Global Hemp Group Inc.

Consolidated Financial Statements

Year Ended September 30, 2016

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Global Hemp Group Inc.

We have audited the accompanying consolidated financial statements of Global Hemp Group Inc. which comprise the consolidated statements of financial position as at September 30, 2016 and 2015 and the consolidated statements of comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's 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 auditor's 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, the consolidated financial statements present fairly, in all material respects, the financial position of Global Hemp Group Inc. as at September 30, 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 modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Global Hemp Group Inc.'s ability to continue as a going concern.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONIONAL ACCOUNTANTS

Vancouver, Canada
January 30, 2017

GLOBAL HEMP GROUP INC.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Note	September 30, 2016	September 30, 2015
		$	$
Assets			
Current assets			
Cash		563	3,559
GST receivable		8,309	7,821
Prepayments		437	26,188
Total assets		9,309	37,568
Liabilities and shareholders' deficiency			
Current liabilities			
Accounts payable and accrued liabilities	**5**	275,699	219,454
Note payable	**7**	22,394	20,191
Due to related parties	**6**	1,225	99,715
		299,318	339,360
Non-current liabilities			
Convertible debentures	**8**	186,220	259,330
Total liabilities		485,538	598,690
Shareholders' deficiency			
Share capital	**4**	3,093,107	2,967,168
Reserves	**4**	1,497,850	1,472,950
Deficit		(5,067,186)	(5,001,240)
		(476,229)	(561,122)
Total liabilities and shareholders' deficiency		9,309	37,568

The accompanying notes are an integrated part to the consolidated financial statements

Approved and authorized for issuance by the Board of Directors on January 30, 2017

"Curt Huber"
Director

"Charles Larsen"
Director

GLOBAL HEMP GROUP INC.
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)

		Years ended September 30,	
	Note	**2016**	**2015**
		$	$
Expenses			
Advertising and promotion		407	1,212
Interest	**7, 8**	28,728	22,423
Consulting	**6**	31,612	174,016
Office and administration		1,144	9,374
Occupancy cost		–	15,000
Professional fees		15,654	28,643
Share based compensation	**4, 6**	–	23,400
Shareholder communication		–	21,061
Travel		2,670	12,254
Trust and filing fees		14,481	29,526
Loss before other items:		(94,696)	(336,909)
Exchange gain (loss)		(828)	(1,821)
Other income		1,478	367
Realization of foreign currency reserve on dissolution of subsidiary	**1**	(24,900)	–
Vendor credit	**6**	53,000	–
Settlement of inventory	**12**	–	(144,500)
Net loss		(65,946)	(482,863)
Other comprehensive income			
Translation adjustment		24,900	(17,949)
Comprehensive Loss		(41,046)	(500,812)
Loss per share, basic and diluted		–	–
Weighted average number of outstanding shares		141,180,006	137,917,545

The accompanying notes are an integrated part to the consolidated financial statements

GLOBAL HEMP GROUP INC.
Consolidated statements of changes in shareholders' deficiency
(Expressed in Canadian dollars)

		Share Capital		Reserve			
	Note	Number	Amount	Share-based payment reserve	Foreign currency translation	Deficit	Shareholders' deficiency
			$	$	$	$	$
Balance, September 30, 2014		137,917,545	2,967,168	1,472,882	(6,951)	(4,518,377)	(85,278)
Translation Loss		–	–	–	(17,949)	–	(17,949)
Stock based compensation	**8**	–	–	23,400	–	–	23,400
Fair value of finder's warrants issued	**4, 8**	–	–	1,568	–	–	1,568
Net loss		–	–	–	–	(482,863)	(482,863)
Balance, September 30, 2015		137,917,545	2,967,168	1,497,850	(24,900)	(5,001,240)	(561,122)
Foreign currency translation reserve realized	**1**	–	–	–	24,900	–	24,900
Conversion of convertible debentures	**4, 8**	4,685,601	125,939	–	–	–	125,939
Net loss		–	–	–	–	(65,946)	(65,946)
Balance, September 30, 2016		142,603,146	3,093,107	1,497,850	–	(5,067,186)	(476,229)

