



DEER HORN CAPITAL INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Deer Horn Capital Inc.

We have audited the accompanying consolidated financial statements of Deer Horn Capital Inc., which comprise the consolidated statements of financial position as at July 31, 2016 and 2015 and the consolidated statements of loss and comprehensive loss, cash flows, and changes in equity (deficiency) 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, these consolidated financial statements present fairly, in all material respects, the financial position of Deer Horn Capital Inc. as at July 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Deer Horn Capital Inc.'s ability to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

September 12, 2017

DEER HORN CAPITAL INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian Dollars)

As at July 31,

	Note	2016	2015
Assets			
Current Assets			
Cash		\$ 57,182	\$ 47,350
Receivables	4	19,759	45,783
Prepaid expenses	5	1,198	57,261
Inventories	6	-	248,928
		78,139	399,322
Deposits	7	-	38,322
Property and Equipment	8	1,598	623,035
Reclamation Deposit	9	85,212	85,212
		\$ 164,949	\$ 1,145,891
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	12	\$ 251,142	\$ 367,290
Loan payable	13	17,000	-
Wages and benefits	14	-	43,856
Due to related parties	15	167,246	176,324
		435,388	587,470
Loans payable	13	167,412	-
		602,800	587,470
Shareholders' Equity (Deficiency)			
Share capital	16	13,445,138	12,800,910
Share-based payments reserve		617,204	835,765
Subscriptions receivable	16,17	(25,000)	-
Deficit		(14,475,193)	(13,078,254)
		(437,851)	558,421
		\$ 164,949	\$ 1,145,891

Nature of Operations and Going Concern (Note 1)

Commitments (Note 20)

Subsequent Events (Note 24)

On behalf of the Board:

"Tyrone Docherty"
Director

"Tony Fogarassy"
Director

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

DEER HORN CAPITAL INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)
For the years ended July 31

	Note	2016	2015
Expenses			
Advertising and promotion		\$ 28,382	\$ 40,953
Consulting fees	17	49,000	66,000
Depreciation	8	364	447
Investor relations and shareholder information		9,296	13,488
Management fees	17	192,711	360,293
Office and miscellaneous		9,711	10,393
Professional fees		98,807	144,321
Regulatory and filing fees		17,560	40,244
Rent, utilities and occupancy costs		8,720	14,954
Share-based payments	16,17	67,397	298,716
Travel		-	17,081
		(481,948)	(1,006,890)
Gain on forgiveness of debt	17	165,850	-
Exploration and evaluation, net recovery	10	(1,200)	136,912
Loss on settlement of debt	16	(74,000)	-
Consulting income		-	6,000
Impairment of exploration and evaluation asset	10	-	(8,250)
Interest income		-	3,212
Loss on sale of intangible asset	11	-	(250,000)
Loss from continuing operations		(391,298)	(1,119,016)
Loss from discontinued operations	19	(801,426)	(354,411)
Impairment of equipment of discontinued operations	19	(518,073)	-
Loss and comprehensive loss for the year		\$ (1,710,797)	\$ (1,473,427)
Basic and diluted loss per share		\$ (0.05)	\$ (0.06)
Basic and diluted loss per share from continuing operations		(0.01)	(0.05)
Basic and diluted loss per share from discontinued operations		(0.04)	(0.01)
Weighted average shares outstanding		35,465,782	23,511,910

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

DEER HORN CAPITAL INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
(Expressed in Canadian Dollars)

	Number of common shares	Share Capital	Share Subscriptions	Share-based payments reserve	Stakeholder Contribution Reserve	Deficit	Total shareholders' equity (deficiency)
Balance, July 31, 2014	15,435,317	\$ 11,403,400	\$ -	\$ 765,920	\$ -	\$ (12,027,925)	\$ 141,395
Issued for asset acquisition	1,000,000	50,000	-	-	-	-	50,000
Private placements	15,909,336	1,426,801	-	-	-	-	1,426,801
Share issue costs – cash	-	(60,064)	-	-	-	-	(60,064)
Residual value of warrants	-	(19,227)	-	19,227	-	-	-
Reversal of expired options	-	-	-	(423,098)	-	423,098	-
Share-based compensation	-	-	-	298,716	-	-	298,716
Contribution from stakeholder (Notes 15 & 16)	-	-	-	-	175,000	-	175,000
Loss and comprehensive loss for the year	-	-	-	-	-	(1,473,427)	(1,473,427)
Balance, July 31, 2015	32,344,653	\$ 12,800,910	\$ -	\$ 660,765	\$ 175,000	\$ (13,078,254)	\$ 558,421
Private placements	6,700,000	462,000	(25,000)	-	-	-	437,000
Shares for debt	2,400,000	194,000	-	-	-	-	194,000
Share issue costs – cash	-	(38,372)	-	-	-	-	(38,372)
Residual value of warrants	-	26,600	-	(26,600)	-	-	-
Reversal of expired options	-	-	-	(313,858)	-	313,858	-
Share-based compensation	-	-	-	67,397	-	-	67,397
Shareholder contribution	-	-	-	-	54,500	-	54,500
Loss and comprehensive loss for the year	-	-	-	-	-	(1,710,797)	(1,710,797)
Balance, July 31, 2016	41,444,653	\$ 13,445,138	\$ (25,000)	\$ 387,704	\$ 229,500	\$ (14,475,193)	\$ (437,851)

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

DEER HORN CAPITAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
For the years ended July 31,

