Condensed Interim Consolidated Financial Statements

Abba Medix Group Inc.

For the Three and Six Months Ended January 31, 2016 and 2015

Unaudited

INDEX

NOTICE TO READER

The accompanying unaudited condensed interim consolidated financial statements have been prepared by the Company's management and the Company's independent auditors have not performed a review of these financial statements.

Abba Medix Group Inc.

Condensed Interim Consolidated Statements of Financial Position
Unaudited - See Notice to Reader
Stated in Canadian Dollars

	January 31, 2016	July 31, 2015 (Audited)
Assets		
Current Assets		
Cash	$ 88,211	$ 6,314
HST Recoverable	22,050	83,458
Prepaid expenses and deposits	57,616	116,892
Other receivable (note 7)	103,627	103,627
	271,504	310,291
Property and Equipment (note 8)	1,814,639	1,749,298
	$ 2,086,143	$ 2,059,589
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,941,336	$ 1,561,619
GST and QST payable (note 12)	59,252	74,693
Due to director (note 13)	1,697	1,697
Short-term advances (note 10)	48,000	-
Promissory notes (note 14)	450,000	450,000
Convertible promissory notes (note 15)	300,000	298,769
Short-term advances from related party (note 6)	127,630	138,130
	2,927,915	2,524,908
Deferred Income Tax Liability	326	326
Deferred Lease Inducement (note 11)	13,320	15,603
	2,941,561	2,540,837
Shareholders' Equity		
Share Capital (note 16)	8,296,114	7,996,114
Contributed Surplus (notes 17, 18 and 19)	736,322	634,368
Equity Component of Convertible Promissory Notes (note 15)	18,466	18,466
Deficit	(9,906,320)	(9,130,196)
	(855,418)	(481,248)
	$ 2,086,143	$ 2,059,589

Basis of Presentation and Going Concern (note 2)

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

Approved on behalf of the Board of Directors

Signed "Ahmad Rasouli", Director   Signed "Paul Andersen", Director

Abba Medix Group Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the Three and Six Months Ended January 31, 2016 and 2015
Unaudited - See Notice to Reader
Stated in Canadian Dollars

	Three Months Ended		Six Months Ended	
	January 31, 2016	January 31, 2015	January 31, 2016	January 31, 2015
Revenue	$ -	$ -	$ -	$ -
Expenses				
Advertising and promotion	14,466	3,793	38,006	19,942
Amortization of distribution and licensing rights (note 8)	-	-	-	14,960
Abandoned business acquisition costs	-	-	740	-
Bank charges	150	378	707	890
Consulting fees	3,360	110,653	114,582	200,431
Directors fees	3,000	-	6,750	-
Loss on foreign exchange	7,286	-	6,214	(7,435)
Insurance	12,074	-	24,667	-
Interest on convertible and promissory notes (notes 14 and 15)	18,036	-	30,594	-
Interest on related party debt (note 6)	2,036	-	4,098	-
Interest accretion (note 15)	-	-	1,231	-
Listing and filing fees	14,223	-	20,160	-
Occupancy (note 22)	61,758	61,415	115,635	114,181
Office and general	4,063	12,931	10,977	32,614
Professional fees (note 20)	69,840	22,546	171,571	47,039
Salaries and benefits	40,018	84,515	124,097	113,374
Share based compensation (notes 18 and 19)	50,977	-	101,954	-
Training and education	-	4,907	-	6,377
Transaction costs (note 1)	-	21,220	-	273,929
Travel	932	8,851	4,141	10,028
	302,219	331,209	776,124	826,330
Loss and Comprehensive Loss for the period	$ (302,219)	$ (331,209)	$ (776,124)	$ (826,330)
Loss per Share - basic and diluted	$ -	$ -	$ (0.01)	$ -
Weighted Average Number of Common Shares Outstanding - basic and diluted	64,482,755	35,851,392	63,374,060	34,074,240

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

Abba Medix Group Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the Three and Six Months Ended January 31, 2016 and 2015
Unaudited - See Notice to Reader
Stated in Canadian Dollars