The accompanying notes are an integrated part to the consolidated financial statements

GLOBAL HEMP GROUP INC.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Years ended September 30, 2016	2015
	$	$
Operating activities		
Loss for the year	(65,946)	(482,863)
Non-cash items		
Share based compensation	–	23,400
Settlement of inventory	–	144,500
Interest accrual	28,260	22,423
Loss on dissolution of subsidiary	24,900	–
Changes in non-cash operating working capital		
GST receivable and prepayments	25,263	(31,859)
Accounts payable and accrued liabilities	(40,698)	236,160
Due to related parties	1,225	40,902
Cash used in operating activities	(26,996)	(47,337)
Financing activites		
Proceeds from convertible debenture issuance	10,000	64,400
Cash provided by financing activities	10,000	64,400
Effect of foreign exchange	14,000	(17,949)
Change in cash	(2,996)	(886)
Cash, beginning of the year	3,559	4,445
Cash, end of the year	563	3,559

The accompanying notes are an integrated part to the consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Global Hemp Group (the "Company") was incorporated on October 30, 2009 in British Columbia, Canada. The Company is pursuing opportunities in the industrial hemp sector.

The Company's office is Suite 106 – 1169 Mt. Seymour Road, North Vancouver, BC V7H 2Y4. The Company's common shares are traded on Canadian Securities Exchange under the symbol "GHG", on Boerse-Frankfurt Exchange under the symbol "GHG", on XETRA Exchange in Europe under the symbol GHG, and on the USA OTC Markets under the symbol "GBHPF".

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company's continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with debt and or private placements of common shares. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its statement of financial position.

2. STATEMENT OF COMPLIANCE

The consolidated financial statements of the Company 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).

These consolidated financial statements were approved and authorized by the Board of Directors on January 30, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
These financial statements have been prepared on an accrual basis and are based on historical costs, except for financial instruments measured at their fair value. These consolidated financial statements are presented in Canadian dollars, unless otherwise noted.

The accompanying consolidated financial statements include the accounts of the Company and Global Hemp Group, Inc. ("GHGI.), its wholly owned US subsidiary, until December 2, 2015. All intercompany transactions have been eliminated.

On December 2, 2015, the Company dissolved GHGI. At that time, GHGI had no remaining net assets. A foreign exchange loss of $24,900 was realized upon dissolution of the subsidiary, being the accumulated other comprehensive loss on conversion of GHGI to the Company's presentation currency.

Significant estimates and assumptions
The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant estimates and assumptions (continued)

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting period include determining the fair value of measurements of financial instruments, and the recoverability and measurement of deferred tax assets.

Significant judgments
The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty; and
- the classification of financial instruments.

Loss per share
Basic loss per share is computed by dividing net loss attributable to common shareholders by the weighted average number of shares outstanding in the period. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

Financial instruments
The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Fair value through profit or loss ("FVTPL") - Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. They are subsequently measured at fair value with changes in fair value recognized in profit or loss. The Company designates its cash as fair value through profit or loss financial assets.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company has designated GST receivable as loan and receivables.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities and that the Company intends to hold to maturity. These assets are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. The Company does not hold any held-to-maturity financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)
Available-for-sale – These consist of non-derivative financial assets that are designated as available-for sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets. The Company does not hold any available-for-sale financial assets.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

The Company initially recognizes financial liabilities at fair value on the date that they originate. All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies its financial liabilities as either financial liabilities at fair value through profit or loss or other liabilities. Subsequent to initial recognition other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in profit or loss.

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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 a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

Functional currency and foreign currency translation
The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the parent company's functional and presentation currency.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional currency and foreign currency translation (continued)

Transactions and balances:
Foreign currency transactions will be translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive income in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Foreign operations:
The financial results and position of foreign operations whose functional currency is different from the Company’s presentation currency will be translated as follows:
- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are recorded to the Company’s other comprehensive income.

