Consolidated Financial Statements

Canada House Wellness Group Inc.

(Formerly Abba Medix Group Inc.)

For the years ended July 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canada House Wellness Group Inc. (Formerly Abba Medix Group Inc.)

We have audited the accompanying consolidated financial statements of Canada House Wellness Group Inc. and its subsidiary, which comprise the consolidated statements of financial position as at July 31, 2016 and July 31, 2015 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada House Wellness Group Inc. and its subsidiary as at July 31, 2016 and July 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes the material uncertainties that cast significant doubt about Canada House Wellness Group Inc.'s ability to continue as a going concern.

Collins Barrow Toronto LLP

Chartered Professional Accountants
Licensed Public Accountants
November 28, 2016
Toronto, Ontario

Canada House Wellness Group Inc.
(Formerly Abba Medix Group Inc.)
Consolidated Statements of Financial Position as at July 31
Stated in Canadian Dollars

	2016	2015
Assets		
Current Assets		
Cash	$ 70,224	$ 6,314
Accounts receivable	2,468	-
HST recoverable	39,798	83,458
Prepaid expenses and deposits	127,521	116,892
Other receivable	-	103,627
	240,011	310,291
Property and Equipment (note 7)	1,734,556	1,749,298
	$ 1,974,567	$ 2,059,589
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (note 21)	$ 2,430,656	$ 1,561,619
GST and QST payable (note 10)	55,969	74,693
Due to director (note 11)	1,697	1,697
Short-term advances payable (note 6)	48,000	-
Promissory notes (note 12)	450,000	450,000
Convertible promissory notes (note 13)	300,000	298,769
Short-term advances from related party (note 5)	119,630	138,130
	3,405,952	2,524,908
Convertible Promissory Notes (note 13)	139,398	-
Deferred Income Tax Liability (note 18)	37,352	326
Deferred Lease Inducement (note 9)	11,036	15,603
	3,593,738	2,540,837
Shareholders' Deficit		
Share Capital (note 14)	8,296,114	7,996,114
Contributed Surplus (notes 15, 16 and 17)	2,040,858	634,368
Equity Component of Convertible Promissory Notes (note 13)	121,159	18,466
Accumulated Deficit	(12,077,302)	(9,130,196)
	(1,619,171)	(481,248)
	$ 1,974,567	$ 2,059,589

Basis of Presentation and Going Concern (note 2)
Commitments (note 23)
Subsequent Events (note 24)

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

Approved on behalf of the Board

Signed "Gerry Goldberg" , Director   Signed "David Shpilt" , Director

Canada House Wellness Group Inc.

(Formerly Abba Medix Group Inc.)

Consolidated Statements of Loss and Comprehensive Loss
For the years ended July 31
Stated in Canadian Dollars

	2016	2015
Expenses		
Advertising and promotion (note 20)	$ 45,527	$ 252,725
Amortization of property and equipment (note 7)	81,382	-
Amortization of distribution and licensing rights (note 8)	-	14,960
Bad debts	103,627	-
Bank charges	1,806	2,102
Abandoned business acquisition costs	50,740	380,177
Consulting fees (note 20)	801,750	1,043,271
Directors fees (note 20)	13,250	8,500
Foreign exchange loss (gain)	(1,210)	3,533
Insurance	56,162	23,443
Interest on convertible and promissory notes (notes 12 and 13)	85,282	19,256
Interest on related party debt (note 5)	7,978	2,936
Interest accretion (note 13)	5,348	23,893
License and registration fees	1,770	138,986
Listing and filing fees	34,780	38,375
Occupancy (note 23)	231,782	232,961
Office and general	21,532	70,012
Professional fees (note 20)	325,586	360,570
Salaries and benefits	172,037	339,529
Share based compensation (notes 16 and 17)	60,935	29,690
Training and education	195	8,272
Transaction costs (notes 1 and 24)	841,796	5,864,807
Travel	5,051	23,754
	2,947,106	8,881,752
Loss before Income Taxes	2,947,106	8,881,752
Deferred Income Tax Recovery (note 18)	-	(6,332)
Loss and comprehensive loss for the year	$ 2,947,106	$ 8,875,420
Loss per Share - basic and diluted	$ 0.07	$ 0.24
Weighted Average Number of Common Shares Outstanding - basic and diluted	42,876,363	36,940,505

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

Canada House Wellness Group Inc.

(Formerly Abba Medix Group Inc.)

Consolidated Statements of Changes in Shareholders' Equity
For the years ended July 31, 2016
Stated in Canadian Dollars

	Number of Common Shares	Share Capital	Contributed Surplus	Equity Component of Convertible Promissory Notes	Deficit	Total Equity (Deficit)
Opening balance as at August 1, 2015	41,510,242	$ 7,996,114	$ 634,368	$ 18,466	$ (9,130,196)	$ (481,248)
Common shares issued for cash (note 14f)	2,000,000	300,000	-	-	-	300,000
Modification of warrants (note 15)	-	-	725,437	-	-	725,437
Common shares and warrants to be issued as settlement of debt (notes 17 and 24)	-	-	620,118	-	-	620,118
Allocation of convertible promissory note proceeds (note 13)	-	-	-	102,693	-	102,693
Share-based compensation (note 16)	-	-	60,935	-	-	60,935
Net loss for the year	-	-	-	-	(2,947,106)	(2,947,106)
Balance as at July 31, 2016	43,510,242	$ 8,296,114	$ 2,040,858	$ 121,159	$(12,077,302)	$ (1,619,171)

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

Canada House Wellness Group Inc.

