 30% revenue royalty on Rich Extracts' gross revenues in

(Expressed in Canadian Dollars)

perpetuity in return for the financing provided to Rich Extracts. As part of this financing the parties recognized that the full amount of debt owing by Rich Extracts at December 31, 2016, plus any subsequent advances up to $2,812,200 ($2,150,000 USD) prior to close will be extinguished and form the basis for the revenue royalty financing. Any financing provided before closing above $2,150,000 USD will be considered a loan from CannaRoyalty to Rich Extracts (note 7).

Rich Extracts received its commercial cannabis producing license to sell product from the state of Oregon on May 15, 2017, and expects to generate revenue for the three months ended June 30, 2016.

This royalty investment has an indefinite life, and in accordance with the Company's accounting policy, is measured at acquisition cost and is reviewed for impairment at each reporting period.

13. Property and equipment

The following is a summary of the activity for the three months ending March 31, 2017:

Cost	December 31, 2016	Additions	Disposals	Impact of f/x	**March 31, 2017**
Extractors	$ 367,826	$ -	$ (196,802)	$ -	**$ 171,024**
Filling machines and labeling system	766,306	-	-	(7,013)	**759,293**
Chillers, condensers, and ovens	97,212	-	(79,478)	-	**17,734**
Lighting equipment	125,344	-	-	-	**125,344**
Furniture, fixtures and leaseholds	56,004	47,699	-	(426)	**103,277**
Computers and related equipment	18,431	19,608	-	-	**38,039**
Other processing equipment	73,320	2,997	(16,777)	(288)	**59,252**
Total cost	$ 1,504,443	$ 70,304	$ (293,057)	$ (7,727)	**$ 1,273,963**

Accumulated Amortization	December 31, 2016	Amortization	Disposals	Impact of f/x	**March 31, 2017**
Extractors	$ (42,342)	$ (7,554)	$ 22,390	$ -	**$ (27,506)**
Filling machines and labeling system	(11,684)	(19,108)	-	51	**(30,741)**
Chillers, condensers, and ovens	(28,354)	(1,570)	23,181	-	**(6,743)**
Lighting equipment	(14,623)	(5,536)	-	-	**(20,159)**
Furniture, fixtures and leaseholds	(3,191)	(2,846)	-	13	**(6,024)**
Computers and related equipment	(135)	(2,359)	-	-	**(2,494)**
Other processing equipment	(11,002)	(2,769)	3,000	3	**(10,768)**
Total accumulated amortization	$ (111,331)	$ (41,742)	$ 48,571	$ 67	**$ (104,435)**
Net Book Value	$ 1,393,112				**$ 1,169,528**

The Company started to amortize equipment in June 2016 when the equipment became operational. As a result, there was no amortization charge for the three months ending March 31, 2016. There were no disposals during the three months ending March 31, 2016.

As certain equipment is being used by business unit in order to generate additional revenues, $23,707 of amortization has been included in cost of sales. The remaining expense of $18,035 is in general and administrative expense and research and development costs.

(Expressed in Canadian Dollars)

14. Intangible assets and goodwill

The following is a summary of the intangible balance at March 31, 2017:

	Amortization Period	Cost	Accumulated Amortization	Balance at March 31, 2017
Acquired brands	10 years	$ 2,369,944	$ (98,748)	$ **2,271,196**
Acquired technology	10 years	4,990,066	(207,919)	**4,782,147**
Employment agreement	5 years	280,645	(23,387)	**257,258**
Product formulations	10 years	315,864	(5,265)	**310,599**
Goodwill	n/a	6,438,885	-	**6,438,885**
Total Intangibles and goodwill		$ 14,395,404	$ (335,319)	$ **14,060,085**

During the three months ended March 31, 2017 amortization expense has been charged as follows:

	Three months ending March 31, 2017
Acquired brands	$ **58,990**
Acquired technology	**124,209**
Employment agreement	**14,032**
Product formulations	**5,241**
Total amortization expense	$ **202,472**

There were no intangible assets as of March 31, 2016, and accordingly no amortization for the three months ended March 31, 2016.

The amortization of the intangible assets is classified as a separate line within operating expense.

15. Amounts payable and accrued liabilities

Amounts payable and accrued liabilities consist of the following:

	March 31, 2017	December 31, 2016
Trade accounts payable	$ **406,027**	$ 1,148,036
Accrued liabilities	**819,787**	437,008
Purchase consideration payable	**133,333**	133,333
Management bonus payable	-	165,427
Other payables	**21,092**	2,385
Total amounts payable	$ **1,380,239**	$ 1,886,189

The purchase consideration payable pertains to cash owing to the former shareholders of EML which will be paid in two equal instalments during fiscal 2017.