Warrants
Proceeds from issuances of security units by the Company consisting of shares and warrants are allocated based on the residual method. The fair value of the warrants is determined to be the difference between gross proceeds over the estimated fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a fair value of $Nil is assigned to the warrants.

Income taxes
Current income tax:
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation

Deferred income tax:
Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes (continued)
The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Inventories
Inventories consist of items purchased for resale and includes other costs that are directly incurred to bring the inventory to its present location and condition. Inventory is stated at the lower of cost and net realizable value, determined on the first-in-first-out basis, or market.

Stock-based compensation
Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black–Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

New Accounting standards issued but not yet applied

At the date of the approval of the consolidated financial statements, a number of standards and interpretations were in issue but not yet effective. The Company considers that these new standards and interpretations are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

4. CAPITAL STOCK

Authorized
Unlimited number of common shares and Class A and Class B preferred shares without par value.

Issued and outstanding
On November 16, 2015, 90 units of debentures (Note 8) including accrued interest, were converted into 2,782,779 shares.

On April 22, 2016, 27 units of the debentures (Note 8) including accrued interest, were converted into 1,902,822 shares.

(Expressed in Canadian Dollars)

4. CAPITAL STOCK (Continued)

Warrants

During the year ended September 30, 2015, the Company issued two unsecured convertible debentures of $125,000 each (Note 8). Each $1,000 of the debentures includes 28,571 warrants exercisable at $0.05 for a period of three years. Based on the residual method, the fair value of these warrants was determined to be $Nil. A finder's fee of 112,000 warrants (the "Finder's Warrants") were issued. The Finder's Warrants were exercisable at $0.05 for a period of one year. The fair value of the Finder's Warrants was estimated to be $1,568 using the Black-Scholes option pricing model with the following assumptions: expected life of one year, volatility of 271%, dividend yield of 0% and risk-free rate of 0.67%.

During the year ended September 30, 2016, the Company issued an unsecured convertible debenture of $27,000 (Note 8). Each $1,000 of the debenture includes 20,000 warrants exercisable at $0.05 for a period of three years. Based on the residual method, the fair value of these warrants was determined to be $Nil.

	Warrants	Weighted average exercise price	Weighted average number years to expiry
		$	
Balance, September 30, 2014	9,266,905	0.15	1.01
Granted	7,254,750	0.05	1.61
Cancelled	(1,500,000)	(0.15)	-
Balance, September 30, 2015	15,021,655	0.13	2.30
Granted	540,000	0.05	2.21
Expired	(3,210,800)	(0.15)	-
Balance, September 30, 2016	12,350,855	0.09	1.36

Stock options

On January 15, 2015, the Company granted 1,300,000 stock options to directors and officers. Each option can be exercised into one common share of the Company at $0.10 per share and vested immediately. All these options will expire on January 15, 2019. The fair value of the options was estimated to be $23,400 using the Black-Scholes option pricing model with the following assumptions: expected life of 3-5 years, volatility of 188%, dividend yield of 0% and risk-free rate of 0.93%.

	Options	Weighted average exercise price	Weighted average number years to expiry
		$	
Balance, September 30, 2014	12,474,999	0.11	3.30
Granted	1,300,000	0.10	2.30
Cancelled	(3,966,666)	(0.10)	-
Balance, September 30, 2015	9,808,333	0.11	2.19
Expired / Cancelled	(3,408,333)	(0.14)	-
Balance, September 30, 2016	6,400,000	0.10	2.47

(Expressed in Canadian Dollars)

4. CAPITAL STOCK (Continued)

Share-based payment reserve
The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

Foreign currency translation reserve
The foreign currency translation reserve records unrealized exchange differences arising on translation of foreign operations that have a functional currency other than the Company's reporting currency.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2016	September 30, 2015
	$	$
Trade payables	262,199	207,454
Accrued liabilities	13,500	12,000
	275,699	219,454

6. RELATED PARTY TRANSACTIONS

Key Management Compensation:

	Nature of transaction	September 30, 2016	September 30, 2015
		$	$
Directors	Share based compensation	-	23,400
Former director	Consulting fees	-	10,000
Companies controlled by the relative of a former director	Consulting fees	-	17,500

As at September 30, 2016, $1,225 was owing to the CFO to the company (2015-$Nil). As at September 30, 2015, $24,675 was owing to companies controlled by a relative of a former director, $63,655 was owing to directors of the Company and $11,385 was owing to the former CFO of the Company.

