



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018 and June 30, 2017

(Expressed in Canadian Dollars)

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CANNAROYALTY CORPORATION

Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

(UNAUDITED)

	Note	June 30, 2018	December 31, 2017
ASSETS			
Current			
Cash		\$ 15,724,845	\$ 4,522,644
Amounts receivable	6	763,166	1,429,123
Inventory	7	3,754,328	270,169
Prepaid and other assets		1,356,299	250,744
Loans receivable - current	8	1,902,913	1,102,168
Convertible notes - current	9	-	373,127
		<u>23,501,551</u>	<u>7,947,975</u>
Non-Current			
Loans receivable	8	-	66,421
Interest in equity accounted investees	10	3,803,045	3,596,333
Investments	11	33,379,709	17,243,342
Royalty investments	12	6,913,277	5,834,613
Property and equipment	13	1,555,987	1,084,098
Intangible assets	14	12,204,871	5,607,598
Goodwill	14	13,432,597	4,759,377
		<u>71,289,486</u>	<u>38,191,782</u>
Total Assets		<u>\$ 94,791,037</u>	<u>\$ 46,139,757</u>
LIABILITIES			
Current			
Amounts payable and accrued liabilities	15	\$ 5,374,501	\$ 1,606,689
Loan payable	16	90,166	425,345
Current tax liability		477,998	102,236
		<u>5,942,665</u>	<u>2,134,270</u>
Non-Current			
Convertible debt	17	-	1,431,950
Line of credit	18	290,457	826,517
Deferred tax liability	24	3,313,135	1,278,676
		<u>\$ 9,546,257</u>	<u>\$ 5,671,413</u>
SHAREHOLDERS' EQUITY			
Share capital	21	\$ 81,377,459	\$ 50,007,891
Share subscription and contingent shares	21	3,824,094	-
Warrants reserve	21	5,625,652	4,149,703
Contributed surplus	21,22	12,050,171	9,902,292
Accumulated other comprehensive income (loss)		211,350	(1,032,719)
Accumulated deficit		(17,919,831)	(22,381,817)
Non-controlling interest		75,885	(177,006)
Shareholders' Equity		<u>85,244,780</u>	<u>40,468,344</u>
Total Liabilities & Shareholders' Equity		<u>\$ 94,791,037</u>	<u>\$ 46,139,757</u>

Subsequent events (note 30)

See accompanying notes to the condensed interim consolidated financial statements.

On behalf of the Board

/s/"Marc Lustig" Director

/s/"Daniel O'Neil" Director

CANNAROYALTY CORPORATION

**Condensed Interim Consolidated
Statements of Net Income (Loss)**
(Expressed in Canadian Dollars)

	Note	Three months ended		Six months ended	
		June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenue	26	\$ 3,511,466	\$ 960,157	\$ 4,154,903	\$ 1,261,268
Cost of sales	26	(2,690,531)	(538,476)	(3,363,598)	(595,114)
Gross margin		820,935	421,681	791,305	666,154
Operating expenses					
Sales and marketing		1,219,066	409,221	1,697,582	646,081
Research and development		75,445	148,852	151,410	625,093
General and administrative	27	4,456,638	1,977,734	8,207,064	4,114,922
Amortization of brands and technologies	14	529,067	205,878	704,174	408,350
Loss from operations		(5,459,281)	(2,320,004)	(9,968,925)	(5,128,292)
Other income (expenses)					
Changes in fair value of investments	11	15,222,971	-	15,565,077	-
Impairment of convertible notes receivable	9	-	-	(375,472)	-
Profit (loss) from equity accounted investees	10	(295,246)	(98,483)	158,558	843,914
Foreign exchange gain		111,145	388,327	35,115	349,855
Interest expense		(341,293)	(18,499)	(661,283)	(36,119)
Penalties from non-completed transaction		-	(37,578)	-	(221,053)
Listing expense		-	-	-	(38,193)
Gain (loss) on disposal of equipment		-	(10,000)	-	88,674
Net income (loss) before tax		9,238,296	(2,096,237)	4,753,070	(4,141,214)
Current tax expense		(115,898)	-	(116,332)	-
Deferred tax recovery		176,090	78,681	7,277	157,053
Net income (loss) for the period		\$ 9,298,488	\$ (2,017,556)	\$ 4,644,015	\$ (3,984,161)
Net income (loss) per common share - basic	23	0.18	(0.05)	0.10	(0.10)
Net income (loss) per common share - diluted	23	0.17	(0.05)	0.09	(0.10)
Weighted average number of common shares outstanding - basic	23	51,560,197	41,829,704	48,536,866	40,356,024
Weighted average number of common shares outstanding - diluted	23	55,308,327	41,829,704	52,462,527	40,356,024
Total net income (loss) for the period attributable to:					
Owners of the company		9,200,127	(2,005,754)	4,571,124	(3,956,544)
Attributable to non-controlling interest		98,361	(11,802)	72,891	(27,617)
		\$ 9,298,488	\$ (2,017,556)	\$ 4,644,015	\$ (3,984,161)

See accompanying notes to the condensed interim consolidated financial statements.



CANNAROYALTY CORPORATION
Condensed Interim Consolidated
Statements of Comprehensive Income (Loss)
(Expressed in Canadian Dollars)

	Note	Three months ended		Six months ended	
		June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net income (loss) for the period		\$ 9,298,488	\$ (2,017,556)	\$ 4,644,015	\$ (3,984,161)
Other comprehensive income (loss) for the period					
Foreign currency translation differences		698,464	(449,955)	1,244,069	(537,135)
Total comprehensive income (loss) for the period		<u>\$ 9,996,952</u>	<u>\$ (2,467,511)</u>	<u>\$ 5,888,084</u>	<u>\$ (4,521,296)</u>
Total comprehensive income (loss) for the period attributable to:					
Owners of the company		9,898,591	(2,455,709)	5,815,193	(4,493,679)
Attributable to non-controlling interest		98,361	(11,802)	72,891	(27,617)
		<u>\$ 9,996,952</u>	<u>\$ (2,467,511)</u>	<u>\$ 5,888,084</u>	<u>\$ (4,521,296)</u>



CANNAROYALTY CORPORATION
Condensed Interim Consolidated Statements of Changes in Shareholder's Equity
(Expressed in Canadian Dollars)

	Number of shares (note 21)	Share capital (note 21)	Contingent shares (note 21)	Warrants Reserve (note 21)	Contributed Surplus (notes 21 & 22)	Accumulated Other Comprehensive Loss	Deficit	Non Controlling Interest	Total Shareholders' Equity
Balance at January 1, 2017	36,006,956	\$ 30,636,253	\$ 4,520,000	\$ 628,623	\$ 3,154,582	\$ (102,762)	\$ (13,490,327)	\$ (3,004)	\$ 25,343,365
Net loss for the period	-	-	-	-	-	-	(3,956,544)	(27,617)	(3,984,161)
Change in foreign currency translation adjustment	-	-	-	-	-	(537,135)	-	-	(537,135)
Shares and warrants issued in bought deal financing	5,000,000	12,600,000	-	2,400,000	-	-	-	-	15,000,000
Costs associated with bought deal financing	-	(969,805)	-	(284,952)	-	-	-	-	(1,254,757)
Broker warrants issued with bought deal financing	-	(531,000)	-	531,000	-	-	-	-	-
Shares issued for exercise of restricted share units	63,550	106,288	-	-	(106,288)	-	-	-	-
Withholding taxes on exercise of restricted share units	-	-	-	-	(77,511)	-	-	-	(77,511)
Stock based compensation (note 22)	-	-	-	-	1,804,212	-	-	-	1,804,212
Shares issued in acquisitions of equity interests	689,568	2,021,222	-	-	-	-	-	-	2,021,222
Shares issued for exercise of warrants	163,421	412,310	-	(120,218)	-	-	-	-	292,092
Share options exercised	25,000	53,414	-	-	(28,414)	-	-	-	25,000
Warrants issued with credit facility	-	-	-	1,922,400	-	-	-	-	1,922,400
Contingent shares recorded on acquisition	-	-	(2,010,000)	-	2,010,000	-	-	-	-
Balance at June 30, 2017	41,948,495	\$ 44,328,682	\$ 2,510,000	\$ 5,076,853	\$ 6,756,581	\$ (639,897)	\$ (17,446,871)	\$ (30,621)	\$ 40,554,727
Balance at December 31, 2017	43,898,445	\$ 50,007,891	\$ -	\$ 4,149,703	\$ 9,902,292	\$ (1,032,719)	\$ (22,381,817)	\$ (177,006)	\$ 40,468,344
IFRS 9 Adoption	-	-	-	-	-	-	(109,138)	-	(109,138)
Balance at January 1, 2018	43,898,445	\$ 50,007,891	\$ -	\$ 4,149,703	\$ 9,902,292	\$ (1,032,719)	\$ (22,490,955)	\$ (177,006)	\$ 40,359,206
Net income for the period	-	-	-	-	-	-	4,571,124	72,891	4,644,015
Change in foreign currency translation adjustment	-	-	-	-	-	1,244,069	-	-	1,244,069
Shares issued for exercise of restricted share units	423,984	884,399	-	-	(884,399)	-	-	-	-
Stock based compensation (note 22)	-	-	-	-	3,032,278	-	-	-	3,032,278
Shares issued in acquisitions of equity interests	1,254,816	4,755,754	-	-	-	-	-	-	4,755,754
Shares issued for exercise of warrants	1,156,993	5,578,202	-	(916,214)	-	-	-	-	4,661,988
Shares issued for exercise of broker warrants	308,228	1,341,277	-	(403,371)	-	-	-	-	937,906
Shares issued on exercise of warrants by Sprott Inc.	900,000	2,806,200	-	(961,200)	-	-	-	-	1,845,000
Shares issued for interest on Sprott line of credit	33,129	119,444	-	-	-	-	-	-	119,444
Contingent shares recorded on acquisition on Kaya and Alta	-	-	5,839,730	-	-	-	-	-	5,839,730
Contingent shares issued on the reaching of performance milestones	531,830	2,015,636	(2,015,636)	-	-	-	-	-	-
Shares and Warrants issued for financing purposes	4,312,500	11,888,206	-	3,756,734	-	-	-	-	15,644,940
Shares issued as investment and prepayments on royalties to Bhang	125,022	480,450	-	-	-	-	-	-	480,450
Shares issued for the settlement of Aphria convertible debt	750,000	1,500,000	-	-	-	-	-	-	1,500,000
Capital contribution of Trichome minority shareholders	-	-	-	-	-	-	-	180,000	180,000
Balance at June 30, 2018	53,694,947	\$ 81,377,459	\$ 3,824,094	\$ 5,625,652	\$ 12,050,171	\$ 211,350	\$ (17,919,831)	\$ 75,885	\$ 85,244,780

See accompanying notes to the condensed interim consolidated financial statements.



