Financial Statements

Radient Technologies Inc.

March 31, 2017 and 2016

Contents

Independent Auditor's report

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To the Shareholders of
Radient Technologies Inc.

We have audited the accompanying financial statements of Radient Technologies Inc., which comprise the balance sheets as at March 31, 2017 and March 31, 2016, and the statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Radient Technologies Inc. as at March 31, 2017 and March 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2 to the financial statements which indicates that the Company incurred a net loss of $4,316,274 during the year ended March 31, 2017, and has a deficit of $47,961,786. These conditions, along with other matters as set forth in Note 2, indicate the existence of material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 2 and relevant subsequent events are described in Note 21. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Edmonton, Canada

July 26, 2017

Grant Thornton LLP

Chartered Professional Accountants

Radient Technologies Inc.
Balance Sheets

As at March 31		2017		2016
Assets				
Current assets				
Cash	$	**8,507,747**	$	425,016
Restricted cash (Note 7)		**1,960,000**		-
Accounts receivable		**165,066**		172,529
Prepaids and deposits		**178,103**		47,040
Inventory		**26,554**		33,912
		10,837,470		678,497
Non-current assets				
Advances to related company (Note 9)		**103,102**		-
Investment in related company (Note 9)		**1,194,148**		1,132,830
Patents		**34,545**		56,363
Plant and equipment (Note 4)		**2,938,363**		3,365,916
		4,270,158		4,555,109
Total assets	$	**15,107,628**	$	5,233,606
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$	**1,093,984**	$	3,103,057
Convertible debenture (Note 7)		**1,941,631**		-
Repayable government contributions (Note 13)		**878,300**		755,467
Current portion of royalty financial liability (Note 11)		**26,879**		25,229
Current portion of long-term debt (Note 12)		**111,723**		148,598
Current portion of due to related company (Note 9)		**50,053**		50,053
Current portion of lease obligation		**11,790**		10,331
Current portion of repayable grant (Note 16)		**-**		30,000
Promissory notes (Note 10)		**-**		250,000
Advances from related company (Note 9)		**-**		288,006
		4,114,360		4,660,741
Non-current liabilities				
Royalty financial liability (Note 11)		**5,185,847**		5,100,517
Long-term debt (Note 12)		**500,334**		599,784
Lease obligation		**5,390**		17,181
Other long-term liabilities		**106,219**		161,040
Due to related company (Note 9)		**799,384**		840,008
		6,597,174		6,718,530
Shareholders' equity (deficiency)		**4,396,094**		(6,145,665)
Total liabilities and shareholders' equity (deficiency)	$	**15,107,628**	$	5,233,606

See accompanying notes to the financial statements

Approved by the Board of Directors:

Director (signed by) "Denis Taschuk"

Director (signed by) "Francesco Ferlaino"

Radient Technologies Inc.

Statements of Operations and Comprehensive Loss

For the years ended March 31	2017	2016
Revenues		
Feasibility studies (Note 18)	$ -	$ 524,982
Contract manufacturing (Note 18)	293,447	101,475
	293,447	626,457
Cost of revenues		
Feasibility studies	-	132,707
Contract manufacturing	234,388	207,347
	234,388	340,054
	59,059	286,403
Expenses		
General and administrative	1,963,909	1,544,458
Production plant	677,666	1,075,863
Financing fees (Note 19)	483,669	508,179
Laboratory	592,636	486,512
Depreciation and amortization	455,829	442,988
Marketing	230,048	194,570
Quality control and assurance	8,206	69,433
	4,411,963	4,322,003
Loss before other income (expenses)	(4,352,904)	(4,035,600)
Other income (expenses)		
Rental income	114,475	147,967
Interest and other income	22,201	19,064
Forgiveness of repayable grant (Note 16)	30,000	-
Allocation of related company income (Note 9)	61,318	41,697
Share-based payments (Note 14)	(184,531)	(380,315)
Foreign exchange loss	(6,833)	(20,724)
Impairment of plant and equipment	-	(138,754)
	36,630	(331,065)
Net loss and comprehensive loss	$ (4,316,274)	$ (4,366,665)
Basic and diluted loss per common share	$ (0.05)	$ (0.09)
Weighted average number of common shares outstanding	85,862,057	49,327,549

See accompanying notes to the financial statements

Radient Technologies Inc.
Statements of Cash Flows

For the years ended March 31		2017		2016
Operating Activities				
Net loss	**$**	**(4,316,274)**	$	(4,366,665)
Add (deduct) items not affecting cash:				
Depreciation and amortization		**455,829**		442,988
Finance fees accretion and amortization (Note 19)		**228,031**		361,012
Interest expense (Note 19)		**255,638**		147,167
Doubtful debts provision (Note 20)		**263,424**		-
Share-based payments (Note 14)		**184,531**		380,315
Allocation of related company income		**(61,318)**		(41,697)
Forgiveness of repayable grant (Note 16)		**(30,000)**		-
Accretion of rent liability		**(54,821)**		35,805
Impairment of plant and equipment		**-**		138,754
		(3,074,960)		(2,902,321)
Change in non-cash operating working capital (Note 5)		**(1,987,594)**		1,392,009
Cash used in operating activities		**(5,062,554)**		(1,510,312)
Financing Activities				
Proceeds from private placements (Note 14)		**14,155,708**		1,349,730
Share issuance costs (Note 14)		**(924,719)**		(63,235)
Proceeds from exercise of warrants (Note 14)		**1,066,261**		-
Proceeds from promissory notes		**-**		250,000
Repayment of promissory notes		**(250,000)**		-
Interest paid		**(251,806)**		(93,131)
Repayment of long-term debt		**(136,325)**		(57,521)
Repayment of due to related company		**(50,053)**		-
Financing costs paid on convertible debenture		**(22,386)**		-
Repayment of lease obiligation		**(10,332)**		(10,449)
Repayment of royalty financial liability (Note 11)		**(33,497)**		-
Proceeds from royalty financial liability		**-**		250,000
Cash provided by financing activities		**13,542,851**		1,625,394
Investing Activities				
Advances (to) from related company		**(391,108)**		325,448
Purchase of plant and equipment, net of grant revenue and investment tax credits applied (Note 4)		**(6,458)**		(16,956)
Cash (used in) provided by investing activities		**(397,566)**		308,492
Net increase in cash		**8,082,731**		423,574
Cash, beginning of year		**425,016**		1,442
Cash, end of year	**$**	**8,507,747**	$	425,016

Non-cash transactions (Note 5)

See accompanying notes to the financial statements

Radient Technologies Inc.
Statements of Changes in Equity
For the years ended March 31, 2017 and 2016

	Common Shares (Note 14)	Contributed Surplus (Note 14)	Deficit	Equity
Balance March 31, 2015	$ 31,173,120	$ 4,659,917	$ (39,278,847)	$ (3,445,810)
Share-based payments	-	380,315	-	380,315
Private placement	1,315,700	-	-	1,315,700
Conversion of a payable	34,050	-	-	34,050
Share issuance costs	(63,255)	-	-	(63,255)
Warrant issuance	(201,448)	201,448	-	-
Net loss	-	-	(4,366,665)	(4,366,665)
Balance March 31, 2016	$ 32,258,167	$ 5,241,680	$ (43,645,512)	$ (6,145,665)

	Common Shares (Note 14)	Contributed Surplus (Note 14)	Deficit	Equity
Balance March 31, 2016	**32,258,167**	**$ 5,241,680**	**$ (43,645,512)**	**$ (6,145,665)**
Share-based payments	**-**	**184,531**	**-**	**184,531**
Private placement	**14,155,708**	**-**	**-**	**14,155,708**
Warrant exercises	**1,338,700**	**(272,439)**	**-**	**1,066,261**
Conversion of payables	**376,252**	**-**	**-**	**376,252**
Share issuance costs	**(924,719)**	**-**	**-**	**(924,719)**
Finders' compensation	**(2,305,088)**	**2,305,088**	**-**	**-**
Warrant issuance	**(4,259,248)**	**4,259,248**	**-**	**-**
Net loss	**-**	**-**	**(4,316,274)**	**(4,316,274)**
Balance March 31, 2017	**$ 40,639,772**	**$ 11,718,108**	**$ (47,961,786)**	**$ 4,396,094**

See accompanying notes to the financial statements

1. Nature of operations and general information

Radient Technologies Inc. ("Radient") was incorporated on June 12, 2001. The Company is in the business of research, development and commercialization of an efficient and environmentally responsible technology for the extraction, isolation and purification of soluble products from a wide range of materials using microwave technology. The ordinary shares are listed on the TSXV under the symbol "RTI". The Company's registered and primary place of business is located at 8223 Roper Road, Edmonton, Alberta T6E 6S4.

2. Basis of presentation and going concern

These financial statements and the notes hereto have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments at fair value through profit and loss.

Amounts presented in these financial statements and the notes hereto are in Canadian dollars, the Company's functional currency, unless otherwise stated.

These financial statements, including comparatives, were authorized for issue by the Board of Directors of the Company on July 26, 2017.

These financial statements are prepared on a going concern basis, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they become due. The Company's ability to generate sufficient cash flows to maintain normal operations, if unsuccessful, will result in it not being able to continue as a going concern.

The Company has incurred significant losses to date. The net loss for the year ended March 31, 2017 totalled $4,316,274 (2016 - $4,366,665) and as at March 31, 2017 the Company had a deficit of $47,961,786 (2016 - $43,645,512). These balances indicate there is uncertainty about the Company's ability to continue as a going concern.