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from continuing operations	\$ (391,298)	\$ (1,119,016)
Items not involving cash:		
Depreciation	364	447
Interest income accrued	-	(3,212)
Share-based payments	67,397	298,716
Write off of exploration and evaluation asset	-	8,250
Write off of intangible asset	-	250,000
Loss on shares issued for debt	74,000	-
Gain on forgiveness of debt	(165,850)	-
Changes in non-cash working capital balances:		
Decrease (increase) in receivables	26,024	(2,266)
Decrease (increase) in prepaid expenses	49,419	(51,221)
Decrease in exploration advances	-	4,936
Increase in due to related party	196,772	39,619
Increase in accounts payable and accrued liabilities	180,531	34,882
Cash flows used in operating activities	37,359	(538,865)
Operating cash flows from discontinued operation (note 19)	(694,097)	(399,174)
	(671,326)	(938,039)
CASH FLOWS FROM INVESTING ACTIVITIES		
Intangible asset	-	(200,000)
Investing activities of discontinued operations (note 19)	16,030	(569,077)
Cash flows used in investing activities	16,030	(769,077)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of share capital	437,000	1,426,801
Share issuance costs	(38,372)	(45,005)
Financing activities of discontinued operations (note 19)	54,500	175,000
Proceeds of loans	197,412	-
Repayment of related party loans	-	(75,000)
Proceeds from related party loans	-	75,000
Cash flows provided from financing activities	650,540	1,556,796
Change in cash during year	9,832	(150,320)
Cash, beginning of year	47,350	197,670
Cash, end of year	\$ 57,182	\$ 47,350
Supplemental disclosure with respect to cash flows:		
Transfer expired equity options to deficit	\$ 313,858	\$ 423,098
Transfer expired equity warrants to share capital	26,600	-
Shares issued for debt settlement	120,000	-
Residual value of warrants	-	19,227
Share issue cost in accounts payable	-	15,059
Equipment in accounts payable	-	105,904

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

DEER HORN CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended July 31, 2016 and 2015

NOTE 1 - NATURE OF OPERATIONS AND GOING CONCERN

Deer Horn Capital Inc. ("Deer Horn" or the "Company") was incorporated under the *Business Corporations Act* (Canada) and continued into British Columbia pursuant to the *Business Corporations Act* (British Columbia, Canada). The consolidated financial statements for the year ended July 31, 2015 include the accounts of Deer Horn and its wholly-owned subsidiary, Bodhi Tree Natural Market Corp., a company incorporated under the laws of British Columbia, Canada. The Company's head office and principal place of business is Suite 140, 1440 Garden Place, Delta, British Columbia, Canada. The Company is a reporting issuer in the provinces of British Columbia, Alberta and Ontario, Canada and trades on the Canadian Securities Exchange under the symbol "DHC".

During fiscal 2016, the Company ceased operations of its retail grocery segment. Reclassifications as a result of presenting discontinued operations have been summarized in note 19.

These consolidated financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. Management believes that the Company's cash on hand at July 31, 2016, is not sufficient to finance operations through the next twelve months. The Company's ability to continue on a going concern basis depends on its ability to successfully raise additional financing. While the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company.

These factors may cast significant doubt upon the Company's ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 2 – BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The policies applied in these financial statements are based on the IFRS issued and outstanding as at the date the Board of Directors approved these financial statements for issue.

The financial statements were authorized by the Audit Committee and Board of Directors of the Company on August 2, 2017.

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except the following assets and liabilities which are stated at their fair value: financial instruments classified as fair value through profit and loss ("FVTPL"), financial instruments classified as available for sale and cash settled stock-based compensation plans. Assets held for sale are valued at the lower of their carrying amount and fair value less costs to sell.

DEER HORN CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended July 31, 2016 and 2015

NOTE 2 – BASIS OF PRESENTATION *(continued)*

Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The use of estimates, judgments and assumptions are all interrelated. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The Company has applied judgment in its assessment of the appropriateness of consolidation of subsidiaries, the classification of leases as financing or operating and financial instruments, the level of componentization of property, plant and equipment, the determination of cash generating units, the identification of indicators of impairment for property, plant and equipment, and intangible assets, and the recognition of provisions.

Estimates, judgments and assumptions that could have a significant impact on the amounts recognized in the consolidated financial statements are summarized below. Estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from these estimates.

a) Inventories:

Inventories are valued at the lower of cost and estimated net realizable value. Significant estimation or judgment is required in the determination of (i) inventories valued at retail and adjusted to cost; (ii) estimated inventory provisions due to spoilage and shrinkage occurring between the last physical inventory count and the balance sheet dates; and (iii) estimated inventory provisions associated with vendor allowances and internal charges.

b) Impairment:

Management assesses impairment of non-financial assets such as intangible assets, property and equipment, and exploration and evaluation assets. In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows. When measuring expected future cash flows, management makes assumptions about future growth of profits which relate to future events and circumstances. Actual results could vary from these estimated future cash flows. Estimation uncertainty relates to assumptions about future operating results and the application of an appropriate discount rate.

c) Income taxes:

Assumptions are applied when management assesses the timing and reversal of temporary differences and estimates the Company's future earnings to determine the recognition of current and deferred income taxes. Judgments are also made by management when interpreting the tax rules in jurisdictions where the Company operates.

d) Acquisitions:

The Company applies judgment on the recognition and measurement of assets acquired and liabilities assumed, and estimates are utilized to calculate and measure such adjustments. In measuring the fair value of an acquiree's assets and liabilities management uses estimates about future cash flows and discount rates.

DEER HORN CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended July 31, 2016 and 2015

NOTE 2 – BASIS OF PRESENTATION *(continued)*

e) **Estimated useful lives of equipment:**

The estimated useful lives of equipment which are included in the consolidated statements of financial position will impact the amount and timing of the related depreciation included in profit or loss.

f) **Share based compensation:**

The fair value of stock options issued are subject to the limitation of the Black-Scholes option pricing model which incorporates market data and which involves uncertainty and subjectivity in estimates used by management in assumptions. Changes in the input assumptions can materially affect the fair value estimate of stock options.

g) **Recovery of deferred tax assets:**

Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

a) **Basis of consolidation:**

The financial statements for the Company include the accounts of the Company and all of its subsidiaries from the date control was acquired. Control exists when the Company possess power over an investee, has exposure to variable returns from the investee and has the ability to use its power over the investee to affect its returns. Intercompany balances and transactions, and any income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Earnings or losses and other comprehensive income of subsidiaries acquired or disposed of during the period are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

b) **Inventories:**

Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using a weighted average cost using the retail method. The retail method uses the anticipated selling price less normal profit margins, on a weighted average cost basis. The cost of inventories is comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present location and condition, such as freight. The cost is reduced by the value of rebates and allowances received from vendors. The Company estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations of retail price due to seasonality less estimated costs necessary to make the sale.

Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or permanent declines in selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling price, the amount of the write-down previously recorded is reversed. Costs that do not contribute to bringing inventories to their present location and condition, such as storage and administrative overheads, are specifically excluded from the cost of inventories and are expensed in the period incurred.

DEER HORN CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended July 31, 2016 and 2015

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

c) Property and Equipment:

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recorded over the estimated useful lives of the assets on the declining balance basis at the following annual rates:

Computer equipment	55% declining balance
Furniture, fixtures and equipment	20% declining balance
Leasehold improvements	Term of the lease, straight-line

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Where an item of equipment is composed of major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

d) Exploration and evaluation assets:

Upon acquiring the legal right to explore an exploration and evaluation asset, all direct costs related to the acquisition of exploration and evaluation assets are capitalized. Exploration and evaluation expenditures incurred prior to the determination of the feasibility of mining operations and a decision to proceed with development are recognized in profit or loss as incurred, net of recoveries.

Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves. When there is little prospect of further work on a property being carried out by the Company, the remaining deferred costs associated with that property are charged to operations during the period such determination is made.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

e) Restoration, rehabilitation and environmental obligations:

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the decommissioning of a plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

A liability is recognized for legal obligations relating to the restoration, rehabilitation and retirement of property, plant or equipment obligations arising from the acquisition, construction, development or normal operation of those assets. Such decommissioning liabilities are recognized at fair value, when a reasonable estimate of fair value can be made, in the period in which the liability is incurred. A corresponding increase to the carrying amount of the related asset where one is identifiable is recorded

DEER HORN CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended July 31, 2016 and 2015

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

and amortized over the life of the asset. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements.

It is possible that the Company's estimate of its ultimate reclamation liabilities could change as a result of changes in regulations; the extent of environmental remediation required or completed and the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

The Company has no material restoration, rehabilitation and environmental obligations as all environmental disturbances to date has been minimal.

f) Impairment of non-financial assets:

The carrying amounts of the Company's non-financial assets, other than deferred tax assets if any, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the 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.

Long lived tangible and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs of disposal and value in use. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit(s) to which the asset belongs. The Company had primarily determined a cash generating unit to be an individual store. Corporate assets such as head offices and distribution centres do not individually generate separate cash inflows and are therefore aggregated for testing with the stores they service. When the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to the recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, other than related to goodwill the carrying amount of the asset (or cash generating unit) is increased to the revised estimate, but it limited to the carrying amount that would have been determined if no impairment loss had been recognized in prior years. A reversal of impairment loss is recognized immediately in profit or loss.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been

DEER HORN CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended July 31, 2016 and 2015

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

g) 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. 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.

h) Intangibles:

Intangible assets with finite lives are measured at cost less accumulated amortization and any accumulated impairment losses. These intangible assets are amortized on a straight-line basis over their estimated useful lives, and are tested for impairment as described in the impairment of non-financial assets policy. Useful lives, residual values and amortization methods for intangible assets with finite useful lives are reviewed at least annually.

Indefinite life intangible assets are measured at cost less any accumulated impairment losses. These intangible assets are tested for impairment on an annual basis or more frequently if there are indicators that intangible assets may be impaired as described in the impairment of non-financial assets policy.

i) Revenue recognition:

The Company recognizes revenue when the amount can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below.

Retail segment revenue includes sale of goods and services to customers through retail stores. Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and sales incentives. The Company recognizes revenue at the time the sale is made or service is delivered to its customers.

Customer loyalty discounts are accounted for as a component of the sales transaction in which they are granted, with revenue being recorded as net of these discounts.

j) Vendor allowances:

The Company receives allowances from certain vendors whose products it purchases for resale. These allowances are received for a variety of buying and/or merchandising activities, including vendor programs such as volume purchase allowances, purchase discounts, listing fees and exclusivity allowances. Allowances received from a vendor is a reduction in the cost of the vendor's products and is recognized as a reduction in the cost of merchandise inventories sold and the related inventory when recognized in profit or loss and the consolidated statement of financial position, respectively, when it is probable that they will be received and the amount of the allowance can be reliably estimated.

Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursement of selling expenses incurred to promote the vendor's products. The consideration is then recognized as a reduction of the expense incurred in profit or loss.

k) Short term employee benefits:

Short term employee benefits include wages, salaries, compensated absences, profit-sharing and bonuses. Short term employee benefit obligations are measured on an undiscounted basis and are recognized in operating income as the related service is provided or capitalized if the service rendered is

DEER HORN CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended July 31, 2016 and 2015

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

in connection with the creation of a tangible or intangible asset. A liability is recognized for the amount expected to be paid under short term cash bonus or profit sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

l) Share-based compensation:

The stock option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from reserves to share capital.

The fair value is measured at grant date and each tranche is recognized over the year during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

Share-based compensation to non-employees, who are not providing similar services to employees, are measured at the grant date by using the fair value of the goods or services when received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services received cannot be reliably measured.

m) Income taxes:

Current tax is the expected tax payable or receivable on the local taxable income or loss for the year, using local tax rates enacted or substantively enacted at the financial position reporting date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the financial position reporting date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. No deferred tax assets have been recognized for the years presented.

n) Earnings (loss) per share:

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

DEER HORN CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended July 31, 2016 and 2015

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

o) Financial assets:

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: fair value through profit or loss (“FVTPL”); available for sale; held to maturity; or loans and receivables.

(i) Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as FVTPL unless they are designated as effective hedges. Assets in this category include cash.

Financial assets at FVTPL are initially recognized, and subsequently carried, at fair value with changes recognized in operations. Attributable transaction costs are recognized in operations when incurred.