(Formerly Abba Medix Group Inc.)

Consolidated Statements of Changes in Shareholders' Equity
For the years ended July 31, 2015
Stated in Canadian Dollars

	Number of Common Shares	Share Capital	Contributed Surplus	Equity Component of Convertible Promissory Notes	Deficit	Total Equity (Deficit)
Opening balance as at August 1, 2014	666,667	$ 750,001	$ -	$ -	$ (254,776)	$ 495,225
Common shares issued for cash (note 14a)	214,674	2,414,900	-	-	-	2,414,900
Share issuance costs (note 14a)	-	(15,297)	-	-	-	(15,297)
Common shares issued as settlement of trade payables (note 14b)	9,910	111,500	-	-	-	111,500
Additional Common shares issued to shareholders of Abba pursuant to the Transaction (note 14c)	27,628,791	-	-	-	-	-
Common shares issued to pre-Transaction shareholders of the Company pursuant to the Transaction (note 1)	12,307,533	4,326,694	-	-	-	4,326,694
Warrants issued in connection with the Transaction (note 15)	-	-	606,994	-	-	606,994
Allocation of convertible promissory note proceeds (note 13)	-	-	-	18,466	-	18,466
Common shares issued pursuant to the exercise of warrants (note 14d)	16,000	8,316	(2,316)	-	-	6,000
Common shares issued to a consultant (note 14e)	666,667	400,000	-	-	-	400,000
Share-based compensation (note 16)	-	-	29,690	-	-	29,690
Net loss for the year	-	-	-	-	(8,875,420)	(8,875,420)
Balance as at July 31, 2015	41,510,242	$ 7,996,114	$ 634,368	$ 18,466	$ (9,130,196)	$ (481,248)

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

Canada House Wellness Group Inc.

(Formerly Abba Medix Group Inc.)

Consolidated Cash Flow Statements
For the years ended July 31
Stated in Canadian Dollars

	2016	2015
Operating Activities		
Net loss for the year	$ (2,947,106)	$(8,875,420)
Items not affecting cash flows from operations:		
Transaction costs	841,796	5,143,052
Abandoned business acquisition costs	50,740	299,540
Interest on convertible and promissory notes	85,282	19,256
Items not affecting cash:		
Amortization of property and equipment	81,382	-
Amortization of distribution and licensing rights	-	14,960
Stock-based compensation	60,935	29,690
Expenses to paid in common shares and warrants of the Company	620,118	-
Expenses paid in common shares of the Company	-	400,000
Deferred lease inducement	(4,567)	3,933
Interest accretion	5,348	23,893
Bad debts	103,627	-
Deferred income tax recovery	-	(6,332)
	(1,102,445)	(2,947,428)
Net changes in non-cash working capital (note 19):	642,286	692,580
	(460,159)	(2,254,848)
Investing Activities		
Abandoned business acquisition costs	(740)	-
Property and equipment	(11,097)	(1,267,430)
Cash acquired upon completion of Transaction	-	876
	(11,837)	(1,266,554)
Financing Activities		
Issuance of share capital	300,000	2,420,900
Share issuance costs	-	(15,297)
Promissory notes	-	450,000
Convertible promissory notes	275,000	300,000
Interest on convertible and promissory notes	(18,594)	(13,850)
Short-term advance to/ from related party	(18,500)	163,130
Short-term advances payable	48,000	-
Transaction costs	(50,000)	-
Due from related party	-	8,871
	535,906	3,313,754
Change in cash	63,910	(207,648)
Cash - beginning of year	6,314	213,962
Cash - end of year	$ 70,224	$ 6,314
Significant Non-Cash Transactions Not Disclosed Above		
Interest paid	$ (18,594)	$ (13,850)
Common shares issued pursuant to settlement of accounts payable (note14b)	$ -	$ 111,500
Deemed transaction costs (note 1)	$ -	$ 4,536,807
Warrants issued in connection with the Transaction (note 1)	$ -	$ 606,994

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

1. Nature of Operations

Canada House Wellness Group Inc. (the “Company”), formerly "Abba Medix Group 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 "CHV" (formerly "ABA"). These consolidated financial statements of the Company for the year ended July 31, 2016, 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 during the fiscal year ended July 31, 2015, the former shareholders of Abba became the controlling shareholders of the Company. For accounting purposes, Abba was the deemed acquirer and the Company the deemed acquired company, and accordingly, Abba’s balances were accounted for at their carrying amounts and the Company's balances were accounted for at fair value. Since the Company’s operations did not constitute a business, the Transaction was accounted for as a reverse takeover that was not a business combination. Therefore, the Company's share capital, deficit and contributed surplus were eliminated, the consideration transferred by the Company was allocated to share capital, and the transaction costs were expensed.

Following completion of the Transaction, Abba's shareholders held 28,520,042 of the 40,827,576 issued and outstanding common shares of the Company, while existing Company shareholders held the remaining 12,307,533 common shares.

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

Consideration transferred (12,307,533 shares at a price of $0.351 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 was used as the fair value of consideration transferred in exchange for Abba. An adjustment was 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 were expensed as transaction costs on the statement of loss and comprehensive loss during the year ended July 31, 2015. Upon close of the transaction, the Company issued 3,674,482 warrants to a consultant pursuant to a consulting agreement (see note 15). The fair value of the warrants of $606,994 was expensed as transaction costs on the statement of loss and comprehensive loss during the year ended July 31, 2015. During the year ended July 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. As a result of the extended expiry, the Company recognized additional transaction costs of $725,437 during the year ended July 31, 2016, as the extended expiry increased the fair value of the warrants by a corresponding amount.

