Condensed Interim Consolidated Financial Statements

Canada House Wellness Group Inc.

For the Three Month Periods ended October 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.

Canada House Wellness Group Inc.

(Formerly Abba Medix Group Inc.)

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

	October 31, 2016	July 31, 2016 (Audited)
Assets		
Current Assets		
Cash	$ 6,859	$ 70,224
Accounts receivable	-	2,468
HST recoverable	48,934	39,798
Prepaid expenses and deposits	211,461	127,521
Other receivable	11,300	-
	278,554	240,011
Property and Equipment (note 8)	1,714,210	1,734,556
	$ 1,992,764	$ 1,974,567
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (note 20)	$ 2,861,980	$ 2,430,656
GST and QST payable (note 10)	50,998	55,969
Due to director (note 11)	1,697	1,697
Short-term advances payable (note 7)	59,700	48,000
Promissory notes (note 12)	450,000	450,000
Convertible promissory notes (note 13)	300,000	300,000
Short-term advances from related party (note 6)	119,630	119,630
	3,844,005	3,405,952
Convertible Promissory Notes (note 13)	143,659	139,398
Deferred Income Tax Liability	37,352	37,352
Deferred Lease Inducement (note 9)	9,895	11,036
	4,034,911	3,593,738
Shareholders' Deficit		
Share Capital (note 14)	8,948,114	8,296,114
Contributed Surplus (notes 15, 16 and 17)	1,740,936	2,040,858
Equity Component of Convertible Promissory Notes (note 13)	121,159	121,159
Accumulated Deficit	(12,852,356)	(12,077,302)
	(2,042,147)	(1,619,171)
	$ 1,992,764	$ 1,974,567

Basis of Presentation and Going Concern (note 2)
Commitments (note 22)
Subsequent Events (note 23)
The accompanying notes form an integral part of these condensed interim 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.)
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three months ended October 31, 2016 and 2015
Unaudited - See Notice to Reader
Stated in Canadian Dollars

	2016	2015
Expenses		
Advertising and promotion	$ 2,749	$ 23,540
Amortization of property and equipment (note 8)	20,346	-
Bank charges	375	557
Abandoned business acquisition costs	-	740
Consulting fees (notes 19 and 22)	395,578	111,222
Directors fees (note 19)	2,750	3,750
Foreign exchange loss (gain)	2,574	(1,072)
Insurance	9,538	12,593
Interest on convertible and promissory notes (notes 12 and 13)	26,592	12,558
Interest on related party debt (note 6)	1,966	2,062
Interest accretion (note 13)	4,261	1,231
Listing and filing fees	26,023	5,937
Occupancy (notes 19 and 22)	45,713	53,877
Office and general	13,192	6,914
Professional fees (note 19)	49,784	101,731
Salaries and benefits	28,399	84,079
Share based compensation (notes 16 and 19)	-	50,977
Transaction costs (note 23)	144,246	-
Travel	968	3,209
	775,054	473,905
Loss before Income Taxes	775,054	473,905
Deferred Income Tax Recovery	-	-
Loss and comprehensive loss for the period	$ 775,054	$ 473,905
Loss per Share - basic and diluted	$ 0.02	$ 0.01
Weighted Average Number of Common Shares Outstanding - basic and diluted	44,043,575	41,510,243

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

Canada House Wellness Group Inc.

(Formerly Abba Medix Group Inc.)

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the three months ended October 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, 2016	43,510,242	$ 8,296,114	$ 2,040,858	$ 121,159	$ -	$(12,077,302)	$ (1,619,171)
Common shares issued to consultants for services rendered (note 14)	1,600,000	652,000	(652,000)	-	-	-	-
Common shares and warrants to be issued as settlement of debt (note 17)	-	-	352,078	-	-	-	352,078
Net loss for the period	-	-	-	-	-	(775,054)	(775,054)
Balance as at October 31, 2016	45,110,242	$ 8,948,114	$ 1,740,936	$ 121,159	$ -	$(12,852,356)	$ (2,042,147)

	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	41,510,243	$ 7,996,114	$ 634,368	$ 18,466	$ -	$ (9,130,196)	$ (481,248)
Share subscription proceeds	-	-	-	-	300,000	-	300,000
Share-based compensation (notes 16 and 19)	-	-	50,977	-	-	-	50,977
Net loss for the period	-	-	-	-	-	(473,905)	(473,905)
Balance as at October 31, 2015	41,510,243	$ 7,996,114	$ 685,345	$ 18,466	$ 300,000	$ (9,604,101)	$ (604,176)

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

Canada House Wellness Group Inc.

