CannaRoyalty Corp.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2017

Dated: May 29, 2017

This CannaRoyalty Corp. (the "Company" or "CannaRoyalty") Management's Discussion and Analysis ("MD&A") is dated May 29, 2017. The MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements (the "Financial Statements") for the three months ended March 31, 2017, including the accompanying notes.

Unless otherwise indicated, all financial information in this MD&A is reported in Canadian dollars. The Company prepared this MD&A of the Financial Condition and Results of Operations with reference to National Instrument 52-109 – Continuous Disclosure Obligations of the Canadian Securities Administrators ("NI 52-109"). This MD&A provides information for the three months ended March 31, 2017 and up to and including May 29, 2017.

By their nature, the Interim Financial Statements do not include all the information required for full annual financial statements. Accordingly, this MD&A should be read in conjunction with the audited consolidated financial statements and notes thereto for the period ended December 31, 2016 and the related management's discussion and analysis of financial condition and results of operations for the period ended December 31, 2016.

The Financial Statements and this MD&A have been approved by the Company's Board of Directors.

The accompanying Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and include the accounts of the Company and its wholly-owned subsidiaries or controlling equity interests including Electric Medialand Inc. ("EML") located in Canada, Cannroy Delaware Inc. ("Cannroy Delaware"), Cannroy Distribution LLC ("Cannroy Distribution"), Dreamcatcher Labs Inc. ("Dreamcatcher"), Green Rock Botanicals Inc. ("GreenRock"), and Achelois LLC ("Achelois") located in the United States of America. All inter-company balances and transactions have been eliminated on consolidation.

Additional information filed by the Company with the Canadian Securities Administrators is available on-line at www.sedar.com and on the Company's website at www.cannaroyalty.com.

HIGHLIGHTS FOR THREE MONTHS ENDING MARCH 31, 2017

Summary

The central theme regarding Q1 revolves around the continued expansion of CannaRoyalty's balance sheet. An equity financing led to the strengthening of the Company's cash position and allowed for the continued strategic growth of CannaRoyalty's investment portfolio and the development of its existing assets.

Strategic and Operational

During Q1 the Company continued its focus on strategic portfolio expansion and setting the stage for future growth. The successful closing of an equity financing provided capital that allowed for the acquisition of new holdings, for continued investment towards the development of the existing brand portfolio and for committing to new strategic relationships.

- **$15M bought deal offering**

  On February 15, 2017, the Company closed a bought deal prospectus financing offering by issuing an aggregate of 5,000,000 units at a price of $3.00 per unit, for aggregate gross proceeds of $15,000,000.

  The Offering was completed by a syndicate of underwriters led by Canaccord Genuity Corp. Each Unit comprises one common share of CannaRoyalty and half of one common share purchase warrant. Each warrant is exercisable to acquire one Common Share (a "Warrant Share") for a period of 2 years at an exercise price of $4.50 per warrant share. The warrants will be subject to a 21-day forced exercise provision if CannaRoyalty's daily volume weighted average share price is greater than $6.00 for 15 consecutive trading days following closing.

  The proceeds from this offering are in large part for acquisitions and investment in growth opportunities in addition to continued funding of the Company's existing holdings as well as for general working capital purposes.

- **Rich Extracts Royalty investment**

  On February 9, 2017, the Company entered into a binding term sheet regarding a royalty financing arrangement with Rich Extracts LLC ("Rich Extracts") whereby CannaRoyalty will receive a 30% royalty on Rich Extracts' gross revenues in perpetuity.

  Rich Extracts has constructed a 30,000 square-foot facility in Oregon to produce cannabis extract products using a variety of extraction processes. The facility houses equipment including extractors and short path distillation units that can process up to 80,000 grams per month of concentrates and distillates.

  The term sheet contemplates the grant of a 30% royalty on the gross revenues generated by Rich Extracts, in exchange for advances of US$2.15 million made by CannaRoyalty. Any advances made to Rich Extracts that exceed the US$2.15 million threshold are repayable, non-interest-bearing loans secured by Rich Extracts' assets as contemplated in a General Security Agreement between the parties.

- **Anandia Investment**

  On February 17, 2017, the Company acquired 20% of Anandia Laboratories Inc. ("Anandia") for aggregate consideration of $4,042,439 through a combination of $500,000 in equipment and services to be provided in the second quarter of fiscal 2017, $1,521,218 in cash, and 689,568 CannaRoyalty shares.

  Anandia is a biotechnology company with a focus on providing leading analytical testing services and developing cannabis strains for safe and effective medical applications. Anandia is the only independent Canadian testing facility specializing exclusively in cannabis. Together with a significant intellectual property position that includes cannabinoid pathway patents and proprietary genetics, Anandia possesses a Health Canada Dealer's License. This license permits Anandia to undertake research and development, and to develop products beyond those currently permitted for licensed producers under Health Canada's Access to Cannabis for Medical Purposes Regulations (ACMPR).

- **Strategic Financing Agreement with River**

  On March 1, 2017, The Company entered into a binding term sheet whereby CannaRoyalty will invest a total of US$5 million, in exchange for a royalty equal to 2.25% of the net sales of River until the US$5 million advance is repaid, and then 1.75% of net sales for the balance of the royalty term ending December 31, 2024.