The management bonus payable pertains to a bonus owing to an executive officer for services rendered in connection with EML prior to its acquisition date. This liability was fully paid in the first quarter of fiscal 2017.

16. Loan payable

On November 30, 2016, in connection to CannaRoyalty's acquisition of a 70% membership interest in Achelois LLC ("Achelois"), a promissory note for $336,000 USD was issued by Achelois to its founding shareholder. The note bears interest at 0.66% per annum and is fully repayable by November 30, 2017. The loan payable balance is $448,464 at March 31, 2017 which includes accrued interest of $979 (December 31, 2016 - $451,618).

(Expressed in Canadian Dollars)

The following is a reconciliation of the loan payable activity for the three months ended March 31, 2017.

Balance at January 1, 2017	**$**	**451,618**
Accrued interest		979
Impact of foreign exchange		(4,133)
Balance at March 31, 2017	**$**	**448,464**

17. Convertible debt

On October 19, 2016, the Company issued and sold a secured convertible debenture to Aphria Inc. ("Aphria"), a publicly traded, licensed medical marijuana producer in Ontario, for $1,500,000. The debenture matures on October 19, 2019, is secured by the assets of the Company and bears interest at 5% per annum payable annually. It is convertible by Aphria, in whole or in part, into common shares of the Company at a conversion rate of $2.00 per share at any time prior to maturity.

The option to settle payments in common shares represented an embedded derivative in the form of a put option to the Company. The derivative liability was valued at $92,573 as at March 31, 2017 (December 31, 2016 - $100,586). At March 31, 2017, the convertible loan payable totalled $1,438,242 and included $30,813 of accrued interest (December 31, 2016 - $1,414,414 including $15,000 accrued interest).

The following is a reconciliation of the convertible debt for the three months ended March 31, 2017.

Balance at January 1, 2017	**$**	**1,414,414**
Accrued interest		15,815
Impact of foreign exchange		-
Balance at March 31, 2017	**$**	**1,438,242**

18. Related party transactions

The following is a summary of the related party balances payable and receivable as of March 31, 2017 and December 31, 2016:

		March 31, 2017		December 31, 2016
Purchase consideration owing to key management (note 15)	$	**133,333**	$	133,333
Travel reimbursements owing to key management		**13,872**		7,136
Travel reimbursements owing to directors of the Company		**868**		13,969
Management bonus owing to key management (note 15)		-		165,427
Total	**$**	**148,073**	$	319,865

(Expressed in Canadian Dollars)

The following is a summary of the related party transactions for the three months ending March 31, 2017 and March 31, 2016:

	Three months ending March 31, 2017	Three months ending March 31, 2016
Consulting fees (i)	$ -	$ 465,750
Professional fees (i)	-	57,840
Total	$ -	$ 523,590

(i) The consulting and professional fees were paid to third party companies owned by the CEO and CFO.

19. Share capital

Authorized:

Unlimited number of common shares

Issued:

41,756,424 common shares.

The following table lists all share issuances for the three months ended March 31, 2017 and March 31, 2016.

	Number	Amount
Balance as at December 31, 2015	**13,020,010**	**$ 2,608,390**
Shares issued in connection with private placement for $0.75 per share – March 17, 2016 (net of share issuance costs of $51,968)	3,333,333	2,448,032
Balance as at March 31, 2016	**16,353,343**	**$ 5,056,422**

	Number	Amount
Balance as at December 31, 2016	**36,006,956**	**$ 30,636,253**
Shares issued in connection with the exercise of share options at $1.00 per share - January 17, 2017	25,000	53,414
Shares issued in connection with a bought deal financing at $2.52 per share - Feb 15, 2017 (i) (net of share issuance costs of $1,249,951 and value of broker warrants of $387,000)	5,000,000	10,963,049
Shares issued in connection with Anandia purchase at $2.93 per share (ii) - Feb 17, 2017	689,568	2,021,222
Shares issued in connection with exercise of warrants - Feb 24, 2017	19,500	29,250
Shares issued in connection with exercise of RSUs - Mar 24. 2017	15,400	30,800
Balance as at March 31, 2017	**41,756,424**	**$ 43,733,988**

(i) On February 15, 2017, CannaRoyalty closed an equity financing offering of an aggregate of 5,000,000 units at a price of $3.00 per Unit, for aggregate gross proceeds to CannaRoyalty of $15,000,000. Each unit was comprised of one CannaRoyalty share and half of one CannaRoyalty share purchase warrant. Each half share purchase warrant was valued at $0.48, leaving a value of $2.52 for each common share. Furthermore, as part of this financing 300,000 broker warrants with a value of $1.29 per warrant or

(Expressed in Canadian Dollars)

$387,000 total were issued.