	Number of Common Shares	Share Capital	Contributed Surplus	Equity Component of Convertible Promissory Notes	Share Subscriptions Payable	Deficit	Total Equity (Deficit)
Opening balance as at August 1, 2015	62,265,364	$ 7,996,114	$ 634,368	$ 18,466	$ -	$ (9,130,196)	$ (481,248)
Share subscription proceeds	-	300,000	-	-	-	-	300,000
Share-based compensation (note 18)	-	-	101,954	-	-	-	101,954
Net loss for the period	-	-	-	-	-	(776,124)	(776,124)
Balance as at January 31, 2016	62,265,364	$ 8,296,114	$ 736,322	$ 18,466	$ -	$ (9,906,320)	$ (855,418)

	Number of Common Shares	Issued Capital	Contributed Surplus	Equity Component of Convertible Promissory Notes	Share Subscriptions Payable	Deficit	Total Equity
Opening balance as at August 1, 2014	1,000,000	$ 750,001	$ -	$ -	$ -	$ (254,776)	$ 495,225
Class A Common shares issued for cash	188,605	1,414,375	-	-	-	-	1,414,375
Cash received for subscriptions of Class A Common shares to be issued subsequent to January 31, 2015	-	-	-	-	105,000	-	105,000
Net loss for the period	-	-	-	-	-	(826,330)	(826,330)
Balance as at January 31, 2015	1,188,605	$ 2,164,376	$ -	$ -	$ 105,000	$ (1,081,106)	$ 1,188,270

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

Abba Medix Group Inc.

Condensed Interim Consolidated Cash Flow Statements
For the Three and Six Months Ended January 31, 2016 and 2015
Unaudited - See Notice to Reader
Stated in Canadian Dollars

	Three Months Ended		Six Months Ended	
	January 31, 2016	January 31, 2015	January 31, 2016	January 31, 2015
Operating Activities				
Net loss for the period	$ (302,219)	$ (331,209)	$ (776,124)	$ (826,330)
Items not affecting cash flows from operations				
Transaction costs	-	21,220	-	273,929
Interest on convertible and promissory notes	18,036	-	30,594	-
Items not involving cash:				
Amortization of distribution and license rights	-	-	-	14,960
Stock-based compensation	50,977	-	101,954	-
Deferred lease inducement	(1,142)	(1,140)	(2,283)	(2,282)
Interest accretion	-	-	1,231	-
	(234,348)	(311,129)	(644,628)	(539,723)
Net changes in non-cash working capital:				
Decrease (increase) in HST recoverable	94,318	(117,115)	61,408	(235,312)
Decrease (increase) in prepaid expenses and deposits	21,599	5,926	59,276	(59,445)
Decrease (increase) in GST and QST payable	(10,673)	-	(15,441)	-
Increase (decrease) in accounts payable and accrued liabilities	45,617	122,489	309,607	185,687
	150,861	11,300	414,850	(109,070)
	(83,487)	(299,829)	(229,778)	(648,793)
Investing Activities				
Property and equipment	(2,712)	(458,977)	(7,231)	(829,903)
Financing Activities				
Issuance of share capital	300,000	1,205,375	300,000	1,512,375
Share subscriptions payable	(300,000)	-	-	-
Short-term advances	-	(87,880)	48,000	56,770
Due to/ from related company	-	(20,000)	-	8,871
Short-term advances to/ from related party	(5,000)	(5,000)	(10,500)	25,000
Interest on convertible and promissory notes	(6,036)	-	(18,594)	-
Transaction costs	-	(48,966)	-	(48,966)
	(11,036)	1,043,529	318,906	1,554,050
Change in cash	(97,235)	284,723	81,897	75,354
Cash - beginning of period	185,446	4,593	6,314	213,962
Cash - end of period	$ 88,211	$ 289,316	$ 88,211	$ 289,316

