

# **QUADRON CANNATECH CORPORATION**

(formerly Quadron Capital Corporation)

Condensed Consolidated Interim Financial Statements  
(Unaudited - Expressed in Canadian Dollars)

As at and for the nine months ended January 31, 2018 and 2017

**QUADRON CANNATECH CORPORATION**  
("Quadron" or the "Company")

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
As at and for the nine months ended January 31, 2018

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

The Management of the Company is responsible for the preparation of the accompanying unaudited condensed consolidated interim financial statements. The unaudited condensed consolidated interim financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") for the preparation of condensed interim financial statements and are in accordance with IAS 34 – Interim Financial Reporting.

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

# Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Condensed Consolidated Interim Statements of Financial Position

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

As at

	January 31, 2018	April 30, 2017
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 5,710,907	\$ 1,394,397
Inventory (Note 5)	730,503	53,817
Accounts receivable	672,186	532,469
Prepaid expenses	103,524	271,837
Loan receivable (Note 6)	145,000	145,000
GST recoverable	119,120	56,470
	<b>7,481,240</b>	<b>2,453,990</b>
<b>Equipment (Note 7)</b>	<b>756,637</b>	<b>302,669</b>
	<b>\$ 8,237,877</b>	<b>\$ 2,756,659</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 440,555	\$ 247,284
Amounts payable to related parties (Note 11)	24,351	53,842
Customer deposits	18,478	78,478
Unearned revenue	5,978	30,978
	<b>489,362</b>	<b>410,582</b>
Shareholders' equity		
Share capital (Note 9)	12,278,676	5,559,489
Preferred shares (Note 8)	160,875	160,875
Share subscriptions received in advance (Note 15)	27,150	-
Share-based payment reserve (Note 9)	394,049	273,739
Warrants reserve (Note 9)	162,609	14,161
Deficit	(5,274,844)	(3,662,187)
	<b>7,748,515</b>	<b>2,346,077</b>
	<b>\$ 8,237,877</b>	<b>\$ 2,756,659</b>

Nature and continuance of operations (Note 1)

Subsequent events (Note 16)

Approved on behalf of the Board March 29, 2018:

"Rosy Mondin"

Rosy Mondin – CEO and President

"Doug McFaul"

Doug McFaul - Director

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

# Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	For the three months ended January 31,		For the nine months ended January 31,	
	2018	2017	2018	2017
<b>Sales</b>	\$ 478,443	\$ 986,430	\$ 1,430,403	\$ 1,639,060
<b>Cost of sales</b>	(373,744)	(971,136)	(958,043)	(1,196,977)
	<b>104,699</b>	15,294	<b>472,360</b>	442,083
<b>Expenses (income)</b>				
Accounting and legal (Note 11)	\$ 37,729	\$ 63,997	\$ 83,793	\$ 104,897
Bank charges	2,159	1,186	5,268	4,936
Consulting fees (Note 11)	89,500	65,000	172,750	131,094
Depreciation (Note 7)	32,357	4,270	59,493	43,087
Development and research	617	100,662	59,505	116,662
Filing fees	7,505	14,577	17,727	17,639
General and administrative	123,422	6,502	366,782	25,697
Interest income	-	(6,171)	-	(20,521)
Investor relations	22,500	-	67,500	-
Management fees (Note 11)	33,000	22,500	78,000	67,500
Marketing and research	213,398	9,949	323,988	23,659
Remuneration and benefits (Note 11)	229,799	39,053	586,888	104,320
Rent	109,584	-	109,584	-
Share-based payment – stock options (Note 9)	31,364	-	153,739	-
	<b>(932,934)</b>	(320,863)	<b>(2,085,017)</b>	(618,970)
<b>Loss and comprehensive loss for the period</b>	\$ <b>(828,235)</b>	\$ (305,569)	\$ <b>(1,612,657)</b>	\$ (176,887)
<b>Weighted average number of common shares outstanding – basic and diluted</b>	<b>57,502,425</b>	36,500,000	<b>50,351,067</b>	36,500,000
<b>Basic and diluted loss per share</b>	\$ <b>(0.01)</b>	\$ (0.01)	\$ <b>(0.03)</b>	\$ (0.00)