(Formerly Abba Medix Group Inc.)

Condensed Interim Consolidated Cash Flow Statements
For the three months ended October 31, 2016 and 2015
Unaudited - See Notice to Reader
Stated in Canadian Dollars

	2016	2015
Operating Activities		
Net loss for the period	$ (775,054)	$ (473,905)
Items not affecting cash flows from operations:		
Transaction costs	144,246	-
Interest on convertible and promissory notes	26,592	12,558
Items not affecting cash:		
Amortization of property and equipment	20,346	-
Stock-based compensation	-	50,977
Expenses to paid in common shares and warrants of the Company	352,078	-
Deferred lease inducement	(1,141)	(1,141)
Interest accretion	4,261	1,231
	(228,672)	(410,280)
Net changes in non-cash working capital (note 18):	153,607	246,984
	(75,065)	(163,296)
Investing Activities		
Property and equipment	-	(72)
Financing Activities		
Short-term advance to/ from related party	-	(5,500)
Short-term advances	11,700	48,000
Share subscriptions payable	-	300,000
	11,700	342,500
Change in cash	(63,365)	179,132
Cash - beginning of period	70,224	6,314
Cash - end of period	$ 6,859	$ 185,446
Significant Non-Cash Transactions Not Disclosed Above		
Common shares issued to consultants (note 14)	$ 652,000	$ -

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

1. Nature of Operations

Canada House Wellness Group Inc. (the “Company”), 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". These condensed interim consolidated financial statements of the Company for the three months ended October 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.

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, 2016, 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, 2016. These condensed interim consolidated financial statements have not been subject to audit and were approved by the Company's Board of Directors on December 30, 2016.

b) Basis of Presentation

The condensed interim 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 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.

2. Basis of Presentation and Going Concern (continued)

c) Basis of Consolidation (continued)

The functional currency of the Company and Abba is the Canadian Dollar, which is also 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.

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.

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 three months ended October 31, 2016, the Company incurred a net loss of $775,054 (2015 - $473,905) and as of that date, the Company's accumulated deficit was $12,852,356 (July 31, 2016 - $12,077,302). As at October 31, 2016, the Company has current assets of $278,554 (July 31, 2016 - $240,011) and current liabilities of $3,844,005 (July 31, 2016 - $3,405,952) resulting in a working capital deficiency of $3,565,451 (July 31, 2016 - $3,165,941). See note 23(b) for details of a private placement offering completed subsequent to October 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 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, 2016 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, 2016.

4. Future Accounting Pronouncements

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.

Stated in Canadian Dollars

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 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 condensed interim consolidated financial statements are reasonable.

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

7. Short-term Advances Payable

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

8. Property and Equipment

As at October 31, 2016	Leasehold Improvements	Security Equipment	Computer Equipment	Manufacturing Equipment	Office Furniture and Equipment	Total
Cost						
Balance, beginning of period	$ 1,253,260	$ 285,705	$ 45,536	$ 186,126	$ 45,311	$ 1,815,938
Additions	-	-	-	-	-	-
Balance, end of period	1,253,260	285,705	45,536	186,126	45,311	1,815,938
Accumulated depreciation						
Balance, beginning of period	-	(57,141)	(15,179)	-	(9,062)	(81,382)
Depreciation	-	(14,285)	(3,795)	-	(2,266)	(20,346)
Balance, end of period	-	(71,426)	(18,974)	-	(11,328)	(101,728)
Net carrying amount as at October 31, 2016	$ 1,253,260	$ 214,279	$ 26,562	$ 186,126	$ 33,983	$ 1,714,210

Stated in Canadian Dollars

8. Property and Equipment (continued)

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 October 31, 2016 and 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 three months ended October 31, 2016, or the year ended July 31, 2016.

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 condensed interim 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 condensed interim 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 condensed interim 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.

Stated in Canadian Dollars

13. 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 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.

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 three months ended October 31, 2016, the Company recorded interest accretion expense of $Nil (2015 - $1,231) and interest expense of $18,000 (2015 - $12,558). As at October 31, 2016 accounts payable and accrued liabilities included accrued interest of $84,000 (2015 - $12,000). The aggregate carrying value of the convertible promissory notes as at October 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 and October 31, 2016	$	300,000

13. Convertible Promissory Notes (continued)

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 condensed interim financial statements the principal of this convertible promissory note was still outstanding.

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 condensed interim 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 condensed interim 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 condensed interim 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 condensed interim 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.