2. Basis of Presentation and Going Concern

a) Statement of Compliance

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and their interpretations issued by the IFRS Interpretations Committee ("IFRIC") and were approved by the Company's Board of Directors on November 25, 2016.

b) Basis of Presentation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out in note 3.

c) Basis of Consolidation

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

The financial statements of subsidiaries are included in the 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 also the presentation currency of the consolidated financial statements.

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

2. Basis of Presentation and Going Concern (continued)

d) Going Concern

These 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.

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 year ended July 31, 2016, the Company incurred a net loss of $2,947,106 (2015 - $8,875,420) and as of that date, the Company's accumulated deficit was $12,077,302 (2015 - $9,130,196). As at July 31, 2016, the Company has current assets of $240,011 (2015 - $310,291) and current liabilities of $3,405,952 (2015 - $2,524,908) resulting in a working capital deficiency of $3,165,941 (2015 - $2,214,617). See note 24(b) for details of a private placement offering completed subsequent to July 31, 2016.

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 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 consolidated financial statements.

3. Significant Accounting Policies

Cash

Cash includes bank deposits with an original maturity of three months or less which are readily convertible into a known amount of cash.

Accounts Payable and Accrued Liabilities

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle this obligation are both probable and able to be reliably measured.

Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost less accumulated amortization and accumulated impairment losses, if any.

Amortization is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. Amortization begins when an asset is available for use, meaning that it is in the location and condition necessary for it to be used in the manner intended by management. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimated useful lives and residual values accounted for on a prospective basis.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs of disposal and their value in use. Fair value is the price at which the asset could be bought or sold in an orderly transaction between market participants. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

Intangible Assets

Intangible assets are initially measured at cost. The useful life of intangible assets is assessed as either finite or indefinite. Following the initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses, if any. If impairment indicators are present, these assets are subject to an impairment review. Amortization is calculated using the straight line method over the estimated useful lives.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Any loss resulting from impairment of intangible assets is expensed in the period the impairment is identified.

The Company's intangible asset included amounts charged to obtain distribution and licensing rights (see note 8). The useful life of the distribution and licensing rights was determined to be five years, and as such, the Company amortized the distribution and licensing rights on a straight-line basis over that period. During the year ended July, 31, 2015, the distribution and licensing rights were cancelled, and as such, the Company's remaining intangible asset was determined to be impaired.

3. Significant Accounting Policies (continued)

Impairment of Non-Financial Assets

For all non-financial assets, except for intangible assets with indefinite useful lives and intangible assets not yet available for use, the Company reviews its carrying amount at the end of each reporting period to determine whether there is any indication that those assets have suffered an impairment loss. Where such impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of fair value less costs of disposal and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statement of comprehensive income (loss).

Impairment losses may be reversed in a subsequent period where the impairment no longer exists or has decreased. The carrying amount after a reversal must not exceed the carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized. A reversal of impairment loss is recognized in profit or loss.

Impairment of Financial Assets

An impairment loss in respect of a financial asset measured at amortized cost, such as accounts receivable and other receivable, is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against the corresponding asset.

During the year ended July 31, 2016, the Company determined that its other receivable in the amount of $103,627 was not collectible and, as such, was impaired. The Company expensed the full amount as a bad debt expense on the consolidated statement of loss and comprehensive loss for the year ended July 31, 2016. The Company has assessed its assets, and has determined that conditions indicating potential impairment were not present as at July 31, 2016 and July 31, 2015.

Foreign Currency Translation

Transactions denominated in foreign currencies are initially recorded in the functional currency using exchange rates in effect at the dates of the transactions. At the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using exchange rates prevailing at the end of the reporting period. All exchange gains and losses are included in the statement of loss and comprehensive loss.

3. Significant Accounting Policies (continued)

Current Taxes

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Taxes

Deferred taxes are determined, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Tax rates enacted or substantially enacted by the date of the statement of financial position are used to determine the deferred tax expense.

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which temporary differences or unused tax losses can be utilized.

Deferred tax is charged or credited in the statement of loss and comprehensive loss, except when it relates to items credited or charged directly to other comprehensive income or equity, in which case the deferred tax is treated accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. As of July 31, 2016 and 2015, the Company did not have any finance leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. Significant Accounting Policies (continued)

Financial Instruments

Financial assets and liabilities within the scope of IAS 39 (Financial Instruments: Recognition and Measurement) are classified as financial assets or liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, other financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets and liabilities at initial recognition.

All of the Company's financial instruments are initially measured at fair value, with subsequent measurements dependent upon the classification of each financial instrument.

Financial assets classified as fair value through profit or loss include cash which is measured at fair value. Loans and receivables, which includes accounts receivable and other receivable, are recorded at amortized cost less impairment losses.

Other financial liabilities, which include accounts payable and accrued liabilities, amounts due to a director, promissory notes, short-term advances payable, convertible promissory notes and short-term advances from related party are recorded at amortized cost using the effective interest method.

The effective interest method is used to calculate the amortized cost of a financial asset or liability and allocates interest income over the corresponding period. The effective interest rate is the rate that is used to discount estimated future cash receipts or payments over the expected life of the financial asset or liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Company does not have any derivatives designated as hedging instruments in an effective hedge.

The Company’s financial assets and liabilities recorded at fair value on the statement of financial position or disclosed in the notes have been categorized into three categories based on a fair value hierarchy. Fair value of assets and liabilities included in Level I is determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level II include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level III valuations are based on inputs that are not based on observable market data. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As at July 31, 2016, the Company’s cash is categorized as Level I measurement. The Company does not hold any Level II or III financial assets or liabilities.