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

Stated in Canadian Dollars

1. Nature of Operations

Abba Medix Group Inc. (the “Company”), formerly "Saratoga Electronic Solutions Inc.", was incorporated September 29, 1982 under the Company Act of the Province of British Columbia and is listed on the Canadian Securities Exchange under the symbol "ABA". These condensed interim consolidated financial statements of the Company for the three and six month periods ended January 31, 2016 and 2015, comprise the results of the Company and its wholly-owned subsidiary Abba Medix Corp. ("Abba"). Abba has applied to Health Canada for a license to produce medical marijuana under the Marihuana for Medical Purposes Regulations (“MMPR”). There is no assurance that any prospective project in the medical marijuana industry will be successfully initiated or completed. The registered office is located at 1773 Bayly Street, Pickering, Ontario.

On February 24, 2015, the shareholders of Abba entered into a definitive share exchange agreement (the "Share Exchange Agreement") with the Company pursuant to which, each shareholder of Abba would exchange, transfer and assign all of the Class A Common shares of Abba he, she or it owns to the Company in consideration of the Company's issuance to such shareholder a number of common shares of the Company on the basis of thirty-two (32) common shares of the Company for each one (1) Class A Common share of Abba (the "Transaction").

Upon completion of the Transaction, the former shareholders of Abba became the controlling shareholders of the Company. For accounting purposes, Abba is the deemed acquirer and the Company the deemed acquired company, and accordingly, Abba’s balances are accounted for at their carrying amounts and the Company's balances are accounted for at fair value. Since the Company’s operations do not constitute a business, the Transaction has been accounted for as a reverse takeover that is not a business combination. Therefore, the Company's share capital, deficit and contributed surplus will be eliminated, the consideration transferred by the Company will be allocated to share capital, and the transaction costs will be expensed.

Following completion of the Transaction, Abba's shareholders held 42,780,064 of the 61,241,364 issued and outstanding common shares of the Company, while existing Company shareholders held the remaining 18,461,300 common shares.

The allocation of the fair value of the consideration transferred is as follows:

Consideration transferred (18,461,300 shares at a price of $0.234 per share)	$ 4,326,694
Net assets (liabilities) of the Company acquired	(209,364)
Deemed transaction costs	$ 4,536,058

The acquisition-date fair value of the consideration transferred by the Company for its interest in Abba is based on the number of equity interests Abba would have had to issue to give the owners of the Company the same percentage equity interest in the combined entity that results from the Transaction as described above. The fair value of the number of equity interests calculated in that way is used as the fair value of consideration transferred in exchange for Abba. An adjustment has been booked to adjust the fair market value of the Company’s equity interest in Abba accordingly.

1. Nature of Operations (continued)

The Company incurred other professional fees of $721,755 in connection with the Transaction that have been expensed as transaction costs on the statement of loss and comprehensive loss for the year ended July 31, 2015. Upon close of the transaction, the Company issued 5,511,723 warrants to a consultant pursuant to a consulting agreement (see note 17). The fair value of the warrants of $606,994 has been expensed as transaction costs on the statement of loss and comprehensive loss for the year ended July 31, 2015.

2. Basis of Presentation and Going Concern

a) Statement of Compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting". These condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended July 31, 2015, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These condensed interim consolidated financial statements have been prepared following the same accounting policies used in the preparation of the Company's audited consolidated financial statements for the year ended July 31, 2015. These condensed interim consolidated financial statements have not been subject to audit and were approved by the Company's Board of Directors on March 29, 2016.

b) Basis of Presentation

The condensed interim consolidated financial statements, presented in Canadian Dollars, have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value.

c) Basis of Consolidation

The condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Abba.

The financial statements of subsidiaries are included in the condensed interim consolidated financial statements from the date that control commences until the date control ceases. Abba is controlled by the Company, as the Company is exposed, or has rights, to variable returns from its involvement with Abba and has the ability to affect those returns through its power over Abba by way of its ownership of all of the issued and outstanding common shares of Abba.

The functional currency of the Company and Abba is the Canadian Dollar, which is the presentation currency of the condensed interim consolidated financial statements.