  River will also support the launch and expansion of CannaRoyalty's brands and products by agreeing to a preferred distribution arrangement of such products by way of a distribution agreement.

  River serves the medical cannabis community in California and provides safe storage and transport of medical cannabis products throughout the state. The company maintains a qualified sales force to grow revenue for each of its brand partners and ensures the safety and quality of the product to their retail partners by way of product testing with third party cannabis testing laboratories. Distribution is a key strategic component of most cannabis sales verticals, and accordingly, is a critical segment of the cannabis market. River has quickly become a leading cannabis distributor because of its focus on compliance and best practices.

  As referenced in the Recent Development Section of this MD&A, CannaRoyalty's investment as contemplated in the binding term sheet only began after Q1 in connection with the execution of definitive agreements.

- **Launched the CR Brands Division**

  On March 16, 2017, the Company launched a new division named CR Brands. CR Brands will be responsible for the development, sales and marketing of a broad portfolio of cannabis products and brands through a number of established distribution channels throughout North America, and ultimately, on a global basis.

  To fulfill this mandate for CR Brands, the Company has appointed as its President, Mr. David E. Vautrin, a seasoned U.S. executive with over 20 years of brand development and operational experience with both private and public emerging growth businesses.

- **CannaRoyalty Investee, Resolve Digital Health, completes $5M financing**

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

Resolve is a medical cannabis delivery system company that develops proprietary smart technology. Its unique medical device system, Breeze Smart Inhaler™ provides an accurate, metered, treatment solution with pre-packaged, single-use pods filled with the highest quality cannabis buds or oil, making it easy and safe for end-users.

- **Joined the OTCQB Venture Market**

  On February 21, 2017, CannaRoyalty joined the OTCQB Venture Market under the symbol "CNNRF," which will provide U.S investors better access to invest in the Company.

Financial

- Revenues were $301,111 for the three months ending March 31, 2017, compared to $nil for the for the three months ended March 31, 2016.
- Cash and cash equivalents were $11,946,417 at March 31, 2017, as compared to $2,945,895 at December 31, 2016.
- Net loss of $2,053,785 and a net loss per share of $0.05 for the three months ended March 31, 2017, as compared to a loss of $1,736,165 and net loss per share of $0.13 for the three months ended March 31, 2016.
- Total assets of $46,556,757 at March 31, 2017, as compared to $32,197,938 at December 31, 2016.
- Current assets of $14,594,211 at March 31, 2017, as compared to $7,197,410 at December 31, 2016.
- Current liabilities of $1,828,703 at March 31, 2017, as compared to $2,337,807 at December 31, 2016.
- Adjusted EBITDA loss for the three months ended March 31, 2017, was $1,744,952 or 0.04 per share, as compared to $1,566,879 or $0.12 per share for the three months ending March 31, 2016.

RECENT DEVELOPMENTS

- **Launch of The Terpistry**

  On April 20, the Company launched The Terpistry, a wholly-owned venture of CannaRoyalty in collaboration with Dr. Jörg Bohlmann, a world recognized leader in terpene profiling. Dr.

Bohlmann brings extensive expertise in terpenoids, terpene synthases, terpenoids-cannabinoids relationship, and formulation. The Terpistry will focus on the development and commercialization of cannabis products with innovative terpene formulations.

Terpenes are a diverse class of aromatic organic molecules produced by a variety of plants. These compounds are responsible for giving many common foods their characteristic tastes and smells. Limonene, for example, gives lemons and oranges their characteristic citrus scent. A wide variety of terpene molecules are also naturally produced in cannabis. Dr. Bohlmann, in collaboration with Dr. Jonathan Page, an adjunct professor in the Botany Department at the University of British Columbia ("UBC") who co-founded the leading cannabis testing and biotechnology company in Canada, Anandia Labs (an investee company of CannaRoyalty), recently published a peer-reviewed paper outlining the results of their recent research. The research identified almost 30 genes involved in the synthesis of terpenes in cannabis. Their paper notes that "differences between the pharmaceutical properties of different cannabis strains have been attributed to interactions (or an 'entourage effect') between cannabinoids and terpenes." Suggested applications for these effects include treatment for sleep, stress response, immune function, anxiety, and inflammation.

The Terpistry's mission is to investigate naturally occurring cannabis terpene profiles to develop proprietary synthetic terpene formulations. The plethora of naturally occurring terpenes and their potential to complement and enhance cannabis through the entourage effect provides a revolutionary platform to develop a next generation level of cannabis extract based products, more refined and targeted than ever before. Backed by the scientific expertise of Dr. Bohlmann, the Company seeks to be at the forefront of the high growth cannabis product sub sectors of the global cannabis market.

- **Completion of Strategic Agreement with California based River**

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

  River serves the medical cannabis community in California and provides safe storage and transport of medical cannabis products throughout California. River has built a leadership position in the legal distribution of medical cannabis products, representing over 20 leading brands sourced from over 100 cannabis farmers and manufacturers. River distributes a wide range of cannabis products to over 400 retail collectives throughout California.