Management has been able, thus far, to finance operations through debt and equity financings and will continue, as appropriate, to seek financing from these and other sources; however, there are no assurances that any such financings can be obtained on favourable terms, if at all. In view of these conditions, the ability of the Company to continue as a going concern is dependent upon its continued ability to obtain financing, generate sufficient cash flows and, ultimately, achieve profitable operations. The financial statements for the periods presented do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business as a going concern and that such adjustments could be material.

At March 31, 2017 the Company has paid all the arrears on its royalty financial liability and long-term debt but remains in arrears related to its repayable government contributions. Subsequent to March 31, 2017 the Company restructured its repayable government contribution with the remaining balance to be paid over 8 years and reached an agreement to exchange its royalty financial liability for common shares of the Company.

During the year ended March 31, 2017 the Company completed four private placements that raised gross proceeds of $14.2 million (note 14) as well as the placement of a convertible debenture for gross proceeds of $2.0 million (note 7). These additional funds have resulted in a working capital surplus at March 31, 2017 of $6,723,110 in comparison to a working capital deficiency of $3,982,244 at March 31, 2016. The current working capital surplus is being used to fund operations including the restart of the Company's plant during the year ended March 31, 2017.

3. Summary of significant accounting policies

Use of management critical judgments, estimates and assumptions

The preparation of financial statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses recorded during the reporting period. In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Management critical judgments, estimates and assumptions

Available for use
Management uses judgment in determining when items of plant and equipment are available for use. An item is determined to be available for use when it is in the location and condition necessary for it to operate in the manner which management intended.

Impairment of non-financial assets
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. Cash flows are derived from the budgets and forecasts and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows.

Provisions
The Company records provision for matters where a legal or constructive obligation exists at the balance sheet date as a result of a past event and where a reliable estimate can be made of the obligation. These matters might include restructuring projects, legal matters, disputed issues, indirect taxes and other items. These obligations may not be settled for several years and a reliable estimate must be made of the likely outcome of each of these matters. These provisions represent our best estimate of the costs that will be incurred but actual experience may differ from the estimates made and therefore affect future financial results. The effects would be recognized in profit or loss.

Income taxes
The Company makes estimates in respect of tax liabilities and tax assets. Full provision is made for future and current taxation at the rates of tax prevailing at the yearend unless future rates have been substantively enacted. These calculations represent the Company's best estimate of the costs that will be incurred and recovered but actual experience may differ from the estimates made and therefore affect future financial results. The effects would be recognized in profit or loss, primarily through taxation.

The Company recognizes the deferred tax benefit related to deferred tax assets to the amount that is probable to be realized. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred tax assets.

3. **Summary of significant accounting policies** (cont'd)

Inventories
Inventories are valued at the lower of cost and net realizable value. There is judgment in determining the net realizable value. 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.

Depreciation and amortization
The Company provides for depreciation expense on equipment at rates designed to amortize the cost of individual items and their material components over their estimated useful lives as well as provides for amortization expense on patents over the life of the patent. Management makes estimates of future useful life based on patterns of benefit consumption and impairments based on experience and market conditions. Impairment losses, depreciation and amortization expense are presented in profit or loss of the current period.

Investment tax credits and government assistance
The recognition of investment tax credits relating to the Company's qualifying scientific research and experimental development expenditures requires management to estimate the amount and timing of recovery.

Royalties
When funding from royalty agreements is received, management is required to recognize a liability initially at fair value. To estimate the fair value of the obligation, the Company makes estimates of future cash flows and discounts those cash flows at an estimated prevailing market rate of interest for a similar instrument. Management updates the estimated cash flows required under the royalty agreements annually to assess whether the value of obligation should be adjusted. The effects of any change in obligation are recognized in profit or loss in the current period.

Convertible debenture
The Company must assess the debenture and determine if it is a compound instrument that has both an equity and liability component. The determination of the fair value of the liability component of the convertible debenture requires management to make estimates regarding the interest rate that the Company would have obtained for a similar loan without the conversion feature.

Share-based payments
The fair value of share-based payments is determined using the Black Scholes Option Pricing Model based on estimated fair values at the date of grant. The Black Scholes Option Pricing Model utilizes subjective assumptions such as expected price volatility and expected life of the award. Changes in these assumptions can significantly affect the fair value estimate.

Cash and cash equivalents

The Company considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents.

Plant and equipment

Plant and equipment is recorded at cost less accumulated depreciation and impairment losses. Depreciation is calculated as cost less the residual value and provided on a straight-line basis over the expected useful life of the asset.

3. Summary of significant accounting policies (cont'd)

The following is a summary of estimated useful lives of the assets:

Laboratory equipment	5 years
Computer equipment	3 years
Office furniture	5 years
Production equipment	10 to 20 years
Leasehold improvements	Over the term of the lease

Cost for plant and equipment includes the purchase price, import duties, non-refundable taxes and any other costs directly attributable to bringing the asset into the location and condition to be capable of operating. Significant parts of an item of plant and equipment with different useful lives are recognized and depreciated separately. Depreciation commences when the asset is available for use. The assets residual values, useful lives and method of depreciation are reviewed at each financial year end and adjustments are accounted for prospectively if appropriate. An item of plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of an asset is included in profit or loss in the period the asset is derecognized.

Leases

Leases are classified as finance or operating leases. A lease is classified as a finance lease if it effectively transfers substantially the entire risks and rewards incidental to ownership.

At the commencement of the lease, the Company recognizes finance leases as an asset acquisition and an assumption of an obligation in the consolidated balance sheet at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the incremental borrowing rate is used. The interest element of the lease payment is recognized as finance cost over the lease term to achieve a constant periodic rate of interest on the remaining balance of the liability.

Any initial direct costs of the lessee are added to the amount recognized as an asset. The useful life and depreciation method is determined on a consistent basis with the Company's policies for property and equipment. The asset is depreciated over the shorter of the lease term and its useful life.

All other leases are accounted for as operating leases, wherein payments are expensed on a straight-line basis over the term of the lease.

Patents

Patents are recorded at cost and are amortized straight-line over the life of the patent.

Research and development costs

Research costs are charged as an expense in the period in which they are incurred. Development costs are charged as an expense in the period incurred unless the Company believes a development project meets generally accepted criteria for deferral and amortization. The Company has not deferred any development costs to date.

3. Summary of significant accounting policies (cont'd)

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable.

Contract Manufacturing and Feasibility and Scale Studies
Revenue is recognised by reference to the stage of completion of the contract at the balance sheet date. The stage of completion of the contract is determined as the proportion of the total effort that has been completed as at the end of the reporting period and is recognised when the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company;
- the stage of completion at the balance sheet date can be measured reliably; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

When the above criteria are not met, revenue arising from provision of these services will be recognized only to the extent of the expenses recognized that are recoverable.

Consideration received in advance of revenue being recognized will be deferred until the conditions are met.

Interest Income
Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of the interest can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable.

Rental Income
Rental income from operating leases to subtenants of the Company's office space is recognised on a straight-line basis over the term of the lease.

Foreign currency translation

The financial statements are presented in Canadian dollars, which is also the functional currency of the Company. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using exchange rates in effect at the balance sheet date. Revenue and expense items are translated at the exchange rate in effect on the date of the transaction. Foreign exchange gains and losses are included in the determination of the results of operations for the year.

Investment tax credits and government assistance

The benefits of investment tax credits ("ITCs") for scientific research and experimental development expenditures ("SRED") are recognized in the year the qualifying expenditure is made providing there is reasonable assurance of recoverability. The investment tax credits recorded are based on management's estimates of amounts expected to be recovered and are subject to audit by taxation authorities. The investment tax credit reduces the carrying cost of expenditures for equipment and research and development expenses to which they relate.

Government grants are recognized where there is a reasonable assurance that the grant will be received and all attached conditions will be complied with. Government grants are recognized as an offset to expenses over the periods in which the Company recognizes expenses which the grants are intended to compensate. Government grants related to assets are recognized as a cost reduction of the assets and reduce depreciation over the expected useful life of the related assets.

3. Summary of significant accounting policies (cont'd)

Impairment of long-lived assets

The carrying amounts of plant and equipment and patents are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For the purpose of measuring recoverable cash flows, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units or CGUs). If such indication exists, the Company estimates the recoverable amount of the assets, which is the higher of its fair value less costs of disposal and its value in use. Value in use is estimated as the present value of future cash flows generated by this asset or CGU including eventual disposal. If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount, and an impairment loss is recognized immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimated recoverable amount and the carrying amount that would have been recorded, had no impairment loss been recognized previously. Any such recovery is recognized immediately in profit or loss.

Convertible debenture

The convertible debenture has been separated into liability and equity components for accounting purposes based on the residual value method, whereby the fair value of the liability component is measured first with the residual value being allocated to the conversion feature. The fair value of the liability component is measured using a discount rate for a similar financial instrument without the conversion feature. The liability component is subsequently measured at amortized cost using the effective interest rate method and will accrete up to the principal balance at maturity.

Income (loss) per common share

Basic income (loss) per common share is computed by dividing the income (loss) by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if the Company's convertible securities and convertible debenture were converted to common shares. Diluted income (loss) per common share is calculated by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effect of all dilutive potential common shares. Convertible securities are converted using the "treasury stock" method and convertible debentures are converted using the "if converted" method. When the Company is in a net loss position, the conversion of convertible securities is considered to be anti-dilutive.