(ii) Financial assets available for sale (“AFS”)

Financial assets available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income or loss (“OCI”) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost.

Financial assets AFS are initially recognized, and subsequently carried at fair value with changes recognized in OCI. Attributable acquisition transaction costs, if any, are recognized in the initial fair value.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months or those that are expected to be settled after 12 months from the end of the reporting period, which are classified as non-current assets. Assets in this category include receivables and deposits.

Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest method is used to determine the amortized cost of loans and receivables and to allocate interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period.

(iv) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

DEER HORN CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding receivables, is directly reduced by the impairment loss. The carrying value of receivables is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognized, the previously recognized impairment loss is reversed through operations to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(v) **De-recognition of financial assets**

Financial assets are de-recognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Company has transferred substantially all of the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

p) **Financial Liabilities:**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The Company has classified accounts payable and accrued liabilities, wages and benefits, loans payable, and due to related parties as other financial liabilities.

DEER HORN CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

q) **Share capital:**

Common shares are classified as share capital. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

r) **New standards, interpretations and amendments not yet effective:**

A number of new standards, amendments to standards and interpretations are not yet effective as of July 31, 2016, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a material effect on the financial statements of the Company.

Effective for annual periods beginning on or after January 1, 2018

IFRS 15, Revenue from Contracts with Customers:

IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions involving Advertising Service*. Early application of the Standard would still be permitted.

IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as derecognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

Effective for annual periods beginning on or after January 1, 2019

IFRS 16, Leases:

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

DEER HORN CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 – RECEIVABLES

	As at July 31, 2016	As at July 31, 2015
Amounts due from the Government of Canada pursuant to GST input tax credits	\$ 19,759	\$ 43,498
Amounts due from merchant credit card sales	-	2,285
Total	\$ 19,759	\$ 45,783

NOTE 5 – PREPAID EXPENSES

	As at July 31, 2016	As at July 31, 2015
Prepaid insurance	\$ -	\$ 1,402
Prepaid consulting	-	50,000
Other	1,198	5,859
Total	\$ 1,198	\$ 57,261

NOTE 6 – INVENTORIES

	As at July 31, 2016	As at July 31, 2015
Goods for sale	\$ -	\$ 231,375
Promotional items	-	3,522
Supplies	-	14,031
Total	\$ -	\$ 248,928

NOTE 7 – DEPOSITS

	As at July 31, 2016	As at July 31, 2015
Security deposit on corporate credit card	\$ -	\$ 20,000
Lease deposits – warehouse, store, office	-	18,320
Total	\$ -	\$ 38,322

DEER HORN CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 – PROPERTY AND EQUIPMENT

	Tenant improvements	Furniture and fixtures	Store equipment	Office and computer equipment	TOTAL
Cost:					
Balance at July 31, 2014	\$ -	\$ 19,652	\$ -	\$ -	\$ 19,652
Additions – tenant improvements	226,459	-	-	-	226,459
Additions – office & computers	-	-	-	70,018	70,018
Additions – store equipment	-	-	282,657	-	282,657
Additions – store equipment inventory	-	-	57,525	-	57,525
Balance at July 31, 2015	226,459	19,652	340,182	70,018	656,311
Additions – store equipment inventory	-	-	11,970	-	11,970
Disposals	-	-	(28,000)	-	(28,000)
Impairment	(226,459)	-	(324,152)	(70,018)	(620,629)
Balance at July 31, 2016	\$ -	\$ 19,652	\$ -	\$ -	\$ 19,652
Accumulated depreciation:					
Balance at July 31, 2014	\$ -	\$ 17,244	\$ -	\$ -	\$ 17,244
Depreciation	2,930	447	7,471	5,184	16,032
Balance at July 31, 2015	2,930	17,691	7,471	5,184	33,276
Depreciation	22,353	363	55,037	35,299	113,052
Impairment	(25,283)	-	(62,508)	(40,483)	(128,274)
Balance at July 31, 2016	\$ -	\$ 18,054	\$ -	\$ -	\$ 18,054
Carrying amounts:					
July 31, 2015	\$ 223,529	\$ 1,961	\$ 332,711	\$ 64,834	\$ 623,035
July 31, 2016	\$ -	\$ 1,598	\$ -	\$ -	\$ 1,598

During the year ended July 31, 2016, the Company impaired property and equipment with a net book value of \$492,355, which is included in loss on impairment of discontinued operations.

DEER HORN CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended July 31, 2016 and 2015

NOTE 9 – RECLAMATION DEPOSIT

The Company provided funding for deposits as security against potential future reclamation work related to the Deerhorn property (Note 10).

	As at July 31, 2016	As at July 31, 2015
Reclamation deposit: Deerhorn property	\$ 85,212	\$ 85,212

NOTE 10 – EXPLORATION AND EVALUATION ASSETS

Deerhorn property

In August 2009, the Company entered into an option agreement with a company related by virtue of common directors, to acquire an initial 50% interest in the Deerhorn property, located in north western British Columbia.

To acquire its interest, the Company was required to incur \$5,000,000 in exploration expenditures.

The Company has earned its initial 50% interest in the property. It may acquire an additional 25% interest by incurring all costs required to bring the property to commercial production.

The Company reviews the carrying values of its exploration and evaluation assets on a regular basis by reference to the project economics including any independent feasibility studies on a property, the timing of the exploration and/or development work, the work programs and the exploration results experienced by the Company. When the carrying value of the asset exceeds its estimated net recoverable amount, an impairment loss is recorded to reflect its decline in value.

In fiscal 2015, the Company performed an impairment test on the Deerhorn exploration and evaluation assets according to IFRS 6 and IAS 36, using the market approach. Entities recognizing exploration and evaluation assets are required to perform an impairment test on those assets when specific facts and circumstances outlined in the standard indicate an impairment test is required.

Based on the impairment testing performed, the Company determined that the exploration and evaluation assets were impaired, and recorded an impairment loss of \$8,250.