  The Agreement includes:

  1. A promissory note financing: in May 2015, CannaRoyalty advanced US$2 million to River pursuant to a secured promissory note, and will advance a further US$3 million in two equal tranches during 2017, subject to the satisfaction of certain financial milestones. Repayment of principal and 15% annual interest commences in January 2018.

2. A Consulting Services arrangement: the provision of consulting services such as product launch and marketing to develop high quality products tailored to the California market's demands/needs during the term of the agreement. The compensation payable for such services to CannaRoyalty preserves the original economic arrangement, being equal to 2.25% of River's gross revenues until repayment of the $5M invested and 1.75% thereafter until December 31, 2024 (in each case, net of any other payments made to CannaRoyalty pursuant to the agreement).

3. A Preferred Product Distribution arrangement which provides a significant channel for CannaRoyalty's new CR Brands Division to access the California market. The arrangement entitles CannaRoyalty to preferential rates on River's distribution services, and commits River to acquire US$20 million of CannaRoyalty branded products over the term of the Agreement subject to certain conditions.

California's recently published revised draft legislation requires suppliers of cannabis in California to distribute all medical cannabis products through independent distributors. As an independent distributor, River protects consumers through rigorous quality assurance requirements. Although not required to do so under existing California law, River has a long standing zero-tolerance policy on the presence of pesticides in the products it carries and requires that such products be independently tested by accredited laboratories to meet the requirements of this policy.

- **Rich Extracts receives Commercial Cannabis Processing License in the State of Oregon**

On May 18, 2017, Rich Extracts LLC, received a processing license from the Oregon Liquor Control Commission ("OLCC"), which allows it to begin producing cannabis products and wholesaling these products to licensed distributors and dispensaries throughout Oregon.

To date, CannaRoyalty has advanced approximately US$2.3 million to Rich Extracts and has the right to a royalty stream of 30% of Rich Extracts' gross sales in perpetuity in return for US$2.15 million of this advance. The remainder of the advance remains a non-interest-bearing loan secured by Rich Extracts' assets as contemplated in a general security agreement between the parties.

Rich Extracts' mission is to produce the highest quality, purest cannabis concentrates and distillates to become a market leader in this space. Rich Extracts has constructed a 30,000 square-foot facility in Oregon to produce cannabis extract products using a variety of proprietary extraction technologies and processes. The facility has the capacity to produce a total of 80,000 grams of concentrates and distillates per month (or just under 1 million grams annually). Based on industry information, current wholesale prices in Oregon for such products typically range from $15-20 per gram, but may be higher or lower depending on quality.

- **Joined the OTCQX® Best Market**

  On April 26, 2017, CannaRoyalty joined the OTCQX® Best Market under the symbol "CNNRF," upgrading to OTCQX from the OTCQB® Venture Market.

- **Update to Board of Directors**

  On May 29, 2017, the Company accepted the resignation of Mr. Chuck Rifici from the Board of Directors. The Company intends to announce the new nominee to the Board ahead of its Annual General Meeting which is being held on June 16, 2017.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain "forward-looking statements" and forward-looking information within the meaning of Canadian securities laws, including such statements relating to:

- assumptions and expectations described in the Company's critical accounting policies and estimates;
- the Company's expectations regarding the adoption and impact of certain accounting pronouncements;
- the Company's expectations regarding legislation, regulations and licensing related to the cultivation, production and sale of cannabis products by the company's wholly-owned subsidiaries;
- the expected number of users of medical marijuana or the size of the medical marijuana market in Canada and the United States;
- the potential time frame for the introduction of legislation to legalize recreational marijuana use in Canada and the United States, and the potential form that this legislation will take;
- the potential size of the recreational marijuana market in Canada and the United States, should recreational use be legalized;
- the ability to enter and participate in international market opportunities;
- the Company's expectations with respect to the company's future financial and operating performance;
- product sales expectations; and
- the Company's ability to achieve profitability without further equity financing.

The words “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates” “forecasts”, “intends”, “anticipates”, or “believes” or variation (including negative variations) of such words and phrases, or statements that certain actions, events, or results “may”, “could”, “would”, “might”, or “will” be taken, occur or to achieve are all forward-looking statements. Forward-looking statements are based on the reasonable assumptions, estimates, internal and external analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled “RISKS AND UNCERTAINTIES”. Although the Company has attempted to identify key factors that could cause actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events, or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as at the date of the MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer, in accordance with National Instrument 52-109 (“NI 52-109”), have both certified that they have reviewed the financial report and this MD&A (the “Filings”) and that, based on their knowledge having exercised reasonable diligence, (a) the Filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made with respect to the period covered by the filings; and (b) the financial report together with the other financial information included in the Filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the Filings. The Company was a venture issuer as of March 31, 2017. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis Disclosure Controls and Procedures and Internal Controls over Financial Reporting as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

NON-GAAP MEASURES

The Company uses “Adjusted EBITDA” as an additional non-GAAP financial measure within the MD&A which is not a defined term under IFRS to assess performance. Management believes that this measure provides useful supplemental information to investors and is computed on a consistent basis for each reporting period. The EBITDA measure reconciles to the Net Loss as reported in the Financial Statements.