CANNAROYALTY CORPORATION

Condensed Interim Consolidated

Statements of Cash Flows

(Expressed in Canadian Dollars)

		Six months ended	
	Note	June 30, 2018	June 30, 2017
CASH FLOWS USED IN OPERATING ACTIVITIES			
Net income (loss) for the period		\$ 4,644,015	\$ (4,521,296)
Items not affecting cash:			
Bad debts recovery	6	(63,183)	(13,219)
Income from equity accounted investees	10	(158,558)	(843,914)
Amortization of property and equipment	13	125,798	91,198
Amortization of intangibles	14	704,174	408,350
Amortization of royalties	12	640,523	165,392
Amortization of fees related to line of credit	18	403,753	-
Share based compensation	22	3,032,278	1,804,212
Deferred tax recovery	24	(7,277)	(157,053)
Loss on impairment of convertible notes receivable	9	375,472	-
Recovery on previously impaired inventory	16	(441,370)	-
Accretion of derivative assets and liabilities	17	34,146	-
Gain on disposal of equipment		-	(88,674)
Fair value gain on investments	11	(15,565,077)	-
		(6,275,306)	(3,155,004)
Changes in non-cash items relating to operations:			
Decrease (Increase) in amounts receivable		389,738	(747,099)
Increase in inventory		(725,391)	(72,508)
Increase in prepaid and other assets		(436,653)	(96,020)
Increase (Decrease) in accounts payable and accruals		707,975	(794,122)
Increase in current tax liability		(11,239)	-
		(6,350,876)	(4,864,753)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of property and equipment	13	(295,223)	(132,014)
Purchase of Kaya and Alta, net of cash received	5	(1,018,428)	-
Purchase of interests in equity accounted investments		-	(1,601,218)
Royalty financing arrangement	12	(1,290,000)	(2,750,631)
Loans advanced to debtors, including costs, net of repayment	8	(2,163,234)	(1,140,800)
		(4,766,885)	(5,624,663)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from shares in bought deal financing, net of issuance costs	21	11,888,206	10,958,243
Proceeds from issuance of warrants, net of issuance costs	21	3,756,734	2,787,000
Proceeds from exercise of warrants	21	7,444,895	292,092
Repayment on line of credit	18	(1,000,000)	-
Repayment of loans payable	16	(7,702)	-
Proceeds from shares issued to minority holders of Trichome		180,000	-
Proceeds from issuance of stock options	22	-	25,000
Tax withholding paid on exercise of restricted share units		-	(77,511)
		22,262,133	13,984,824
Effect of movement of exchange rates on cash held		57,829	-
INCREASE (DECREASE) IN CASH		\$ 11,202,201	\$ 3,495,408
CASH, BEGINNING OF PERIOD		4,522,644	2,945,895
CASH, END OF PERIOD		\$ 15,724,845	\$ 6,441,303

See accompanying notes to the condensed interim consolidated financial statements.

1. Nature of Operations

CannaRoyalty Corp. (“CannaRoyalty” or the “Company”) is a diversified operator in the regulated cannabis industry. The Company’s focus is on building and supporting a diversified portfolio of branded cannabis consumer products through a combination of investments, lending, and acquisitions.

CannaRoyalty is a reporting issuer listed for trading on the Canadian Securities Exchange in the Province of Ontario under the trading symbol “CRZ”. In February 2017, CannaRoyalty was listed for trading on the OTCQB markets in the U.S. under the trading symbol “CNNRF”. On April 26, 2017, the Company was upgraded to the OTCQX market. CannaRoyalty was incorporated under the Ontario Business Corporations Act as “McGarry Minerals Inc.” on August 19, 1985. In connection with a corporate reorganization, the Company changed its name to “Bonanza Blue Corp.” (“Bonanza Blue”) on August 16, 2000. The Company further changed its name to “CannaRoyalty Corp.” on December 5, 2016, prior to the completion of a reverse takeover transaction (“RTO”) between Bonanza Blue Corp. and Cannabis Royalties and Holdings Corporation (“CRHC”). CannaRoyalty’s head office is located at 333 Preston Street, Preston Square Tower 1, Suite 610, Ottawa, Ontario, Canada.

In October and November 2016, the Company purchased all out of the outstanding equity interests in Electric Medialand Inc. (“EML”), Dreamcatcher Labs, Inc. (“Dreamcatcher”), Greenrock Botanicals Inc. (“Greenrock”) and a 70% controlling interest in Achelois LLC (“Achelois”). In June 2017, the Company founded CR Advisory Services Inc. (“CR Advisory”). In September 2017, the Company founded Trichome Yield Corp (“Trichome”), for which it currently has a 69% interest. In March 2018, the Company completed the acquisitions of Kaya Management, Inc. (“Kaya”) and Alta Supply, Inc. (“Alta”) through acquiring 100% of the outstanding shares of each company.

2. Basis of Preparation

These interim condensed consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements of the Company for the year ended December 31, 2017, which have been prepared in accordance with IFRS. Accordingly, they do not include all the information and footnotes required under IFRS for annual financial statements. In the opinion of management, these condensed interim consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the Company’s financial position and results of operations for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year. All intercompany accounts and transactions have been eliminated.

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

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors (the “Board”) on August 22, 2018.

3. Functional Currency

During the three months ended June 30, 2018, the Company's functional currency changed from the Canadian dollar to the United States dollar ("US \$" or "U.S. dollar"). The change was due to the acquisitions of Kaya and Alta, which resulted in the U.S. dollar as the primary currency influencing sales prices, competitive forces, and operating costs.

Under IAS 21 *The Effects of Changes in Foreign Exchange Rates*, this change is accounted for prospectively.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from the acquisition, are translated to Canadian dollars at period-end exchange rates. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates. Exchange differences resulting from translating foreign operations are recognized in other comprehensive income (loss) and accumulated in equity.

All figures presented in the condensed interim consolidated financial statements and tabular disclosures to the condensed interim consolidated financial statements are reflected in Canadian dollars, which is the reporting currency of the Company.

4. Significant Accounting Policies and New Standards

Application of new and revised International Financial Reporting Standards

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 is required for reporting periods beginning on or after January 1, 2018. This new standard supersedes existing standards and interpretations, including IAS 18, *Revenue*. The Company has applied the standard retrospectively to prior periods, subject to permitted and elected practical expedients.

This standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

More prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. The application of IFRS 15 has not had a significant impact on the financial position and financial performance of the Company.

The Company recognises revenue from services, royalties, and the distribution of cannabis products. Revenue is measured based on the consideration specified in contracts with customers and excludes amounts collected on behalf of third parties. The Company recognises revenue when it transfers control of a product or service to a customer.

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 is required for reporting periods beginning on or after January 1, 2018, with retrospective application. The Company has applied IFRS 9 in the current fiscal period, and in accordance with the transition requirements, comparative periods have not been restated. The adoption of IFRS 9 did not have a significant impact on the carrying amounts of financial instruments as at January 1, 2018.

Classification and measurement

IFRS 9 replaces the classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”), with a single model under which financial assets are classified and measured at amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”). This classification is based on the business model in which a financial asset is managed, as well as its contractual cash flow characteristics, and eliminates the IAS 39 categories of held-to-maturity, loans and receivables, and available-for-sale.

Loans receivable (note 8) and the convertible note receivable (note 9) are comprised of debt investments that are recorded at fair value through profit or loss. Interests in equity investments (note 11) are recorded at fair value through profit or loss. The Company has not made an election to present subsequent changes in the fair value of an equity investment in other comprehensive income.

All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

Impairment

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Company has applied the simplified approach to recognise lifetime expected credit losses for its trade receivables and has adjusted for credit losses under IFRS 9.

In general, the Company anticipates that the application of the expected credit loss model of IFRS 9 results in earlier recognition of credit losses for the respective items. The Company has determined the retrospective impact of expected credit losses below and the impact of expected credit losses as at June 30, 2018 in note 6.

	As reported at December 31, 2017	Estimated adjustment due to adoption of IFRS 9	Estimated adjusted opening balance at January 1, 2018
Allowance for doubtful trade receivables	\$ (28,026)	\$ (109,138)	\$ (137,164)
Accumulated deficit	(22,381,817)	(109,138)	(22,490,955)

Accounting standards and amendments issued but not yet applied

Certain new standards, amendments to standards and interpretations applicable to the Company are not yet effective. The Company is currently considering the effects of the new and revised standard, which will be effective to the Company’s consolidated financial statements for the year ending December 31, 2019 or later.

IFRS 16 Leases

This standard specifies the recognition, measurement, presentation and disclosure of leases. This standard is effective for annual periods beginning on or after January 1, 2019. The Company currently has long-term lease agreements for office spaces in Ontario and various spaces in California. Under IFRS 16, these leases would result in an additional right of use asset and lease liability being recorded on the Company’s balance sheet. The Company is currently evaluating the impact of adopting this standard; however, it expects the adoption of this standard will increase assets and liabilities as a right-of-use asset and a corresponding lease liability will be recorded in the financial statements.

5. Acquisitions of Kaya and Alta

On March 27, 2018, the Company acquired all the outstanding shares of Kaya Management, Inc. and Alta Supply, Inc. The identifiable assets acquired, and liabilities assumed of these entities were recorded at their fair value on the date of the acquisition and their results were included in the condensed interim consolidated financial statements beginning on the that same date. The primary purpose of these acquisitions was to continue to build and support a diversified portfolio of growth-ready assets in high-value segments of the California cannabis sector by adding a licensed manufacturer and a licensed distributor to its portfolio of investments.

The following table summarizes the preliminary allocation of the fair value of consideration transferred as of the acquisition date. These fair values were subject to Management's best estimates and assumptions after taking into consideration all relevant information available.

	Kaya	Alta	TOTAL
Purchase consideration			
Cash	\$ 1,251,768	\$ 724,266	\$ 1,976,034
Settlement of pre-existing loans	1,104,113	412,416	1,516,529
Issued shares	2,197,029	2,558,724	4,755,753
Contingent shares	2,793,654	3,046,076	5,839,730
Total Purchase Price	\$ 7,346,564	\$ 6,741,482	\$ 14,088,046
Identified tangible net assets			
Cash	\$ 135,921	\$ 597,399	\$ 733,320
Amounts Receivable	124,472	469,050	593,522
Prepaid expenses	177,267	11,185	188,452
Inventory	1,752,768	1,006,000	2,758,768
Property and Equipment	118,919	126,987	245,906
Amounts Payable	(1,324,939)	(2,387,684)	(3,712,623)
Loans Payable	(26,420)	(69,600)	(96,020)
Identified Intangible Items			
Acquired licenses	-	3,866,400	3,866,400
Customer & Retail relationships	1,417,680	1,675,440	3,093,120
Deferred tax liability	(396,950)	(1,551,715)	(1,948,666)
Goodwill	5,367,846	2,998,020	8,365,867
Total Allocated	\$ 7,346,564	\$ 6,741,482	\$ 14,088,046

a) Acquisition of Kaya Management, Inc.

On March 27, 2018, the Company entered into a share purchase agreement with Kaya, a corporation incorporated under the laws of the state of California, to purchase all the issued and outstanding shares. Kaya manufactures marijuana vaporizer pens, edibles, and other products to a large network of dispensaries in California. As a result of this transaction, a prior director and officer of Kaya was retained by the Company to act as Vice-President of Operations of the acquired entities.