Exploration and evaluation expenditures

	As at July 31, 2016	As at July 31, 2015
Other	\$ 1,200	\$ 6,366
Recoverable BC Mining Exploration Tax Credit	-	(143,278)
Total exploration expense (recovery)	\$ 1,200	\$ (136,912)

DEER HORN CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 – PURCHASE OF BC CANNABIS PHARMS LTD.

BC Cannabis Pharms Ltd. (“BC Cannabis”)

On January 7, 2015, the Company acquired the net assets of BC Cannabis, through a purchase agreement with Overdrive Enterprises Ltd. (“Overdrive”). The acquisition included an assignment of leased premises to BC Cannabis, which were then sub-leased to various individuals. In addition, BC Cannabis acquired a portion of a consulting service of Overdrive, which was to provide information and guidance with respect to the cultivation of various strains of medical marijuana plants.

The consideration paid and purchase price allocation has been summarized below:

Consideration	
Cash	\$ 200,000
Common Shares of Deer Horn Capital Corp. – 1,000,000	50,000
Total consideration	250,000
Purchase price allocation:	
Intangible asset	\$ 250,000

The original purchase agreement contemplated the following payments and share issuances by the Company:

- Payment of \$100,000 upon closing the transaction (paid);
- Issuance of 1,000,000 common shares of the Company at closing (issued at a value of \$50,000), and;
- Payment of \$100,000 within one year of closing the transaction (paid).

On May 29, 2015, the Company determined that it would no longer pursue advancing BC Cannabis and entered into an agreement with Overdrive to sell 100% of the issued and outstanding shares of BC Cannabis back to Overdrive for consideration of one dollar, resulting in a loss on sale of \$250,000.

NOTE 12 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at July 31, 2016	As at July 31, 2015
Trade payables and corporate credit card	\$ 183,662	\$ 300,303
Ecology, recycling, and gift card liabilities	-	802
Amounts due to the Government of British Columbia pursuant to PST liabilities	-	1,185
Other accrued liabilities	67,480	65,000
Total	\$ 251,142	\$ 367,290

DEER HORN CAPITAL INC.
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NOTE 13 – LOANS PAYABLE

During the year ended July 31, 2016, the Company entered into a loan with a third party which is non-interest bearing, unsecured and due on demand, in the principal amount of \$30,000. The Company settled \$13,000 of the loan by issuing 260,000 valued at \$0.085, resulting in a loss on settlement of debt of \$9,100.

The Company also issued debenture loans in the principal amount of \$182,000. The loans bear an annual interest rate of 10% and mature on March 2, 2021. The Company recorded interest expense of \$7,479 (2015 - \$nil) in relation to the accrued interest on the debenture loans and is included in accounts payable. Finders' fees and closing costs of \$15,904 were incurred with the issuance of the debenture loans, of which \$1,316 was amortized to profit or loss in fiscal 2016.

Subsequent to July 31, 2016, the Company was not in compliance with the terms of the loan.

NOTE 14 – WAGES AND BENEFITS

Wages and benefits payable consists of the following:

	As at July 31, 2016		As at July 31, 2015
Salaries and wages payable	\$ -	\$	30,793
Accrued vacation pay payable	-		12,066
Accrued Worksafe premiums payable	-		997
Total	\$ -	\$	43,856

NOTE 15 – DUE TO RELATED PARTIES

During the year ended July 31, 2016, the Company incurred fees with individuals and companies owned, or partly owned, by key management personnel. See Note 17(a).

	As at July 31, 2016		As at July 31, 2015
Due to key management or companies controlled by key management personnel	\$ 167,246	\$	176,324
Total	\$ 167,246	\$	176,324

DEER HORN CAPITAL INC.
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NOTE 16 – SHARE CAPITAL

a) **Authorized:** An unlimited number of common shares without par value.

b) **Share issuance:**

Fiscal 2016

On November 13, 2015, the Company completed a non-brokered private placement for gross proceeds of \$200,000 through the issuance of 2,000,000 units at a price of \$0.10 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant will be exercisable into one common share for a period of two years at a price of \$0.15 per share. The warrants were attributed a fair value of \$nil.

On January 11, 2016, the Company completed a non-brokered private placement for gross proceeds of \$162,000 through the issuance of 2,700,000 units at a price of \$0.06 per unit. Each unit consisted of one common share and one common share purchase warrant. Each warrant will be exercisable into one common share for a period of two years at a price of \$0.10 per share. The warrants were attributed a fair value of \$nil.

On April 18, 2016, the Company issued 400,000 common shares with a value of \$24,000 to settle debt of \$20,000.

On July 28, 2016, the Company issued 2,000,000 units with a value of \$170,000 to settle debt of \$100,000, resulting in a loss on settlement of debt of \$70,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant will be exercisable into one common share for a period of two years at a price of \$0.10 per share. The warrants were attributed a fair value of \$nil.

On July 29, 2016, the Company completed a non-brokered private placement for gross proceeds of \$100,000 through the issuance of 2,000,000 units at a price of \$0.05 per unit, of which \$25,000 was recorded as subscriptions receivable (received subsequent to July 31, 2016). Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant will be exercisable into one common share for a period of two years at a price of \$0.10 per share. The warrants were attributed a fair value of \$nil.

Fiscal 2015

On July 27, 2015, the Company completed a non-brokered private placement for gross proceeds of \$27,000 through the issuance of 90,000 units at a price of \$0.30 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant will be exercisable into one common share for a period of two years at a price of \$0.40 per share in the first year and \$0.50 per share in the second year. The warrants were attributed a fair value of \$9,900.

On May 19, 2015, the Company completed a non-brokered private placement for gross proceeds of \$204,506 through the issuance of 681,668 units at a price of \$0.30 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant will be exercisable into one common share for a period of two years at a price of \$0.40 per share in the first year and \$0.50 per share in the second year. The warrants were attributed a fair value of \$nil.