Intercompany balances and transactions, and unrealized gains arising from intercompany transactions are eliminated in preparing the condensed interim consolidated financial statements.

2. Basis of Presentation and Going Concern (continued)

d) Going Concern

These condensed interim consolidated financial statements are prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of the business for the foreseeable future.

The Company’s ability to continue as a going concern is dependent upon, but not limited to, obtaining a licence to produce medical marijuana under the MMPR, and its ability to raise financing necessary to discharge its liabilities as they become due and generate positive cash flows from operations. To date the Company has not obtained its license to produce medical marijuana under the MMPR, and has not generated revenue from operations. During the six month period ended January 31, 2016, the Company incurred a net loss of $776,124 (2015 - $826,330) and as of that date, the Company's deficit was $9,906,320 (July 31, 2015 - $9,130,196). As at January 31, 2016, the Company has current assets of $271,504 (July 31, 2015 - $310,291) and current liabilities of $2,927,915 (July 31, 2015 - $2,524,908) resulting in a working capital deficiency of $2,656,411 (July 31, 2015 - $2,214,617).

These conditions have resulted in material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern in the foreseeable future. These condensed interim consolidated financial statements do not give effect to adjustments that may be necessary, should the Company be unable to continue as a going concern. If the going concern assumption is not used then the adjustments required to report the Company’s assets and liabilities at liquidation values could be material to these condensed interim consolidated financial statements.

3. Significant Accounting Policies

The accounting policies are consistent with those of the Company's audited consolidated financial statements for the year ended July 31, 2015 with the exception of the impact of certain amendments to accounting standards or new interpretations issued by the IASB, which are applicable for annual periods beginning on or after January 1, 2015.

4. Future Accounting Pronouncements

IAS 1 "Presentation of Financial Statements" was amended by the IASB in December 2014. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. The effective date is for annual periods beginning or after January 1, 2016. Entities may still choose to apply IAS 1 immediately, but are not required to do so.

4. Future Accounting Pronouncements (continued)

IFRS 9 "Financial Instruments" was issued in final form in July 2014 by the IASB and will replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however early adoption is permitted.

The Company has not yet completed its evaluations of the effect of adopting the above standards and amendment and the impact it may have on its condensed interim consolidated financial statements.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of these condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed interim consolidated financial statements and the reported amounts of income and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The most significant judgments, estimates and assumptions include those related to the ability of the Company to continue as a going concern, the valuation of deferred taxes, impairment of its financial and non-financial assets, evaluation of contingencies, inputs used in accounting for share-based payment transactions and in the valuation of options and warrants included in shareholders' equity, including volatility, the fair value of financial instruments and the determination of the discount rate used to estimate the fair value of the liability component of convertible promissory notes.

Management has determined that judgments, estimates and assumptions reflected in these condensed interim consolidated financial statements are reasonable.

Stated in Canadian Dollars

6. Short-term Advances from Related Party

The short-term advances from a related party bear interest at 6% per annum compounded monthly, are unsecured, and have no specific terms of repayment. All transactions are measured at fair value. The related party is the Company's Chief Executive Officer.

7. Other Receivable

Other receivable includes an amount receivable from a former subsidiary related to Goods and Services Tax (GST) and Quebec Sales Tax (QST) charged by the Company. The amount is non-interest bearing and payable upon receipt of the invoice.

8. Property and Equipment

As at January 31, 2016	Leasehold Improvements	Security Equipment	Computer Equipment	Manufacturing Equipment	Office Furniture and Equipment	Total
Cost						
Balance, beginning of period	$ 1,245,823	$ 227,106	$ 45,004	$ 186,126	$ 45,239	$ 1,749,298
Additions	6,670	58,599	-	-	72	65,341
Balance, end of period	1,252,493	285,705	45,004	186,126	45,311	1,814,639
Accumulated depreciation						
Balance, beginning of period	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Balance, end of period	-	-	-	-	-	-
Net carrying amount as at January 31, 2016	$ 1,252,493	$ 285,705	$ 45,004	$ 186,126	$ 45,311	$ 1,814,639