Compound financial instruments issued by the Company comprise convertible promissory notes that are convertible to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Loss Per Share

Loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of common shares outstanding from August 21, 2013 to the transaction date was computed on the basis of the weighted average number of common shares of Abba multiplied by the exchange ratio established in the Share Exchange Agreement.

Share Based Compensation

Share Based Payment Transactions

Transactions with non-employees that are settled in equity instruments of the Company are measured at the fair value of the services rendered. In situations where the fair value of the goods or services received by the entity as consideration cannot be reliably measured, transactions are measured at fair value of the equity instruments granted. The fair value of the share based payments is recognized together with a corresponding increase in equity over a period that services are provided or goods are received.

Equity Settled Transactions

Directors of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby they render services as consideration for equity instruments ("equity-settled transactions").

The costs of equity settled transactions with employees are measured by reference to the fair value of the equity instruments at the date on which they are granted, using the Black-Scholes option pricing model.

The costs of equity settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative cost is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company’s best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in contributed surplus.

3. Significant Accounting Policies (continued)

Share Based Compensation (continued)

No expense is recognized for awards that do not ultimately vest.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of loss per share.

Share Issuance Costs

Costs incurred in connection with the issuance of share capital are netted against the proceeds received net of tax. Costs related to the issuance of share capital and incurred prior to issuance are recorded as deferred share issuance costs and subsequently netted against proceeds when they are received.

Share Capital

In situations where the Company issues warrants, the fair value of warrants, as calculated as of the date of issue using the Black-Scholes pricing model, is included in the Company's contributed surplus.

Equity Component of Convertible Promissory Notes

The equity component of convertible promissory notes is included in shareholders' equity.

Revaluation of Warrants

When the terms of warrants previously granted are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the holder of the warrants as measured at the date of modification.

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.

3. Significant Accounting Policies (continued)

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.

IFRS 16 Leases was issued in January 2016 and replaces IAS 17 Leases. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. If the lease was classified as a finance lease, a lease liability was included on the statement of financial position. IFRS 16 now requires lessees to recognize a right of use asset and lease liability reflecting future lease payments for virtually all lease contracts. The right of use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability accrues interest. The IASB has included an optional exemption for certain short term leases and leases of low value assets; however, this exemption can only be applied by lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset’s use and obtain substantially all the economic benefits from that use. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15, Revenue from Contracts with Customers, is also applied.

In January 2016, the IASB issued the disclosure initiative amendments to IAS 7, statement of Cash Flow. The amendment will require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash and non-cash changes.

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 consolidated financial statements.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of these 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 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 include those related to the ability of the Company to continue as a going concern, the determination of when property and equipment are available for use, and impairment of its financial and non-financial assets. The most significant estimates and assumptions include those related to the valuation of deferred taxes, 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 consolidated financial statements are reasonable.

5. 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. The related party is the Company's former Chief Executive Officer.

6. Short-term Advances Payable

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

7. Property and Equipment

As at July 31, 2016	Leasehold Improvements	Security Equipment	Computer Equipment	Manufacturing Equipment	Office Furniture and Equipment	Total
Cost						
Balance, beginning of year	$ 1,245,823	$ 227,106	$ 45,004	$ 186,126	$ 45,239	$ 1,749,298
Additions	7,437	58,599	532	-	72	66,640
Balance, end of year	1,253,260	285,705	45,536	186,126	45,311	1,815,938
Accumulated depreciation						
Balance, beginning of year	-	-	-	-	-	-
Depreciation	-	(57,141)	(15,179)	-	(9,062)	(81,382)
Balance, end of year	-	(57,141)	(15,179)	-	(9,062)	(81,382)
Net carrying amount as at July 31, 2016	$ 1,253,260	$ 228,564	$ 30,357	$ 186,126	$ 36,249	$ 1,734,556

As at July 31, 2016, the Company's leasehold improvements and manufacturing equipment were not in the location and condition necessary for them to be used in the manner intended by management. As such, these assets have not been amortized during the year ended July 31, 2016.

7. 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

8. 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 was to grant the 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.

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 resulting in a $Nil balance.

9. 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.

10. 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 prior to completion of the Transaction, net of the amount of GST and QST paid on purchases made by the Company.

11. Due to Director

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

12. 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 consolidated financial statements, the principal of this promissory note and accrued interest of $5,000 was outstanding and past due.

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 consolidated financial statements, the principal of this promissory note and accrued interest of $4,000 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 consolidated financial statements, the principal of this promissory note and accrued interest of $2,250 was outstanding and past due.

13. 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 were 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 and past due.

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 were 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 and past due.

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 were 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 and past due.

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 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 $0.675 per share.

13. Convertible Promissory Notes (continued)

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 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 year ended July 31, 2016, the Company recorded interest accretion expense of $1,231 (2015 - $23,893) and accrued interest as at July 31, 2016 in the amount of $48,000 (2015 - $4,534). The aggregate carrying value of the convertible promissory notes as at July 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 year		1,231
Balance, July 31, 2016	$	300,000

During the year ended July 31, 2016, the Company issued the following unsecured convertible promissory notes:

a) Principal of $50,000 with interest at a rate of 15% per annum and payable in arrears on a quarterly basis on the last day of each of March, June, September and December the effective date until the maturity date of May 3, 2018. The outstanding principal amounts shall be due and payable on May 3, 2018. As of the date of these financial statements the principal of this convertible promissory note was still outstanding.