Consideration Transferred

The purchase price consideration of \$7,346,564 was based on the following:

	Shares	Value
Cash (i)	\$	1,251,768
Settlement of pre-existing working capital advances (ii)		1,104,113
Issued shares (iii)	579,691	2,197,029
Contingent shares (iv)	737,112	2,793,654
Total consideration issued	1,316,803	\$ 7,346,564

- (i) Cash consideration of \$1,251,768 was contemplated to be settled in three parts: 1) \$1,192,592 was paid in cash in April 2018 (note 14); 2) direct settlement of Kaya liabilities by CannaRoyalty in the amount of \$59,176; and 3) settlement within five days following the finalization of the final working capital adjustment.
- (ii) Prior to the acquisition, the Company advanced working capital funds to Kaya. These working capital advances were effectively settled through this acquisition.
- (iii) CannaRoyalty issued 579,691 shares at the acquisition date. Public market data was used to determine the fair value of the shares of \$3.79 on that same date.
- (iv) In addition to the shares issued on the acquisition date, up to 737,112 CannaRoyalty stock warrants (“stock warrants”) may be issued to the Kaya shareholder based on the achievement of four revenue target benchmarks established for certain distinct periods through to June 2019.

The number of stock warrants that could be earned from meeting, or failing to meet, each of the distinct periods referred to above is not variable. If the revenue target of a distinct period is achieved, 184,278 stock warrants will be issued in each period. If the conditions are not met, no stock warrants will be issued to the shareholder. Accordingly, the contingent consideration is valued as an equity instrument and will not be revalued in future reporting periods. During the three months ended June 30, 2018 a total of 184,278 contingent shares were earned.

Intangible Assets and Goodwill

The Company recognized one identifiable intangible asset in the Kaya acquisition.

Customer relationship valued at \$1,417,680: CannaRoyalty acquired the relationship with a large distributor within the state of California. The agreement with this distributor is for a six-month period and may be extended based on mutual agreement thereafter.

The Company has recorded a deferred tax liability of \$396,950 related to these intangibles. This liability was based on the corporate tax rates in the Kaya’s tax jurisdiction.

The goodwill balance of \$5,367,846 reflects the benefits of assembled workforce, expected revenue growth, and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill will not be amortized and will be reviewed for impairment on an annual basis. The goodwill is not tax deductible.

b) Acquisition of Alta Supply, Inc.

On March 27, 2018, the Company entered into a share purchase agreement with Alta, a corporation incorporated under the laws of the state of California, to purchase all the issued and outstanding shares. Alta is a distributor of Bhang vaporizer and Bhang chocolate products, as well as products for several third-party cannabis companies throughout California.

Consideration Transferred

The purchase price consideration of \$6,741,482 was based on the following:

	Shares	Value
Cash (i)	\$	724,266
Settlement of pre-existing working capital advances (ii)		412,416
Issued shares (iii)	675,125	2,558,724
Contingent shares (iv)	868,880	3,046,076
Total consideration issued	1,544,005 \$	6,741,482

- (i) Cash consideration of \$724,266 was contemplated to be settled in three parts: 1) \$652,681 was paid in cash in April (note 14); 2) direct settlement of Kaya liabilities by CannaRoyalty in the amount of \$71,585; and 3) settlement within five days following the finalization of the final working capital adjustment.
- (ii) Prior to the acquisition, the Company advanced working capital funds to Alta. These advances were effectively settled through this acquisition.
- (iii) CannaRoyalty issued 675,125 shares at the acquisition date. Public market data was used to determine the fair value of the shares of \$3.79 on that same date.
- (iv) In addition to the shares issued on the acquisition date, up to 868,880 stock warrants may be issued to Alta shareholders based on the achievement of four distinct targets. The first two earn-outs are based on the achievement of a certain number of contracts with licensed manufacturers, at established markup and revenue targets. These two earn-outs are in distinct and independent time periods ending in April 2019. The second two earn-outs are based on the achievement of a certain number of agreements with dispensaries and also at an established revenue target. These two earn-outs are also in distinct and independent time periods ending in December 2018.

The number of stock warrants that could be earned from meeting, or failing to meet, each of the earn-outs referred to above is not variable. If the various targets discussed above within each distinct time period is achieved, 217,220 stock warrants will be issued in each period. If these same targets are not met within each distinct time period, no stock warrants will be issued to the shareholders. Accordingly, the contingent consideration is valued as an equity instrument and will not be revalued in future reporting periods. During the three months ended June 30, 2018 a total of 434,440 contingent shares were earned. Of this amount, 86,888 have yet to be issued.

Intangible Assets and Goodwill

The Company recognized two identifiable intangible assets on the Alta acquisition.

Acquired state license valued at \$3,866,400: CannaRoyalty acquired a temporary type 11 medical distribution license. The license allows for the purchase of cannabis and cannabis products from licensed cultivators and manufacturers, and the sale of purchased products to licensed dispensaries. The current license is temporary and was issued in conjunction with the regulatory requirements that came into effect on January 1, 2018 in California. The license lasts for a period of six months, at which time it may be renewed as a permanent license. At the time of this valuation, the state of California had yet to issue licenses longer than six months in duration.

Customer relationship valued at \$1,675,440: CannaRoyalty acquired the relationship with certain licensed cannabis cultivators and manufacturers within the state of California. Effective January 1, 2018 all sales to dispensaries from growers and manufactures must pass through licensed distributors. The Company has recorded a deferred tax liability of \$1,551,715 related to this intangible asset. This liability was based on the corporate tax rates in the Alta jurisdiction.

The goodwill balance of \$2,998,020 reflects the benefits of assembled workforce, expected revenue growth, and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill will not be amortized and will be reviewed for impairment on an annual basis. The goodwill is not tax deductible.

c) Acquisition Related Costs

CannaRoyalty has incurred expenses of \$282,126 related to the above acquisitions. These costs were recorded in general and administrative expenses in the period the acquisition was recorded.

d) Pro Forma Disclosures

The above acquisitions contributed revenues of \$3,195,389 and a net loss of \$402,254 as part of CannaRoyalty's consolidated results from their dates of acquisition, excluding the impact of fair value adjustments and any amortization of intangibles assumed on acquisition. If each acquisition had occurred on January 1, 2018, management estimates that CannaRoyalty's consolidated revenue would have increased by \$2,185,073 and the net loss would have increased by \$303,550 for the six months ended June 30, 2018. In determining these amounts, Management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisitions had occurred on January 1, 2018.

6. Amounts Receivable

	June 30, 2018	December 31, 2017
Trade accounts receivable	\$ 650,400	\$ 813,052
Allowance for doubtful trade receivables	(73,982)	(28,026)
Royalties receivable	1,102,609	1,391,220
Allowance for doubtful royalty receivable	(960,806)	(919,481)
HST and sales tax receivable	37,272	478
Accrued advisory fees	-	132,273
Other receivables	7,673	39,607
Total Amounts Receivable	\$ 763,166	\$ 1,429,123

Allowance for credit losses

Allowance for expected credit losses on outstanding trade and royalty receivable have been made as shown in the tables below:

	June 30, 2018	December 31, 2017
Allowance for doubtful trade receivables		
Allowance for doubtful accounts at beginning of period	\$ 28,026	-
IFRS 9 expected credit loss prior year adjustment	109,139	-
Expected credit loss - current period (net of foreign exchange impact)	(59,869)	69,837
Bad debt recovered	(3,314)	-
Write-off of specific balances	-	(41,811)
Allowance for doubtful accounts at end of period	\$ 73,982	\$ 28,026

Allowance for doubtful royalty receivables	June 30, 2018	December 31, 2017
Allowance for doubtful royalty receivables at beginning of period	\$ 919,481	-
Expected credit loss - current period (net of foreign exchange impact)	-	919,481
Effect of foreign currency translation	41,325	-
Allowance for doubtful royalty accounts at end of period	\$ 960,806	\$ 919,481

Doubtful royalty receivables have been fully provided for in the 2017 accounts. The adoption of IFRS 9 did not change the measurement basis of financial assets.

Trade accounts receivable

The aging of trade receivables at the reporting date was:

Aging	June 30, 2018	December 31, 2017
Current	\$ 57,542	\$ 535,029
Past due: Less than 30 days	170,004	-
31 - 60	217,116	40,196
61 - 90	45,990	66,065
Greater than 90 days	159,748	171,762
Total	\$ 650,400	\$ 813,052
Allowance for credit loss	(73,982)	(28,026)
Net trade accounts receivable	\$ 576,418	\$ 785,026

At June 30, 2018, one customer accounted for 22% of total trade receivables (December 31, 2017 – two customers, 82%). There were no other customers with over 10% of the total balance.

For the three and six months ended June 30, 2018, there were no balances written-off (three and six months ended June 30, 2017 - \$6,601), and the Company made bad debt recoveries of \$3,314 (three and six months ended June 30, 2017 - \$nil). A total of \$59,869 was written back during the period being credit loss provision no longer required as the underlying receivables have now been collected.

The Company generally does not hold collateral as security for trade receivables; however, it minimizes its credit risk associated with its trade receivables by requiring customer deposits or prepayments in some cases and performing credit evaluation, approval, and monitoring processes.

Royalties receivable

At June 30, 2018, royalty receivables, net of allowances, were \$141,803 (December 31, 2017 - \$471,739). The receivables are comprised primarily of receivables due from River Distribution ("RVR"). The balance at December 31, 2017 has been applied against the financing advances due to RVR (note 11)

The Company has recorded a full provision of \$960,806 related to the royalty receivables due from Cascadia. While the Company believes that it may possibly be able to commercialize the related royalty investment in the future, it does not expect to collect on any of the receivables recorded prior to June 30, 2018.

7. Inventory

	June 30, 2018	December 31, 2017
Finished goods	\$ 2,212,403	\$ 248,944
Raw materials	1,541,925	21,225
Total Inventory	\$ 3,754,328	\$ 270,169

The Company had a cost of sales recovery of \$429,442 related to inventory that was previously impaired and was released for value in the second quarter of fiscal 2018 (note 16).

8. Loans Receivable

	June 30, 2018	December 31, 2017
Stokes Confections (1)	\$ 66,706	\$ 63,837
Wagner Dimas (2)	482,347	446,639
Promissory Note - Alta (3)	-	370,845
Promissory Note - Kaya (3)	-	214,562
Three Leaf (4)	100,000	-
River (5)	677,094	-
180 Smoke (6)	576,766	-
Other Advances (7)	-	6,285
Total loans receivable: short term	\$ 1,902,913	\$ 1,102,168
CannaCraft (8)	\$ -	\$ 66,421
Total loans receivable: long-term	\$ -	\$ 66,421

(1) On May 15, 2016, the Company entered into a letter of intent with Progressive Marketing Partners LLC ("Stokes Confections"), which is based in California and produces low dose, cannabis infused edibles. An advance of \$65,680 (US\$ 50,000) was made as an up-front fee but was to be refunded in full, with annual interest of 2.5%. As of June 30, 2018, the total receivable includes \$1,026 of accrued interest (December 31, 2017 – \$1,050). The advance is unsecured and due on demand.

(2) On July 5, 2017, \$197,040 (US\$ 150,000) of unsecured debt was advanced to Wagner Dimas, Inc. ("Wagner Dimas"), an equity accounted investee of the Company (note 10). Subsequent to a term sheet entered on September 22, 2017, Wagner Dimas granted CannaRoyalty an option to convert the debt into (i) a Canadian License Grant for a term of 15 years from the date of conversion and (ii) three pre-roll machines. The Canadian License Grant means the grant to CannaRoyalty of an exclusive and assignable license solely for the territory of Canada, including but not limited to, the rights to license its products, processes, brands, machinery and intellectual property. The Canadian License Grant would be subject to a 5% royalty on gross revenue payable from CannaRoyalty to Wagner Dimas. The option to convert is for an indefinite period and the debt is due on demand.