Stated in Canadian Dollars

8. Property and Equipment (continued)

As at July 31, 2015	Leasehold Improvements	Security Equipment	Computer Equipment	Manufacturing Equipment	Office Furniture and Equipment	Total
Cost						
Balance, beginning of year	$ 190,203	$ 68,483	$ -	$ -	$ -	$ 258,686
Additions	1,055,620	158,623	45,004	186,126	45,239	1,490,612
Balance, end of year	1,245,823	227,106	45,004	186,126	45,239	1,749,298
Accumulated depreciation						
Balance, beginning of year	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Balance, end of year	-	-	-	-	-	-
Net carrying amount as at July 31, 2015	$ 1,245,823	$ 227,106	$ 45,004	$ 186,126	$ 45,239	$ 1,749,298

9. Distribution and Licensing Rights

During the period ended July 31, 2014, the Company entered into a License and Distribution Agreement (the "Agreement") that granted to the Company the right to use certain properties (the "Authored Work") in certain geographical regions. Pursuant to the Agreement, the licensor granted to the Company the ability to sublicense the Authored Work in any of the described geographical regions, with written notice to the licensor. Further, the licensor shall grant right to the Company for any and all products that the licensor shall produce, including succeeding versions, upgrades and additional versions of the Authored Work and all other products that the licensor may produce in the medicinal marijuana market. In the event that the Company declines to license and/ or distribute any products developed by the licensor, the Company shall give written notice as to its intention to the licensor.

The Company had to pay to the licensor a royalty which shall be calculated as fifteen percent (15%) of gross profits resulting in any way from the Authored Work. An Advance Royalty Payment in the amount of US$300,000 ($319,830) was due at the execution of the Agreement, payable as to US$50,000 in cash upon execution of the Agreement, US$50,000 in cash thirty days from the execution of the Agreement, and the balance to be paid in cash, stock of the Company if the Company is publicly traded or in equity of the Joint Venture described in a separate Joint Venture Agreement entered into by the parties. In connection with the Joint Venture Agreement, the licensor shall have the right and obligation to convert its share in the equity of the Joint Venture into common shares of the Company, if and when the Company becomes a publicly traded company, at which time, the remaining Advance Royalty Payment will be deemed to have been converted and no further obligation from the Company will exist. If the Company does not become a publicly traded company, then the licensor shall have the right to convert the remaining Advance Royalty Payment into equity in the Joint Venture. In the event that the Company distributes products produced by the licensor, in its described geographical region, the Company will purchase such product at a discount of 85% of the gross wholesale profit.

9. Distribution and Licensing Rights (continued)

During the year ended July 31, 2014, the Company paid US$50,000 ($53,895) of the Advance Royalty Payment. As at July 31, 2014, accounts payable and accrued liabilities included US$250,000 ($272,600) related to the Advance Royalty Payment. The Company was required to make the second payment of US$50,000 during the period ended July 31, 2014, but did not make the payment as it was re-negotiating the terms of the Agreement with the licensor.

During the year ended July 31, 2015 the Agreement was terminated by mutual consent of both parties. As a result of the termination, the remaining obligation of US$250,000 was cancelled and the unamortized balance of the initial US$50,000 payment has been expensed.

10. Short-term Advances

The short-term advances are non-interest bearing, unsecured, and have no specific terms of repayment.

11. Lease Inducements

Upon signing two leases, the Company received lease inducements including certain rent-free periods. These lease inducements are being amortized to rent expense on a straight-line basis over the term of the leases. The leases will expire on January 31, 2019.

12. GST and QST Payable

The amounts included in GST and QST payable represent amounts owed to Revenu Quebec for sales taxes collected by the Company, net of the amount of GST and QST paid on purchases made by the Company.

13. Due to Director

Due to director is non-interest bearing, unsecured, and has no specific terms of repayment.