13. Convertible Promissory Notes (continued)

b) Principal of $50,000 with interest at a rate of 15% per annum and payable in arrears on a quarterly basis on the last day of each of March, June, September and December the effective date until the maturity date of May 13, 2018. The outstanding principal amounts shall be due and payable on May 13, 2018. As of the date of these financial statements the principal of this convertible promissory note was still outstanding.

c) Principal of $50,000 with interest at a rate of 15% per annum and payable in arrears on a quarterly basis on the last day of each of March, June, September and December the effective date until the maturity date of May 20, 2018. The outstanding principal amounts shall be due and payable on May 20, 2018. As of the date of these financial statements the principal of this convertible promissory note was still outstanding.

d) Principal of $50,000 with interest at a rate of 15% per annum and payable in arrears on a quarterly basis on the last day of each of March, June, September and December the effective date until the maturity date of June 1, 2018. The outstanding principal amounts shall be due and payable on June 1, 2018. As of the date of these financial statements the principal of this convertible promissory note was still outstanding.

e) Principal of $75,000 with interest at a rate of 8.5% per annum and payable in arrears on a quarterly basis on the last day of each of March, June, September and December commencing June 30, 2016 until the maturity date of June 21, 2018. The outstanding principal amounts shall be due and payable on June 21, 2018. As of the date of these financial statements the principal of this convertible promissory note was still outstanding.

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 $0.27 per share. At any time after the four month anniversary of the convertible promissory notes, the Company shall have the right, if the common shares of the Company listed on the Canadian Securities Exchange (or other recognized exchange) have had a closing price of $0.27 or higher for at least 10 consecutive trading days and averaged a daily volume of 10,000 common shares or higher during such period, to force the conversion of the outstanding Principal Amount and any accrued but unpaid interest into common shares of the Company at the Conversion Price.

13. Convertible Promissory Notes (continued)

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 $135,282, using a discount rate of 36%. The fair value of the equity component of $102,693 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 $37,025 which has been disclosed separately on the 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 year ended July 31, 2016, the Company recorded interest accretion expense of $4,117 and accrued interest as at July 31, 2016 in the amount of $7,438. The aggregate carrying value of the convertible promissory notes as at July 31, 2016 is calculated as follows:

Principal balance due between May 3, 2018 and June 21, 2018	$	275,000
Less: fair value of conversion option		(102,693)
Less: deferred tax liability		(37,025)
Carrying value at upon issuance		135,282
Add: Interest accretion for the year		4,116
Balance, July 31, 2016	$	139,398

14. Share Capital

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

The following table summarizes the common share activities for the years ended July 31, 2016, and 2015:

	Number of Common Shares		Share Capital
Balance, August 1, 2014	666,667	$	750,001
Private placements, net of issuance costs (a)	214,674		2,399,603
Issued as settlement of trade payables (b)	9,910		111,500
Issued to shareholders of Abba upon completion of Transaction (c)	27,628,791		-
Issued pursuant to warrant exercise (d)	16,000		8,316
Issued to consultant (e)	666,667		400,000
Effects of Transaction (note 1)	12,307,533		4,326,694
Balance, July 31, 2015	41,510,242		7,996,114
Private placements (f)	2,000,000		300,000
Balance, July 31, 2016	43,510,242	$	8,296,114

14. Share Capital (continued)

a) During the year ended July 31, 2015, Abba issued 214,674 common shares for proceeds of $2,414,900 pursuant to private placements. Abba incurred share issuance costs of $15,297 in connection with these private placements.

b) During the year ended July 31, 2015, Abba issued 9,910 common shares as settlement of trade payables in the amount of $111,500.

c) Pursuant to the Transaction described in note 1, the shareholders of Abba exchanged each of their Class A Common shares of Abba for 32 common shares of the Company, which resulted in the issuance of 28,520,043 common shares of the Company to the shareholders of Abba.

d) During the year ended July 31, 2015, the Company issued 16,000 common shares pursuant to the exercise of 16,000 warrants for gross proceeds of $6,000. The fair value of the warrants of $2,316 has been allocated to share capital.

e) During the year ended July 31, 2015, the Company issued 666,667 common shares to a consultant pursuant to a consulting agreement at a fair value of $0.60 per share.

f) During the year ended July 31, 2016, the Company issued 2,000,000 common shares of the Company for proceeds of $300,000. The Company did not incur any issuance costs in connection with the issuance of these common shares.

f) Subsequent to the end of the year, the Company completed a share consolidation whereby each shareholder of the Company was issued one post-consolidation common share of the Company for every 1.5 pre-consolidation common share (Note 24f). All units of common shares, warrants, and options, along with unit prices, have been retroactively restated for all periods presented on a post-consolidation basis.

15. Warrants

During the year ended July 31, 2015, the Company issued 3,674,482 warrants in connection with the Transaction as discussed in note 1 pursuant to a consulting agreement. The fair value of the warrants issued was estimated at $606,994. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.375 per share until March 13, 2016, the date that was 12 months from the date of the close of the Transaction.

The fair value of the warrants was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	0.60%
Expected life	12 months
Expected volatility	130.56%*
Share price	$0.351
Forfeiture rate	Nil

*Based on volatility of comparable companies

15. Warrants (continued)

The following table summarizes the warrant activities for the years ended July 31, 2015 and 2016:

	Number of Warrants		Weighted Average Exercise Price
Beginning balance, July 1, 2014	-	$	-
Issued for services rendered	3,674,482		0.375
Expired	(16,000)		(0.375)
Outstanding at July 31, 2015 and 2016	3,658,482	$	0.375

As at July 31, 2016, the Company had 3,658,482 warrants outstanding. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.375 per share for a period of 12 months from the date of the close of the Transaction. During the year ended July 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. As a result of the extended expiry, the Company recognized additional transaction costs of $725,437 during the year ended July 31, 2016, as the extended expiry increased the fair value of the warrants by a corresponding amount.