DESCRIPTION OF THE BUSINESS

OVERVIEW OF CANNAROYALTY

CannaRoyalty is a public corporation, incorporated in Canada, with its head office located at the 333 Preston St., Suite 610, Ottawa, Ontario, K1S 5N4.

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

On December 6, 2016, the Company completed a three-cornered amalgamation with Cannabis Royalties & Holdings Corp. ("CRHC"), resulting in the reverse-takeover ("RTO") of CannaRoyalty by CRHC. Pursuant to the RTO, the issued and outstanding securities of CRHC were exchanged for equivalent securities of CannaRoyalty on a one-for-one basis. Prior to the RTO, CannaRoyalty changed its name from Bonanza Blue Corp. ("Bonanza Blue") to CannaRoyalty and completed a 5 for 1 share consolidation.

Prior to the RTO, Bonanza Blue had no active business operations. Upon effecting the RTO, CannaRoyalty continued operating the business of CRHC. On December 8, 2016, CannaRoyalty commenced trading on the Canadian Stock Exchange ("CSE") under the symbol "CRZ".

CannaRoyalty intends to build on its existing relationships by developing operating plans and providing oversight, strategy and management of the business units' growth and integration. Further, CannaRoyalty plans to continue expanding its reach by building new partnerships with vertical market partners and end-user products companies as well as exploring opportunities with successful cultivators and processors. Through its expansion efforts, CannaRoyalty intends to utilize online sales and marketing platforms, participate in relevant trade shows, and develop various advertising materials to communicate its approach to its intended audience and target market. CannaRoyalty is also well-positioned to participate in the large and growing legal cannabis market for enhanced downstream cannabis products and new products with various consumer and medical applications.

CannaRoyalty's business plan is targeted at the growth of its business units and expanding their reach to end-users and partners. Although the business units will be primarily responsible for developing and operating their respective businesses, CannaRoyalty will be available to provide functional expertise, oversight and a framework of disciplined planning to the operations of the business units when needed.

CannaRoyalty's short-term objective is to create a sustainable business in the key states of California, Washington, Arizona, Oregon and Colorado by integrating its holdings to create synergies and true end-to-end solutions geared to the needs of patients and consumers. CannaRoyalty has positioned itself for commercial growth by focusing its expanded resource base on finding and partnering with the best and most innovative companies, projects, assets and overall business frameworks in the legal cannabis sector in the aforementioned key states.

To achieve its objective, the Company will continue making specific and deliberate investments, including acquisitions, to:

1. increase the diversity and quality of the Company's product offerings across different market segments; and

2. increase the strength and segmentation of the Company's diversified portfolio of product brands.

In addition, management believes that a significant opportunity exists today and will develop further in the future, to leverage the Company's expertise, financial strength and business model in legal cannabis markets around the world. CannaRoyalty intends on pursuing opportunities in a number of jurisdictions where medical cannabis use is legal, and/or where governments are actively pursuing legalization.

Subject to legislative and regulatory compliance, strategic business opportunities pursued by the Company could include:

1. providing advisory services to third-parties that are interested in establishing licensed cannabis cultivation, processing and sales operations;

2. entering into strategic relationships that create value by sharing expertise and industry knowledge;

3. providing capital in the form of debt, royalties, or equity to new business units; and

4. entering into licensing agreements to generate revenue, create strategic partnerships, or other business opportunities.

The Company engaged its first full time employees effective November 1, 2016, and as at March 31, 2017, the Company had 13 full-time employees.

Reference to the annual Management Discussion and Analysis at December 31, 2016 can be made for a further description of the risks, the business environment and a description of the holdings of the company acquired prior to December 31, 2016.

RESULTS OF OPERATIONS

The followings table sets forth consolidated statements of operations data for the three-month periods ending March 31, 2017 and March 31, 2016.

	Three months ended March 31, 2017	Three months ended March 31, 2016
Consolidated Statements of Comprehensive Loss		
Revenue	$ 301,111	$ -
Gross margin	244,473	-
Operating expenses	3,052,761	1,502,073
Loss from operations	(2,808,288)	(1,502,073)
Net and comprehensive loss	(2,053,785)	(1,736,165)
Net loss per common share - basic and diluted	(0.05)	(0.13)
Weighted average common shares - basic and diluted	38,865,970	13,532,830

REVENUE

The following is a summary of the CannaRoyalty's revenue by type and by operating vertical:

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

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

Revenue for the three months ended March 31, 2017 was $301,111 as compared to $nil for the three months ended March 31, 2016. CannaRoyalty began generating revenue during June 2016, the majority of which has came from royalty streams generated from Cascadia Holdings LLC ("Cascadia"), and service revenue from the acquired EML subsidiary. The Company also generated interest income for loans it has made to fund start-up operations.

Most of the current revenue from the supporting assets segment is from the royalty income generated from Cascadia. The research revenue is generated from interest on the convertible note with BAS Research.

CannaRoyalty expects to progressively increase its revenues over the next 12 months from an increasing number of royalty agreements and business units coming on-line for the entire period, due to increased marketing initiatives, new relationships with manufacturers and CannaRoyalty's new strategic relationship with River, a leading California state-wide distributor.