14. Promissory Notes

During the year ended July 31, 2015, the Company issued the following unsecured promissory notes:

a) Principal of $200,000 with interest accrued at a rate of 2.5% per annum, with principal and interest due and payable on the earlier of: (i) upon demand by the Lender at any time after the Company closes its next round of private placement equity financing; and June 7, 2015, the date which is sixty days following the date of the promissory note. As of the date of these condensed interim consolidated financial statements, the principal of this promissory note and accrued interest of $822 was outstanding and past due.

14. Promissory Notes (continued)

b) Principal of $160,000 with interest accrued at a rate of 2.5% per annum, with principal and interest due and payable on the earlier of: (i) upon demand by the Lender at any time after the Company closes its next round of private placement equity financing; and June 1, 2015, the date which is sixty days following the date of the promissory note. As of the date of these condensed interim consolidated financial statements, the principal of this promissory note and accrued interest of $658 was outstanding and past due.

c) Principal of $90,000 with interest accrued at a rate of 2.5% per annum, with principal and interest due and payable on the earlier of: (i) upon demand by the Lender at any time after the Company closes its next round of private placement equity financing; and June 1, 2015, the date which is sixty days following the date of the promissory note. As of the date of these condensed interim consolidated financial statements, the principal of this promissory note and accrued interest of $370 was outstanding and past due.

15. Convertible Promissory Notes

During the year ended July 31, 2015, the Company issued the following unsecured convertible promissory notes:

a) Principal of $250,000 with interest at a rate of 2% per month due and payable on a monthly basis beginning 30 days from the effective date until the maturity date of August 4, 2015. The outstanding principal amounts shall be due and payable on August 4, 2015. As of the date of these financial statements the principal of this convertible promissory note was still outstanding. As at January 31, 2016, accounts payable and accrued liabilities included $10,000 of accrued interest related to this convertible promissory note.

b) Principal of $25,000 with interest at a rate of 2% per month due and payable on a monthly basis beginning 30 days from the effective date until the maturity date of August 4, 2015. The outstanding principal amounts shall be due and payable on August 4, 2015. As of the date of these financial statements the principal of this convertible promissory note was still outstanding. As at January 31, 2016, accounts payable and accrued liabilities included $1,000 of accrued interest related to this convertible promissory note.

c) Principal of $25,000 with interest at a rate of 2% per month due and payable on a monthly basis beginning 30 days from the effective date until the maturity date of August 4, 2015. The outstanding principal amounts shall be due and payable on August 4, 2015. As of the date of these financial statements the principal of this convertible promissory note was still outstanding. As at January 31, 2016, accounts payable and accrued liabilities included $1,000 of accrued interest related to this convertible promissory note.

Stated in Canadian Dollars

15. Convertible Promissory Notes (continued)

The holders of the convertible promissory notes have the unrestricted right, at the holder's option, to convert, in whole or in part, the unpaid principal balance, together with all accrued and unpaid interest into fully paid and nonassessable shares of common stock of the Company. The right to convert may be exercised by the holder at any time up to and including the maturity date of the convertible promissory note. The number of common shares into which the convertible promissory notes may or will be converted shall be determined by dividing the unpaid principal balance, together with all accrued and unpaid interest thereon, by the conversion price of $0.45 per share.

As the convertible promissory notes each contain a liability component and an equity component, the Company has split the proceeds of the convertible promissory notes and have presented the two components separately in the statement of financial position. The Company has calculated the initial fair value of the liability component as $274,876, using a discount rate of 36%. The fair value of the equity component of $18,466 was calculated by deducting the fair value of the liability component from the total fair value of the convertible promissory notes. The equity component also includes a deferred income tax component of $6,658 which has been disclosed separately on the condensed interim consolidated statement of financial position. The equity and deferred income tax components, in aggregate, represent a deemed discount on the convertible promissory notes. This discount will be accreted to the consolidated statement of loss and comprehensive loss over the term of the convertible promissory notes.