(ii) On February 17, 2017, CannaRoyalty closed a 20% equity interest purchase agreement with Anandia (see note 10) which included share consideration of $2,021,222. As per the agreement, 682,097 common shares were issued to Anandia at a price of $2.93. The share price was based on the volume weighted average price of the shares in the ten days prior to closing. A further 7,471 common shares were issued at closing to maintain the Company's 20% equity interest. These shares were value at $2.84 based on the prior day closing price.

Issued and Outstanding Share Purchase Warrants

As of March 31, 2017, the outstanding share purchase and broker warrants could potentially be exercised for a total of 3,894,133 common shares. These outstanding warrants are classified as a warranty reserve totalling $3,405,873 at period end.

	Number of warrants		Grant date value		Weighted average exercise price
Outstanding and exercisable at December 31, 2016	**1,113,633**	**$**	**0.56**	**$**	**1.58**
Full share purchase warrants issued	2,500,000		0.96		4.50
Broker warrants issued on brokered offering	300,000		1.29		3.00
Full share purchase warrants exercised	(19,500)		0.50		1.50
Outstanding and exercisable at March 31, 2017	**3,894,133**	**$**	**0.87**	**$**	**3.56**

In connection with the equity financing completed on February 15, 2017, an aggregate of 5,000,000 units at a price of $3.00 per Unit were issued. Each CR Unit was comprised of one CannaRoyalty share and half of one CannaRoyalty share purchase warrant. Each full share purchase warrant is exercisable to acquire one common share for a period of two years following the closing date of the offering, at an exercise price of $4.50. Each half share purchase warrant was valued at $0.48, and accordingly the 2,500,000 full share purchase warrants were valued at $0.96 each. These warrants were valued using the Black Scholes model with the following key assumptions; a grant price of $2.95 based on the average closing price the five days before the offering was completed, volatility of 82% based on comparable industry benchmarks, and a risk-free interest rate of 0.73%.

An additional 300,000 broker warrants were issued as part of the equity financing completed on February 15, 2017. These broker warrants can be exercised for $3.00 per share and will expire within 2 years, or February 15, 2019. The value of these warrants was $1.29 per share, or $387,000 total, which was valued using the Black Scholes model with the following key assumptions; a grant price of $2.95 based on the average closing price the five days before the offering was completed, volatility of 82% based on comparable industry benchmarks, and a risk-free interest rate of 0.73%.

(Expressed in Canadian Dollars)

The following is a summary of the expiry dates of warrants as at March 31, 2017. On average, the warrants will expire in 1.59 years.

Expiry date	Warrants outstanding and exercisable		Exercise price
December 7, 2017	500,000	$	1.50
January 15, 2018	282,500		1.50
January 28, 2018	136,493		1.50
October 4, 2018	175,140		2.00
February 15, 2019	300,000		3.00
February 15, 2019	2,500,000		4.50
Total	3,894,133	$	3.56

Shares to be Issued and Contingent Shares

In connection with a letter of intent with Zenabis Limited Partnership ("Zenabis") (note 27), Zenabis paid $500,000 to CannaRoyalty during November 2016. In return they subscribed to 243,902 shares which have yet to be issued.

In connection with the acquisition of Dreamcatcher on October 24, 2016, CannaRoyalty potentially needed to issue an additional 2,000,000 common shares to the former shareholders of Dreamcatcher. These issuances were contingent on Dreamcatcher meeting a group of specific targets six months after the acquisition date and twelve months after the acquisition date. At the acquisition date, the contingent consideration was deemed to be an equity instrument and was valued at $4,020,000.

The six-month target date was April 24, 2017. The targets were not achieved and 1,000,000 shares will not be issued. As a result, $2,010,000 will be transferred to contributed surplus in the next quarterly period.

20. Share unit plan

On April 29, 2016, the Company established a share unit plan to provide directors, officers, consultants, or employees involved in the Company, the opportunity to acquire share units to allow them to participate in the long-term success of CannaRoyalty.

The share unit plan provides for a maximum number of common shares issuable. The ceiling is set at a rolling maximum of 10% of the Company's issued and outstanding shares. At March 31, 2017, a total of 940,842 stock options/Restricted Stock Units ("RSUs") were available for grant.

The number of share units granted and any applicable vesting conditions are determined at the discretion of the CannaRoyalty board of directors (the "Board") or a compensation committee of the Board. The termination provisions under the Share Unit Plan provide for automatic vesting of any unvested RSUs in the event of retirement, death, disability, termination without cause (except for RSUs with performance conditions), and change in control.