The Revenues for CR Brands were $nil in Q1 as the Company's focus during the quarter was on establishing infrastructure, opening its U.S. offices and engaging in soft launch commercialization activities in preparation to fulfill the US$20M revenue purchase commitment from its new California distributor, River.

COST OF SALES AND GROSS MARGIN

		Three months ended March 31, 2017	Gross Margin %		Three months ended March 31, 2016
Cost of service	$	11,810	83%		-
Cost of royalties		44,828	79%		-
Total	$	**56,638**	**81%**	$	-

Cost of sales was $56,638 for the three months ended March 31, 2017, as compared to $nil for the three months ended March 31, 2016. The gross margin for the three months ended March 31, 2017 was 81% compared to $nil for the three months ended March 31, 2016.

The cost of services is related to sales of EML and the cost of royalties pertains to the amortization of equipment which has been provided to Cascadia as well as the amortization of the royalty financing arrangement with NuTrae LLC ("NuTrae"). Moving forward the cost of royalties will also include the amortization of other financing arrangements which have yet to generate royalty revenue.

OPERATING EXPENSES

		Three months ended March 31, 2017		Three months ended March 31, 2016	% Change
Sales and marketing	$	236,860	$	8,003	2860%
Research and development		476,241		518,383	-8%
General and administrative		2,137,188		975,687	119%
Amortization of intangibles		202,472		-	n/a
Total	$	**3,052,761**	$	1,502,073	103%

Total operating expenses have increased by 103% for the three months ended March 31, 2017, as compared to the three months ended March 31, 2016. This is largely due to the increased spending in general and administrative expenses and sales and marketing expenses to support the Company's asset growth. Due to the Company's current stage of operations, operating expenses are not analyzed as a percentage of total revenues.

For the three months ending March 31, 2017 and March 31, 2016, sales and marketing (S&M) expenses were $236,860 and $8,003 respectively. These marketing costs consist primarily of commercializing the Company's portfolio of acquired and internally developed brands and are consistent with the Company's view that strong brand recognition is essential to growing a sustainable base of product revenues.

Research and development (R&D) expenses were $476,241 for the three months ending March 31, 2017 as compared to $518,383 for the three months ending March 31, 2016, a decrease of 8%. The Company's development team is researching a variety of intellectual property and other related opportunities with respect to the extraction of cannabis oils. Furthermore, in the first quarter the Company focused on developing its brand portfolio for volume scale up and channel development.

General and administrative (G&A) expenses increased by 119% to $2,137,188 for the three months ending March 31, 2017 as compared to $975,687 for the three months ending March 31, 2016. The increase in expenses period over period of $1,161,501 is driven primarily by increased share based compensation of $1,078,889. Additional costs incurred for the three months ended March 31, 2017 include professional and consulting services required for increased acquisition and financing activities, costs incurred in supporting an expanded asset base and the cost of new employees hired on or after November 1, 2016 to support increased operational needs. For the three months ended March 31, 2016, a significant position of the expense was compensation granted to various consultants in the form of share issuances. This compensation was for prior services including certain services prior to the three-month period.

Expenses related to the amortization of brands and technologies were $202,472 for the three months ending March 31, 2017 as compared to $nil for the three months ending March 31, 2016. These expenses relate to the intangibles that were acquired from Dreamcatcher and EML in October 2016 and November 2016 respectively.

Share-based compensation, a non-cash expense, was $1,158,396 for the three months ended March 31, 2017. Restricted share units ("RSUs") were first issued in April 2016 and for this reason there were no RSU related costs in prior periods. The expenses relate to shares issued under a share unit plan whereby the executive team, the board of directors and new employees were granted RSUs that vest as service conditions are reached. For most RSU's one-third of the shares vest immediately upon issuance. Since these RSUs are typically issued at the start of employment, and the executive team and other management became employees in late 2016 and early 2017, the expense incurred in the three months ending December 31, 2016 and March 31, 2017 may be higher than future periods. These costs have been fully classified as G&A in accordance with their corporate functions, with the exception of $79,507 which has been included in sales and marketing. The shares are measured at fair value at the date of grant and expensed over the service period in which they vest.

OTHER INCOME AND EXPENSES

	Three months ended March 31, 2017	Three months ended March 31, 2016
Gain on reclassification to assets held for sale	$ 98,674	$ -
Profit from equity accounted investees, net of tax	942,397	-
Penalties from non-completion of transactions	(183,475)	
Listing expense	(38,193)	-
Foreign exchange gain (loss)	(125,652)	(64,806)
Interest expense	(17,620)	(177,986)
Interest income	-	8,700
Total	$ 676,131	$ (234,092)

A gain of $98,674 was recorded on the reclassification of equipment to assets held for sale. This gain was recorded in relation to the equity acquisition transaction with Anandia in February 2017. The equipment that will be moved to Anandia has been classified as an asset held for sale on the balance sheet and accordingly is valued at fair value less disposal costs at March 31, 2017. The gain was recorded to increase the estimated fair value of the disposal group to $343,160.