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

# Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Condensed Consolidated Interim Statements of Changes of Cash Flows

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

For the nine months ended January 31,

	<b>2018</b>	<b>2017</b>
Cash flows from operating activities:		
Net loss for the period	\$ (1,612,657)	\$ (176,887)
Items not involving cash:		
Depreciation	59,493	43,087
Share-based payments	153,739	
Change in non-cash operating working capital:		
Accounts receivable	(139,717)	(278,394)
Accounts payable and accrued liabilities	193,271	(523,848)
Amounts payable to related parties	(29,491)	26,123
GST recoverable	(62,650)	18,234
Inventory	(592,677)	354,931
Prepaid expenses	168,313	11,621
Customer deposits	(60,000)	-
Unearned income	(25,000)	-
	<b>(1,947,376)</b>	<b>(525,133)</b>
Cash flows from investing activities:		
Purchase of equipment	(597,470)	(59,662)
Restricted Cash	-	(71,500)
Sale of Equipment	-	389,312
	<b>(597,470)</b>	<b>258,150</b>
Cash flows from financing activities:		
Share subscriptions received	27,150	71,500
Shares issued for cash	7,268,563	-
Share issue costs	(434,357)	-
	<b>6,861,356</b>	<b>71,500</b>
Change in cash and cash equivalents for the period	<b>4,316,510</b>	<b>(195,483)</b>
Cash and cash equivalents, beginning of the period	<b>1,394,397</b>	<b>662,960</b>
Cash and cash equivalents, end of the period	<b>\$ 5,710,907</b>	<b>\$ 467,477</b>
Cash and cash equivalents are comprised of:		
Cash	\$ 1,960,907	\$ 312,960
Guaranteed investment certificate	3,750,000	350,000
	<b>\$ 5,710,907</b>	<b>\$ 662,960</b>

Significant non-cash transactions (Note 10)

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

# Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Condensed Consolidated Interim Statements of Shareholders' Equity

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

For the nine months ended January 31,

	Number of Common Shares	Number of Series A and B Preferred Shares	Share Capital	Preferred Shares	Subscription Received	Share-based Payment Reserve	Warrants Reserve	Deficit	Total Shareholder's Equity
Balance, April 30, 2016	36,500,000	2,000,000	\$ 2,990,000	\$ -	\$ -	\$ 103,799	\$ -	\$ (1,675,099)	\$ 1,418,700
Subscriptions received	-	-	-	-	71,500	-	-	-	71,500
Net income for the period	-	-	-	-	-	-	-	(176,887)	(176,887)
<b>Balance, January 31, 2017</b>	<b>36,500,000</b>	<b>2,000,000</b>	<b>\$ 2,990,000</b>	<b>\$ -</b>	<b>\$ 71,500</b>	<b>\$ 103,799</b>	<b>\$ -</b>	<b>\$ (1,851,986)</b>	<b>\$ 1,313,313</b>
Issuance of common shares – private placements, net of costs	8,560,500	-	1,661,189	-	(71,500)	-	14,161	-	1,603,850
Issuance – acquisition of Cybernetic – Note 8	2,700,000	6,150,000	877,500	160,875	-	-	-	-	1,038,375
Warrants exercised	154,000	-	30,800	-	-	-	-	-	30,800
Repurchase of Series A Preferred Shares	-	(2,000,000)	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	169,940	-	-	169,940
Net loss for the period	-	-	-	-	-	-	-	(1,810,201)	(1,810,201)
<b>Balance, April 30, 2017</b>	<b>47,914,500</b>	<b>6,150,000</b>	<b>\$ 5,559,489</b>	<b>\$ 160,875</b>	<b>\$ -</b>	<b>\$ 273,739</b>	<b>\$ 14,161</b>	<b>\$ (3,662,187)</b>	<b>\$ 2,346,077</b>
Issuance of common shares – private placements, net of costs	14,400,858	-	5,857,203	-	-	-	160,040	-	6,017,243
Warrants exercised	3,859,813	-	783,555	-	-	-	(11,592)	-	771,963
Options exercised	325,000	-	78,429	-	-	(33,429)	-	-	45,000
Subscriptions received	-	-	-	-	27,150	-	-	-	27,150
Share-based payments	-	-	-	-	-	153,739	-	-	153,739
Net loss for the period	-	-	-	-	-	-	-	(1,612,657)	(1,612,657)
<b>Balance, January 31, 2018</b>	<b>66,500,171</b>	<b>6,150,000</b>	<b>\$12,278,676</b>	<b>\$ 160,875</b>	<b>\$ 27,150</b>	<b>\$ 394,049</b>	<b>\$ 162,609</b>	<b>\$ (5,274,844)</b>	<b>\$ 7,748,515</b>