The option to settle payments with the grant of a licence represents an embedded derivative in the form of an option to the Company. There is still significant uncertainty as to when or whether the products and technology that would be granted to CannaRoyalty will be permissible within Canada. Due to this uncertainty the Company has not assigned any value to this embedded derivative at inception and at June 30, 2018. On August 14, 2018, the Company closed a transaction with Aurora Cannabis Inc., to sell its Canadian License Grant for proceeds of \$4.5 million based on the value of Aurora shares at the closing date (see note 30).

In October 2017, a promissory note of \$262,720 (US\$ 200,000) was advanced to Wagner Dimas. The note bears interest of 12% per annum. As at June 30, 2018, accrued interest of \$22,587 (US\$ 12,195), has been recorded (December 31, 2017 - \$6,654).

- (3) In accordance with a binding term sheet signed on November 28, 2017 with Kaya and Alta (note 5), the Company extended various promissory notes to increase their working capital. These promissory notes were settled as part of the acquisition and have been included in the related purchase price.
- (4) On April 10, 2017, CannaRoyalty amended its royalty financing arrangement with Three Leaf such that the end of the 2% referral fee period was extended from May 12, 2017 until March 12, 2018. Furthermore, this amendment contained a guarantee whereby if the total royalties earned from the arrangement were less than \$100,000 total, an equalizing cash payment would be made by Three Leaf. This loan was paid in July 2018.
- (5) During the second quarter the company has advanced \$677,094 (US\$ 515.449) of promissory notes to RVR (note 29). These notes bear interest at 12% and are due on August 29, 2018.
- (6) On May 9, 2018, the Company entered a secured term credit facility with 180 Smoke Inc. for principal of up to \$2.5 million (the "180 Smoke Facility"). The 180 Smoke Facility matures on May 9, 2019, with an election available to the borrower to extend up to two years based on certain requirements, and bears annual interest of 10%, payable upon maturity. As at June 30, 2018, the Company and its subsidiary Trichome, have jointly lent \$500,000 to the borrower on an equal basis, with remaining credit to be released based on certain conditions. Transaction costs of \$69,780 have been capitalized within the facility balance.
- (7) Loans in the amount of \$6,568 (US\$ 5,000) were repaid via the provision of legal services.
- (8) The Company advanced funds of \$328,400 (US\$ 250,000) to CannaCraft, Inc. ("CannaCraft") on May 16, 2016. As of June 30, 2018, this advance has been fully offset by the purchase of equipment and product from CannaCraft. The balance of the advance at June 30, 2018, is \$nil (December 31, 2017 - \$66,421). This advance is not part of the joint venture agreement between the two companies (note 10).

9. Convertible Notes Receivable

In July 2016, CannaRoyalty advanced \$394,080 (US\$ 300,000) to BAS Research ("BAS") in exchange for two senior convertible promissory notes ("BAS Promissory Notes"). BAS is a licensed lab, as well as manufacturing, and processing facility located in Berkeley, California. The BAS Promissory Notes matured in January 2018 after an eighteen-month term and the Company did not exercise its option to convert the debt into shares.

At December 31, 2017, the value of the note was re-valued to \$US296,815 based on the terms of a proposed settlement. When this settlement did not materialize, the Company had significant uncertainty concerning collection and an impairment loss of \$375,472 (US\$296,815) was recorded in the first quarter of fiscal 2018.

10. Interest in Equity Accounted Investees

	June 30, 2018	December 31, 2017
Associated Companies		
Resolve (1)	\$ 2,780,921	\$ 2,538,014
Wagner Dimas (2)	829,584	865,779
	<u>3,610,505</u>	<u>3,403,793</u>
Joint Ventures		
Mobile Medicine (3)	192,540	192,540
Total Equity accounted investments	\$ 3,803,045	\$ 3,596,333

Associated Companies

- (1) On November 16, 2015, CannaRoyalty invested \$750,000 in Resolve Digital Health Inc. ("Resolve"), an Ontario corporation based in Toronto, in return for an 11% equity interest. On April 1, 2016, the Company purchased an additional 24% of the common shares of Resolve for consideration of \$1,695,000 in exchange for CannaRoyalty common shares and cash. CannaRoyalty has significant influence over Resolve and owned 35% of the Resolve's outstanding common shares.

On March 28, 2017, CannaRoyalty made an additional equity investment of \$80,000 in Resolve. This investment was part of a \$4,550,000 financing round at \$0.50 per unit. Due to this financing round, CannaRoyalty's total equity interest was reduced to 27.7% of the non-diluted common shares of Resolve. This represented a deemed disposal, and the Company recorded a gain of \$1,132,107 which was included in the profit from equity accounted interests for the three months ended June 30, 2017.

On March 2, 2018, Resolve completed a private placement financing whereby 1,290,500 shares were issued for gross proceeds of \$1,935,750 or \$1.50 per share. Earlier in the quarter Resolve issued penalty shares which also diluted the Company's equity interest. These transactions resulted in a dilution gain of \$846,925. This financing of \$1.50 per share was publicly disclosed and based on this financing, the implied value of shares in Resolve is approximately \$21,300,000. This assessment is based on Level 2 inputs under the IFRS 13 fair value hierarchy and consists of observable transaction prices for identical assets in a non-active market.

As at June 30, 2018, CannaRoyalty held 14,160,738 shares and 26.5% of all issued and outstanding shares of Resolve (December 31, 2017 – 27.7%).

- (2) On May 25, 2016, CannaRoyalty acquired a 20% equity interest in Wagner Dimas, a Nevada corporation based in California, which has an innovative process for creating highly-scalable machine rolled cannabis cigarettes. The Company purchased 2,000,000 shares of Wagner Dimas for \$818,125 (US\$ 625,000). On September 22, 2017, CannaRoyalty purchased an additional 2% equity interest in Wagner Dimas from an existing shareholder for \$246,780 (US\$ 200,000) which was paid on October 6, 2017.

As at June 30, 2018, CannaRoyalty held a 22% equity interest in Wagner Dimas (note 30).

The following tables summarize the financial information of CannaRoyalty's associates, adjusted for fair value at acquisition. The table also reconciles the summarized financial information to the carrying amount of CannaRoyalty's interest at June 30, 2018 and 2017.

	June 30, 2018	December 31, 2017
Current assets	\$ 2,170,551	\$ 2,921,367
Non-current assets	12,859,902	11,064,644
Current liabilities	(766,474)	(891,454)
Net assets	14,263,979	13,094,557
Carrying amount of interest in associates	\$ 3,610,505	\$ 3,403,793

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
<i>Selected financial results of equity accounted investees</i>				
Revenue	\$ (91,035)	\$ 1,056,971	\$ 86,527	\$ 1,850,448
Net Loss and Total comprehensive loss	(1,129,388)	(205,664)	(2,613,372)	(765,202)
Total comprehensive loss				
Percentage ownership interest (annual average)				
<i>Share of profit (loss) from equity accounted investees</i>				
CannaRoyalty's share of loss and total comprehensive loss	\$ (295,246)	\$ (98,483)	\$ (688,367)	\$ (288,193)
Add - gain on deemed disposal after dilution	-	-	846,925	1,132,107
CannaRoyalty's profit from equity accounted investees	\$ (295,246)	\$ (98,483)	\$ 158,558	\$ 843,914

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

Joint Venture

- (3) On July 22, 2016, the Company entered into a joint venture with CannaCraft, a California corporation based in California that supplies equipment and cannabis-based medicines. The joint venture is conducted under the name Mobile Medicine, whose purpose is to manufacture and lease mobile gelatin encapsulation machines. CannaRoyalty has joint decision-making control with CannaCraft, 50% ownership interest, and a residual interest in the net assets of Mobile Medicine. Accordingly, this interest has been classified as a joint venture.

CannaCraft will contribute one third of the funds required and will be responsible for the design and manufacturing of the machines. CannaCraft will also manage and operate the machines. CannaRoyalty will contribute two thirds of the funding required for a 50% equity interest, of which \$192,540 (US\$ 150,000) has been advanced (December 31, 2017 - \$192,540).

As at June 30, 2018, the joint venture has incurred capital spending of \$215,949 (US\$ 166,576) and has yet to begin commercial activity.

11. Investments

The following table summarizes the Company's investments at the end of each respective period:

	June 30, 2018	December 31, 2017
AltMed (1)	\$ 6,258,506	\$ 6,277,456
Bodhi (2)	250,000	250,000
Fleurish (3)	452,184	250,000
Anandia (4)	26,419,019	10,465,886
Total Investments	\$ 33,379,709	\$ 17,243,342

The following table summarizes the fair value gains and losses on investments for the three and six-months periods ended June 30, 2018 and June 30, 2017:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
AltMed	\$ (113,873)	\$ -	\$ (245,263)	\$ -
Bodhi	-	-	-	-
Fleurish	-	-	202,184	-
Anandia	15,336,844	-	15,608,156	-
Total Gain/(Loss)	\$ 15,222,971	\$ -	\$ 15,565,077	\$ -

(1) The Company purchased 1,500 Class A units in Alternative Medical Enterprises, LLC ("AltMed"), a Florida limited liability company focused on medical cannabis. AltMed owns 100% of NuTrae LLC ("NuTrae"), a company developing drug delivery systems and products. The units were purchased for \$1,850,070 (US\$ 1,500,000) and represented an 8.3% equity interest at that time. As of June 30, 2018, the Company has assessed the fair value of AltMed at \$6,146,066. This assessment is based on Level 2 inputs under the IFRS 13 fair value hierarchy and consists of observable transaction prices for identical assets in a private market. The fair value is based on the closing of several financing transactions within a designated series completed during the six months ended June 30, 2018. As at June 30, 2018, CannaRoyalty's ownership percentage in AltMed has decreased to 6.1%.

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

On January 11, 2018, the Company entered into a collaboration with Aequus Pharmaceuticals Inc., a company on the TSX Ventures Exchange, to advance a suite of cannabis-based therapies targeting neurological disorders.

(3) During July 2017, the Company advanced \$250,000 to Farmacopeia Inc, which changed its name to Fleurish Cannabis Inc. ("Fleurish"), in exchange for a 2.1% equity interest. Fleurish is a corporation based in the province of Ontario and has a marijuana production licence from Health Canada.

As of June 30, 2018, the Company has assessed the fair value of Fleurish at \$452,184. This assessment is based on Level 2 inputs under the IFRS 13 fair value hierarchy and consists of observable transaction prices from a private placement completed in January 2018 which was disclosed on SEDAR. As at June 30, 2018, CannaRoyalty's ownership percentage in Fleurish has decreased to 1.7%.

- (4) On February 17, 2017, CannaRoyalty agreed to acquire a fully diluted equity stake in Anandia Laboratories Inc. (“Anandia”) of 20%. Anandia is a biotechnology company with a focus on providing leading analytical testing services and developing cannabis strains for safe and effective medical applications. CannaRoyalty agreed to provide aggregate consideration of \$4,042,439 in exchange for the equity interest which was satisfied through a combination of \$500,000 in equipment and services to be provided by CannaRoyalty later in fiscal 2017, \$1,521,218 in cash, and 689,568 CannaRoyalty shares. On July 25, 2017, the Company received 487,520 shares of Anandia subsequent to the delivery of equipment. A further 229,421 shares, representing a value of \$160,000, was delivered in January 2018 for the provision of advisory services to Anandia.