The share of profit from equity accounted investees was $942,397 for the three-month period ending March 31, 2017. This was made up of a gain of $1,132,107 on the deemed disposition resulting from the dilution of CannaRoyalty's investment in Resolve from 33% to 27%, which was offset by a net proportionate loss of $189,710 from three associate companies. The associated companies are in the start up phase of operations and it is expected that they will become profitable in the future. The company had no equity accounted investees during the three months ended March 31, 2016.

The company will incur a penalty of $183,475 related to the non-completion of a transaction with Zenabis Limited Partnership. The terms under negotiation were no longer acceptable to CannaRoyalty. The penalty will be paid at the end of May 2017.

The listing expense of $38,193 consist of legal and filing charges to join the OTCQB market in the US during February 2017.

Interest expense was $17,620 for the three months ended March 31, 2017, a decrease of $160,366 from the interest expense of $177,986 for the three months ended March 31, 2016. In the prior period the company obtained short term financing from various shareholders in order to meet ongoing obligations. Due to various recent equity raises, such short-term financing was not required in the current quarter. Most interest expense in the current period relates to $15,815 of accrued interest from the convertible debt with Aphria.

Interest Income for the three months ending March 31, 2017 has been classified as revenue since providing working capital is one of the services that the Company provides to its business unit partners

DEFERRED TAX RECOVERY

The Company realized a deferred tax gain of $78,372 during the three months ended March 31, 2017, related to the deferred tax liability established on the acquisition of intangible assets from Dreamcatcher and EML. As the Company recognizes amortization on these intangible assets an offsetting deferred tax gain is established.

The Company has no current tax expense and does not meet the attributes necessary under IFRS to recognize deferred tax assets for its losses to date.

NET AND COMPREHENSIVE LOSS

The net and comprehensive loss for the three months ended March 31, 2017, amounted to $2,053,785 as compared to a loss of $1,736,165 for the three months ended March 31, 2016, due to an increase in operational expenses which was partially offset by an increase in gross margin and a gain on the deemed disposal of Resolve. During the current business stage of CannaRoyalty's holdings, losses are largely driven by the lack of sufficient revenues to fund operating expenses necessary for the company to achieve long term growth.

ADJUSTED EBITDA

		Three months ended March 31, 2017		Three months ended March 31, 2016
Net loss for the period	$	(2,053,785)	$	(1,736,165)
Add (Subtract)				
Amortization of property and equipment		41,742		-
Amortization of intangible assets		202,472		-
Amortization of royalty investments		28,263		-
Interest expense		17,620		177,986
Interest income		(18,744)		(8,700)
Deferred income tax recovery		(78,372)		-
EBITDA		(1,860,804)		(1,566,879)
Listing expense		38,193		-
Penalties from non-completion of transactions		183,475		-
Gain on reclassification to assets held for sale		(98,674)		-
TOTAL ADJUSTED EBITDA	$	(1,737,810)	$	(1,566,879)
Weighted average number of common shares outstanding - basic and diluted		38,865,970		13,532,830
ADJUSTED EBITDA per share - basic and diluted	$	(0.04)	$	(0.12)

Adjusted EBITDA is a non-GAAP financial measure and accordingly it is not an earnings measure recognized by IFRS and does not carry standard prescribed significance. Moreover, our method for calculating adjusted EBITDA may differ from that used by other companies using the same designation. Accordingly, we caution readers that Adjusted EBITDA should not be substituted for determining net income (loss) as an indicator of operating results or as a substitute for cash flows from operating and investing activities.

For the three months ending March 31, 2017, CannaRoyalty incurred an Adjusted EBITDA loss of $1,744,952 as compared to $1,566,879 in the prior year. On a per share basis the loss decreased from $0.12 per share to $0.04 per share. The increase of $178,074 in the period over period Adjusted EBITDA loss, was primarily due to the increase in operating expenses by $1,550,688 which was partially offset by the gain on the deemed disposal on Resolve of $1,132,107 and the increase in gross margin of $244,473. The largest factor in the increase of operating expenses is a $1,158,396 charge for share based compensation.

The Company believes that adjusted EBITDA is a useful financial metric and is meaningful and useful to investors, analysts, and other stakeholders for measuring and predicting CannaRoyalty's operating performance by excluding interest expense, income taxes, and depreciation as well as the following charges which are non-recurring in nature:

- $38,193 related to costs of establish CannaRoyalty on the OTCQB stock exchange.

- $98,674 gain on the reclassification of equipment to assets held for sale. These assets are expected to be disposed as part of the acquisition of equity transaction with Anandia.

- $183,745 penalty related to the cancellation of a transaction with Zenabis Properties Limited.