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

# Quadron Cannatech Corporation

(formerly Quadron Capital Corporation)

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

(As at and for the nine months ended January 31, 2018 and 2017)

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## 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. The Company does not currently conduct activity in the United States (the “U.S.”) but expects to develop its products and services in states where such activity has been authorized within a state regulatory framework. Marijuana is illegal under U.S. federal law and the enforcement of relevant laws present a significant risk including restrictions on the Company’s ability to operate in the U.S. Expanding into the U.S. will require compliance with regulatory framework enacted by the applicable U.S. states for which the Company will seek legal advice.

On March 17, 2017, the Company completed an acquisition of Cybernetic Control Systems Inc. (Note 8).

The Company incurred a net loss of \$1,612,657 for the period ended January 31, 2018. As at January 31, 2018, the Company had a history of losses and an accumulated deficit of \$5,274,844. 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 condensed consolidated interim 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 condensed consolidated interim 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

These condensed consolidated interim financial statements have been prepared using accounting policies consistent with IFRS as issued by the International Accounting Standard Board (“IASB”) and in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting, using accounting policies that the Company expects to adopt in its annual consolidated financial statements for the year ended April 30, 2018. These condensed consolidated interim financial statements do not include all the information required for the annual consolidated financial statements and should be read in conjunction with the Company’s most recent audited consolidated financial statements for the year ended April 30, 2017, which are available on [www.sedar.com](http://www.sedar.com).

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Notes to the Condensed Consolidated Interim Financial Statements

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

The condensed consolidated interim financial statements are presented in Canadian dollars and include the accounts of the Company and its 100% wholly-owned subsidiaries, each having a Canadian functional currency. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21.

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%

### 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 significant impact on the Company’s future operating results or on other components of shareholders’ equity.



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

### Use of estimates and judgments (cont'd...)

#### 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.

#### 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 Cybernetic achieving revenue milestones.

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

### Use of estimates and judgments (cont'd...)

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 8 did meet the criteria for accounting as a business combination.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Company's most recent audited annual consolidated financial statements as at and for the year ended April 30, 2017 which is available at [www.sedar.com](http://www.sedar.com), and reflect all the adjustments necessary for fair presentation in accordance with IAS 34.

## 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, 2018 and have not been applied in preparing these financial statements. The following are being evaluated to determine their impact:

- 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.

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(As at and for the nine months ended January 31, 2018 and 2017)

## 4. RECENT ACCOUNTING PRONOUNCEMENTS (cont'd...)

- 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, effective for annual periods beginning on or after January 1, 2019.