16. 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.

During the year ended July 31, 2015, the Company issued 300,000 stock options to its directors. Each stock option entitles the holder to acquire one common share of the Company at a price of $0.69 for a period of five years from the date of grant. The stock options vest over a period of twelve months and will expire June 5, 2020.

The fair value of the stock options was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	1.07%
Expected life	5 years
Expected volatility	176.81%*
Share price	$0.7125
Forfeiture rate	Nil

*Based on volatility of comparable companies

16. Stock Options (continued)

The following table summarizes the stock option activities for the years ended July 31, 2015 and 2016:

	Number of Options	Weighted Average Exercise Price
Balance, July 1, 2014	-	$ -
Granted	300,000	0.69
Balance, July 31, 2015	300,000	0.69
Expired	(166,667)	(0.69)
Outstanding at July 31, 2016	133,333	$ 0.69
Exercisable at July 31, 2016	133,333	$ 0.69

The weighted average remaining contractual life of the options outstanding at July 31, 2016 is 3.75 years. The amount of share-based compensation for the year ended July 31, 2016 was $60,935 (2015 - $29,690).

17. Contributed Surplus

Balance, August 1, 2014	$ -
Fair value of warrants issued in connection with the Transaction (notes 1 and 15)	606,994
Fair value of warrants exercised	(2,316)
Share-based compensation (note 16)	29,690
Balance, July 31, 2015	634,368
Share-based compensation (note 16)	60,935
Modification of warrants (note 15)	725,437
Shares and warrants to be issued upon settlement of debt (note 24)	620,118
Balance, July 31, 2016	$ 2,040,858

18. Income Taxes

a) Deferred Income Taxes

	2016	2015
Loss before income taxes	$ (2,947,106)	$ (8,881,752)
Statutory rate	26.5%	26.5%
Expected income tax recovery	(780,983)	(2,353,664)
Non-deductible expenses	18,200	17,400
Transaction costs non-deductible for tax purposes	223,076	1,408,180
Other	(15,118)	(17,480)
	(554,825)	(945,564)
Change in deferred tax assets not recognized	554,825	939,232
Net expected deferred income tax recovery	$ -	$ (6,332)

b) Deferred Income Tax Assets

The tax effects of temporary differences that give rise to the deferred income tax assets at July 31, 2016 and 2015 are as follows:

	2016	2015
Non-capital loss carry forwards	$ 1,409,456	$ 857,752
Cumulative Eligible Capital deduction	149,662	145,730
Property and Equipment	21,566	-
Share issuance costs	2,432	3,243
	1,583,116	1,006,725
Deferred tax assets not recognized	(1,583,116)	(1,006,725)
Net deferred income tax assets	$ -	$ -

A valuation allowance has been applied against all of the above deferred income tax assets.

c) Non-Capital Losses

The Company has a non-capital loss carried forward of approximately $5,318,703 available to reduce future years' taxable income which will expire as follows:

Fiscal Year	Amount
2034	$ 265,320
2035	$ 2,971,479
2036	$ 2,081,904

19. Changes in Non-cash Working Capital

The changes to the Company's non-cash working capital for the years ended July 31, 2016 and 2015 are as follows:

	2016	2015
Decrease (increase) in HST recoverable	$ 43,660	$ (23,569)
Decrease (increase) in accounts receivable	(2,468)	-
Decrease (increase) in prepaid expenses and deposits	(10,629)	(53,590)
Decrease (increase) in GST and QST payable	(18,724)	(20,151)
Increase (decrease) in accounts payable and accrued liabilities	630,447	789,890
	$ 642,286	$ 692,580

The working capital cash flows shown in the consolidated statements of cash flows differ from the consolidated statement of financial position due to the current assets and liabilities acquired pursuant to the Transaction (note 1) and the additional accounts payable and accrued liabilities that are included in property and equipment (note 7).

20. Related Party Transactions and Balances

During the years ended July 31, 2016 and 2015, the Company incurred the following related party transactions:

a) A total of $224,967 (2015 - $206,785) in occupancy expenses was charged by a company whose shareholders are related to the shareholders of one of the Company's corporate shareholders. As at July 31, 2016, prepaid expenses included $51,302 (2015 - $61,302), deferred lease inducement included $11,036 (2015 - $15,603) and accounts payable and accrued liabilities included $132,734 (2015 - $34,299) payable to this company.

b) A total of $62,500 (2015 - $185,833) in consulting fees was charged by a company controlled by the Company's former CEO, who was also a director of the Company. As at July 31, 2016, accounts payable and accrued liabilities included $88,479 (2015 - $33,854) payable to this company. Also included in short-tem advances from related party is $119,630 payable to this individual (see note 5).

c) A total of $Nil (2015 - $2,212) of advertising and promotional expenses and salaries of $4,327 (2015 - $39,808) were paid to an individual related to a former officer and director of the Company.

d) A total of $16,075 (2015 - $83,699) of legal fees were charged by a law firm in which a former director of the Company is a partner. As at July 31, 2016, accounts payable and accrued liabilities included $112,745 (2015 - $109,621) payable to this law firm.