Deferred taxes

The Company accounts for income taxes using the liability method of tax allocation. Deferred taxes are recognized for the deferred tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Deferred tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in rates is included in profit and loss in the period that includes the enactment date. Deferred tax assets are recorded in the financial statements if realization is considered probable.

3. Summary of significant accounting policies (cont'd)

Share issue costs

Share issue costs associated with the liability component of the convertible and retractable financial instruments are recorded at cost, and are deferred and subsequently recognized over a period beginning from the date of issuance to the earliest redemption date using the effective interest method. The unamortized charges are presented net with the liability component. Upon conversion of the financial instruments into common shares, any unamortized balance is charged to share capital.

Share issuance costs relating to the issuance of share capital are deferred and netted against the proceeds when the related shares are issued.

Share-based payments

The Company issues equity-settled share-based awards to eligible employees, directors, officers and consultants. Share-based payments are accounted for using the fair value method whereby compensation expense related to these programs is recorded in profit or loss with a corresponding increase to contributed surplus. The fair value of options granted is determined using Black-Scholes Option Pricing Model at the grant date and expensed over the vesting period. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates estimated forfeitures will change. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Investments

The Company's 50% interest in 1631807 Alberta Ltd is accounted for as a joint venture.

A joint venture is an arrangement that the Company controls jointly with one or more other investors, and over which the Company has rights to a share of the arrangement's net assets rather than direct rights to underlying assets and obligations for underlying liabilities. Investments in joint ventures are accounted for using the equity method. Any goodwill or fair value adjustment attributable to the Company's share in the joint venture is not recognized separately and is included in the amount recognized as investment.

The carrying amount of the investment in joint ventures is increased or decreased to recognize the Company's share of the profit or loss and other comprehensive income of the associate and joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Company.

Unrealized gains and losses on transactions between the Company and its associates and joint ventures are eliminated to the extent of the Company's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment.

Inventories

Inventories consist of raw materials and supplies. Raw material cost includes the purchase price, transport/handling costs, any currency exchange differences and any import duties or other taxes. Inventories are measured at the lower of cost and net realizable value. Cost is determined on a weighted average basis. Net realizable value is defined as the estimated selling price less estimated selling cost.

3. **Summary of significant accounting policies** (cont'd)

Earnings per share

Basic earnings per share is computed by dividing net earnings by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings per share, except that all the corresponding net earnings and the weighted average shares outstanding are adjusted for the impact of all potential dilutive shares outstanding during the reporting period. When the Company is in a net loss position, the conversion of dilutive shares is considered to be anti-dilutive.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred. Financial liabilities are derecognized when they are extinguished, discharged, cancelled, or expire.

All financial instruments and certain non-financial derivatives are initially measured at fair value. Financial assets and financial liabilities are measured subsequently as described below. The Company categorizes its fair value measurements for financial assets and financial liabilities measured at fair value according to a three-level hierarchy which prioritizes the inputs used in the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the overall fair value measurement. The three levels of the fair value hierarchy based on the reliability of inputs are as follows:

> Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
>
> Level 2 fair value measurements are those derived from inputs other than quoted prices included within 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 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets

The Company's financial assets are comprised of cash, restricted cash, accounts receivable, deposits and advances to related company and have been classified as loans and receivables for initial recognition. Loans and receivables are subsequently measured at amortized cost using the effective interest method.

Financial assets measured at amortized cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Accounts receivable are also assessed for impairment on a collective basis. This is determined by reference to industry and experience, as well as observable changes in national or local economic conditions that correlate with default on receivables. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

3. **Summary of significant accounting policies** (cont'd)

Financial instruments (cont'd)

The carrying amount of the accounts receivables is reduced by using of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit and loss.

Financial liabilities

The Company's financial liabilities include accounts payable and accrued liabilities, long-term debt, royalty financial liability, repayable grant, repayable government contributions, due to related company, and convertible debenture and have been classified as other financial liabilities. Financial liabilities are measured subsequently at amortized cost using the effective interest method.

Future Changes in Accounting Standards

The following are the new IFRS pronouncements that have been issued, that are not yet effective, that have not been early adopted, and that may have an impact on the Company in the future, as discussed below.

IFRS 9 - Financial Instruments replaces the current standard *IAS 39 - Financial Instruments: Recognition and Measurement*. The new standard includes guidance on the recognition and derecognition of financial assets and financial liabilities, impairment and hedge accounting. The Company has not yet evaluated the impact of IFRS 9 on the financial statements. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 - Revenue from Contracts with Customers, replaces *IAS 11 – Construction Contracts, IAS 18 – Revenue and IFRIC 13 – Customer Loyalty Programmes.* This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. The Company has not yet evaluated the impact of IFRS 15 on the financial statements. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16 – Leases, replaces *IAS 17 – Leases, IFRIC 4 – Determining whether an arrangement contains a lease, SIC 15 – Operating Leases and SIC 27 – Evaluating the substance of transactions involving the legal form of a lease.* IFRS 16 eliminates the classification of leases as either operating or finance leases and requires the recognition of assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged from IAS 17. The Company has not yet evaluated the impact of IFRS 16 on the financial statements. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

Amendments to IAS 7 Disclosure Initiative – The amendments require the Company to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The Company has not yet evaluated the impact of the amendments to IAS 7 on the financial statements. The amendments are effective for annual periods beginning on or after January 1, 2017 and apply prospectively.

4. Plant and equipment

	Laboratory equipment	Computer equipment	Office furniture	Production equipment	Leasehold improvements	Total
Cost						
Balance March 31, 2015	$ 1,263,607	$ 47,289	$ 3,260	$ 5,128,404	$ 5,148,532	$ 11,591,092
Additions	-	-	-	16,956	-	16,956
Balance March 31, 2016	$ 1,263,607	$ 47,289	$ 3,260	$ 5,145,360	$ 5,148,532	$ 11,608,048
Additions	3,208	3,250	-	-	-	6,458
Balance March 31, 2017	**$ 1,266,815**	**$ 50,539**	**$ 3,260**	**$ 5,145,360**	**$ 5,148,532**	**$ 11,614,506**
Accumulated depreciation and impairment						
Balance March 31, 2015	$ 1,179,034	$ 41,021	$ 2,448	$ 2,720,933	$ 3,738,772	$ 7,682.208
Disposals and impairment	-	-	-	57,032	81,722	138,754
Depreciation	(670)	2,134	432	265,305	153,969	421,170
Balance March 31, 2016	$ 1,178,364	$ 43,155	$ 2,880	$ 3,043,270	$ 3,974,463	$ 8,242,132
Depreciation	22,681	2,236	380	261,282	147,432	434,011
Balance March 31, 2017	**$ 1,201,045**	**$ 45,391**	**$ 3,260**	**$ 3,304,552**	**$ 4,121,895**	**$ 8,676,143**
Carrying value						
March 31, 2016	$ 85,243	$ 4,134	$ 380	$ 2,102,090	$ 1,174,069	$ 3,365,916
March 31, 2017	**$ 65,770**	**$ 5,148**	**$ -**	**$ 1,840,808**	**$ 1,026,637**	**$ 2,938,363**

The cost of equipment has been reduced for recoveries under grants during the years 2009 to 2014 by $411,649. These recoveries will reduce depreciation expense on a straight-line basis over the useful life of the equipment. For the year ended March 31, 2017, the depreciation of the related equipment was reduced by $45,051 (2016 - $81,919). Included in production equipment is $40,373 (2016 - $45,639) of equipment under lease obligation as at March 31, 2016.

Impairment

Concern regarding the Company's ability to generate sufficient cash flows to maintain normal operations have resulted in management completing an impairment test on the recoverable amount of plant and equipment in fiscal 2017 and 2016. Due to the uncertainty and amount of judgment required to project future revenue streams in determining the value in use of equipment and leaseholds, management determined that fair value in use less costs of disposal ("FVLCD") of the assets is the best estimate of the recoverable amounts of the assets.

The FVLCD for equipment was determined by comparing the carrying values of equipment to the projected proceeds that could be obtained in the market in an orderly transaction after disposal costs.

The FVLCD for the leaseholds was determined by discounting the incremental cash flows that could be generated from sub-leasing the Company's plant compared to the cash flows under the current lease. Cash flows under the current lease were projected based on the remaining term of the existing lease plus a five-year renewal period. Discounted incremental cash flows that could be generated from sub-leasing the Company's plant were determined using two probability, weighted-average cash flow scenarios incorporating the following key assumptions:

a) The first scenario was given a 90% probability and a 6.75% discount rate contemplating a "standard" tenant such as an industrial food processing, chemical processing or pharmaceutical lessee. This type of tenant is believed to be easier to find, may pay less rent and would not necessarily need to utilize a portion of the Company's leaseholds which would then be stripped from the building and sold.
b) The second scenario was given a 10% probability and a 15% discount rate contemplating a "specialized" tenant such as a specialty chemical processing lessee who would be more difficult to identify, would pay more rent and would fully utilize the Company's specific leaseholds.

Impairment expense for the year ended March 31, 2017 is $nil (2016 – $138,754).