Summary of RSU Activity

The following table provides a summary of the movement in RSUs during the three months ended March 31, 2017:

(Expressed in Canadian Dollars)

	Number of RSUs		Weighted average grant date fair value
Outstanding, January 1, 2017	**2,774,800**	**$**	**1.73**
Granted	500,000		3.07
Settled in common shares	(20,000)		2.00
Forfeitures	(20,000)		2.00
Outstanding, March 31, 2017	**3,234,800**	**$**	**1.93**

Of the outstanding RSUs at March 31, 2017, 1,179,005 have vested and have not been exercised. The 2,055,795 unvested RSUs will vest in an average of 1.06 years.

Total expense related to the issuance of RSUs totalled $1,158,396 for the three months ended March 31, 2017 (March 31, 2016 – $nil). Of this amount $1,078,889 was recorded in general and administrative expense and $79,507 was included in sales and marketing expense.

Stock Options

As part of the RTO transaction with Bonanza Blue, three directors of Bonanza Blue received a total of 75,000 stock options that could be converted to CannaRoyalty common shares at an exercise price of $1.00 for a period one year following the closing date of December 5, 2016. These options vested immediately upon the closing date.

During 2016, 50,000 of these stock options were exercised. The remaining 25,000 options were exercised in February 2017.

21. Net loss per share

		Three months ended March 31, 2017		Three months ended March 31, 2016
Numerator for basic and diluted loss per share:				
Net loss for the period	**$**	**(2,053,785)**	$	(1,736,165)
Denominator for basic loss per share:				
Weighted average number of common shares outstanding		**38,865,970**		13,532,830
Effect of potential dilutive securities (1)		-		-
Adjusted denominator for diluted loss per share		**38,865,970**		13,532,830
Basic and diluted net loss per share	**$**	**(0.05)**	$	(0.13)

(1) Excluded from the calculation of diluted net loss per share for the three months ended March 31, 2017 were the securities from convertible loans payable (note 17), warrants (note 19), and vested RSU's (note 20). These items were excluded as they were anti-dilutive.

22. Income taxes

The Company has deferred tax liabilities related to the acquisition of various intangible assets which are measured based on the tax rates in the respective jurisdictions at March 31, 2017.

For the three months ended March 31, 2017, the Company recognized a deferred tax recovery related to the amortization of these intangible assets of $78,372 (March 31, 2016 - $nil)

(Expressed in Canadian Dollars)

23. Fair value of financial instruments

The following table sets out the fair values of recognized financial instruments using the valuation methods and assumptions described below. Unless otherwise noted, carrying values approximate fair values for each financial instrument:

	March 31, 2017	December 31, 2016
Fair value through profit or loss assets (liabilities):		
Cash	$ 11,946,417	$ 2,945,895
Derivative assets	106,478	114,505
Derivative liabilities	92,573	(100,586)
Loans and receivables:		
Loans receivable	728,806	2,943,161
Amounts receivable	805,811	556,170
Convertible notes receivable	882,526	864,806
Available for sale financial assets:		
Investments (1)	2,228,750	2,228,750
Financial liabilities at amortized cost:		
Amounts payable	560,452	1,449,181
Loans payable	448,464	451,618

(1) certain investments are recorded at cost (note 11)

Determination of fair value

The estimated fair values of cash, trade and amounts receivables, loans receivable, loans payable, and trade and amount payables approximate their carrying values due to the relatively short-term nature of the instruments.

Fair value measurements recognized in the consolidated statements of financial position must be categorized in accordance with the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial instruments carried at fair value consist of cash (Level 1) and derivative assets and liability (Level 2). The embedded derivatives are valued using observable market inputs such as prime rate of borrowing. Valuation techniques using non-observable market inputs (Level 3) were not used as at March 31, 2017 or December 31, 2016. The Company has not transferred any financial instruments between Level 1, 2 or 3 of the fair value hierarchy during the three months ended March 31, 2017.

(Expressed in Canadian Dollars)

24. Segmented information

CannaRoyalty operates under one reporting segment.

During the three months ended March 31, 2017 and 2016 the Company has generated the following types of revenues:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Services	$ 71,045	$ -
Royalties	211,322	-
Interest income	18,744	-
Total	**$ 301,111**	$ -

Two customers generated 81% of the total revenue for the three months ended March 31, 2017, the largest accounting for 70%.

Interest income is recorded in revenue as providing capital to potential developing partners in the cannabis industry is part of CannaRoyalty's business mandate.