SELECTED CONSOLIDATED QUARTERLY RESULTS

	31-Mar 2015	30-Jun 2015	30-Sep 2015	31-Dec 2015	31-Mar 2016	30-Jun 2016	30-Sep 2016	31-Dec 2016	**31-Mar 2017**
Revenue	$ -	$ -	$ -	$ -	$ -	$ 12,418	$ 127,707	$ 502,152	**$ 301,111**
Gross margin	-	-	-	-	-	434	91,269	236,787	**56,638**
Operating expenses	129,192	328,752	354,850	495,995	1,502,073	927,655	1,924,952	4,161,119	**3,052,761**
Loss from operations	(129,192)	(328,752)	(354,850)	(495,995)	(1,502,073)	(927,221)	(1,833,683)	(3,924,332)	**(2,808,288)**
Net and comprehensive loss	(129,192)	(353,772)	(431,800)	(511,201)	(1,736,165)	(1,043,273)	(1,866,845)	(7,404,357)	**(2,053,785)**
Net loss per share - basic and diluted	$ (0.07)	$ (0.03)	$ (0.04)	$ (0.04)	$ (0.13)	$ (0.06)	$ (0.07)	$ (0.23)	**$ (0.05)**
Weighted average shares - basic and diluted	1,966,677	10,255,505	10,750,010	12,956,967	13,532,830	18,242,358	25,814,087	31,475,058	**38,865,970**

LIQUIDITY

The Company’s objectives when managing its liquidity and capital structure are to generate sufficient cash to fund the Company’s operating, acquisition and organic growth requirements. The Company monitors its liquidity based on total liquid assets and working capital.

The table below sets out relevant liquidity related financial information at March 31, 2017, and December 31, 2016:

	March 31, 2017	December 31, 2016
Cash and cash equivalents	**$ 11,946,417**	$ 2,945,895
Liquid assets (1)	**12,752,228**	3,502,065
Quick ratio (2)	**6.97**	0.91
Working capital	**12,765,508**	3,344,603
Working capital ratio (3)	**7.98**	1.87
Long term and convertible debt	**1,530,815**	1,515,000

(1) Liquid assets include cash and amounts receivable

(2) Quick ratio is defined as liquid assets divided by current liabilities

(3) Working capital ratio is defined as current assets divided by current liabilities

CannaRoyalty’s liquid assets as of March 31, 2017 and December 31, 2016 include cash and cash equivalents and amounts receivable. The Company’s level of liquid assets is relevant to meet its current operating needs of the and it uses the quick ratio to measure its short-term liquidity.

As of March 31, 2017, the Company had liquid assets of $12.8 million compared to $3.5 million at December 31, 2016. Over the same period the quick ratio has increased from 0.91 to 6.97. With a quick ratio of 6.97, the Company has enough liquidity to meet its short term operational needs without requiring short term financing. The Company has been able to successfully obtain short-term financing in the past to meet its obligations. Furthermore, the recently completed bought deal financing of $15 million on February 17, 2017 reduces the need for additional financing in the short-term. While the Company has incurred cash losses to date, management anticipates eventual cash profitability of the business which will increase its liquid assets. However, there can be no assurance that the Company will gain adequate market acceptance for its products or be able to generate sufficient positive cash flow to reach sustained profitability.

CannaRoyalty monitors its level of working capital and working capital ratio to assess its ability to enter into strategic opportunities such as equity investments, royalty financing arrangements and providing start-up working capital to its existing and/or future business units. The level of working capital surplus has increased from $3.3 million at December 31, 2016 to $12.8 million at March 31, 2017 due mainly to the bought deal financing of $13.8 million of net proceeds in February 2017. While there has been an increase in working capital, the surplus at March 31, 2017 might not be sufficient on its own for the Company to fully undertake the level of strategic opportunities it would like to pursue over the next 12 months. The pursuit of significant additional cash based strategic opportunities may not be possible without incremental financing.

The Company has successfully pursued strategic opportunities between April 1, 2016 and March 31, 2017 despite its working capital position. This is largely due to proceeds of $23.5 million from share and share purchase warrant issuances, $2.2 million from the exercise of warrants and stock options, and $1.5 million from the issuance of convertible debt during this period. The February 2017 bought deal financing which delivered net proceeds of $13.8 million has helped the Company pursue two significant transactions in the first quarter of fiscal 2017, namely Anandia and River. However, there can be no assurance that the Company will be able to continue to finance its strategic opportunities via the issuance of shares.

While CannaRoyalty will receive certain cash flows in the upcoming fiscal year, these may not be able to fund both current operations and the desired level of strategic investments. Therefore, if the Company is unable to continue to find sources of equity financing or short or long-term debt, it might be unable to meet both its strategic initiatives and its operating requirements. Management will monitor its level of acquisition activity to meet its operating requirements over the next 12 months.

The chart below highlights the Company's cash flows during the three months ended March 31, 2017 and March 31, 2016.

Net cash provided (used by)		Three months ended March 31, 2017		Three months ended March 31, 2016
Operating activities	$	(2,454,610)	$	(741,578)
Financing activities		13,791,189		988,907
Investing activities		(2,336,057)		(300,095)
Cash, beginning		2,945,895		58,923
Cash, end	$	11,946,417	$	6,157

CASH USED IN OPERATING ACTIVITIES

The cash used in operating activities during the three months ended March 31, 2017 was $2.5 million as compared to the cash used of $0.7 million for the three months ending March 31, 2016. The use of cash from operating activities is primarily due to cash based operating expenses which in the current business stage are only partially offset by revenues. The increase in cash used in the current period was driven by professional and consulting services required for increased acquisition and financing activities, costs incurred in supporting business units, costs related to our merger and going public transaction, which in large part were only paid this quarter, and the cost of new employees hired on or after November 1, 2016.