5. Change in non-cash operating working capital

		March 31, 2017		March 31, 2016
Accounts receivable	$	(255,961)	$	(123,179)
Deferred revenue		-		(235,734)
Investment tax credits receivable		-		115,000
Prepaids and deposits		(131,063)		62,206
Inventory		7,358		-
Accounts payable and accruals		(1,607,928)		1,573,716
Net change in non-cash operating working capital	$	(1,987,594)	$	1,392,009

Non-cash transactions				
Payment of arrears interest on repayable government contributions through advance on debt	$	36,954	$	-
Settlement of payables through issuance of shares	$	376,252	$	34,050

6. Capital management

The capital structure of the Company consists of long-term liabilities and equity (deficiency).

The primary objectives of the Company's capital management strategy are to:

- Provide an adequate return to its shareholders;
- Provide adequate and efficient funding for operations;
- Finance growth; and
- Preserve financial flexibility to benefit from potential opportunities as they arise.

The Company has historically financed operations and capital expansions mainly by receiving funds borrowed from creditors and obtained from investors by issuing convertible promissory notes and preferred and common shares. If so required and available, the Company will continue this practice in the future. During the year ended March 31, 2017 the Company completed four successful private placements for gross proceeds of $14.2 million (note 14).

Capital Structure:

		March 31, 2017		March 31, 2016
Royalty financial liability (Note 11)	$	5,185,847	$	5,100,517
Due to related company (Note 9)		799,384		840,008
Long-term debt		500,334		599,784
Other long-term liabilities		106,219		161,040
Lease obligation		5,390		17,181
Net debt		6,597,174		6,718,530
Shareholders' equity (deficiency)		4,396,094		(6,145,665)
	$	10,993,268	$	572,865

The Company is not subject to externally imposed capital requirements. There has been no change with respect to the overall capital risk management strategy during the year ended March 31, 2017.

7. Convertible debenture

On February 13, 2017, the Company issued a $2,000,000 convertible debenture to Aurora Cannabis Inc. (the holder). All or a portion of the principal amount of the debenture is convertible into units of the Company at a conversion price of $0.14 per unit, at the option of the holder, at any time prior to the maturity date of February 13, 2019. Each unit is comprised of one common share of the Company and one common share purchase warrant, exercisable within 24 months, for one common share of the Company at an exercise price of $0.33 per warrant. The total number of common shares that could be issued on conversion is 14,285,714 with an additional 14,285,714 that would be issued if the warrants are exercised.

The debenture bears interest at 10% per annum on the outstanding principal sum and is payable quarterly in arrears. This interest payable will be converted to units of the Company at the market price on the quarterly anniversary date unless this conversion would result in the holder of the debenture holding more than 19.9% of the common shares of the Company. In this case, the interest will be paid in cash.

At any time during the period from February 13, 2017 to June 13, 2017, the Company can provide the holder of the debenture written notice of its intention to repay the principal sum outstanding. If this occurs, the holder will have 30 days to decide if they wish to convert the debenture or accept repayment.

Furthermore, at any time during the period from February 13, 2017 to July 13, 2017, the holder may demand immediate repayment of any principal sum outstanding under the debenture. As at March 31, 2017 and subsequent to year end, no demand request was made.

Finally, the aggregate principal amount of the debenture is subject to a mandatory conversion provision if at any time following July 13, 2017 either of the following conditions occur:

a) The volume weighted average price of the Company's commons shares equals or exceeds $0.40 per share for 10 consecutive trading days, or
b) The Company and the holder enter into an exclusivity, licensing, service or similar agreement.

The Company paid the holder a fee of $40,000, representing 2% of the gross proceeds of the debenture, as well as legal fees and expenses of $22,386 related to the issuance of the debenture. During the year ended March 31, 2017 $4,017 (2016 – $nil) of these fees were amortized. Under the terms of the debenture, the proceeds are to be used for purposes of research activities as agreed to with the holder under a separate agreement or as approved by the holder in writing. At March 31, 2017, the net proceeds received of $1,960,000 is considered restricted cash to be used for research activities over the next 12 months as per the agreement.

The debenture contains two components consisting of a liability and an equity element. However, as the debenture has a demand provision during the period February 23, 2017 to July 13, 2017, the liability component must be recorded as the full amount of the debenture payable on demand. The equity component is subsequently valued at $nil.

The balance of the convertible debenture is as follows:

	March 31, 2017	March 31, 2016
Outstanding, beginning of the year	**$ -**	$ -
Issued	**2,000,000**	-
Financing fees net of amortization	**(58,369)**	-
Outstanding, end of the year	**$ 1,941,631**	$ -

As at March 31, 2017 accrued interest of $26,404 is included in Accounts payable and accrued liabilities.

8. Funding received

On September 5, 2014, the Company entered into a non-repayable Contribution Agreement with Growing Forward for $758,600. The project start date was April 1, 2014 and during the year ended March 31, 2015, the Company received the first claim in the amount of $29,095 which was recorded in plant and equipment. During the year ended March 31, 2016 the project end date was extended to February 29, 2016 however no further draws were made in that period or in the year ended March 31, 2017.

9. Investment in, advances to (from) and due to related company

		March 31, 2017		March 31, 2016
Investment in related company				
Purchase price of shares	**$**	**1,050,000**	$	1,050,000
Income allocation		**144,148**		82,830
	$	**1,194,148**	$	1,132,830
Advances to (from) related company	**$**	**103,102**	$	(288,006)
Due to related company				
Loan payable to 1631807 Alberta Ltd.	**$**	**1,046,660**	$	1,096,713
Deferred financing costs		**(197,223)**		(206,652)
		849,437		890,061
Current portion		**(50,053)**		(50,053)
	$	**799,384**	$	840,008

On December 14, 2011, the Company acquired a 50% interest in 1631807 Alberta Ltd. in exchange for $1,050,000. This affiliate acquired land and buildings at 4035 - 101 Street in Edmonton, AB for $3,800,000 and assumed a $1,700,000 mortgage that is held by Business Development Corporation (BDC). The property is leased to the Company as its Edmonton production plant.

BDC agreed to advance another $1,250,000 to 1631807 Alberta Ltd. which was then advanced by 1631807 Alberta Ltd. to the Company and used for the construction of leasehold improvements required by the Company. The Company agreed to repay 1631807 Alberta Ltd. the advanced amount under the same terms and conditions as the BDC loan agreement. As such, the BDC loan bears interest at 6% per annum and is repayable in fixed monthly amounts of $10,000 principal plus interest of which the Company pays their pro-rata share of $4,171 plus interest per month. In addition, the Company paid 1396730 Alberta Ltd., the joint venture owner of 1631807 Alberta Ltd., a guarantee fee of $250,000 for providing security to BDC and has provided the shares of 1631807 Alberta Ltd as security to 1396730 Alberta Ltd.

On September 1, 2011, the Company entered into a 10-year lease with 1396730 Alberta Ltd. (subsequently transferred on December 14, 2011 to 1631807 Alberta Ltd.) for the property at 4035 - 101 Street, Edmonton, AB. Base rent under the lease is:

Years 1 – 3	$186,435 per annum payable in equal monthly instalments
Years 4 – 6	$222,687 per annum payable in equal monthly instalments
Years 7 – 9	$238,223 per annum payable in equal monthly instalments
Year 10	$268,259 per annum payable in equal monthly instalments

In addition to the above base rent, the Company is responsible to pay $25,344 per annum in equal monthly instalments as additional rent in respect of landlord capital improvement and to pay additional rent to cover operating costs. For the year ended March 31, 2017 the Company's share of the operating income of 1631807 Alberta Ltd. was $61,318 (2015 - $41,697).

9. Investment in, advances to (from) and due to related company (cont'd)

Summarised financial information for 1631807 Alberta Ltd. is set below:

		March 31, 2017		March 31, 2016
Non-current assets	$	**5,037,552**	$	5,189,401
Current assets (a)		**89,756**		215,794
Total assets	$	**5,127,308**	$	5,405,195
Non-current liabilities (b)	$	**2,535,000**	$	2,655,000
Current liabilities (c)		**204,012**		474,434
Total liabilities	$	**2,739,012**	$	3,129,434
(a) Includes cash	$	**89,756**	$	(21,617)
(b) Includes financial liabilities (excluding trade and other payables and provisions)	$	**2,535,000**	$	2,655,000
(c) Includes financial liabilities (excluding trade and other payables and provisions)	$	**100,878**	$	381,165
Revenue	$	**434,200**	$	268,870
Net income and comprehensive income	$	**122,635**	$	74,473
Depreciation and amortization	$	**101,088**	$	108,584
Interest expense	$	**83,951**	$	90,242

A reconciliation of the above summarised financial information to the carrying amount of the investment in 1631807 Alberta Ltd. is set out below:

		March 31, 2017		March 31, 2016
Total net assets of 1631807 Alberta Ltd.	$	**2,388,296**	$	2,275,761
Proportion of ownership interest held by the Company		**50%**		50%
Carrying value of investment in 1631807 Alberta Ltd.	$	**1,194,148**	$	1,137,880

No dividends were received from 1631807 Alberta Ltd. during the years ended March 31, 2017 or 2016.