## 5. INVENTORY

<b>Inventory</b>	<b>January 31, 2018</b>	<b>April 30, 2017</b>
Premium Disposal Vapour Pens	\$ -	\$ 13,489
Extractor Assemblies	<b>534,592</b>	-
Electrical supplies for automation services	<b>195,911</b>	40,328
Total inventory	<b>\$ 730,503</b>	\$ 53,817

## 6. LOAN RECEIVABLE

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

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## 7. EQUIPMENT

	Furniture and Equipment	Computer Hardware	Total
<b>Costs:</b>			
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 <sup>(1)</sup>	(500,466)	-	(500,466)
Balance, April 30, 2017	312,774	12,087	324,861
Additions	573,053	24,417	597,470
Transfer to inventory <sup>(2)</sup>	(87,296)	-	(87,296)
<b>Balance, January 31, 2018</b>	<b>\$ 798,531</b>	<b>\$ 36,504</b>	<b>\$ 835,035</b>
<b>Accumulated Depreciation:</b>			
Balance, April 30, 2016	\$ 71,365	\$ 2,117	\$ 73,482
Amortization	55,075	4,788	59,863
Transfer to inventory <sup>(1)</sup>	(111,153)	-	(111,153)
Balance, April 30, 2017	15,287	6,905	22,192
Amortization	57,376	2,117	59,493
Transfer to inventory <sup>(2)</sup>	(3,287)	-	(3,287)
<b>Balance, January 31, 2018</b>	<b>\$ 69,376</b>	<b>\$ 9,022</b>	<b>\$ 78,398</b>
<b>Net Book Value:</b>			
April 30, 2017	\$ 297,487	\$ 5,182	\$ 302,669
<b>January 31, 2018</b>	<b>\$ 729,155</b>	<b>\$ 27,482</b>	<b>\$ 756,637</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> During the period ended January 31, 2018, the Company transferred equipment with a carrying value of \$84,009 to inventory. The equipment was previously held for rental to others and became held for sale.

## 8. 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.

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

The Company also issued 6,150,000 Series B preferred shares to Cybernetic shareholders, which each Series B preferred share 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 B 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.

The purchase price allocation of Cybernetic is as follows:

Consideration:	
Common shares	\$ 877,500
Forgiveness of promissory note	350,000
Preferred shares	160,875
	<hr/>
	\$ 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)
	<hr/>
	\$ 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.

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## 9. 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 January 31, 2018 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.

### b) Private placements

#### **For the period ended January 31, 2018**

On January 18, 2018, the Company completed a private placement for aggregate gross proceeds of \$5,000,000. The placement consisted of 7,142,858 units of the Company at a price of \$0.70 per unit. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable at a price of \$0.83 until January 18, 2020, subject to accelerated expiry in the event that the Company’s common shares close at a price of \$1.50 or higher for ten consecutive trading days. The Company issued 428,571 brokers’ warrants valued at \$131,765 (Note 9(e)) and paid finder’s fees of \$364,497. Each broker warrant is exercisable into one Unit at \$0.70 and expire January 18, 2019.

On October 31, 2017, the Company completed a non-brokered private placement for aggregate gross proceeds of \$1,451,600. The placement consisted of 7,258,000 units of the Company at a price of \$0.20 per unit. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant is exercisable at a price of \$0.30 until October 31, 2020, subject to accelerated expiry in the event that the Company’s common shares close at a price of \$0.50 or higher for ten consecutive trading days. The Company issued 349,300 brokers’ warrants valued at \$28,275 (Note 9(e)) and paid finder’s fees of \$69,860. Each broker warrant is exercisable at \$0.20 per share and expire October 31, 2018.

#### **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 per 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 9(e)) and paid finder’s fees of \$36,750. Each broker warrant is exercisable at \$0.20 per share and expiry February 21, 2018.

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

### 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.

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

	Number of Options	Weighted Average Exercise Price
<b>Balance, April 30, 2016</b>	1,400,000	\$ 0.10
Granted	2,350,000	0.20
<b>Balance, April 30, 2017</b>	<b>3,750,000</b>	<b>\$ 0.16</b>
Exercised	(325,000)	\$ 0.14
<b>Balance, January 31, 2018</b>	<b>3,425,000</b>	<b>\$ 0.16</b>

A summary of the Company's stock options as at January 31, 2018 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	1,200,000	1,200,000	\$ 0.10	February 15, 2021	2.98
February 1, 2017	350,000	350,000	0.20	February 1, 2022	4.01
February 21, 2017	1,875,000	875,000	0.20	February 21, 2022	4.06
<b>Total</b>	<b>3,425,000</b>	<b>2,425,000</b>	<b>\$ 0.16</b>		<b>3.52</b>

During the nine months ended January 31, 2018, the Company recorded share-based payments of \$153,739 (2016 - \$Nil) as a result of stock options vesting during the period.