On May 4, 2015, the Company completed a non-brokered private placement for gross proceeds of \$279,800 through the issuance of 932,668 common units at a price of \$0.30 per share. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant will be exercisable into one common share for a period of two years at a price of \$0.40 per share in the first year and \$0.50 in the second year. The Company paid finders' fees of \$14,880 to eligible finders in respect to this non-brokered private placement. The warrants were attributed a fair value of \$9,327.

DEER HORN CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 16 – SHARE CAPITAL *(continued)*

On March 9, 2015, the Company completed a non-brokered private placement for gross proceeds of \$410,500 through the issuance of 4,105,000 units at a price of \$0.10 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant will be exercisable into one common share for a period of two years at a price of \$0.15 per share in the first year and \$0.20 per share in the second year. The warrants were attributed a fair value of \$nil.

On January 12, 2015, the Company completed a non-brokered private placement for gross proceeds of \$505,000 through the issuance of 10,100,000 units at a price of \$0.10 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant will be exercisable into one common share for a period of two years at a price of \$0.10. The warrants were attributed a fair value of \$nil.

c) Shareholder contribution

During the year ended July 31, 2016, the Company received \$54,500 (2015 - \$175,000) in cash contributions from a stakeholder of the Company and has been recorded in contribution reserves. The contribution is non-repayable and does not confer equity interest.

d) Stock Options

The Company is authorized to grant options to executive officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company, on a rolling basis. Options may be granted at an exercise price of no less than a 25% discount of the market price on the date of the grant, or such higher price as determined by the board of directors. Options can be granted for a maximum term of five years. Vesting is not required but may be set on an individual basis as determined by the board of directors.

As at July 31, 2016, 3,425,000 of the outstanding stock options were vested and exercisable, with a weighted average exercise price of \$0.21.

The continuity for stock options for the year ended July 31, 2016, is as follows:

Number outstanding July 31, 2015	Granted	Exercised	Expired/Cancelled	Number outstanding July 31, 2016	Exercise price per share	Expiry date	Weighted average remaining contractual life in years
205,000	-	-	(205,000)	-	\$2.50	Mar. 11, 2016	-
50,000	-	-	(50,000)	-	\$2.50	June 24, 2016	-
100,000	-	-	-	100,000	\$1.00	Mar. 25, 2018	1.65
2,125,000	-	-	-	2,125,000	\$0.14	March 10, 2020	3.61
200,000	-	-	-	200,000	\$0.25	March 18, 2020	3.64
-	1,000,000	-	-	1,000,000	\$0.05	June 16, 2021	4.88
2,680,000	1,000,000	-	(255,000)	3,425,000	\$0.15	<i>(weighted average)</i>	3.93
\$0.40	\$0.05	-	\$2.50	2,675,000	\$0.17	<i>(weighted average)</i>	3.66

DEER HORN CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 16 – SHARE CAPITAL *(continued)*

The continuity for stock options for the year ended July 31, 2015, is as follows:

Number outstanding July 31, 2014	Granted	Exercised	Expired/Cancelled	Number outstanding July 31, 2015	Exercise price per share	Expiry date	Weighted average remaining contractual life in years
80,000	-	-	(80,000)	-	\$2.20	Aug. 28, 2014	-
220,000	-	-	(220,000)	-	\$1.00	May 21, 2015	-
205,000	-	-	-	205,000	\$2.50	Mar. 11, 2016	0.61
50,000	-	-	-	50,000	\$2.50	June 24, 2016	0.90
100,000	-	-	-	100,000	\$1.00	Mar. 25, 2018	2.65
-	2,275,000	-	(150,000)	2,125,000	\$0.14	March 10, 2020	4.61
-	200,000	-	-	200,000	\$0.25	March 18, 2020	4.64
655,000	2,475,000	-	(450,000)	2,680,000	\$0.40	<i>(weighted average)</i>	4.17
				Exercisable			
\$1.73	\$0.15	-	\$0.93	1,442,500	\$0.62	<i>(weighted average)</i>	3.78

During the year ended July 31, 2016, 255,000 options (2015 – 450,000) previously issued with a fair value of \$299,172 (2015 – 423,098) as share-based compensation expired or were cancelled. The previously recorded historical fair value of these options was reallocated to deficit.

e) Share-based compensation

The fair value of each option granted to employees, officers and directors was estimated on the date of grant using the Black-Scholes option pricing model.

Fiscal 2016

During the year ended July 31, 2016, the Company recorded \$67,397 in share-based compensation expense for options vesting in the period as follows:

- a) vesting portion of options granted June 16, 2016, of \$18,072; and
- b) vesting portion of options granted March 10, 2015, of \$42,092; and
- c) vesting portion of options granted March 18, 2015, of \$7,233.

The fair value of the 1,000,000 options granted on June 16, 2016 with an exercise price of \$0.05, was determined using a risk free interest rate of 0.62%, an expected volatility of 194%, an expected life of 5 years, and an expected dividend of zero for a total fair value of \$48,542 or \$0.048 per option. Volatility was determined using daily closing share prices over a term equivalent to the expected life of the options.

Fiscal 2015

During the year ended July 31, 2015, the Company recorded \$298,716 in share-based compensation expense for options vesting in the period as follows:

- a) vesting portion of options granted on March 10, 2015, of \$257,402; and
- b) vesting portion of options granted on March 18, 2015, of \$41,314.

The fair value of the 2,275,000 options granted on March 10, 2015 with an exercise price of \$0.14, was determined using a risk free interest rate of 0.92%, an expected volatility of 190%, an expected life of 5 years, and an expected dividend of zero for a total fair value of \$305,500 or \$0.134 per option. The options vest as to 25% on grant; and a further 25% on every subsequent 3-month period. Volatility was determined using daily closing share prices over a term equivalent to the expected life of the options.