The cost of sales related to each type of revenue is as follows:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Cost of services	$ 11,810	$ -
Cost of royalties	44,828	-
Total	**$ 56,638**	$ -

Revenue verticals

The Company operates in three main industry verticals within the cannabis sector consisting of research and intellectual property, brands, and supporting assets.

The following table is a summary of revenues by operating verticals for three months ended March 31, 2017 and 2016:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Research and intellectual property	$ 7,412	$ -
Brands	-	-
Supporting assets	293,699	-
Total	**$ 301,111**	$ -

(Expressed in Canadian Dollars)

Geographic segments

		Three months ended March 31, 2017		Three months ended March 31, 2016
Canada	$	13,860	$	-
United States		287,251		-
Total	$	301,111	$	-

The Company's corporate and administrative offices are in Canada. As of March 31, 2017, $84,795 of the Company's property and equipment is in Canada (December 31, 2016 – $27,607). The remainder of the property and equipment is in the United States.

25. General and administrative Expenses

		Three months ended March 31, 2017		Three months ended March 31, 2016
Accounting & audit fees	$	66,633	$	46,974
Bad debt		(13,318)		-
Advisory & consulting fees		72,626		780,324
Legal fees		144,558		84,331
Office & administration costs		122,586		6,789
Salary-based compensation		563,925		-
Stock-based compensation		1,078,889		-
Depreciation		3,799		-
Travel		97,490		57,269
Total	$	2,137,188	$	975,687

26. Capital management

The Company's capital is composed of its shareholders' equity. The Company's objective in managing its capital is to ensure financial stability and sufficient liquidity to increase shareholder value through organic growth of it's current interests, future acquisitions and royalty financing arrangements, and investment in marketing and product development. The Company's senior management is responsible for managing the capital through regular review of financial information to ensure sufficient resources are available to meet operating requirements and investments to support its growth strategy. The Board of Directors is responsible for overseeing this process. In order to maintain or adjust its capital structure, the Company could issue new shares, repurchase shares, approve special dividends or issue debt.

27. Letter of intent with Zenabis Limited Partnership

Effective March 31, 2017, the Company entered into a binding letter of intent with Zenabis. This binding letter of intent supersedes prior letters of intent with Zenabis which were dated November 1, 2016 and December 31, 2016. Furthermore, this letter supersedes any penalty provisions contained in the prior documents.

The letter of intent includes a share purchase, a share exchange and other commercial arrangements. If certain conditions are not met or waived or if the transaction is not completed by May 31, 2017, CannaRoyalty would incur a penalty payment of $183,475 to Zenabis, which could be satisfied via cash or via the issuance of 179,000 CannaRoyalty shares.

In connection with the letter of intent dated November 1, 2016, Zenabis paid $500,000 to CannaRoyalty during November 2016. In return, they subscribed to 243,902 shares that have yet to be issued (note 19).

As of May 29, which is the approval date of these financial statements, CannaRoyalty management has determined that it will not pursue the above transaction with Zenabis. As per the terms of the binding letter of intent, the Company will make a penalty payment of $183,475. This penalty constitutes a "an adjusting event" under IAS 10 – "Events after the Reporting Period" since the conditions for a penalty existed at March 31, 2017. The penalty has been accrued and is recorded under other income in the statement of loss and comprehensive loss.

28. Subsequent Events

On May 15, 2017, the Company completed an agreement regarding a strategic financing and other related arrangements with River. River is the first medical cannabis distributor to receive local permits for medical cannabis wholesale logistics, distribution and transportation in California.

The agreement includes the following:

- Promissory note financing of $6,659,000 ($5,000,000 USD) to River over fiscal 2017. CannaRoyalty advanced $2,000,000 USD on the execution date to River pursuant to a secured promissory note, which provides first place security, and will advance a further $3,000,000 in two equal tranches during 2017, subject to the satisfaction of certain financial milestones. The repayment of principal and 15% annual interest commences in January 2018.

- A consulting services arrangement which includes provision of consulting services such as product launch, marketing and development by CannaRoyalty, to develop high quality products tailored to the California market's demands/needs during the term of the agreement. The compensation payable to CannaRoyalty for consulting services is based on a formula net of any other payments made to CannaRoyalty under the arrangement. This ensures total compensation from River within this arrangement being equal to 2.25% of River's gross revenues until repayment of the $5,000,000 USD invested, and 1.75% thereafter until December 31, 2024.

- A preferred product distribution arrangement which provides a significant channel for CannaRoyalty's products to access the California market. The arrangement entitles CannaRoyalty to preferential rates on River's distribution services, and commits River to acquire $20,000,000 USD of CannaRoyalty branded products over the term of the agreement subject to certain conditions.