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.

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## 9. 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	Weighted Average Exercise Price
<b>Balance, April 30, 2016</b>	10,000,000	\$ 0.20
Exercised	(154,000)	0.20
<b>Balance, April 30, 2017</b>	<b>9,846,000</b>	<b>\$ 0.20</b>
Issued	10,771,858	0.65
Exercised	(3,709,750)	0.20
<b>Balance, January 31, 2018</b>	<b>16,908,108</b>	<b>\$ 0.49</b>

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	2,877,250	\$ 0.20	August 24, 2018	0.56
November 6, 2015	2,630,000	\$ 0.20	August 24, 2018	0.56
December 31, 2015	629,000	\$ 0.20	August 24, 2018	0.56
October 31, 2017	3,629,000	\$ 0.30	October 31, 2020	2.75
January 18, 2018	7,142,858	\$ 0.83	January 18, 2020	1.96
	16,908,108	\$ 0.49		1.62

### e) Brokers' warrants

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

	Number of Warrants	Weighted Average Exercise Price
<b>Balance, April 30, 2016</b>	-	\$ -
Issued	183,750	0.20
<b>Balance, April 30, 2017</b>	<b>183,750</b>	<b>\$ 0.20</b>
Issued	777,871	0.48
Exercised	(150,063)	0.20
<b>Balance, January 31, 2018</b>	<b>811,558</b>	<b>\$ 0.46</b>



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## 9. 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	40,687	\$ 0.20	February 21, 2018	0.06
October 31, 2017	342,300	\$ 0.20	October 31, 2018	0.75
January 18, 2018	428,571	\$ 0.70	January 18, 2019	0.96

The fair value of the brokers' warrants issued during the period ended January 31, 2018 was \$160,040 (2017 - \$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:

	2018	2017
Risk-free interest rate	1.62%	-
Expected dividend yield	0%	-
Expected forfeiture	0%	-
Expected life	1 year	-
Expected volatility	100%	-
Fair value per finders' warrant granted	\$0.21	-

## 10. SIGNIFICANT NON-CASH ACTIVITY

The significant non-cash investing and financing transactions during the nine months ended January 31, 2018 consisted of the Company:

- Transferring equipment with a carrying value of \$84,009 to inventory (Note 7).
- Issuing brokers' warrants valued at \$160,040 (Note 9(e)).
- Recognizing fair value of \$11,592 on exercised brokers' warrants to share capital (Note 9(e)).
- Recognizing fair value of \$33,429 on exercised options to share capital (Note 9(c)).

There were no significant non-cash investing and financing transactions during the nine months ended January 31, 2017.

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## 11. 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	2018	2017
Consulting fees <sup>1</sup>	To an officer, and to a company with a director in common with the Company	\$ -	\$ 22,600
Legal fees	To a law firm, a partner of which is a director of the Company	37,203	60,427
Management fees	To a company with officers and directors in common with the Company	78,000	67,500
Remuneration and benefits <sup>1</sup>	To officers of the Company	135,000	52,500
Share-based payments <sup>1</sup>	To officers and directors of the Company	110,043	-
Total		\$ 360,246	\$ 203,027

<sup>1</sup>Key management personnel

Summary of amounts payable to related parties:

Type of Service	Nature of Relationship	January 31, 2018	April 30, 2017
Consulting fees <sup>1</sup>	To an officer, director and to a company that has a director in common with the Company	\$ 45	\$ 45
Management fees	To a company with officers and directors in common with the Company	-	525
Legal Fees <sup>1</sup>	To law firms that a director of the Company was and/or is a partner in	23,216	52,182
Administrative expenses	To a company with an officer and director in common with the Company and an officer of the Company	1,090	1,090
<b>Due to related parties</b>		<b>\$ 24,351</b>	<b>\$ 53,842</b>

<sup>1</sup>Key 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.