On June 12, 2018, Anandia and Aurora Cannabis Corp. (“Aurora”) signed a term sheet in which Anandia would be sold in exchange for Aurora shares and warrants. This transaction was closed on August 8, 2018 (note 30). Anandia’s fair value at June 30, 2018, is based on the closing value of Aurora shares, a publicly traded company. Furthermore, Anandia shareholders will receive half-share warrants in Aurora which have an expiry period of 5 years. These warrants were valued at June 30, 2018, using the Black Scholes Model. The key assumptions included the June 30, 2018 share price of \$9.30, a strike price of \$9.37 in accordance with the term sheet, an expected life of 3 years, a volatility of 78% based on the historical volatility of Aurora shares, and a risk-free interest rate of \$2.06%

As at June 30, 2018, CannaRoyalty held 17.2% of the outstanding shares of Anandia, and does not hold or have the option to hold a seat on their Board of Directors.

12. Royalty Investments

The following is a summary of our royalty investments with related terms and accounting basis:

	Term	Accounting Basis	June 30, 2018	December 31, 2017
NuTrae (1)	10 years	Amortized Cost	\$ 990,189	\$ 1,013,428
Three Leaf (2)	2 years	Amortized Cost	-	100,000
Natural Ventures (3)	10 years	Amortized Cost	328,400	336,025
River (4)	7 Years	Amortized Cost	5,594,688	4,385,160
Total			\$ 6,913,277	\$ 5,834,613

The following table is a summary of the amortization expense on royalty investments for the three and six months periods ended June 30, 2018 and June 30, 2017:

	Three months ending		Six months ending	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
NuTrae	\$ 31,727	\$ 31,573	\$ 62,809	\$ 52,694
River	220,426	112,698	577,714	112,698
Total Amortization	\$ 252,153	\$ 144,271	\$ 640,523	\$ 165,392

- (1) Pursuant to an agreement dated April 1, 2016 between CannaRoyalty and Vida, the Company purchased 3.5% royalty on the net revenue of NuTrae for a period of 10 years, commencing January 1, 2016. The total consideration for this purchase was \$1,130,000 (US\$ 878,889). NuTrae, a wholly owned subsidiary of AltMed (note 11) develops drug delivery systems and products including MüV branded products. This royalty investment stream is for a definite period and it is recorded at amortized cost. NuTrae has commenced commercial operations that earned revenue in February 2017, and accordingly amortization commenced during the three months ended June 30, 2017 and is included within Cost of Sales.
- (2) On April 10, 2017, CannaRoyalty amended its royalty financing arrangement with Three Leaf such that the end of the 2% referral fee period was extended from May 12, 2017 until March 12, 2018. Furthermore, this amendment contained a guarantee whereby if the total royalties earned from the arrangement were less than \$100,000 in totality, an equalizing cash payment would be made by Three Leaf at the end of the

referral fee period. No royalties were earned, and this royalty was re-classified as an advance receivable in the first quarter of fiscal 2018, and this was subsequently paid in July 2018.

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

The 10-year period to earn revenue and to record amortization, will begin in the first quarter after Natural Ventures has generated net income, which has yet to occur as at June 30, 2018.

- (4) On May 15, 2017, the Company completed an agreement regarding a strategic financing and other related arrangements with RVR. RVR is a cannabis company with recreational cannabis licenses for wholesale logistics, distribution, and transportation in California.

The agreement included the following components:

- Promissory note financing of \$6,828,000 (US\$ 5,000,000) to RVR over fiscal 2017. The terms of the investment contemplate repayment of principal and 15% annual interest commences in January 2018.

As of December 31, 2017, the Company had made financing advances of \$4,779,600 (US\$ 3,500,000) and a further \$1,970,400 (US\$ 1,500,000) of advances were outstanding. These advances were fully provided during the first half of fiscal 2018 and have been added to the royalty investment balance.

- A consulting services arrangement which includes the provision of services by CannaRoyalty such as product launch, marketing, development and other services. The compensation payable to CannaRoyalty for consulting services is based on a formula net of any other payments made to CannaRoyalty under the arrangement. This ensures total compensation from RVR within this arrangement being equal to 2.25% of RVR’s net sales revenues until repayment of the initial US\$ 5,000,000 promissory note, and 1.75% thereafter until December 31, 2024.
- A preferred product distribution arrangement which provides a significant channel for CannaRoyalty’s products to access the California market. The arrangement entitles CannaRoyalty to preferential rates on RVR’s distribution services.

As this agreement will result in CannaRoyalty receiving a prescribed benefit based on the revenue earned by RVR, the components of this agreement combine to make up a royalty financing arrangement.

Amortization runs over the term of the revenue stream, from May 2017 to December 2024, on a straight-line basis. The amortization commenced immediately upon purchase of the asset as RVR was already generating revenues.

13. Property and Equipment

The following is a summary of the activity for the six months ended June 30, 2018:

Cost	January 1, 2018	Additions	Disposals	Impact of f/x	June 30, 2018
Processing equipment	\$ 368,398	\$ 155,485	\$ -	\$ 4,417	\$ 528,300
Filling machines and labeling system	725,761	-	-	48,871	774,632
Furniture and fixtures	138,966	6,565	-	2,985	148,516
Computers and related equipment	43,209	76,424	-	572	120,205
Motor vehicles	-	86,039	-	1,669	87,708
Leasehold Improvements	51,324	216,616	-	4,749	272,689
Total cost	\$ 1,327,658	\$ 541,129	\$ -	\$ 63,263	\$ 1,932,050
Accumulated Amortization	January 1, 2018	Amortization	Disposals	Impact of f/x	June 30, 2018
Processing equipment	\$ (118,923)	\$ (38,162)	\$ -	\$ (573)	\$ (157,658)
Filling machines and labeling system	(83,513)	(36,433)	-	(4,757)	(124,703)
Furniture and fixtures	(23,589)	(12,742)	-	(705)	(37,036)
Computers and related equipment	(12,706)	(11,879)	-	(24)	(24,609)
Motor vehicles	-	(6,598)	-	(183)	(6,781)
Leasehold Improvements	(4,829)	(19,984)	-	(463)	(25,276)
Total accumulated amortization	\$ (243,560)	\$ (125,798)	\$ -	\$ (6,705)	\$ (376,063)
Net Book Value	\$ 1,084,098				\$ 1,555,987

The additions of \$541,129 for the six months ending June 30, 2018, include a balance of \$245,906 assumed on the acquisition of Kaya and Alta (note 5). The remaining amount of \$295,223 pertains to additions not related to acquisition.

The following is a summary of the activity for the six months ended June 30, 2017:

Cost	January 1, 2017	Additions	Disposals	Impact of f/x	June 30, 2017
Processing equipment	\$ 663,702	\$ -	\$ (293,057)	\$ (1,233)	\$ 369,412
Filling machines and labeling system	766,306	-	-	(27,196)	739,110
Furniture and fixtures	56,004	107,124	-	51	163,179
Computers and related equipment	18,431	24,890	-	(60)	43,261
Total cost	\$ 1,504,443	\$ 132,014	\$ (293,057)	\$ (28,438)	\$ 1,314,962
Accumulated Amortization	January 1, 2017	Amortization	Disposals	Impact of f/x	June 30, 2017
Processing equipment	\$ (96,321)	\$ (34,857)	\$ 48,571	\$ 115	\$ (82,492)
Filling machines and labeling system	(11,684)	(38,227)	-	3,662	(46,249)
Furniture and fixtures	(3,191)	(12,464)	-	417	(15,238)
Computers and related equipment	(135)	(5,650)	-	-	(5,785)
Total accumulated amortization	\$ (111,331)	\$ (91,198)	\$ 48,571	\$ 4,194	\$ (149,764)
Net Book Value	\$ 1,393,112				\$ 1,165,198

The amortization for tangible property and equipment has been recorded within the following expense functions during the three and six months ended June 30, 2018 and June 30, 2017:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Cost of sales	\$ -	49,827	\$ -	\$ 73,534
General and administration	45,268	(371)	125,798	17,664
Total Amortization	\$ 45,268	\$ 49,456	\$ 125,798	\$ 91,198

All of the Company's fixed assets are pledged to Sprott as part of a line of credit facility (note 18).

14. Intangible Assets and Goodwill

The following is a summary of activity in intangible assets during the first six months of 2018:

	January 1, 2018	Additions	Amortization	FX impact	June 30, 2018
Acquired brands	\$ 1,957,947	\$ -	\$ (112,679)	\$ 84,707	\$ 1,929,976
Acquired technology	3,147,580	-	(181,141)	136,598	3,103,037
Employment agreement	215,161	-	(28,065)	-	187,096
Product formulations	286,910	-	(15,018)	(6,928)	264,964
Licenses	-	3,866,400	(252,048)	70,028	3,684,379
Customer & retail relationships	-	3,093,120	(115,223)	57,522	3,035,419
Exclusive distribution rights	-	-	-	-	-
Net Book Value of Intangibles	\$ 5,607,598	\$ 6,959,520	\$ (704,174)	\$ 341,927	\$ 12,204,871
Goodwill	4,759,377	8,082,331	-	590,889	13,432,597

The following is a summary of activity in intangible assets during the first six months of 2017:

	January 1, 2017	Additions	Amortization	FX impact	June 30, 2017
Acquired brands	\$ 2,369,944	\$ -	\$ (118,225)	(118,230)	\$ 2,133,489
Acquired technology	4,990,066	-	(248,930)	(249,064)	4,492,072
Employment agreement	280,645	-	(28,065)	(9,354)	243,226
Product formulations	315,864	-	(13,131)	(32)	302,701
Net Book Value of Intangibles	\$ 7,956,519	\$ -	\$ (408,351)	\$ (376,680)	\$ 7,171,488
Goodwill	6,438,885	-	-	(175,179)	6,263,706

The additions of \$15,041,851 to goodwill and intangibles during the six months ended June 30, 2018 pertain to the acquisitions of Kaya and Alta in the first quarter (note 5). The acquired intangibles pertaining to licenses are amortized over 4 years, and customer and retail relationships are amortized over 7 years.

The amortization of the intangible assets is classified as a separate line within operating expense. No intangible assets have been internally generated.

15. Amounts Payable and Accrued Liabilities

Amounts payable and accrued liabilities consist of the following at the end of the following periods:

	June 30, 2018	December 31, 2017
Trade accounts payable	\$ 2,912,045	\$ 290,260
Purchase consideration payable	231,527	-
Other accrued liabilities	1,677,527	1,196,725
Sales tax payable	404,652	
Other payables	148,750	119,704
Total amounts payable	\$ 5,374,501	\$ 1,606,689

As part of the acquisition of Kaya and Alta (note 5), outstanding purchase consideration of \$133,490 (US \$101,469) was payable at June 30, 2018. Any unpaid debt is not revalued at the end of reporting periods and all contingent consideration related to these acquisitions have been included within equity at inception.