DEER HORN CAPITAL INC.
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NOTE 16 – SHARE CAPITAL *(continued)*

The fair value of the 200,000 options granted on March 18, 2015 with an exercise price of \$0.25, was determined using a risk free interest rate of 0.74%, an expected volatility of 190%, an expected life of 5 years, and an expected dividend of zero for a total fair value of \$47,997 or \$0.24 per option. The options vest as to 25% on grant; and a further 25% on every subsequent 3-month period. Volatility was determined using daily closing share prices over a term equivalent to the expected life of the options.

f) **Share-purchase warrants**

The continuity for share purchase warrants for the year ended July 31, 2016, is as follows:

Number outstanding July 31, 2015	Granted	Exercised	Expired/Cancelled	Number outstanding July 31, 2016	Exercise price per share	Expiry date	Weighted average remaining contractual life in years
266,000	-	-	(266,000)	-	\$1.00	October 12, 2015	-
5,050,000	-	-	-	5,050,000	\$0.10	January 12, 2017 ⁽¹⁾	0.45
2,052,000	-	-	-	2,052,500	\$0.20	March 9, 2017 ⁽¹⁾	0.61
466,334	-	-	-	466,334	\$0.50	May 4, 2017 ⁽¹⁾	0.76
340,834	-	-	-	340,834	\$0.50	May 19, 2017 ⁽¹⁾	0.80
45,000	-	-	-	45,000	\$0.50	July 27, 2017	0.99
-	1,000,000	-	-	1,000,000	\$0.15	November 19, 2017	1.30
-	2,700,000	-	-	2,700,000	\$0.10	January 11, 2018	1.45
-	1,000,000	-	-	1,000,000	\$0.10	July 28, 2018	1.99
-	1,000,000	-	-	1,000,000	\$0.10	July 29, 2018	1.99
8,220,668	5,700,000	-	(266,000)	13,654,668	\$0.14	<i>(weighted average)</i>	0.98
\$0.20	\$0.11	-	\$1.00	Exercisable 13,654,668	\$0.14	<i>(weighted average)</i>	0.98

(1) *expired subsequent to year end, unexercised*

The continuity for share purchase warrants for the year ended July 31, 2015, is as follows:

Number outstanding July 31, 2014	Granted	Exercised	Expired/Cancelled	Number outstanding July 31, 2015	Exercise price per share	Expiry date	Weighted average remaining contractual life in years
266,000	-	-	-	266,000	\$1.00	October 12, 2015 ⁽¹⁾	0.20
-	5,050,000	-	-	5,050,000	\$0.10	January 12, 2017 ⁽¹⁾	1.45
-	2,052,000	-	-	2,052,500	\$0.10	March 9, 2017 ^{(1) (2)}	1.61
-	466,334	-	-	466,334	\$0.40	May 4, 2017 ^{(1) (3)}	1.76
-	340,834	-	-	340,834	\$0.40	May 19, 2017 ^{(1) (3)}	1.80
-	45,000	-	-	45,000	\$0.40	July 27, 2017 ⁽³⁾	1.99
266,000	7,954,668	-	-	8,220,668	\$0.17	<i>(weighted average)</i>	1.49
\$1.00	\$0.15	-	-	Exercisable 8,220,668	\$0.17	<i>(weighted average)</i>	1.49

(1) *expired subsequent to year end, unexercised*

(2) *exercise price increases to \$0.20 in year two*

(3) *exercise price increases to \$0.50 in year two*

DEER HORN CAPITAL INC.
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NOTE 17 – RELATED PARTY TRANSACTIONS

- a) The Company's related parties consist of companies with directors and officers in common and companies owned in whole or in part by executive officers, directors or close family members of those individuals as follows:

Name	Nature of transactions
Docherty Capital Corp.	Management fees charged as CEO
Docherty Capital Corp.	Travel and expense allowances
Saulnier Capital Consulting Corp.	Management fees charged as CFO
Dunbar Law Corp.	Management fees
The Sutherland Group	Salary and wages, and loans to the Company
Sean & Kieran Docherty	Rent, consulting fees

The Company incurred the following fees with individuals and / or companies owned, or partially owned, by key management which the Company defines as officers and directors.

For the year ended	July 31, 2016	July 31, 2015
Management fees CEO	\$ 90,000	\$ 210,000
Travel and expense allowances CEO	-	12,000
Management fees CFO	30,000	30,000
Management fees other	5,000	70,000
Salaries and wages	29,724	34,615
Share-based compensation	46,016	228,708
Total	\$ 200,740	\$ 585,323

During the year ended July 31, 2016, two directors forgave debt of \$165,850 (2015 - \$nil).

The company incurred the following fees with related parties – other.

For the year ended	July 31, 2016	July 31, 2015
Rent	\$ 7,000	\$ 12,000
Consulting	32,000	66,000
Share-based compensation	925	5,864
Total	\$ 39,000	\$ 83,864

- b) Balances owed to related parties disclosed in Note 15 of these financial statements.
c) Subscription receivable includes \$15,000 due from a director of the Company (Note 24)

NOTE 18 – SEGMENTED INFORMATION

The Company operates in one business segment being the acquisition and exploration of exploration and evaluation assets in Canada, as described in note 10. Until May 17, 2016, the Company also operated in the retail grocery segment. The total assets attributable to the geographical locations relate primarily to reclamation deposits posted in Canada.

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NOTE 19 – DISCONTINUED OPERATIONS

During fiscal 2016, as a result of continued losses in the retail segment, the Company ceased operation of the Bodhi Tree store due to significant operating losses and cash flow shortfall. The loss and comprehensive loss for the discontinued component is as follows:

For the year ended July 31,	2016	2015
Revenue		
Retail sales	643,675	207,989
Cost of goods sold		
Purchases	341,921	142,500
Salaries, wages, and benefits	390,599	114,132
Other	220,891	4,662
	<u>(953,411)</u>	<u>(261,294)</u>
Gross Margin	<u>(309,736)</u>	<u>(53,305)</u>
Expenses		
Advertising and promotion	43,927	32,270
Depreciation	112,689	15,585
Insurance, licenses, and fees	4,835	1,787
Office and miscellaneous	22,005	25,590
Professional fees	34,134	8,756
Rent, utilities and occupancy costs	224,471	49,419
Salaries and benefits	32,831	77,242
Start-up costs	-	75,372
Supplies	44,775	12,126
Travel	345	2,959
Expenses	<u>(520,012)</u>	<u>(301,106)</u>
Operating loss	<u>(829,748)</u>	<u>(354,411)</u>
Insurance proceeds	28,322	-
Impairment of equipment of discontinued operations	(518,073)	-
Loss from discontinued operations	<u>(1,319,499)</u>	<u>(354,411)</u>