1631807 Alberta Ltd. is a private company; therefore, no quoted market prices are available for its shares.

On February 9, 2016, 1396730 Alberta Ltd., a company controlled by one of the directors of the Company, issued a notice of default to the Company regarding the loan between the Company and 1631807 Alberta Ltd. that is guaranteed by 1396730 Alberta Ltd. Pursuant to the agreement, 1396730 Alberta Ltd. has the right to the shares of 1631807 Alberta Ltd. that the Company pledged as collateral in exchange for the guarantee provided by 1396730 Alberta Ltd. For the year ended March 31, 2016, the Company reached an agreement with 1396730 Alberta Ltd. to continue repaying the loan on existing terms and repay the arrears during fiscal 2017. During the year ended March 31, 2017 the Company paid all arrears related to this loan. 1396730 Alberta Ltd. has agreed that the joint venture and existing loan will continue pending the removal of the existing guarantee by way of refinancing of the loan. Should the proposed refinancing not be completed, the ownership of the Company's shares of 1631807 Alberta Ltd. would revert to 1396730 Alberta Ltd. and the Company's investment in 1631807 Alberta Ltd. would end.

As the Company continues to exert joint control over 1631807 Alberta Ltd. the Company continues to account for its investment in 1631807 Alberta Ltd. using the equity method.

10. Promissory notes

During the year ended March 31, 2016 the Company issued unsecured, promissory notes aggregating $250,000. $50,000 of the notes was provided by a related party (Note 17). The notes bore interest at 15% per annum compounded monthly with an original maturity of 45 days subject to 30-day extensions. The notes were fully repaid during the fiscal year ended March 31, 2017.

11. Royalty financial liability

In January 2009, the Company entered into an investment agreement with AVAC Ltd. (AVAC). AVAC is an Alberta-based investment company that invests in promising early-stage commercial ventures in value-added agri-business, information and communication, technology, life sciences and other industrial technology sectors. AVAC's mandate is to help bridge Alberta's investment gap that exists between technology creation and commercial business success.

Under this agreement, AVAC invested $2,935,000 in the form of six tranches based upon the achievement of specific milestones. The amount disbursed to the Company during the year ended March 31, 2017 was $nil (2016 – $150,000). The investment is secured by a General Security Agreement whereby the Company granted a security interest covering all present and future acquired property including a specific charge covering all intellectual property rights. No future shareholder loans shall be repaid, nor shall the Company issue any dividends, repay lines of credit or make any other disbursements of a similar nature without prior written consent of AVAC until the earlier occurrence of either:

a. Three months following the full disbursement of project funds or;
b. Royalties have been repaid in full.

Repayment of this investment began on August 1, 2010 and repayment per the initial agreement was based on a royalty on gross revenues until an amount equal to twice the initial investment is repaid. The royalty rate of the revenues earned before July 31, 2010 was nil% and for revenues subsequent was 3%.

On June 28, 2013, the Company entered into an Inter-Creditor Agreement with AVAC and the Convertible Debt Financing participants, whereby AVAC would subordinate its security interest on amounts advanced by AVAC to that date, being $2,385,000. In consideration of AVAC executing the Inter-Creditor Agreement, AVAC and the Company have agreed that the royalty payable of two times (2X) the investment, be increased to a minimum of two and one-tenth times (2.1X) the investment, and a maximum of two and a half times (2.5X) the investment, subject to specific conditions on the Convertible Debt Financing being met. This was accounted for as a debt modification during the year ended March 31, 2014 and has subsequently been settled with the repayment terms revised to be two and one-tenth times (2.1X) the investment.

On September 1, 2011, the Company entered into a second investment agreement with AVAC to provide up to a maximum of $1,750,000 for corporate and business development purposes. The amount disbursed to the Company during the year ended March 31, 2017 is $nil (2016 – $100,000). A total of $1,750,000 has been received under this agreement. The second investment agreement is covered by the General Security Agreement described above.

The Company will repay AVAC's second investment agreement by way of a quarterly royalty, calculated in arrears until an aggregate sum of two times the gross amount invested by AVAC has been remitted.

Royalty payments commenced with the quarter ended October 31, 2012 on the following basis: 0% of gross revenues earned to March 31, 2012 and 3% of gross revenues earned thereafter for each loan.

11. Royalty financial liability (cont'd)

As the funding received is contingently repayable, it constitutes a liability that is recognized initially at fair value and subsequently at amortized cost using the effective interest method. The amount owing by the Company is based on the applicable multiple of each original amount loaned. The Company recalculated the carrying value for changes in actual and revised estimated cash flows by computing the present value of estimated future cash flows at the original effective interest rates of the loans. The key assumptions for the calculation of the carrying value of the royalty liability are the timing of the corresponding repayment of the liability, which is based on the expected timing of revenues in the Company. The estimated timing of revenues is based on three possible scenarios (maintaining capacity, modest expansion and full capacity). The scenarios are probability weighted, and used to determine the estimated timing of cash flows for repayment. The impact of the revised cash flows is recognized in net income. Management updates the estimate of future cash flows required under these agreements at least annually, or more frequently if material changes to the expected cash flows have occurred or are expected to occur since the last update.

During the year ended March 31, 2017, the Company revised the estimated amount and timing of future repayments resulting in a benefit of $444,098 (2016 -$524,462) which has been included in financing fees.

Management estimates the first and second investment agreements will be repaid in full by fiscal 2030 and 2026 respectively, and the resulting gross amounts of royalties and principal repayments have been discounted to their carrying values at an effective interest rate of 8.4% and 15% respectively.

		March 31, 2017		March 31, 2016
Outstanding, beginning of the year	**$**	**5,125,746**	$	4,620,429
Additional AVAC investment		**-**		515,000
Revision of repayment timing		**(444,098)**		(524,462)
Repayments		**(33,497)**		-
Accretion		**564,575**		514,779
		5,212,726		5,125,746
Current portion		**(26,879)**		(25,229)
	$	**5,185,847**	$	5,100,517

During the year ended March 31, 2017, the Company remedied all amounts which were in arrears at March 31, 2016.

12. Long-term debt

		March 31, 2017		March 31, 2016
Long-term debt	**$**	**612,057**	$	748,382
Current portion		**(111,723)**		(148,598)
	$	**500,334**	$	599,784

On September 2, 2011, the Company entered into a loan agreement with the AFSC to assist the Company to purchase equipment. The amount funded under the loan agreement was $750,000 and bears interest at 5.8% per annum. During the year ended March 31, 2017, the Company remedied amounts owing. Monthly payments of $9,327 are payable to October 1, 2021.

12. Long-term debt (cont'd)

On December 11, 2012, the Company entered into a second loan agreement with AFSC to assist the Company to purchase equipment. The amount funded under this agreement was $250,000 and bears interest at 4.55% per annum, installments of $2,586 are payable to March 1, 2023. During the year ended March 31, 2017, the Company fully paid all amounts in arrears.

The security for these loans are by way of a promissory note and security agreement on all present and after acquired personal property, including proceeds and including but limited to specialized equipment subject to no prior registrations and encumbrances. The Company has also given a Priority Agreement, in a form satisfactory to AFSC and AVAC, confirming AFSC's priority relationship over the equipment being purchased.

13. Repayable government contributions

		March 31, 2017		March 31, 2016
Outstanding, beginning of the year	$	**755,467**	$	658,806
Accretion		**94,108**		96,661
Arrears interest		**36,954**		-
Interest payments		**(8,229)**		-
Outstanding, end of the year	$	**878,300**	$	755,467

In January 2009, the Company entered into a repayable contribution agreement with the Ministry of Agriculture and Agri-Food Canada ("Agri"). In conjunction with this agreement Agri would contribute 33.3% of eligible costs for a defined project supporting the expansion of the Company's product capacity and business development to a maximum of $1,115,000. Total contributions received under the agreement were $1,086,313 (2016 - $1,086,313).

The contributions are repayable in 60 equal monthly instalments of $18,583 which commenced on January 1, 2014. As the contributions are non-interest bearing, the fair value at inception is estimated as the present value of the principal payments required, discounted using the prevailing market rates of interest for a similar instrument, estimated to be 15% per annum. The difference between the fair value of the contributions and the cash received was accounted for as a government grant.

As at March 31, 2017, the repayable contributions are twenty-seven months in arrears and the Company is in default of its obligation. During the year ended March 31, 2017 the Company recorded arrears interest of $36,954 (2016 - $nil). On May 18, 2017, the Company reached an agreement with Agri to restructure the debt. The agreement includes a payment of $92,000 upon signing with the remaining balance to be repaid over 8 years in accordance with an agreed upon repayment schedule which includes interest compounded monthly at Bank of Canada prime plus 3%. Interest will accrue on the amount in arrears until the agreement is finalized. As the restructuring did not occur prior to March 31, 2017, the entire amount outstanding has been classified as current. The repayable contributions are unsecured.

14. Share capital

a) Common shares

i) Authorized

Unlimited number of common shares without par value

ii) Issued and outstanding common shares

	Shares		Amount
Balance March 31, 2015	43,184,320	$	31,173,120
Issuance of shares on private placements	13,157,000		1,315,700
Conversion of a payable	340,500		34,050
Share issuance costs	-		(63,255)
Warrant issuance	-		(201,448)
Balance March 31, 2016	56,681,820	$	32,258,167
Issuance of shares on private placements	85,509,261		14,155,708
Warrant exercises	3,949,589		1,338,700
Conversion of payables	3,583,344		376,252
Share issuance costs	-		(924,719)
Finders' options	-		(833,178)
Finders' common shares and warrants	964,251		(1,471,910)
Warrant issuance	-		(4,259,248)
Balance March 31, 2017	**150,688,265**	**$**	**40,639,772**

b) Private placements

During each of the years ended March 31, 2017 and 2016 the Company completed four private placements on various dates with specific details for each private placement summarized in the tables below. Each private placement was completed in a unit offering consisting of one common share and one half common share purchase warrant. Each whole common share purchase warrant and any finders' warrants issued in each private placement were exercisable for one common share.