16. Loan Payable

	June 30, 2018	December 31, 2017
Promissory notes (1)	\$ 72,905	\$ 425,345
Vehicle loans (2)	17,261	-
Total loans payable	\$ 90,166	\$ 425,345

- (1) On November 30, 2016, in connection with CannaRoyalty's acquisition of a 70% membership interest in Achelois LLC ("Achelois"), a promissory note for \$433,440 (US\$ 336,000) was issued by Achelois to its founding shareholder. The note bears interest at 0.66% per annum and was fully repayable. On June 11, 2018, the minority shareholder to whom this note is payable, agreed to waive this note for the return of inventory which had a value of US\$ 336,000 on the acquisition of Achelois. This inventory had been fully impaired, and accordingly the recovery in its value has been recorded as a reduction in cost of sales during the second quarter of fiscal 2018. The loan payable balance is \$nil at June 30, 2018 (December 31, 2017 - \$425,345).

As part of the acquisition of Kaya and Alta, the Company inherited two loans worth a total of \$72,905 (US\$ 55,500) to the former majority shareholder of the companies. These loans are due on December 31, 2018 and bear no interest.

- (2) As part of the acquisition of Alta, the Company inherited two loans related to the purchase of two vehicles. The loans fully mature during the second quarter of fiscal 2019, and bear interest at a rate of 3.6%. Payments of \$7,702 have been made since acquisition.

The following is a reconciliation of the promissory note activity for the six months ended June 30, 2018 and June 30, 2017:

	2018	2017
Opening balance, January 1	\$ 425,345	\$ 451,618
Promissory notes issued	72,905	-
Accrued interest	765	979
Loans and interest waived	(445,248)	-
Impact of foreign exchange	19,138	(4,133)
Closing balance, June 30	\$ 72,905	\$ 448,464

17. Convertible Debt

On October 19, 2016, the Company issued and sold a secured convertible debenture to Aphria Inc. ("Aphria"), a publicly traded company, and licensed medical marijuana producer in Ontario, Canada, for \$1,500,000. The debenture which was to mature on October 19, 2019, was secured by the assets of the Company and availed at an interest rate of 5% per annum, payable annually. The loan was convertible by Aphria, in whole, or in part, into common shares of the Company at a conversion rate of \$2.00 per share at any time prior to maturity. During April 2018, Aphria elected to convert the debt into 750,000 shares of CannaRoyalty.

The option to settle payments in common shares represents an embedded derivative to the Company which was valued at \$138,417 at inception based on the valuation of the loan. This amount was recorded in contributed surplus while the residual was classified as equity.

The following is a summary of the convertible debt balance activity for the six months ended June 30, 2018 and June 30, 2017:

	2018	2017
Opening balance, January 1	\$ 1,431,950	\$ 1,414,414
Accrued interest	33,904	34,249
Accreted interest	34,146	16,027
Conversion option exercised	(1,500,000)	-
Closing balance, June 30	\$ -	\$ 1,464,690

18. Line of Credit

	June 30, 2018	December 31, 2017
Balance drawn	\$ 2,000,000	\$ 3,000,000
Accrued interest	60,187	-
Warrants issued to Sprott (unamortized portion)	(1,374,648)	(1,692,414)
Agents commission and legal fees (unamortized)	(395,082)	(481,069)
Line of Credit at June 30, 2018	\$ 290,457	\$ 826,517

As at June 30, 2018, \$2,000,000 was outstanding of the funds drawn from the line of credit since inception. (December 31, 2017 - \$3,000,000). During April 2018, in connection with closing a bought deal financing (see note 21), the Company used \$1,000,000 of the proceeds to reduce the line of credit.

Interest expense in the first quarter of fiscal 2018 was \$83,333. This was repaid via shares in April 2018. Interest expense for the second quarter of fiscal 2018 was \$60,187 and it was repaid via share issuance in July 2018. Agent commission and legal financing fees of \$85,987, and amortized warrants of \$317,766, were expensed during the six-month period as components of interest expense.

19. Commitments and Contingencies

The Company leases space for offices in Ontario, as well as manufacturing and distribution facilities in California.

The Company has an agreement with an exclusive distributor, whereby the Company guarantees royalty payments of US\$3.6 million based on a separate quarterly guarantee over a 5-year period ending December 31, 2022. The Company also agreed to deploy no less than US\$ 1.0 million on operational infrastructure and sales and marketing prior to the end of February 2020.

20. Related Party Transactions

- a) As part of the acquisition of Kaya and Alta (note 5), the Company inherited two loans worth a total of \$72,905 (US\$ 55,500) to the former majority shareholder of the companies. This individual is now a member of the Company's key management. These loans are due on December 31, 2018 and bear no interest.
- b) As of June 30, 2018, a \$41,742 liability exists for travel reimbursements due to key management of the Company (December 31, 2017 - \$14,640).
- c) During the second quarter the Company issued 484,042 common shares to a member of key management. These were issued based on Alta and Kaya reaching certain post acquisition performance milestones.
- d) The Company has an exclusive distribution rights agreement with a party that is significantly influenced by a member of key management. This agreement guarantees royalty payments of US\$3.6 million based on separate quarterly guarantees over a 5-year period ending December 31, 2022. As part of this agreement, CannaRoyalty was required to issue 125,022 shares to this distributor for a value of \$480,450, of which \$426,920 (US\$325,000) serve as prepaid royalty payments. During the second quarter, the distributor earned royalties of \$42,570.

As part of this agreement, the Company also agreed to deploy no less than US\$ 1.0 million on operational infrastructure and sales and marketing prior to the end of February 2020.

During the second quarter of fiscal 2018, the Company purchased supplies totalling \$21,734 from a vendor significantly influenced by a member of key management. The Company has a balance owing of \$506,841 to an entity owned by a member of key management for inventory that was purchased by Kaya at the beginning of fiscal 2018 (December 31, 2017 - \$nil). This entity is now inactive, and no future purchase transactions are expected.

21. Share Capital

Authorized:

Unlimited number of common shares

Issued and outstanding:

53,694,947 common shares.

The following table summarized share issuances for the six months ended June 30, 2018:

	Number	Amount
Balance as at January 1, 2018	43,898,445	\$ 50,007,891
Shares issued due to exercise of warrants issued to Sprott at \$2.05 (1)	900,000	2,806,200
Shares issued due to exercise of warrants at \$4.50 during fiscal 2018 (2)	975,500	5,215,217
Shares issued due to exercise of warrants at \$1.50	181,493	362,986
Shares issued due to exercise of broker warrants at \$2.00-\$4.00 during fiscal 2018	308,228	1,341,277
Shares issued for interest on Sprott line of credit (3)	33,129	119,444
Shares issued for purchase of Kaya and Alta (4)	1,786,646	6,771,388
Shares issued as initial distribution right investment and prepayments on royalties to Bhang	125,022	480,450
Shares issued for April 2018 financing and over allotment shares at \$4.00 net of transaction costs (5)	4,312,500	11,888,206
Shares issued on release of RSUs	423,984	884,399
Shares issued for the settlement of Aphria convertible debt	750,000	1,500,000
Balance as at June 30, 2018	53,694,947	\$ 81,377,459

- (1) These warrants were issued in combination with securing a line of credit from Sprott (note 18). The total charge to share capital of \$2,806,200 includes cash proceeds from these exercises of \$1,845,000 and their initial fair value of \$961,200.
- (2) These warrants were issued as part of the February 2017 bought deal financing. The total charge to share capital of \$5,215,217 includes cash proceeds from these exercises of \$4,389,750 and the initial fair value of these warrants of \$825,467.
- (3) In accordance with the line of credit with Sprott, quarterly interest of 10% can be paid via the issuance of shares (note 18). These shares were for the interest in the first quarter of fiscal 2018.
- (4) In accordance with a term sheet signed with Kaya and Alta on November 28, 2017, 579,691 and 675,125 shares were issued to each respective party. These shares have been issued but were held in escrow and excluded from the Company's outstanding share count until a deal was closed on March 27, 2018 (note 5). During June 2018, milestone performance shares of 184,278 and 347,552 were issued to Kaya and Alta respectively. The value of these shares is based on the closing share price on the date of acquisition of \$3.79.

- (5) On April 13 and April 17, 2018 company completed a Bought Deal Financing, including an over-allotment, for gross proceeds of \$17,250,000. This financing resulted in the issuance of 4,312,500 units at \$4.00 per unit, with each unit comprised of one CannaRoyalty common share and a half-share purchase warrant. As part of the transaction, 258,750 compensation warrants were issued with a fair valued of \$641,844. Total proceeds of \$17,250,000 were allocated as follows; financing and over-allotment shares were valued at \$11,888,206., the warrants were fair valued at \$3,114,890, the total transaction costs were \$1,605,060, and the cost of the compensation warrants was \$641,844. The value assigned to share capital and the warrant reserve is stated net of the transaction and compensation warrants cost which have been allocated proportionately between shares and warrants.

As at June 30, 2018, the outstanding share purchase and broker warrants could potentially be exercised for a total of 4,491,866 common shares (December 31, 2017 – 4,112,712).

The following tables summarize the movement of warrants for the six-month period ended June 30, 2018 and June 30, 2017:

	Number of warrants	Grant date value	Weighted average exercise price
Outstanding and exercisable at January 1, 2018	4,112,712	\$ 0.99	\$ 3.67
Grants	2,744,375	1.65	5.25
Exercises	(2,365,221)	0.96	3.15
Outstanding and exercisable at June 30, 2018	4,491,866	\$ 1.25	\$ 4.91

	Number of warrants	Grant date value	Weighted average exercise price
Outstanding and exercisable at January 1, 2017	1,113,633	\$ 0.56	\$ 1.58
Grants	4,600,000	1.02	3.44
Exercises	(163,421)	0.74	1.79
Outstanding at June 30, 2017	5,550,212	\$ 0.94	\$ 3.12
Warrants not yet exercisable	(1,800,000)	1.07	2.05
Outstanding and exercisable at June 30, 2017	3,750,212	\$ 0.88	\$ 3.63

The warrants reserve of \$5,625,652 at June 30, 2018 (December 31, 2017 - \$4,149,703), is based on the number of outstanding warrants and their weighted average grant date value.

On February 22, 2018, the Company issued 200,000 warrants to settle agent commission services provided in 2017. These options will expire in 3 years and have a value of \$1.89 per warrant. These warrants were valued using the Black-Scholes model with the following key assumptions: a grant price of \$4.00 based on the closing price, volatility of 75% based on a weighted average of the Company's historical and industry benchmarks, and a risk-free interest rate of 1.75%.

In connection with the bought deal financing completed on April 13, 2018, an aggregate of 3,750,000 units of CannaRoyalty Corp. at a price of \$4.00 per unit were issued. Each unit consist of one CannaRoyalty common share and half of one CannaRoyalty common share purchase warrant. Each purchase warrant is exercisable to acquire one common share for a period of three years following the closing date of the offering, at an exercise price of \$5.50. The underwriters were also granted 562,500 over-allotment units at \$4.00 each which were fully exercised.

In addition, a total of 225,000 broker warrants, 112,500 broker half warrants, 33,750 broker over-allotment and 16,875 broker over-allotment half warrants were issued as compensation warrants to the underwriters. The broker compensation warrants were issued at a price for \$4.00 per unit and will expire within 2 years from the close of the issue. While the broker compensation half warrants were issued at a price of \$5.50 and will expire within 3 years of issue.

The April 2018 financing and broker warrants were valued using the Black Scholes model with the following key assumptions and fair value. The financing warrants are valued net of the financing cost.