During the six months ended January 31, 2016, the Company recorded interest accretion expense of $1,231. The aggregate carrying value of the convertible promissory notes as at January 31, 2016 is calculated as follows:

Principal balance due August 4, 2015	$ 300,000
Less: fair value of conversion option	(18,466)
Less: deferred tax liability	(6,658)
Carrying value at May 6, 2015	274,876
Add: Interest accretion for the year	23,893
Balance, July 31, 2015	298,769
Add: Interest accretion for the period	1,231
Balance, January 31, 2016	$ 300,000

Stated in Canadian Dollars

16. Share Capital

The Company is authorized to issue an unlimited number of common shares.

The following table summarizes the common share activities for the period ended January 31, 2016:

	Number of Common Shares		Share Capital
Balance, August 1, 2015	62,265,364	$	7,996,114
Private placements (a)	3,000,000		300,000
Balance, January 31, 2016	65,265,364	$	8,296,114

a) During the period ended January 31, 2016, the Company issued 3,000,000 common shares of the Company for proceeds of $300,000.

17. Warrants

The following table summarizes the warrant activities for the period ended January 31, 2016:

	Number of Warrants		Weighted Average Exercise Price
Balance - August 1, 2015 and January 31, 2016	5,487,723	$	0.25

As at January 31, 2016, the Company had 5,487,723 warrants outstanding. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.25 per share for a period of 12 months from the date of the close of the Transaction. During the period ended January 31, 2016, the Company extended the expiry date of the warrants to March 13, 2018. All other terms and conditions of the warrants remain unchanged.

18. Stock Options

The Company maintains a Stock Option Plan (the “Plan”) for the benefit of directors, officers, employees and consultants. The maximum number of common shares reserved for issuance and available for purchase pursuant to options granted under the Plan cannot exceed 10% of the total number of common shares of the Company issued and outstanding at the date of any grant made. In addition, the aggregate number of shares so reserved for issuance to one person may not exceed 5% of the issued and outstanding shares. Options pursuant to the Plan are granted at the discretion of the Board of Directors, vest at schedules determined by the Board which shall not exceed five years from the date of grant, and have an exercise price of not less than that permitted by the stock exchange on which the shares are listed.

Stated in Canadian Dollars

18. Stock Options (continued)

The following table summarizes the stock option activities for the period ended January 31, 2016:

	Number of Options		Weighted Average Exercise Price
Balance - August 1, 2015 and October 31, 2015	450,000	$	0.46
Exercisable at January 31, 2016	-	$	-

As at January 31, 2016, the Company had 450,000 stock options outstanding. Each stock option entitles the holder to acquire one common share of the Company at a price of $0.46 at any time prior to June 5, 2020. The weighted average remaining contractual life of the options outstanding at January 31, 2016 is 4.25 years. The amount of share-based compensation for the period ended January 31, 2016 was $101,954.

19. Contributed Surplus

Balance, August 1, 2015	$	634,368
Share-based compensation (note 18)		101,954
Balance, January 31, 2016	$	736,322

20. Related Party Transactions and Balances

During the six months ended January 31, 2016 the Company incurred the following related party transactions:

a) A total of $114,753 (2015 - $104,433) in occupancy expenses were charged by a company whose shareholders are related to the shareholders of one of the Company's corporate shareholders. As at January 31, 2016, prepaid expenses included $56,302 (2015 - $66,302), deferred lease inducement included $13,320 (2015 - $9,387) and accounts payable and accrued liabilities included $98,045 (2015 - $13,729) payable to this company.

b) A total of $62,500 (2015 - $70,833) in consulting fees were charged by a company controlled by the Company's CEO, who is also a director of the Company. As at January 31, 2016, accounts payable and accrued liabilities included $88,479 (2015 - $11,300) payable to this company.

c) A total of $Nil (2015 - $2,500) of advertising and promotional expenses and salaries of $4,327 (2015 - $8,269) were paid to an individual related to an officer and director of the Company.

d) A total of $16,075 of legal fees were charged by a law firm in which a former director of the Company is a partner. As at January 31, 2016, accounts payable and accrued liabilities included $118,652 payable to this law firm.