During the year ended September 30, 2016, a director of the Company provided the Company a credit of $53,000 for consulting services provided during the year ended September 30, 2014. During the year ended September 30, 2015, the Company incurred occupancy cost of $15,000 to companies controlled by a relative of a former director.

7. NOTE PAYABLE

On December 1, 2014, the Company converted $18,355 of its accounts payable owing to a company (the "Lender"), controlled by the relative of a former director, into a promissory note. This promissory note is payable on demand and bears interest of 12% per annum. The promissory note is secured by a general and continuing collateral security over all assets in favor of the Lender. For the year ended September 30, 2016, the Company accrued $2,203 (2015 - $1,836) of interest on the promissory note.

(Expressed in Canadian Dollars)

8. DEBENTURES

During the year ended September 30, 2015, the Company completed two non-brokered private placements of 250 units of debentures for gross proceeds of $250,000. The principal amount of the debentures matures on November 17, 2017 (the "Maturity Date"), are unsecured, and accrue interest at 15% per annum. The principal amount of the debentures and any accrued but unpaid interest thereon is convertible into shares at a price of $0.035 per share at any time before the Maturity Date. A finder's fee of $5,600 was paid and 112,000 finder's warrants with a fair value of $1,568 were issued.

On November 16, 2015, 90 units of the debentures with a value of $97,397 ($90,000 principal and $7,397 accrued interest) were converted into 2,782,779 shares.

On December 17, 2015, the Company issued 27 units of debentures for gross proceeds of $27,000. The principal amount of the debentures matures within three years and accrue interest at 15% per annum, payable on the maturity date. The principal amount of the debentures and any accrued but unpaid interest thereon is convertible into shares at a price of $0.015 per share at any time before the maturity date. Each $1,000 of the debentures is accompanied with 20,000 warrants exercisable at a price of $0.05 for a period of three years. The Company determined that the fair value of the debentures approximated their face value and as a result no value has been assigned to the warrants.

On April 22, 2016, 27 units of the debentures with a value of $28,542 ($27,000 principal plus $1,542 accrued interest) were converted into 1,902,822 shares.

As at September 30, 2016, the Company has accrued $25,829 (2015 - $16,498) in interest on the debentures.

9. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence, safeguard the Company's ability to support the Company's activity in agriculture and manufacturing in the industrial hemp sector and to sustain future development of the business. The capital structure of the Company consists of working and share capital.

There are no restrictions on the Company's capital and there were no changes in the Company's approach to capital management during the year.

10. INCOME TAXES

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	September 30, 2016	**September 30, 2015**
	$	$
Net loss before income taxes	(65,946)	(482,863)
Statutory tax rate	26%	26%
Expected income tax recovery at the statutory tax rate	(17,000)	(125,544)
Non-deductible items and other	-	6,084
Adjustment to prior years provision versus statutory tax returns	82,000	-
Loss of losses carry-forwards in the subsidiary	103,000	-
Changes in valuation allowance	(168,000)	119,460
Income tax recovery	-	-

(Expressed in Canadian Dollars)

11. INCOME TAXES (Continued)

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	September 30, 2016	September 30, 2015
	$	$
Non-capital loss carry-forwards	460,000	618,000
Capital loss carry-forwards	34,000	44,000
Exploration and evaluation asset	3,000	3,000
Valuation allowance	(497,000)	(665,000)
Net deferred income tax assets	-	-

As at September 30, 2016, the Company has approximately $1,767,000 in non-capital losses, which expire between 2030 - 2036.