CASH FROM FINANCING ACTIVITIES

The cash provided by financing activities during the three months ended March 31, 2017 was $13.8 million. The largest source of financing has been the issuance of shares and share purchase warrants in a bought deal financing which generated cash of $13.8 million.

For the three months ended March 31, 2016, cash provided by financing activities was $1.0 million. The largest source of financing was the issuance of shares in private placements which generated cash of $2.5, which was partially offset by the net repayment of short term financing of $0.8 million, and a decrease in share subscriptions payable of $0.7 million.

Shares were issued at $0.75 per share in the three months ending March 31, 2016 as compared to $2.52 per share in the three months ending March 31, 2017.

CASH USED IN INVESTING ACTIVITIES

The cash used in investing activities during the three months ended March 31, 2017 was $2.3 million. The largest uses of the cash were cash investments of $1.6 million in equity interests of less than 50% (Anandia and Resolve), and $0.7 million advanced to Rich Extracts. CannaRoyalty provides working capital to assist interests such as Rich Extracts in their early business stage to become commercially operational. These loans and advances are classified as investment activities as they are extended to businesses that are expected to become future revenue sources.

The cash used in investing activities for the three months ended March 31, 2016 was $0.3 million. The primary uses of cash were $0.1 million spent on the issuance of convertible debt to Eureka Management Services Inc., $0.1 million spent on the acquisition of equity from Resolve, and $0.1 million for purchase of property and equipment.

FINANCING AND CAPITAL RESOURCES

The Company is subject to risks including, but not limited to, its ability to raise additional funds through debt and/or equity financing to support the Company's development via acquisition, continued operations and to meet the Company's liabilities and commitments as they come due. Specifically, as of March 31, 2017 the Company has a history of losses with an accumulated deficit of $15,544,112, share capital of $43,733,988 and working capital of $12,765,508. This compares to an accumulated deficit of $13,490,327, share capital of $30,636,253 and working capital of $4,859,603 as at December 31, 2016.

CAPITAL ACTIVITIES

The Company manages its capital with the objective of maximizing shareholder value and sustaining future development of the business. The Company defines capital as the Company's equity and any debt it may issue. The Company manages its capital structure based on the funds available to support its activities. Upon approval from the Board, management will undertake to balance its overall capital structure through new share issues, the issue of debt or by undertaking other activities as deemed appropriate under specific circumstances.

The Company's principal capital needs are for funds to use towards its current investments, pipeline projects, upcoming product launches, and general working capital requirements to support growth including new opportunities. Since its formation, the Company has financed its cash requirements primarily through the issuance of capital stock.

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its investment growth strategy, 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 primarily of equity (approximately 40.2 million) and convertible debt (approximately $1.5 million). The Company's primary uses of capital are to invest in research and intellectual property, brands and supporting assets in the cannabis industry. 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 share issuances and short-term debt 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 investments into successful businesses that will ultimately generate above market returns.

The Company monitors its capital based on the adequacy of its cash resources to fund its business plan. To maximize flexibility to finance the Company's ongoing growth, CannaRoyalty 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.

The Company's authorized share capital is an unlimited number of common shares of which 41,756,424 were issued and outstanding as at March 31, 2017 (December 31, 2016 – 36,006,956 common shares). The Company has issued 3,234,800 RSUs that have not been exercised as at March 31, 2017 including 1,179,005 that have vested (December 31, 2016 – 2,774,800 including 1,065,637 that have vested). As of March 31, 2017, there are share purchase warrants and broker warrants outstanding that can potentially be converted to 3,894,133 shares (December 31, 2016 – 1,113,633).

ACCOUNTING MATTERS

Critical Accounting Estimates

The Financial Statements include certain amounts that are inherently uncertain and judgmental in nature. As a result, management is required to make assumptions and best estimates to determine the reported values. The Company considers an accounting estimate to be critical if: (1) it requires that significant assumptions be made to deal with uncertainties; and (2) changes in the estimate could have a material impact on operating results, financial condition or liquidity. The Company believes that the material items requiring such subjective and complex estimates are:

- fair values recorded on acquisition of subsidiaries;
- valuation of assets, including intangibles, goodwill, royalty investments with a perpetual royalty stream, and those classified as held for sale;
- recoverability of loans and advances; and
- estimates and assumptions used in applying IFRS 2 "Share Based Payment"

The Company believes that the amounts included in the Financial Statements reflect management's best judgment. However, factors including, without limitation, those noted under "Risks and Uncertainties" in our Annual MD&A could cause actual events or results to differ materially from our underlying assumptions and estimates. Accordingly, this could lead to a material adverse impact on our results of operations, financial condition and/or liquidity.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transactions

Please see Note 18 of the Financial Statements.

Adoption of New Accounting Standards

None of the new accounting standards adopted during the three months ended March 31, 2017 (see Note

4 of the Financial Statements) resulted in a change in accounting policies.

Future Accounting Pronouncements

Refer to Note 4 of the Financial Statements for the three months ended March 31, 2017.