20. Related Party Transactions and Balances (continued)

e) A total of $43,500 of accounting fees were charged by an accounting firm in which a director and an officer of the Company are partners. As at January 31, 2016, accounts payable and accrued liabilities included $156,327 payable to this accounting firm.

f) A total of $13,860 of consulting fees were charged by a company controlled by the Company's CFO who is also a director of the Company. As at January 31, 2016, accounts payable and accrued liabilities included $135,604 payable to this company.

g) A total of $6,750 of directors fees were charged by directors of the Company, the full amount of which is included in accounts payable and accrued liabilities as at January 31, 2016.

h) The amount of stock-based compensation expense for the period ended January 31, 2016 related to 450,000 stock options granted during the year ended July 31, 2015 was $101,954.

Total compensation of $119,860 (2015 - $30,000) comprised entirely of short-term employee benefits were paid to the Company's CEO and its current and former CFO during the period ended January 31, 2016, and share-based payments of $101,954 (2014 - $Nil) were paid to the Company's CEO, former CFO and Board of Directors during the period ended January 31, 2016.

All related party transactions were in the normal course of operations and are measured at the exchange amount.

21. Financial Instruments and Other Risks

License Risk

The Company is exposed to risk with respect to its application to Health Canada for a license to produce medical marijuana under the MMPR, as the Company cannot start generating revenue from the production of medical marijuana until the license is received. The Company engaged specialists who assisted in the preparation of the application and the Company continues to monitor the progress of the application with Health Canada.

Fair Values

The carrying amounts for the Company’s cash, other receivable, amounts due from a related company, short-term advance from a related party, accounts payable and accrued liabilities, amounts due to director, short term advances, promissory notes and convertible promissory notes approximate their fair values because of the short-term nature of these items.

The Company’s risk exposures and the impact on the Company’s financial instruments are summarized below:

21. Financial Instruments and Other Risks (continued)

Credit Risk

The Company is not exposed to any significant credit risk other than other receivable as at January 31, 2016. The Company's cash is on deposit with a highly rated financial institution in Canada. The Company's HST recoverable is due from the government of Canada.

Liquidity Risk

Liquidity risk is the risk that an entity will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they become due. As at January 31, 2016, the Company has current assets of $271,504 and current liabilities of $2,927,915. The Company has a working capital deficiency as at January 31, 2016 of $2,656,411. The Company raises capital as needed to mitigate its liquidity risk.

Currency Risk

The Company is exposed to currency risk on the outstanding balance of US$72,500 (2015 - US$Nil) included in accounts payable and accrued liabilities that are denominated in United States Dollars. At January 31, 2016, if the Canadian Dollar had weakened (strengthened) 10 percent against the United States Dollar with all other variables held constant, the net loss for the year would have been $10,208 (2015 - $Nil) higher (lower).

Interest Rate Risk

Interest rate risk is the risk that the cash flows of a financial instrument will fluctuate due to changes in market interest rates.

As at January 31, 2016, all of the Company's interest-bearing financial instruments, which include short-term advances from a related party, promissory notes and convertible promissory notes, are at fixed interest rates. As such, there is no significant interest rate risk associated with the Company's financial instruments.

Stated in Canadian Dollars

21. Financial Instruments and Other Risks (continued)

Contractual Maturities of Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are principally comprised of amounts outstanding for trade purchases related to operating and financing activities, and property and equipment. The usual credit period taken for trade purchases is between 30 to 90 days.

The following table includes an aged analysis of the Company's accounts payable and accrued liabilities:

	January 31, 2016	July 31, 2015
1 - 30 days	$ 26,591	$ 82,545
31 - 60 days	70,578	199,611
61 - 90 days	39,530	143,033
Greater than 91 days	1,679,573	1,035,392
Total trade payables	1,816,272	1,460,581
Accrued liabilities	125,064	101,038
Outstanding at period end	$ 1,941,336	$ 1,561,619

22. Commitments

The Company has commitments under operating leases for its facilities. The minimum lease payments due are as follows:

Fiscal Year	Amount
2016	$ 195,828
2017	$ 200,627
2018	$ 174,573
2019	$ 78,041