20. Related Party Transactions and Balances (continued)

e) A total of $80,000 (2015 - $43,000) of fees were charged by an accounting firm in which an officer and a former director of the Company are partners. The fees were allocated as to $64,000 (2015 - $28,000) to professional fees, $16,000 (2015 - $16,000) to consulting fees and $Nil (2015 - $15,000) to transaction costs. As at July 31, 2016, accounts payable and accrued liabilities included $194,582 (2015 - $106,652) payable to this accounting firm.

f) A total of $13,860 (2015 - $62,690) of consulting fees were charged by a company controlled by the Company's former CFO who was also a director of the Company. As at July 31, 2016, accounts payable and accrued liabilities included $135,604 (2015 - $119,942) payable to this company.

g) A total of $43,750 of management fees were charged by the Company's interim CEO, the full amount of which is included in accounts payable and accrued liabilities as at July 31, 2016.

h) A total of $13,250 (2015 - $8,500) 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 July 31, 2016.

i) 300,000 stock options were granted to directors of the Company during the year ended July 31, 2015. The amount of stock-based compensation expense for the year ended July 31, 2016 related to these stock options was $60,935 (2015 - $29,690). No stock options were granted to related parties during the year ended July 31, 2016.

Total compensation of $210,295 (2015 - $284,380) comprising short-term employee benefits of $149,360 (2015 - $254,690) and share-based payments of $60,935 (2015 - $29,690) were paid to the Company's key members of management during the year ended July 31, 2016.

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.

21. Financial Instruments and Other Risks (continued)

Fair Values

The carrying amounts for the Company's cash, accounts receivable, amounts due from a related company, short-term advance to a related party, accounts payable and accrued liabilities, amounts due to director, short-tem advance payable, 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:

Credit Risk

The Company is not exposed to any significant credit risk other than other receivable as at July 31, 2016. The Company's cash is on deposit with a highly rated financial institution in 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 July 31, 2016, the Company has current assets of $240,011 and current liabilities of $3,405,952. The Company has a working capital deficiency as at July 31, 2016 of $3,165,941. The contractual maturities of the Company's accounts payable and accrued liabilities are disclosed in a table included later in note 21. The Company plans to raise 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$95,000) included in accounts payable and accrued liabilities that are denominated in United States Dollars. At July 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 $9,466 (2015 - $12,426) 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 July 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 cash flow interest rate risk associated with the Company's financial instruments.

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:

	2016	2015
1 - 30 days	$ 20,851	$ 82,545
31 - 60 days	16,900	199,611
61 - 90 days	15,199	143,033
Greater than 91 days	1,800,055	1,035,392
Total trade payables	1,853,005	1,460,581
Accrued liabilities	577,651	101,038
Outstanding at year end	$ 2,430,656	$ 1,561,619

22. Capital Disclosures

The Company includes equity, comprised of share capital, contributed surplus (including the fair value of equity instruments to be issued), equity component of convertible promissory notes and deficit, in the definition of capital.

The Company's objectives when managing capital are as follows:

(i) to safeguard the Company's assets and ensure the Company's ability to continue as a going concern;

(ii) to raise sufficient capital to finance the construction of its production facility and obtain a licence to produce medical marijuana under the MMPR; and

(iii) to raise sufficient capital to meet its general and administrative expenditures.

The Company manages its capital structure and makes adjustments to it, based on the general economic conditions, the Company's short-term working capital requirements, and its planned capital requirements and strategic growth initiatives.

The Company's principal source of capital is from the issuance of common shares. In order to achieve its objectives, the Company expects to spend its working capital, when applicable, and raise additional funds as required.

The Company does not have any externally imposed capital requirements.

23. Commitments

a) During the year ended July 31, 2015, the Company entered into an Advisory Agreement for the advisor to act as a strategic advisor to the Company in connection with a proposed equity financing of up to $10,000,000 and to act as an advisor to the Company until the earlier of (i) the completion of an equity financing of the Company; and (ii) August 31, 2015.

   Pursuant to the Advisory Agreement, the Company was to pay an advisory of fee of $400,000 which could be paid, at the sole discretion of the Company, in cash and/ or, subject to regulatory approval, by the issuance of 666,667 common shares of the Company at a price of $0.60 per share, representing the closing price of the common shares of the Company on the Canadian Securities Exchange on July 2, 2015, the last trading day prior to the date of the Advisory Agreement. During the year ended July, 31, 2015, the Company issued 666,667 common shares to the advisor as described in note 14(e).

b) During the year ended July 31, 2016, the Company entered into a Consulting Agreement with a company to provide various consulting services in exchange for a monthly fee of $11,500 for a term of eight months. Pursuant to the Consulting Agreement, the aggregate fee payable for the term of the Consulting Agreement of $92,000 will be settled by the issuance of 266,666 common shares of the Company at the completion of the Consulting Agreement. As at July 31, 2016, the Company has recognized consulting fees expense of $92,000 related to this Consulting Agreement. As the common shares had yet to be issued as of July 31, 2016, $92,000 has been included in contributed surplus to reflect the Company's obligation to issue the common shares. Subsequent to July 31, 2016, the Company issued the 266,666 common shares.

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

Fiscal Year	Amount
2017	$ 206,495
2018	$ 180,740
2019	$ 80,975

24. Subsequent Events

Subsequent to the year ended July 31, 2016:

a) The Company completed a transaction pursuant to a Share Exchange Agreement to acquire all of the issued and outstanding common shares of two companies (collectively the "Target Business") in exchange for the following consideration:

(i) A cash payment of $250,000;

(ii) The issue of such number of common shares of the Company as would represent approximately 66% of all of the Company's issued and outstanding common shares immediately post- acquisition; and

(iii) Cash payments totaling $4,000,000 payable over a period of up to three years from the closing date. The timing of the payments are dependent on upon the Target Business achieving certain EBITDA performance targets at certain milestones.