	Financing warrants	Financing over-allotment warrants	Broker warrants	Broker over allotment	Broker half warrant	Broker over allotment half warrant
Grant price	\$ 4.20	\$ 4.34	\$ 4.20	\$ 4.34	\$ 4.20	\$ 4.34
Blended volatility	73.30%	73.30%	73.30%	73.30%	73.30%	73.30%
Risk-free interest rate	1.99%	2.01%	1.86%	1.88%	1.99%	2.01%
Expected life	2.5yrs	2.5yrs	1.75yrs	1.75yrs	2.5yrs	2.5yrs
Black Scholes fair value	\$ 1.43	\$ 1.52	\$ 1.67	\$ 1.77	\$ 1.58	\$ 1.67

The following is a summary of the expiry dates of outstanding warrants as at June 30, 2018. On average, the warrants will expire in 1.51 years.

Expiry date	Warrants outstanding and exercisable	Exercise price
October 4, 2018	42,691	\$ 2.00
February 15, 2019	82,050	3.00
February 15, 2019	180,000	4.00
February 15, 2019	1,674,500	4.50
February 22, 2019	200,000	4.00
April 13, 2020	27,000	4.00
April 13, 2021	112,500	4.00
April 13, 2021	2,173,125	5.50
Total	4,491,866	\$ 4.23

After June 30, 2018 and until the date of these statements, no additional proceeds have been received as there has been no exercise of any existing warrants.

22. Share Unit Plan and Share Option Plan

The following is a summary of the share-based compensation by type for the six-month period ended June 30, 2018 and June 30, 2017:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Share-based compensation:				
Restricted Stock Units	\$ 698,661	\$ 645,816	\$ 2,432,615	\$ 1,804,212
Stock Options	393,519	-	599,663	-
CannaRoyalty plans	1,092,180	645,816	3,032,278	1,804,212
Trichome plans	47,235	-	47,235	-
Total	\$ 1,139,415	\$ 645,816	\$ 3,079,513	\$ 1,804,212

The following is a summary of share-based compensation by expense groups for the three-month period ended June 30, 2018 and June 30, 2017:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
General and administrative	\$ 709,610	\$ 570,402	\$ 2,595,668	\$ 1,649,291
Sales and marketing	394,595	67,095	446,368	146,602
Research and development	35,210	8,319	37,477	8,319
Outstanding, End of Period	\$ 1,139,415	\$ 645,816	\$ 3,079,513	\$ 1,804,212

Share unit plan - CannaRoyalty

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

The share unit plan provides for a maximum number of common shares issuable. The ceiling is set at a rolling maximum of 10% of the Company's issued and outstanding shares. At June 30, 2018, a total of 759,002 Restricted Stock Units ("RSUs") were available for grant.

The number of share units granted, and any applicable vesting conditions are determined at the discretion of the CannaRoyalty Board or a compensation committee of the Board. The termination provisions under the share unit plan provide for automatic vesting of any unvested RSUs in the event of retirement, death, disability, and change in control.

Summary of Activity

The following table provides a summary of the movement in RSUs during the three months ended June 30, 2018 and the three months ended June 30, 2017:

	Three months ended				Six Months ended			
	June 30, 2018		June 30, 2017		June 30, 2018		June 30, 2017	
	Amount	Value	Amount	Value	Amount	Value	Amount	Value
Outstanding, beginning of period	4,109,650	\$ 2.35	3,184,800	\$ 1.71	4,153,150	\$ 2.28	2,774,800	\$ 1.73
Granted	10,000	3.94	9,878	2.33	20,000	3.76	459,878	3.07
Settled in common shares	(262,494)	2.07	(74,984)	1.57	(315,994)	2.09	(94,984)	1.67
Forfeitures	(14,166)	2.92	(66,666)	2.00	(14,166)	2.92	(86,666)	2.00
Outstanding, end of period	3,842,990	\$ 2.37	3,053,028	\$ 1.93	3,842,990	\$ 2.37	3,053,028	\$ 1.93

Value is defined as the weighted average fair value of the RSU's at the Grant Date

Of the outstanding RSUs at June 30, 2018, 2,203,345 have vested and have not been converted (December 31, 2017 – 1,933,587), as employees may elect to defer the conversion of RSUs into common shares. The 1,639,645 unvested RSUs will vest in an average of 1.26 years.

Stock Options

The plan provides for a maximum number of common shares issuable with the ceiling set at a rolling maximum of 10% of the Company's issued and outstanding shares. At June 30, 2018, a total of 4,401,995, stock options were available for grant.

As at June 30, 2018, there are 967,500 stock options outstanding. The outstanding options generally vest as follows; one-quarter at the grant date, and one-quarter at each of the following three grant date anniversaries. 50,000 options were issued to a consultant which vested over a six-month period.

The following is a summary of stock options for the respective periods ended June 30, 2018 and June 30, 2017:

Stock Option Activity	Six months ended June 30, 2018				Six months ended June 30, 2017			
	Number of Options	Weighted Average Exercise Price	Weighted Average Fair Value		Number of Options	Weighted Average Exercise Price	Weighted Average Fair Value	
Outstanding, beginning of year	850,000	\$ 3.68	\$ 2.33		25,000	\$ 1.00	\$ 1.14	
Granted	267,500	5.49	3.40		-	-	-	
Forfeitures	(150,000)	3.73	2.40		-	-	-	
Exercised	-	-	-		(25,000)	1.00	1.14	
Outstanding, end of period	967,500	\$ 4.17	\$ 2.54		-	\$ -	\$ -	

Of the outstanding stock options at June 30, 2018, 308,250 have vested and have not been exercised. A total of 659,250 unvested options will vest in an average of 1.61 years.

During the first quarter of fiscal 2017, 25,000 stock options were exercised by a director of Bonanza Blue. These options were issued as part of the RTO transaction completed in December 2016.

The following table shows details of the Company's share options by exercise price:

Range of Exercise Prices	Number of Options Granted	Number of Options Vested	Weighted Average Remaining Life (Years)
\$ 2.80	50,000	25,000	4.25
3.73	800,000	200,000	9.50
4.00 - 5.00	27,500	6,375	6.68
5.00 and greater	240,000	51,875	9.45
	1,117,500	283,250	9.18

The fair value of stock options is determined by the Black-Scholes method.

The volatility is based on a weighted average of the Company's historical stock volatility and comparable industry benchmarks. The following outlines the assumptions used for options issued in the six months ended June 30, 2018.

	June 30, 2018
Expected life, in years	4.0 - 5.75
Volatility	72.9% - 73.5%
Risk free interest rate	1.93% - 2.18%
Anticipated forfeiture	0% - 8.8%
Dividend yield	0%
Closing stock price at grant date	\$2.86 - \$5.68

No options were issued in the six months ended June 30, 2017.

Trichome

The Company recorded \$47,235 (June 30, 2017 – \$nil) in share-based compensation expense related to the issuance of shares and options in Trichome to employees of Trichome, with a corresponding increase to non-controlling interests.

23. Earnings (Loss) per Share

a) Basic earnings (loss) per share

The basic earnings (loss) per share ("EPS") has been calculated based on the following net profit attributable to ordinary shareholders and the weighted average number of common shares outstanding:

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Income (loss) attributable to common share holders (basic):				
Income (loss) attributable to ordinary shareholders	\$ 9,298,488	\$ (2,017,556)	\$ 4,644,015	\$ (3,984,161)
Weighted average number of common shares issued and outstanding (basic):				
Issued and outstanding ordinary shares beginning of period	46,907,628	41,756,424	43,898,445	36,006,956
Effect of RSUs released	141,755	266	102,430	8,342
Effect of share options exercised	-	-	-	23,542
Effect of Warrants exercised	227,398	73,014	1,723,846	13,813
Effect of shares issued from financing activities	4,164,178	-	2,093,592	3,783,323
Effect of shares issued for acquisitions	87,664	-	702,679	520,049
Others	31,574	-	15,874	-
Weighted average number of shares (basic) at June 30	51,560,198	41,829,704	48,536,866	40,356,024
Basic earnings (loss) per share	\$ 0.18	\$ (0.05)	\$ 0.10	\$ (0.10)

b) Diluted earnings (loss) per share

Diluted EPS has been calculated based on the following income (loss) attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after adjusting for the effects of potential dilutive shares:

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Income (loss) attributable to common share holders (diluted):				
Net income (loss) for the period	\$ 9,298,488	\$ (2,017,556)	\$ 4,644,015	\$ (3,984,161)
Add: Interest expense on convertible debt net of tax	453	-	24,919	-
Add: Interest expense to be settled by issue of common shares net of tax	44,238	-	44,238	-
Profit attributable to ordinary shareholders	\$ 9,343,179	\$ (2,017,556)	\$ 4,713,172	\$ (3,984,161)
Weighted average number of common shares outstanding (Diluted):				
Weighted average number of ordinary outstanding shares (basic)	51,560,198	41,829,704	48,536,866	40,356,024
Effect of conversion of convertible debt	8,242	-	377,072	-
Effect of outstanding share options	65,149	-	60,926	-
Effect of outstanding RSUs	3,360,418	-	3,307,535	-
Effect of outstanding warrants	215,894	-	81,701	-
Effect of interest payment due in shares	11,539	-	11,539	-
Effect of outstanding contingent shares	86,888	-	86,888	-
Weighted average number of shares (diluted) at June 30	55,308,327	41,829,704	52,462,527	40,356,024
Diluted earnings (loss) per share	\$ 0.17	\$ (0.05)	\$ 0.09	\$ (0.10)

At June 30, 2018, there were a total of 711,125 employee stock options and 3,960,125 warrants (three months ended June 30 - 2,285,625 warrants) that were excluded from the computation of the diluted EPS because their effect would have been anti-dilutive.

The following material transactions occurred after the period which would have significantly changed the number of ordinary shares and potential ordinary shares outstanding at June 30 if these transactions had occurred before the end of the reporting period:

- i.) The acquisition of 100% of FloraCal Farms ("FloraCal") for a consideration consisting partly of 35,088 CannaRoyalty Class A Compressed Shares ("Compressed Shares") and an additional 35,088 Compressed Shares to be paid over 3 years on July 2, 2018. Each Class A Compressed Share is convertible into 100 common shares of CannaRoyalty, subject to certain conditions, and carries the right to one vote for each common share into which it can be converted into. (See note 30(a))
- ii.) The private placement of 32,980 Convertible Debentures of the Company at a price of \$1,000 per debenture on July 12, 2018. At a conversion price of \$6.25, the debt of \$33.0 million could be potentially converted into 5,276,800 common shares. (See note 30(b))

The average market value of the company's shares applied in calculating the dilutive share count of dilutive instruments was based on the average quoted closing prices of its shares for the period.

24. Deferred Tax

In relation to the acquisition of Kaya and Alta and the recognition of intangible assets related to licenses and relationships, the Company has recorded deferred tax liabilities of \$1,948,666 (note 5). This is in addition to deferred tax liabilities which arose on the DCL and EML acquisitions in fiscal 2016.

The deferred tax recovery of \$176,090 for the three months ending June 30, 2018 (June 30, 2017 – recovery of \$78,681) pertains to the amortization of intangibles acquired on the above acquisitions. The deferred tax recovery for the six months ending June 30, 2018 includes an expense related to an enacted tax rate adjustment for the intangible assets held prior to December 31, 2017.