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## 12. 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 January 31, 2018, 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 period ended January 31, 2018.

## 13. 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.

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## 14. FINANCIAL INSTRUMENTS (cont'd...)

### b) Market risk (cont'd...)

#### (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.

The Company's current accounts receivable consists of amounts due from various 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 during the current fiscal period; consequently, the borrower will be commencing 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 January 31, 2018, the Company has a cash and cash equivalents balance of \$5,710,907 to settle current liabilities of \$489,362. 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 and amounts payable to related parties are all current. As the Company has limited sources of revenue, it may require additional financing to accomplish its long term strategic objectives.

## 15. 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.

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## 15. SEGMENTED INFORMATION (cont'd...)

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.

Condensed consolidated interim statements of loss and comprehensive loss	2018	2017
<b>Sales to external customers</b>		
Sale of premium disposable vaporizer pens and related materials	\$ 589,780	\$ 1,020,861
Extraction and processing laboratory, research and development services and equipment leasing	243,357	528,199
Equipment automation	597,266	-
	<u>\$ 1,430,403</u>	<u>\$ 1,549,060</u>
<b>Income (loss) before income taxes</b>		
Sale of premium disposable vaporizer pens and related materials	\$ 341,483	\$ 187,123
Extraction and processing laboratory, research and development services and equipment leasing	(706,767)	(60,667)
Equipment automation	(377,461)	-
Corporate and administration	(869,912)	(293,343)
	<u>\$ (1,612,657)</u>	<u>\$ (166,887)</u>
<b>Depreciation and amortization</b>		
Extraction and processing laboratory, research and development services and equipment leasing	\$ 59,493	\$ 43,087
	<u>\$ 59,493</u>	<u>\$ 43,087</u>

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## 15. SEGMENTED INFORMATION (cont'd...)

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 as at January 31, 2018 and April 30, 2017:

Condensed consolidated interim statements of financial position	January 31, 2018	April 30, 2017
<b>Identifiable assets</b>		
Sale of premium disposable vaporizer pens and related materials	\$ 572,689	\$ 166,096
Extraction and processing laboratory, research and development services and equipment leasing	1,779,331	1,061,234
Equipment automation	453,038	259,088
Corporate and administration	5,432,819	1,270,241
Total assets	<u>\$ 8,237,877</u>	<u>\$ 2,756,659</u>
<b>Liabilities</b>		
Sale of premium disposable vaporizer pens and related materials	\$ (33,482)	\$ (79,557)
Extraction and processing laboratory, research and development services and equipment leasing	(24,209)	(67,688)
Equipment automation	(363,404)	(154,576)
Corporate and administration	(68,267)	(108,761)
	<u>\$ (489,362)</u>	<u>\$ (410,582)</u>
<b>Additions to non-current assets</b>		
Extraction and processing laboratory, research and development services and equipment leasing	\$ 573,053	\$ 349,830
Equipment automation	24,417	8,635
	<u>\$ 597,470</u>	<u>\$ 358,465</u>

As at January 31, 2018 and 2017 all of the Company's identifiable assets are located in Canada.

## 16. SUBSEQUENT EVENTS

Subsequent to the period ended January 31, 2018:

- 512,500 warrants and 52,062 brokers' warrants were exercised for gross proceeds of \$102,500 and \$10,412, respectively;
- 1,200,000 options were exercised for gross proceeds of \$120,000; and
- the Company granted a total of 3,305,000 incentive stock options to certain directors, officers, consultants, and employees of the Company. The options have an exercise price of \$0.40 per share and expire March 9, 2023.