Upon close of the transaction subsequent to July 31, 2016, the Company paid $250,000 and issued 64,272,824 common shares to the shareholders of the Target Business. As at July 31, 2016, $50,000 of the payment due on close was included in prepaid expenses. During the year ended July 31, 2016, the Company incurred transaction costs of $116,359 with respect to this transaction.

b) The Company completed a private placement offering (the "Offering") for gross proceeds of $6,025,000 in connection with the transaction completed pursuant to the Share Exchange Agreement disclosed in note 25(a). The Offering consisted of 19,001,000 Equity Units and 1,275 Convertible Debenture Units. Each Equity Unit consists of one common share and one common share warrant which will entitle the holder to purchase one common share of the Company at a price of $0.40 per share for a period of 24 months following the issuance of the warrant. Each Convertible Debenture Unit consists of one 8.5% secured convertible debenture ("Convertible Debentures") with a principal amount of $1,000 with a maturity date ("Maturity Date") of 48 months from the date of issuance, and 1,000 detachable Convertible Debenture Warrants (each, a CD Warrant"). Each Convertible Debenture shall be convertible at the holder's option into fully-paid common shares of the Company (each a "CD Share") at any time prior to the Maturity Date at a conversion price of $0.40 per CD Share being a ratio of 2,500 CD Shares per $1,000 principal amount of Convertible Debentures. Each CD Warrant shall be exercisable into one common share of the Corporation (each, a "CD Warrant Share") at a price of : (a) $0.40 per CD Warrant Share between the date the escrow release conditions are met (the "Escrow Release Date") and the date that is 24 months from the Escrow Release date; (b) $0.75 per CD Warrant Share between the date that is 24 months from the Escrow Release Date and the date that is 36 months from the Escrow Release Date; and (c) $1.00 per CD Warrant between the date that is 36 months from the Escrow Release date and the Maturity Date.

In connection with the Offering, the Company paid commissions and expenses of $410,141 and issued 2,410,100 Compensation Options to the agent. Each Compensation Option is exercisable at any time up to 36 months following the Escrow Release Date, to acquire on Equity Unit from treasury at the Equity Offering Price of $0.25 per Equity Unit.

24. Subsequent Events (continued)

c) The Company entered into a Service Agreement with a consultant to replace a Marketing Agreement entered into by the Company during the year ended July 31, 2015, for which the services were not rendered during the time period contemplated in the Marketing Agreement. Pursuant to the Service Agreement, the consultant was to provide services to the Company with respect to, but not limited to, marketing, branding, communications, business development and sales services, review of the Corporation's business plan and corporate strategy, and review and evaluation of the Company's long-term and short-term marketing and sales objectives for a period deemed to commence on May 1, 2016 and end on September 30, 2016. In exchange for the services described above, the Company shall issue 666,667 common shares and 666,667 warrants. Each warrant shall entitle the holder to purchase one common share at a price of $0.25 for a period of three years following the date of issue. As at July 31, 2016, the Company has recognized consulting expense of $264,059 for services rendered in connection with this agreement. As the common shares and warrants had yet to be issued as of July 31, 2016, $264,059 has been included in contributed surplus to reflect the Company's obligation to issue the common shares and warrants. Subsequent to July 31, 2016, the Company issued the common shares and warrants.

d) The Company entered into a Service Agreement with a consultant to replace a previous Services Agreement (the "Prior Agreement") entered into by the Company during the year ended July 31, 2015, for which the services were not rendered during the time period contemplated in the Prior Agreement. Pursuant to the Service Agreement, the consultant was to provide services to the Company with respect to strategic and financial advice on potential funding alternatives, capital structure planning, public listing alternatives, valuation development and related issues, finance strategies, capital structure management and board of director vetting and recruitment for a period deemed to commence on May 1, 2016 and end on September 30, 2016. In exchange for the services described above, the Company shall issue 666,667 common shares and 666,667 warrants. Each warrant shall entitle the holder to purchase one common share at a price of $0.25 for a period of three years following the date of issue. As at July 31, 2016, the Company has recognized consulting expense of $264,059 for services rendered in connection with this agreement. As the common shares and warrants had yet to be issued as of July 31, 2016, $264,059 has been included in contributed surplus to reflect the Company's obligation to issue the common shares and warrants. Subsequent to July 31, 2016, the Company issued the common shares and warrants.

e) The Company cancelled 12,000,000 common shares of the Company in connection with the transaction completed pursuant to the Share Exchange Agreement disclosed in note 24(a).

f) The Company completed a share consolidation whereby each shareholder of the Company was issued one post-consolidation common share of the Company for every 1.5 pre-consolidation common share following close of the transaction completed pursuant to the Share Exchange Agreement disclosed in note 24(a).

g) The Company granted an aggregate of 5,100,000 stock options to certain of its directors, officers and employees, each entitling the holder to acquire one common share at an exercise price of $0.25 for a period of five years from the grant date.

h) The Company granted an aggregate of 15,000,000 warrants to certain of its directors, an officer and a consultant, each entitling the holder to acquire one common share at an exercise price of $0.25 for a period of five years from the grant date.

24. Subsequent Events (continued)

i) The Company had 33,333 stock options expire unexercised.