25. Fair Value of Financial Instruments

In the normal course of business, the Company uses various financial instruments which by their nature involve risk, including market risk, interest rate risk, liquidity risk and credit risk of non-performance by counter parties. These financial instruments are subject to normal credit standards, financial controls, risk management as well as monitoring procedures.

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

	June 30, 2018	December 31, 2017
Fair value through profit or loss assets (liabilities):		
Cash	\$ 15,724,845	\$ 4,522,644
Investments	33,379,709	17,243,342
Loans and receivables:		
Loans receivable	1,902,913	1,102,168
Amounts receivable	763,166	1,429,123
Convertible notes receivable	-	373,127
Financial liabilities at amortized cost:		
Amounts payable	5,374,501	1,606,689
Line of credit	290,457	826,517
Convertible debt	-	1,431,950
Loans payable	90,166	425,345

Determination of fair value

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

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

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

The Company's financial instruments carried at fair value consist of cash (Level 1), and investments (Level 2). The embedded derivatives are valued using observable market inputs such as prime rate of borrowing and the Company's stock price. Level 2 valuations have been completed for investments using observable share price data from completed financing transactions. The Company has not transferred any financial instruments between Level 1, 2 or 3 of the fair value hierarchy

Liquidity

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach in managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, by continuously monitoring actual and forecasted cash flows.

The Company has sustained losses since incorporation and has financed these losses mainly through a combination of equity and debt offerings. As at June 30, 2018, the Company has contractual obligations relating to trade and other payables, loans, convertible debt a line of credit, and the acquisition of Kaya and Alta.

Management believes that it will raise sufficient cash in the upcoming year to meet all of its contractual debt obligations that are coming due and will have the ability to fund any operating losses that may occur. However, there may be uncertainty related to the timing and use of the Company's cash resources and actual results may differ from expectations.

Credit Risk

Credit risk arises from the potential that a customer or counterparty will fail to perform its obligations. The Company is exposed to credit risk from the loans it has made to various entities. In order to minimize the risk of loss from loans receivable, the Company provides value added consulting services to the borrowers to support their quest for commercial success thereby reducing their likelihood of loan default. In addition, some loans are convertible into equity of the borrower.

The Company reviews its loans receivable accounts regularly and writes down these accounts to their expected realizable values, by making an allowance for doubtful accounts, as soon as the account is determined not to be fully collectible. The allowance is charged against earnings. Shortfalls in collections are applied against this provision. Estimates for allowance for doubtful accounts are determined by a loan-by-loan evaluation of collectability at each balance sheet reporting date, considering the amounts that are past due and any available relevant information on the borrowers' liquidity and going concern issues.

For additional information regarding the Company's management of and exposure to amounts receivable refer to note 6 of these financial statements.

Foreign Currency Risk

Foreign currency risk arises because of fluctuations in exchange rates. The Company conducts a significant portion of its business activities in U.S. dollars. Management of foreign exchange currency exposure is governed by the Company's foreign exchange policy as approved by its Board. The objective of the policy is to minimize the earnings impact of foreign currency gains and losses associated with foreign exchange rate fluctuations and to maintain purchasing power within U.S. operations.

The financial assets and liabilities that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and the U.S. dollar. This primarily includes cash, amounts receivable, loans receivable, inventories, investments, royalty investments, convertible notes receivable, trade and other payables, and loans payable which are denominated in foreign currencies. The Company's subsidiaries transact primarily in U.S. dollars.

The Company recognized a foreign exchange gain from continuing operations of \$111,145 and \$35,115 for the three and six months ended June 30, 2018 (gain of \$388,227 and \$349,855 for the three and six months ended June 30, 2017).

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's interest rate risk is primarily related to the Company's interest-bearing debts on its balance sheet. The Company does not have any assets or debt with variable interest rates, thereby minimizing the Company's exposure to cash flow interest rate risk.

Capital Management

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its investment growth strategy, fund research and development, engage in sales and marketing activities, and undertake selective acquisitions, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company's capital is composed entirely of equity. The Company's primary uses of capital are to invest in companies in the cannabis industry, either through acquisitions, lending, or funding the growth of existing subsidiaries. The Company also uses capital to finance operating losses, capital expenditures, and increases in non-cash working capital. The Company currently funds these requirements from cash raised through financings and a line of credit as required. The Company's objectives when managing capital are to ensure that the Company will continue to have enough liquidity to help build its portfolio of interests into successful businesses from which it will obtain returns on investment.

The Company monitors its capital based on the adequacy of its cash resources to fund its business plan. In order to maximize flexibility to finance growth, the Company does not currently pay a dividend to holders of its common shares. The Company did not institute any changes to its capital management strategy during the year.

26. Segmented Information

CannaRoyalty operates under one reporting segment.

During the three-month period ended June 30, 2018 and 2017, the Company generated the following types of revenues:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Product sales	\$ 3,110,617	\$ 372,993	\$ 3,195,390	\$ 404,328
Services	238,344	232,574	668,161	273,142
Royalties	137,189	332,630	256,247	543,094
Interest income	25,316	21,960	35,105	40,704
Total	\$ 3,511,466	\$ 960,157	\$ 4,154,903	\$ 1,261,268

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

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

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Cost of product sales	\$ 2,378,378	\$ 360,931	\$ 2,454,052	\$ 360,931
Cost of services	60,000	25,885	269,023	37,695
Cost of royalties	252,153	151,660	640,523	196,488
Total	\$ 2,690,531	\$ 538,476	\$ 3,363,598	\$ 595,114

Geographic segments

The following table is a summary of revenues by geographic segments for the three-month period ended June 30, 2018 and 2017:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Canada	\$ 8,413	\$ 3,967	\$ 309,290	\$ 17,827
United States of America	3,503,053	956,190	3,845,613	1,243,441
Total	\$ 3,511,466	\$ 960,157	\$ 4,154,903	\$ 1,261,268

The geographic segment is based on the location of the purchaser of goods or services or the head office of the royalty issuer.

The Company's corporate and administrative offices are in Canada. The following summarizes the location of the Company's non-current assets as at June 30, 2018 and December 31, 2017.

	June 30, 2018		December 31, 2017	
	Canada	USA	Canada	USA
Loans receivable	\$ -	\$ -	\$ -	\$ 66,421
Interest in equity accounted investees	2,973,461	829,584	2,538,014	1,058,319
Investments	27,121,203	6,258,506	10,965,886	6,277,456
Royalty investments	328,400	6,584,877	436,025	5,398,588
Property and equipment	157,653	1,398,334	120,683	963,415
Intangible assets and goodwill	1,689,759	23,947,709	1,717,824	8,649,151

27. General and Administrative Expense

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Accounting & audit fees	\$ 166,505	\$ 163,537	\$ 372,066	\$ 230,170
Provision for bad and doubtful debt	(42,279)	99	(63,183)	(13,219)
Advisory & consulting fees	1,123,307	260,072	1,330,248	332,698
Legal fees	252,574	87,250	486,601	231,808
Rent	86,332	113,312	162,260	154,898
Office & administration costs	403,401	76,752	736,647	157,752
Salary-based compensation	1,377,065	566,121	2,080,182	1,130,046
Stock-based compensation	709,610	570,402	2,595,687	1,649,291
Depreciation	80,006	13,865	125,275	17,664
Travel	300,117	126,324	381,281	223,814
Total	\$ 4,456,638	\$ 1,977,734	\$ 8,207,064	\$ 4,114,922

28. Comparative amounts

Certain comparative amounts have been reclassified to conform to the current presentation.

29. Term Sheet for the Acquisition of River Distribution

On March 27, 2018, the Company announced that it entered into a binding term sheet for the acquisition of 100% of RVR. This acquisition is conditional on certain obligations and requirements being met before an expected close date later in fiscal 2018. RVR represents a number of California brands sourced from across the state.

30. Subsequent Events

- a) **Acquisition of FloraCal Farms ("FloraCal"):** On July 2, 2018, the Company acquired 100% of FloraCal, a licensed ultra-premium craft cannabis producer located in Sonoma Country, California.

The acquisition consideration consisted of US \$1.0 million in cash paid immediately, subject to a working capital adjustment, 35,088 CannaRoyalty Class A Compressed Shares ("Compressed Shares"), as well as up to an additional US \$3.0 million in cash and 35,088 Compressed Shares to be paid over 3 years, based on the completion of certain expansion and budget milestones, and other considerations. Each individual Compressed Share can be converted to 100 CannaRoyalty shares under certain conditions. The total value of consideration under the terms of the agreement is approximately \$40.1 million, subject to a working capital adjustment.

- b) **Private Placement:** On July 12, 2018, the Company announced that it closed a previously announced private placement of 32,980 Convertible Debentures (the "Offering") of the Company at a price of \$1,000 per debenture for aggregate gross proceeds to the Company of \$33.0 million, including an over-allotment option of \$3.0 million.

The Convertible Debentures will have a maturity date of three years from the closing date of the Offering (the "Maturity Date") and will bear interest from the date of closing at 8.0% per annum, payable semi-annually on June 30 and December 31 of each year. The Convertible Debentures can be convertible, at the option of the holder, into common shares of the Company at any time prior to the Maturity Date at a conversion price of \$6.25 per common share (the "Conversion Price"). At any time following the date that is four months and one day following the Closing Date, the Company may force the conversion of the principal amount of the outstanding Convertible Debentures at the Conversion Price should the daily volume weighted average trading price of the common shares be greater than \$9.00 for any ten consecutive trading days.

- c) **Anandia Laboratories Inc. (“Anandia”) sale:** On August 8, 2018, an investee of the Company, Anandia, was acquired by Aurora Cannabis Inc. (“Aurora”) for approximately \$115 million based on the 20-day VWAP prior to the effective date of their agreement. CannaRoyalty’s equity stake in Anandia is fair valued at approximately \$17.0 million based on the closing price of Aurora shares on the acquisition date of \$6.18 per common share (“Closing Price”). The fair value is based on Aurora common shares and warrants, with each common share accompanied by a warrant exercisable for 1/2 of an Aurora common share at an exercise price of \$9.37 with a term of 5 years. As of June 30, 2018, the investment in Anandia was valued at \$26.4 million based on the closing price of Aurora shares at that date of \$9.30. While the value at close of approximately \$17.0 million represents a significant gain from the Company’s initial investment in Anandia of \$4.0 million, the variance from the value at close and the value at June 30, 2018 will result in a significant loss in the third quarter of fiscal 2018.
- d) **BAS Promissory Notes Recovery:** A payment of \$438,338 (US\$333,692) was received in connection to the previously impaired BAS Promissory Notes (note 9) in August 2018, including interest of \$33,692. This will be recorded as a recovery in the third quarter of fiscal 2018.
- e) **Wagner Dimas license sale:** On August 13, 2018, the Company closed the sale of an exclusive Canadian license to use and commercialize the pre-roll technology developed by Wagner Dimas to Aurora. The license was valued at \$7.0 million based on the five-day volume weighted average price of Aurora common shares leading up to signing of the term sheet on July 11, 2018 (the “License Purchase Price”). The License Purchase Price was settled in 756,348 Aurora Cannabis common shares, and the value of these shares based on the closing price of Aurora common shares on August 13, 2018 was approximately C\$4.5 million. CannaRoyalty had originally inherited the rights to the License as part of a loan of US\$150,000 made in fiscal 2017 which was convertible into the License (note 8).