Cash flows for the retail discontinued operation for 2016 and 2015 are as follows:

For the year ended July 31,	2016	2015
Cash inflow (outflow)		
Operating activities	(694,097)	(399,174)
Investing activities	16,030	(569,077)
Financing activities	54,500	175,000
Net cash outflow for the year	<u>(623,567)</u>	<u>(793,251)</u>

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NOTE 20 – COMMITMENTS AND CONTINGENCIES

Leases

The Company held certain leases for retail stores, corporate offices, and other assets under operating lease arrangements.

Determining whether a lease arrangement is classified as finance or operating requires judgment with respect to the fair value of the leased asset, the economic life of the lease, the discount rate and the allocation of leasehold interests between the land and building elements of property leases.

Net Profits Interest

On January 15, 2015, the Company entered into a net profits interest agreement (“NPI Agreement”) with Mr. Lance Sutherland and The Sutherland Group (“Sutherland”). Pursuant to the NPI Agreement, the Company will pay to Sutherland a net profits interest (“NPI”) in each retail organic grocery store that the Company owns and operates in the amount of 20% of the calculated net profits, or net deficiency, as the case may be, of each retail store. The retail NPI will be calculated on each retail store separately, and will be payable 160 days subsequent to the year end of each store. Any carried-forward NPI deficiency from prior years will be accounted for as deductions from the then current years NPI calculation. This NPI does not confer any ownership rights to Sutherland. If a retail store is sold, the net proceeds or profit attributable to the Company on such sale will not be considered net profits for the purposes of the NPI calculation pursuant to the NPI Agreement.

In addition, and pursuant to the NPI Agreement, there will be no NPI calculated or payable to Sutherland until such time as the Company has been repaid any and all loans or other indebtedness from each retail store.

The NPI Agreement is assignable, in whole or in part at the discretion of Sutherland.

Contingencies

The Company may be involved in legal proceedings from time to time, arising in the ordinary course of its business. Management of the Company is not currently aware of any claims or actions that would materially affect the Company’s reported financial position or results from operations.

NOTE 21 – DEFERRED INCOME TAXES

A reconciliation of current income taxes at statutory rates with reported taxes is as follows:

	2016	2015
Loss for the year	\$ (1,710,797)	\$ (1,473,421)
Expected income tax (recovery)	(445,000)	(383,000)
Change in statutory rates, and other	(20,000)	1,000
Permanent difference	37,000	110,000
Expiry of non capital loss	-	45,000
Share issue cost	(14,000)	(16,000)
Adjustment to prior year provision versus statutory tax return	-	(139,000)
Change in unrecognized deductible temporary differences	442,000	382,000
Deferred income tax recovery	\$ -	\$ -

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NOTE 21 – DEFERRED INCOME TAXES *(continued)*

The significant components of the Company's deferred tax assets that have not been included on the statement of financial positions are as follows:

	2016		2015
Share issue costs	\$ 22,000	\$	14,000
Allowable capital losses	490,000		512,000
Non-capital losses	2,077,000		1,699,000
Equipment	153,000		5,000
Exploration and evaluation assets	1,020,000		1,090,000
Unrecognized deferred tax assets	\$ 3,762,000	\$	3,320,000

The Company has non-capital losses of approximately \$7,992,000 (2015 - \$6,535,000) available for deduction against future taxable income. These losses, if not utilized, will expire through to 2036. The Company has resource expenditures of approximately \$3,074,000 (2014 - \$3,289,000) available for deduction against future taxable income. Deferred tax benefits which may arise as a result of these tax assets have not been recognized in these financial statements as it is not probable that they will be realized.

NOTE 22 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Classification of financial instruments

Financial instruments measured at fair value are classified into one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value ("FV") hierarchy has the following levels:

Level 1- quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2- inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices); and

Level 3- inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial instruments consist of cash, receivables, deposits, accounts payable and accrued liabilities, wages payable, loans payable and due to related parties.

Fair values

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The fair value of cash is measured at Level 1 of the fair value hierarchy. The carrying value of cash, receivables, deposits, accounts payable and accrued liabilities, wages payable, loans payable and due to related parties approximate their fair value because of the short term nature of these instruments.

Financial instrument risk exposure and risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company considers the fluctuations of financial markets and seeks to

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NOTE 22 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

minimize potential adverse effects on financial performance. The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash and receivables. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The Company's receivables consist primarily of tax receivables due from federal government agencies. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances or debt financings. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. The Company is exposed to liquidity risk.

Interest rate risk

The Company has cash balances but no external debt. The Company's current policy is to invest excess cash in investment grade short-term demand deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit rating of its banks. The Company is marginally exposed to interest rate risk.

Foreign currency risk

The Company is not exposed to foreign currency risk.

Commodity price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

NOTE 23 – CAPITAL MANAGEMENT

The Company manages common shares, stock options, and share purchase warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets, or adjust the amount of cash on hand.

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NOTE 23 – CAPITAL MANAGEMENT *(continued)*

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

The Company does not pay out dividends at this time. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account. Cash consists of cash on hand, balances with banks and investments in highly liquid instruments, if any. The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents as the fair value approximates carrying value. There have been no changes to the Company's approach to capital management during the year ended July 31, 2016. The Company is not subject to externally imposed capital requirements.

NOTE 24 – SUBSEQUENT EVENTS

Subsequent to July 31, 2016, the Company:

- a) received subscriptions receivable of \$25,000.
- b) completed a non-brokered private placement for gross proceeds of \$105,000 through the issuance of 5,250,000 common shares at a price of \$0.02.