Stated in Canadian Dollars

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 three months ended October 31, 2016, the Company recorded interest accretion expense of $4,261 (2015 - $Nil) and interest expense of $8,592 (2015 - $Nil). As at October 31, 2016 the Company accrued interest in the amount of $16,032 (2015 - $Nil) is included in accounts payable and accrued liabilities. The aggregate carrying value of the convertible promissory notes as at October 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
Add: Interest accretion for the period		4,261
Balance, October 31, 2016	$	143,659

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 three month period ended October 31, 2016:

	Number of Common Shares		Share Capital
Balance, August 1, 2016	43,510,242	$	8,296,114
Issued to consultants	1,600,000		652,000
Balance, October 31, 2016	45,110,242	$	8,948,114

14. Share Capital (continued)

a) During the three months ended October 31, 2016, the Company issued 266,666 common shares pursuant to a Consulting Agreement entered into during the year ended July 31, 2016 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 was 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 had recognized consulting fees expense of $92,000 related to this Consulting Agreement and $92,000 was included in contributed surplus to reflect the Company's obligation to issue the common shares.

b) During the three months ended October 31, 2016, the Company issued 666,667 common shares pursuant to a Consulting Agreement entered into during the three months ended as disclosed in note 22(a). The fair value of the common shares issued was $0.42 per share, or $280,000 in aggregate.

c) During the three months ended October 31, 2016, the Company issued 666,667 common shares pursuant to a Consulting Agreement entered into during the three months ended as disclosed in note 22(b). The fair value of the common shares issued was $0.42 per share, or $280,000 in aggregate.

d) Subsequent to the three months ended October 31, 2016, 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 23(d)). 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

As at October 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 October 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.

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.

Stated in Canadian Dollars

16. Stock Options (continued)

The following table summarizes the stock option activities for the three months ended October 31, 2016:

	Number of Options		Weighted Average Exercise Price
Balance, August 1, 2016	133,333	$	0.69
Expired	(33,333)		(0.69)
Outstanding at October 31, 2016	100,000	$	0.69
Exercisable at October 31, 2016	100,000	$	0.69

The weighted average remaining contractual life of the options outstanding at October 31, 2016 is 3.5 years. The amount of share-based compensation for the three months ended October 31, 2016 was $Nil (2015 - $50,977).

17. Contributed Surplus

Balance, August 1, 2016	$	2,040,858
Shares and warrants to be issued upon settlement of debt (note 22)		352,078
Shares issued upon settlement of debt (notes 14 and 22)		(652,000)
Balance, October 31, 2016	$	1,740,936

18. Changes in Non-cash Working Capital

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

		2016		2015
Decrease (increase) in HST recoverable	$	(9,136)	$	(32,910)
Decrease (increase) in accounts receivable		2,468		-
Decrease (increase) in prepaid expenses and deposits		2,760		37,677
Decrease (increase) in other receivable		(11,300)		-
Increase (decrease) in GST and QST payable		(4,971)		(4,768)
Increase (decrease) in accounts payable and accrued liabilities		173,786		246,985
	$	153,607	$	246,984

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 resulting from the transaction disclosed in note 23(a) and the Offering disclosed in note 23 (b).

19. Related Party Transactions and Balances

During the three months ended October 31, 2016 and 2015, the Company incurred the following related party transactions:

a) A total of $54,993 (2015 - $53,440) 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 October 31, 2016, prepaid expenses included $48,802 (2015 - $58,802), deferred lease inducement included $9,895 (2015 - $14,462) and accounts payable and accrued liabilities included $170,727 (2015 - $73,152) payable to this company.

b) A total of $Nil (2015 - $62,500) 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 October 31, 2016, accounts payable and accrued liabilities included $88,479 (2015 - $104,479) payable to this company. Also included in short-tem advances from related party is $119,630 payable to this individual (see note 6).

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

d) A total of $Nil (2015 - $16,075) of legal fees were charged by a law firm in which a former director of the Company is a partner. As at October 31, 2016, accounts payable and accrued liabilities included $127,785 (2015 - $118,652) payable to this law firm.

e) A total of $11,000 (2015 - $12,000) 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 $5,000 (2015 - $12,000) to professional fees, and $6,000 (2015 - $Nil) to consulting fees. As at October 31, 2016, accounts payable and accrued liabilities included $200,581 (2015 - $118,652) payable to this accounting firm.

f) A total of $Nil (2015 - $10,500) 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 October 31, 2016, accounts payable and accrued liabilities included $135,604 (2015 - $131,807) payable to this company.

g) A total of $37,500 (2015 - $Nil) of salaries were charged by the Company's interim CEO, the full amount of which is included in accounts payable and accrued liabilities as at October 31, 2016.

h) A total of $2,750 (2015 - $3,750) 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 October 31, 2016.