In each of the private placements the common share purchase warrants were allocated a portion of the proceeds based upon their relative fair value at the date of issuance. The fair values of the common share purchase warrants and the finders' warrants were determined using a Black-Scholes option pricing valuation model.

14. Share capital (cont'd)

b) Private placements (cont'd)

Placements during the year ended March 31, 2017

Private placement closing date	(1) Jun 29, 2016	(2) Oct 14, 2016	(3) Dec 22, 2016	(4) Mar 9, 2017	Total
Issue price per unit	$ 0.10	$ 0.10	$ 0.105	$ 0.45	
Common shares issued	4,339,590	18,217,292	47,619,050	15,333,329	85,509,261
Warrants issued	2,169,795	9,108,644	23,809,530	7,666,668	42,754,637
Warrants exercise price	$ 0.25	$ 0.25	$ 0.25	$ 0.70	
Warrant term in months	42	42	42	24	
Finders' shares issued				(5) 964,251	964,251
Finders' warrants issued	433,959	1,266,988	3,209,853	(5) 482,126	5,392,926
Finders' warrants exercise price	$ 0.10	$ 0.10	$ 0.105	$ 0.70	
Warrant term in months	24	24	24	24	
Cash proceeds summary:					
Gross proceeds	$ 433,959	$ 1,821,749	$ 5,000,000	$ 6,900,000	$ 14,155,708
Cash issuance costs	(105,144)	(156,295)	(404,822)	(248,852)	(915,113)
Net cash proceeds on issuance	$ 328,815	$ 1,665,454	$ 4,595,178	$ 6,651,148	$ 13,240,595
Fair value of finders' options	-	-	-	(833,178)	(833,178)
Fair value of finders' warrants	(29,465)	(121,106)	(1,215,867)	(105,472)	(1,471,910)
Total issuance costs	$ (134,609)	$ (277,401)	$ (1,620,689)	$ (1,187,502)	$ (3,220,201)
Fair value on warrant issuance	(133,537)	(863,397)	(1,585,128)	(1,677,186)	(4,259,248)
Net value allocated to common shares	$ 165,813	$ 680,951	$ 1,794,183	$ 4,035,312	$ 6,676,259

Notes:

(1) The private placement consisted of the second and third tranche closing on May 30 and June 29, 2016 respectively of a financing commenced in the prior fiscal year with the first tranche closing on March 31, 2016.

(2) The private placement consisted of three tranches closing on August 19, August 26, and October 14, 2016 respectively.

(3) The private placement consisted of two tranches closing on December 2 and 22, 2016 respectively.

(4) The private placement consisted of a brokered and non-brokered placement both closing on March 9, 2017.

(5) Finders' units including one common share and one half common share purchase warrant were issued as payment for finders' fees of $433,913. Of this total, $328,441 was allocated to common shares and $105,472 was allocated to warrants.

14. Share capital (cont'd)

b) Private placements (cont'd)

A summary of the assumptions used for each private placement is set out below:

	Jun 29, 2016	Oct 14, 2016	Dec 22, 2016	Mar 9, 2017
Common Share Purchase Warrants				
Common share market price	$ 0.08 - 0.10	$ 0.13 - 0.16	$ 0.14 - 0.50	$ 0.71
Risk free interest rate	3.75%	1.75%	1.75%	0.50%
Expected dividend yield	-	-	-	-
Estimated common share price volatility	124 – 125%	121 – 123%	119 – 131%	129%
Estimated life in years	3.5	3.5	3.5	2.0
Finders' Warrants				
Common share market price	$ 0.08 - 0.10	$ 0.13 - 0.16	$ 0.14 - 0.50	$ 0.71
Risk free interest rate	0.25%	0.50%	0.50%	0.50%
Expected dividend yield	-	-	-	-
Estimated common share price volatility	124 - 125%	121 – 123%	119 – 131%	129%
Estimated life in years	2	2	2	2

As part of the private placement on March 9, 2017, the Company also issued 1,130,500 finders' options to certain finders that entitle them to acquire 1,130,500 units at an exercise price of $0.45 for a period of 24 months following the completion of the offering. If exercised, these units would include 1,130,500 common shares and 565,250 common share purchase warrants entitling the holder to subscribe for additional common shares at a price of $0.70 per common share until March 9, 2019.

The fair value of the finders' options was estimated using the Black-Scholes option pricing model. A total of $833,178 was recorded as share issue costs as of March 31, 2017 ($575,424 and $257,754 allocated to common shares and common share purchase warrants respectively). A summary of the assumptions used for each component is set out below:

	Common Shares	Common Share Purchase Warrants
Finder's Options		
Common share market price	$ 0.71	$ 0.71
Risk free interest rate	0.50%	0.50%
Expected dividend yield	-	-
Estimated common share price volatility	129%	129%
Estimated life in years	2	2

In addition to these private placements, during the year ended March 31, 2017 the Company issued 3,583,344 common shares as settlement for payable amounts of $376,252 to certain creditors, employees, officers and directors of the Company.

14. Share capital (cont'd)

b) Private placements (cont'd)

Placements during the year ended March 31, 2016

Private placement closing date	(1) Jun 25, 2015	(2) Oct 21, 2015	(3) Nov 27, 2015	(4) Mar 31, 2016	Total
Issue price per unit	$ 0.10	$ 0.10	$ 0.10	$ 0.10	
Common shares issued	4,479,300	2,911,800	1,500,000	4,265,900	13,157,000
Warrants issued	1,989,650	1,455,900	750,000	2,132,950	6,328,500
Warrants exercise price	$ 0.50	$ 0.50	$ 0.25	$ 0.25	
Finders warrants issued	140,000	-	-	-	140,000
Finders warrants exercise price	$ 0.10	-	-	-	
Warrant term in months	42	42	42	42	
Cash proceeds summary:					
Gross proceeds	$ 447,930	$ 291,180	$ 150,000	$ 426,590	$ 1,315,700
Cash issuance costs	(26,932)	(21,857)	(7,445)	(7,021)	(63,255)
Net cash proceeds on issuance	$ 420,998	$ 269,323	$ 142,555	$ 419,569	$ 1,252,445
Fair value on warrant issuance	(56,565)	(37,941)	(26,500)	(74,653)	(195,659)
Net value allocated to common shares	$ 364,433	$ 231,382	$ 116,055	$ 344,916	$ 1,056,786

Notes:

(1) The private placement consisted of three tranches closing on April 16, June 2 and June 25, 2015 respectively.

(2) The private placement consisted of three tranches closing on August 11, September 15, and October 21, 2015 respectively.

(3) The private placement consisted of only one tranche.

(4) The private placement consisted of the initial tranche under this placement.

A summary of the assumptions used for each private placement is set out below:

	Jun 25, 2015	Oct 21, 2015	Nov 27, 2015	Mar 31, 2016
Common Share Purchase Warrants				
Common share market price	$ 0.05 - 0.06	$ 0.04 - 0.06	$ 0.05	$ 0.05
Risk free interest rate	1.41 – 1.87%	1.40 – 1.57%	1.23 – 1.57%	1.23%
Expected dividend yield	-	-	-	-
Estimated common share price volatility	131 – 136%	132 – 156%	153 – 159%	153%
Estimated life in years	3.5	3.5	3.5	3.5

In addition to these private placements, on November 13, 2015, the Company announced a conversion of a payable owing to a supplier of the Company for $34,050 in exchange for 340,500 common shares along with 170,250 warrants. The warrants are exercisable for a period of 42 months from the time of issue and have an exercise price of $0.50. A balance of $5,789 of the total payable amount was allocated to the warrants. This value was estimated using the Black Scholes pricing model using the following assumptions: common share market price $0.05; risk-free rate1.41%; expected volatility 163%; annual dividend yield 0%; expected life 3.5 years.

14. Share capital (cont'd)

c) Warrants

The continuity of the Company's outstanding warrants is as follows:

	March 31, 2017			March 31, 2016		
	Number of warrants		**Weighted average exercise price**	Number of warrants		Weighted average exercise price
Outstanding, beginning of the year	**11,539,987**	**$**	**0.40**	7,526,543	$	0.31
Warrants issued	**42,754,637**		**0.33**	6,498,750		0.39
Finders and agent warrants	**5,392,926**		**0.16**	140,000		0.10
Warrants expired	**(826,137)**		**0.15**	(2,625,306)		0.08
Warrants exercised	**(3,949,589)**		**0.27**	-		-
Outstanding, end of the year	**54,911,824**	**$**	**0.34**	11,539,987	$	0.40

During the year ended March 31, 2017, warrant holders exercised common share purchase warrants and finders' warrants. The gross proceeds of these exercises plus the net value attributed to these warrants on the initial grant were recognized in Common Shares as summarized below:

Warrant exercise price	**Number of warrants exercised**		**Gross proceeds**		**Fair value of warrants transferred to Common Shares**		**Common shares**
$0.10	1,178,408	$	117,841	$	90,275	$	208,116
$0.25	1,748,681		437,170		150,927		588,097
$0.50	1,022,500		511,250		31,237		542,487
	3,949,589	**$**	**1,066,261**	**$**	**272,439**	**$**	**1,338,700**

Share issue costs include $9,606 of costs incurred related to warrant exercises. No warrants were exercised during the year ended March 31, 2016.