12. FINANCIAL INSTRUMENTS

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

<u>Credit risk</u>
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's primary exposure to credit risk is on its cash. As most of the Company's cash is held by one bank, there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies.

<u>Foreign exchange risk</u>
Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to foreign exchange risk.

<u>Interest rate risk</u>
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk is minimal.

<u>Liquidity Risk</u>
Liquidity risk is the risk that the Company may be unable to meet its financial obligations as they fall due. The Company reviews its working capital position regularly to ensure there is sufficient capital in order to meet short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

(Expressed in Canadian Dollars)

13. FINANCIAL INSTRUMENTS (Continued)

Classification of financial instruments
Financial assets included in the statements of financial position are as follows:

	September 30, 2016	September 30, 2015
	$	$
Loans and receivables:		
Cash	563	3,559
GST receivable	8,309	7,821
	8,872	11,380

Financial liabilities included in the statements of financial position are as follows:

	September 30, 2016	September 30, 2015
	$	$
Non-derivative financial liabilities:		
Trade payables	262,199	207,454
Note payable	22,394	20,191
Due to related parties	1,225	99,715
Convertible debentures	186,220	259,330
	472,038	586,690

Fair value
The fair value of the Company's financial assets and liabilities approximates the carrying amount due to their short term nature.

11. NON-CASH TRANSACTIONS

	September 30, 2016	September 30, 2015
	$	$
Conversion of convertible debentures for the issuance of common shares	125,940	-
Conversion of accounts payable and accrued liabilities for the issuance of convertible debentures	17,000	161,000
Conversion of due to related parties for the issuance of convertible debentures	-	19,000
Conversion of due to related parties for the issuance of note payable	-	18,355
Settlement for unpaid inventory	-	1,500,000
Issuance of finder's warrants	-	1,568

12. INVENTORY

On April 28, 2014, and as amended July 4, 2014, the Company entered into production agreements (the "Production Agreements") for the production of 1,500,000 pounds of hemp seeds (the "Inventory") for $1,500,000.

Under the Production Agreements, the Company agreed to pay the purchase price in four instalments as follows:

- $150,000 on July 4, 2014 (paid and held in escrow, the "Escrowed Funds");
- $225,000 on July 31, 2014;
- $375,000 on September 15, 2014; and
- $750,000 at the time the Company picks up the Inventory.

The Company was in default on remaining payments due after July 4, 2014 and the liability of $1,350,000 was included in accrued liabilities as at the year ended September 30, 2014.

As part of the Production Agreements, the Company agreed to issue 1,500,000 warrants exercisable into one common share at $0.15 for a period of 3 years to amend the payment dates. The fair value of the warrants of $74,740 has been recorded as financing fees in the consolidated statements of comprehensive loss during the year ended September 30, 2014.

Under the arrangement of the Company, an arm's length third party purchased 200,000 pounds of the hemp seeds directly from the parties in the Production Agreement (the "Producers") in November and December 2014. As a result, the Company's inventory and accounts payable were both reduced by $200,000.

On September 3, 2015, the Company and the Producers, executed a settlement agreement and release document (the "Settlement Agreement and Release Document") whereby the Escrowed Funds were released to the Producers in settlement of any and all accrued monies owed to them and released the Company from any further obligation relating to the agreements executed by the parties. The outstanding balance owing to the Producers was subject to storage costs and interest of 1% per month. During the year ended September 30, 2015, the Company incurred storage and interest costs of $144,500, which has been settled in the Settlement Agreement and Release Document and, accordingly, has been recorded in the statement of comprehensive loss.

13. SUBSEQUENT EVENTS

On October 7, 2016, $35,000 of the debentures including accrued interest of $7,638, were converted into 1,218,219 shares (Note 8).

On October 21, 2016, $35,000 of the debentures including accrued interest of $7,609, were converted into 1,217,397 shares (Note 8).

On December 18, 2016 pursuant to a private placement, the Company issued a total of 1,600,000 units at a price of $0.03 per unit for gross proceeds of $48,000. Each unit consists of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at a price of $0.05 per common share exercisable up until December 18, 2021.