Total compensation of $48,500 (2015 - $123,977) comprising short-term employee benefits of $48,500 (2015 - $73,000), as discussed in notes (b), (e), (f) and (g) above, and share-based payments of $Nil (2015 - $50,977) were paid to the Company's key members of management during the three months ended October 31, 2016.

20. 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, accounts receivable, other receivable, 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 October 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 October 31, 2016, the Company has current assets of $278,554 and current liabilities of $3,844,005. The Company has a working capital deficiency as at October 31, 2016 of $3,565,451. The contractual maturities of the Company's accounts payable and accrued liabilities are disclosed in a table included later in note 20. 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$72,500) included in accounts payable and accrued liabilities that are denominated in United States Dollars. At October 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 $9,723 (2015 - $9,479) higher.

Stated in Canadian Dollars

20. Financial Instruments and Other Risks (continued)

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 October 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.

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:

	October 31, 2016	July 31, 2016
1 - 30 days	$ 62,508	$ 20,851
31 - 60 days	28,383	16,900
61 - 90 days	22,356	15,199
Greater than 91 days	1,826,498	1,800,055
Total trade payables	1,939,745	1,853,005
Accrued liabilities	922,235	577,651
Outstanding at period end	$ 2,861,980	$ 2,430,656

21. 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.

21. Capital Disclosures (continued)

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.

22. Commitments

a) During the three months ended October 31, 2016, 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 issued 666,667 common shares and was to issue 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 recognized consulting expense of $264,059 for services rendered in connection with this agreement. During the three months ended October 31, 2016, the Company recognized additional consulting expense of $176,039 for services rendered in connection with this agreement. As the warrants had yet to be issued as of October 31, 2016, $160,098 has been included in contributed surplus to reflect the Company's obligation to issue the warrants. Subsequent to October 31, 2016, the Company issued the warrants.

b) During the three months ended October 31, 2016, 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 issued 666,667 common shares and was to issue 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.

Stated in Canadian Dollars

22. Commitments(continued)

b) (continued)

As at July 31, 2016, the Company recognized consulting expense of $264,059 for services rendered in connection with this agreement. During the three months ended October 31, 2016, the Company recognized additional consulting expense of $176,039 for services rendered in connection with this agreement. As the warrants had yet to be issued as of October 31, 2016, $160,098 has been included in contributed surplus to reflect the Company's obligation to issue the warrants. Subsequent to October 31, 2016, the Company issued the warrants.

c) 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

23. Subsequent Events

Subsequent to the three months ended October 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 October 31, 2016, the Company paid $250,000 and issued 64,272,824 common shares to the shareholders of the Target Business. As at October 31, 2016, $50,000 of the payment due on close was included in prepaid expenses. During the three months ended October 31, 2016, the Company incurred transaction costs of $144,246 with respect to this transaction.

23. Subsequent Events (continued)

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.

c) 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 23(a).

d) 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 23(a).

e) 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.

23. Subsequent Events (continued)

f) 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.

g) The Company entered into a debt settlement agreement pursuant to which the Company issued 322,581 common shares of the Company in full satisfaction of the outstanding principal of the promissory notes, and accrued interest thereon, as disclosed in notes 12(b) and 12(c), and short-term advances payable of $48,000.

h) The Company entered into a debt settlement agreement pursuant to which the Company issued 11,872 common shares of the Company in full satisfaction of the accrued interest on the promissory note disclosed in note 12(a).

i) The Company issued 1,625,958 common shares upon conversion of the outstanding principal of the convertible promissory notes issued during the fiscal year ended July 31, 2016, and accrued interest thereon, as disclosed in note 13.

j) The Company entered into a debt settlement agreement with a vendor pursuant to which the Company issued 325,000 common shares of the Company and paid $50,000 in full satisfaction of accounts payable of $375,121.

k) The Company entered into a debt settlement agreement with a vendor pursuant to which the Company issued 29,380 common shares of the Company in full satisfaction of accounts payable of $14,690.

l) The Company entered into a consulting agreement for the provision of business advisory services with respect to increasing the Company's exposure to potential investors on a month to month basis. In exchange for these services, the Company has agreed to pay the consultant $5,000 per month and issue 500,000 stock options of the Company.

m) The Company issued 100,000 common shares pursuant to the exercise of 100,000 warrants for proceeds of $37,500.