14. Share capital (cont'd)

c) Warrants (cont'd)

The following table summarizes information about warrants outstanding at March 31, 2017 and March 31, 2016.

	March 31, 2017				March 31, 2016		
	Exercise price	**Number of warrants**	**Remaining contractual life (years)**		Exercise Price	Number of warrants	Remaining contractual life (years)
$	-	-	-	$	0.08	156,030	0.0
	-	-	-		0.08	604,107	0.1
	-	-	-		1.00	66,000	0.1
	-	-	-		0.10	181,200	0.8
	0.10	**100,000**	**0.2**		0.10	140,000	1.2
	-	-	-		0.10	4,000	2.3
	0.50	**1,510,000**	**1.3**		0.50	2,032,500	2.3
	0.10	**527,974**	**1.4**		-	-	-
	0.50	**1,857,400**	**1.4**		0.50	1,857,400	2.4
	0.10	**219,765**	**1.5**		-	-	-
	0.50	**614,650**	**1.5**		0.50	614,650	2.5
	0.11	**3,209,853**	**1.7**			-	
	0.50	**1,375,000**	**1.7**		0.50	1,375,000	2.7
	0.50	**636,050**	**1.9**		0.50	636,050	2.9
	0.70	**8,148,794**	**1.9**		0.50	500,000	3.0
	0.50	**319,850**	**2.1**		0.50	319,850	3.1
	0.25	**750,000**	**2.2**		0.25	750,000	3.2
	0.50	**170,250**	**2.2**		0.50	170,250	3.2
	0.25	**2,132,950**	**2.5**		0.25	2,132,950	3.5
	0.25	**2,169,795**	**2.7**		-	-	-
	0.25	**4,149,885**	**2.9**		-	-	-
	0.25	**3,260,078**	**3.0**		-	-	-
	0.25	**23,759,530**	**3.2**		-	-	-
$	**0.34**	**54,911,824**	**2.6**	$	0.40	11,539,987	2.6

d) Stock option plan

The Company's stock option plan (the "Stock Option Plan") provides that the Board of Directors of the Corporation may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Company non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance under the Stock Option Plan shall not exceed ten percent (10%) of the issued and outstanding common shares exercisable for the period of up to ten (10) years.

14. Share capital (cont'd)

d) Stock option plan (cont'd)

In addition, the number of common shares reserved for issuance to any one person shall not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to any one consultant will not exceed two percent (2%) of the issued and outstanding common shares. The Board of Directors determines the price per common share and the number of common shares which may be allocated to each director, officer, employee and consultant and all other terms and conditions of the option, subject to the rules of the TSXV.

The continuity of the Company's outstanding and exercisable stock options is as follows:

	March 31, 2017			March 31, 2016		
	Number of options		**Weighted average exercise price**	Number of options		Weighted average exercise price
Outstanding, beginning of the year	**2,156,362**	**$**	**0.76**	2,296,395	$	0.76
Options expired	**(42,000)**		**1.00**	-		-
Options forfeited	**-**		**-**	(140,033)		0.75
Outstanding, end of the year	**2,114,362**	**$**	**0.76**	2,156,362	$	0.76
Exercisable, end of the year	**1,600,885**	**$**	**0.76**	1,134,414	$	0.77

The following table summarizes information about stock options outstanding at March 31, 2017 and March 31, 2016:

	March 31, 2017				March 31, 2016		
	Exercise price	**Number of options**	**Remaining contractual life (years)**		Exercise price	Number of options	Remaining contractual life (years)
$	**-**	**-**	**-**	$	1.00	42,000	0.3
	0.60	**3,340**	**3.1**		0.60	3,340	4.1
	1.00	**77,143**	**4.6**		1.00	77,143	5.6
	0.60	**3,841**	**6.4**		0.60	3,841	7.4
	0.60	**20,038**	**7.1**		0.60	20,038	8.1
	0.75	**2,010,000**	**7.2**		0.75	2,010,000	8.2
$	**0.76**	**2,114,362**	**7.1**	$	0.76	2,156,362	8.0

For stock options granted the Company records compensation expense using the fair value method. Fair values are determined using the Black-Scholes Option pricing model. Compensation costs are recognized over the vesting period as an increase to stock based compensation expense and contributed surplus. When stock options are subsequently exercised, the fair-value of such stock options in contributed surplus is credited to share capital.

The total share based compensation recognized during the year ended March 31, 2017 of $184,531 (2016 - $380,315) was recorded as an expense.

The Company did not issue any options during the years ended March 31, 2017 and 2016.

15. Income taxes

As at March 31, 2017 the Company has scientific research and experimental development expenditures of approximately $5,898,406 (2016 - $5,898,406) available for carry-forward indefinitely. The Company also has investment tax credits available to offset future Canadian federal income taxes payable that expire as follows:

Year		Amount
2022	$	32,916
2023		52,187
2024		795
2025		1,917
2026		20,050
2027		12,902
2028		17,844
2029		6,343
2030		98,903
2031		21,448
2032		43,379
2033		652
2034		55,033
Total investment tax credits	$	364,369

As at March 31, 2017 the Company has Canadian federal non-capital losses carried forward of $23,756,635 (2016 - $19,537,504) and provincial non-capital losses carried forward of $ 24,041,051 (2016 - $21,171,698) to offset future Canadian taxable income. These Canadian losses expire between 2027 and 2036.

The significant components of the Company's deferred tax assets and liabilities as of the end of the following periods are shown below:

15. Income taxes (cont'd)

		March 31, 2017		March 31, 2016
Deferred tax assets				
Non-capital loss carry-forward	$	**6,448,411**	$	5,471,229
Research and development deductions and credits		**855,588**		738,899
Financing fees and issuance costs		**300,970**		175,981
Royalty financial liabilities		**151,530**		112,190
Plant and equipment		**2,150,744**		1,796,944
Cumulative eligible capital		**-**		234,683
Other		**140,899**		253,230
		10,048,142		8,783,156
Offset by deferred tax liabilities		**(728,024)**		(489,748)
Deferred tax asset not recognized	$	**9,320,118**	$	8,293,408

Deferred tax liabilities				
Repayable government contributions	$	**18,762**	$	44,171
Investment tax credits		**98,380**		98,380
Common shares		**518,182**		268,507
Other		**92,700**		78,690
Deferred tax liabilities		**728,024**		489,748
Offset by deferred tax assets		**(728,024)**		(489,748)
Net deferred tax liabilities	$	**-**	$	-

The potential income tax benefits relating to these future tax assets have not been recognized in the accounts as their realization is not considered probable. Accordingly, no deferred tax assets have been recognized as at March 31, 2017 or 2016 except to the extent of deferred tax liabilities expected to reverse in the same period and with the same taxation authority.

The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the combined statutory income tax rate to the loss before income taxes as follows:

		March 31, 2017		March 31, 2016
Net loss before tax	$	(4,316,274)	$	(4,366,665)
Statutory income tax rates		27.0%		27.0%
Expected income tax recovery		(1,165,394)		(1,178,999)
Increase (decrease) resulting from:				
Non-deductible amounts		65,520		108,184
Change in deferred tax asset not recognized		1,026,711		955,869
Change in tax rates and rate differences		-		43,724
Prior period adjustments		73,163		71,222
Expiration of losses		-		-
Income tax expense (recovery)	$	-	$	-

16. Commitments and contingencies

Unless disclosed elsewhere in the financial statements the Company is subject to the following commitments and contingencies:

Contribution agreement

On August 5, 2004, the Company signed a Contribution Agreement with Sustainable Development Technology Canada (SDTC) to fund the Company's manufacturing facility and its pilot plant expansion. SDTC would contribute 40% of all eligible costs to a maximum of $1,000,000. That Agreement was amended November 11, 2009.

SDTC requested an audit of the expenses incurred from 2004 to 2010 on the project. As a result of this audit during the year ended March 31, 2014, it was agreed that $90,000 would be repaid by the Company to SDTC in 18 monthly installments, beginning March 1, 2014. The balance owing to SDTC at March 31, 2016 was $30,000. On March 9, 2017, the Company received notification from SDTC that the remaining balance of $30,000 was forgiven. This amount has been recognized in income during the year ended March 31, 2017.

Facility leases

The Company is party to a facility lease in Edmonton, Alberta which requires minimum monthly lease payments of $12,216 plus monthly operating costs of approximately $7,500 commencing on October 1, 2014 through September 30, 2019.

The Company is party to a facility lease for the Edmonton production facility as discussed in Note 9.

The Company has operating lease commitments in the following amounts: 2018 - $26,474 and 2019 - $5,850.

Claim for amounts owing

During the year ended March 31, 2016 a utility provider to the Company commenced a civil claim against the Company for unpaid amounts of $205,304, including an early termination fee of $127,797, for the early termination of a supply contract. During the year ended March 31, 2017, the Company and the utility provider reached an agreed upon schedule of payments for amounts owing that eliminated the early termination fee. As at March 31, 2017, all amounts have been fully paid and the utility provider has withdrawn its civil claim.

17. Related party transactions

The following related party transactions took place in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties:

On June 15, 2015, the Company received a bridge loan from one of its directors for $100,000. The loan was repaid by the Company on June 23, 2015.

On August 4, 2015, the Company received a bridge loan from one of its directors for $50,000. The loan was repaid during the year ended March 31, 2017.

Pursuant to the private placement that closed on October 14, 2016, one officer and one director participated in the placement for total proceeds of $102,250.

17. Related party transactions (cont'd)

Pursuant to the private placement that closed on December 22, 2016, two directors and three officers participated directly or indirectly in the placement for total proceeds of $364,500.

During the year ended March 31, 2017 2,228,569 common shares were issued to certain directors and officers of the Company as settlement for payables of $234,000.

For the year ended March 31, 2017 key management salaries, short-term benefits, consulting fees and director's fees were $697,017 (2016 - $734,873).

For the year ended March 31, 2017 share based compensation expense was $115,251 (2016 - $258,557) for key management personnel.

As at March 31, 2017 $275,972 (2016 - $78,318) was included in accounts payable and accrued expenses for key management personnel, directors and a company controlled by a director.

18. Segmented reporting

Operating segments are identified based on internal reports that are regularly reviewed by the Company's chief operating decision maker, the Chief Executive Officer. The Company has a single reporting segment which is the extraction, isolation and purification of soluble products from a wide range of materials using microwave technology.

The Company's revenues from external customers are divided into the following geographical areas:

For the year ended March 31		2017		2016
Canada	$	293,447	$	101,475
USA		-		524,982
	$	293,447	$	626,457

All the Company's non-current assets are located in Canada.

During the year ended March 31, 2017, the Company earned revenue greater than 10% of revenue from one customer (2016 – two); from customer A $293,447 (2016 - $523,782) and from customer B $nil (2016 - $78,614).

19. Financing fees

For the year ended March 31		2017		2016
Accretion of royalty financial liability	$	564,575	$	779,779
Accretion of repayable government contributions		94,108		96,661
Change in royalty financial liability estimate		(444,098)		(524,462)
Interest on promissory notes		19,820		30,658
Interest on long-term debt		37,451		41,663
Interest on lease obligation		3,040		1,143
Interest on loan due to related company		61,682		64,783
Interest on convertible debenture		26,404		-
Interest on repayable government contributions		36,954		6,342
Amortization of financing costs on convertible debenture		4,017		-
Amortization of financing costs on due to related company		9,429		9,034
Other		70,287		2,578
	$	483,669	$	508,179

20. Financial instruments

The carrying amounts present in the balance sheet relate to the following categories of assets and liabilities:

		March 31, 2017		March 31, 2016
Financial assets				
Cash	**$**	**8,507,747**	$	425,016
Restricted cash		**1,960,000**		-
Accounts receivable		**165,066**		172,529
Deposits		**128,241**		40,716
Advances to related company		**103,102**		-
	$	**10,864,156**	$	638,261
Financial liabilities				
Accounts payable and accrued liabilities	**$**	**1,093,984**	$	3,103,057
Loans and borrowings		**9,511,331**		8,115,174
	$	**10,605,315**	$	11,218,231

The fair value of cash, restricted cash, accounts receivable, deposits, advances to related company, repayable grant and accounts payable and accruals approximate their carrying amount due to their short-term nature. The fair values of long-term debt; promissory notes and convertible debenture are estimated to approximate their carrying value because the interest rates do not differ significantly from current interest rates for similar types of borrowing arrangements (level 2).

Repayable government contributions are recorded at the amount drawn under the agreement using a discounted market rate which represents the estimated fair value of the obligation. The fair value of the repayable government contributions is not materially different from their carrying amounts as funding received has been discounted using an estimate of a market rate of interest and is being accreted back to its nominal amount (level 2).

The royalty financial liability was estimated using a discount rate that results from the estimated future repayment of that obligation which is based on expected sales. As the estimated discount rate also approximates the company's estimated cost of capital for similar borrowing arrangements, management believes the carrying amount of this obligation does not differ significantly from its fair value (level 3).

The Company has exposure to credit, liquidity and market risk as follows:

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Company incurring a financial loss. The Company is exposed to credit risk on its cash, restricted cash, accounts receivable and advances to related company to a maximum of the carrying value of the items at the reporting date.

The Company mitigates its exposure to credit risk by maintaining its Canadian domiciled bank accounts with a Canadian Chartered Bank.

20. Financial instruments (cont'd)

Accounts receivable is composed of the following:

		March 31, 2017		March 31, 2016
Trade receivables	$	355,685	$	159,030
Allowance for doubtful debts		(263,424)		-
Net trade receivables		92,261		159,030
Other receivables		72,805		13,499
	$	165,066	$	172,529

The Company's trade receivables are monitored on an ongoing basis for impairment. During the year ended March 31, 2017, the Company assessed that a receivable from a customer and a receivable from its subtenant were impaired and an allowance for the impairments were made.

Movement in the allowance for doubtful debts during the year was as follows:

		March, 31 2017		March 31, 2016
Outstanding, beginning of the year	$	-	$	-
Impairment losses recognized on trade receivables		263,424		-
Outstanding, end of the year	$	263,424	$	-

An analysis of the age of receivables is as follows:

		March, 31 2017		March 31, 2016
31 – 60 days	$	10,942	$	10,942
61 – 90 days		10,942		10,942
Greater than 90 days		243,768		113,173
Balance past due		265,652		135,057
Current balance		90,033		23,974
Trade accounts receivable	$	355,685	$	159,031

As at March 31, 2017, the entire balance past due less Goods and Services Tax (GST) of $12,650 that has been billed but not yet collected and can be recovered is impaired (2016 - $nil). Other receivables at March 31, 2017 consist of GST $33,998 (2016 - $13,499) and revenue earned but not yet billed of $37,153 (2016 - $nil) both of which were received subsequent to the end of the year.

<u>Liquidity Risk</u>

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial obligations.

The Company manages its liquidity risk by forecasting cash flow requirements for its planned development, production and corporate activities and anticipating investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of annual budgets and significant expenditures and commitments.

20. Financial instruments (cont'd)

The Company's contractual liabilities and obligations are as follows:

	<1 year	1 to 3 years	4 to 5 years	>5 years	Total
Accounts payable and accrued liabilities	$ 1,093,984	$ -	$ -	$ -	$ 1,093,984
Convertible debenture	1,941,631	-	-	-	1,941,631
Repayable government contributions	878,300	-	-	-	878,300
Long-term debt	142,950	285,899	237,162	30,982	696,993
Lease obligation	13,371	5,571	-	-	18,942
Royalty financial liability	158,914	1,412,022	2,081,675	5,949,785	9,602,396
Due to related company	111,492	213,974	201,961	1,183,481	1,710,908
Balance March 31, 2017	**$ 4,340,642**	**$ 1,917,466**	**$ 2,520,798**	**$ 7,164,248**	**$ 15,943,154**
Accounts payable and accrued liabilities	$ 3,103,057	$ -	$ -	$ -	$ 3,103,057
Repayable grant	30,000	-	-	-	30,000
Repayable government contributions	755,467	-	-	-	755,467
Promissory notes	250,000	-	-	-	250,000
Long-term debt	142,950	285,899	285,899	125,195	839,943
Lease obligation	13,371	13,371	5,571	-	32,313
Royalty financial liability	195,692	2,135,434	2,166,844	5,123,227	9,621,197
Due to related company	402,051	219,980	207,967	1,282,960	2,112,958
Balance March 31, 2016	$ 4,892,588	$ 2,654,684	$ 2,666,281	$ 6,531,382	$ 16,744,935

The contractual liabilities and obligations included in the tables above include both principal and interest cashflows.

Market Risk

Market risk is composed of interest rate risk and foreign currency risk. The Company earns certain revenues and incurs certain operating expenses and capital expenditures in U.S. dollars and EUROS. Accordingly, the fluctuations in the exchange rate between the U.S. and Canadian dollar and the EURO and the Canadian dollar can impact the Company's reported results. During the year ended March 31, 2017 total foreign exchange loss was $6,833 (2016 - $20,724).

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in the market interest rates. The Company has minimal interest rate risk on its long-term debt agreements as all are at fixed rates.

21. Post-reporting date events

Subsequent to March 31, 2017 the Company issued 14,345,476 common shares related to warrant exercises for total proceeds of $3,523,308 at a weighted average exercise price of $0.23.

Furthermore on June 15, 2017, 104,167 units consisting of 104,167 common shares and 104,167 common share purchase warrants were issued to Aurora Cannabis Inc. in exchange for $50,000 quarterly interest due on the convertible debenture (see Note 7). Units were issued based on the closing market price of the Company's common shares on May 12, 2017 of $0.48 which is also the exercise price of the warrants.

21. Post-reporting date events (cont'd)

On April 3, 2017, the Company issued 8,517,768 stock options to certain officers, employees and consultants with an exercise price of $0.66. The weighted average grant date fair value of $0.55 was estimated using the Black Scholes option pricing model using the following grant date assumptions: grant date stock price $0.65; risk-free rate 0.5%; expected volatility 128%; annual dividend yield 0%; expected life of the options 5 years. The expected volatility is based on the Company's historic volatility since May 22, 2014.

On May 18, 2017, the Company reached an agreement with Agri-Foods Canada to restructure the repayable government contributions (see Note 13). The agreement includes a payment of $92,000 upon signing with the remaining balance to be repaid over 8 years in accordance with an agreed upon repayment schedule which includes interest compounded monthly at Bank of Canada prime plus 3%.

On July 19, 2017, the Company reached an agreement with AVAC to settle the total amount owing of $5,212,726 (see Note 11) under the royalty financial liability in exchange for 9,424,330 common shares.

22. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation used in the current period.