HIGHHAMPTON

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016

(EXPRESSED IN CANADIAN DOLLARS)

MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
High Hampton Holdings Corp.

We have audited the accompanying consolidated financial statements of High Hampton Holdings Corp. which comprise the consolidated statements of financial position as at August 31, 2017 and 2016, and the consolidated statements of comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and the related notes comprising 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 as issued by the International Accounting Standards Board, 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 our 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, we consider 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 High Hampton Holdings Corp. as at August 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
December 29, 2017

High Hampton Holdings Corp.
Consolidated Statements of Financial Position
As at August 31, 2017 and 2016
(Expressed in Canadian Dollars)

	Note	2017	2016
		$	$
ASSETS			
Current assets			
Cash and cash equivalents		4,978,685	5,480
Amounts receivable		83,116	18,442
Prepaid expenses		174,931	-
Total current assets		5,236,732	23,922
Non-current assets			
Land	6	4,774,256	-
Total Assets		10,010,988	23,922
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current liabilities			
Accounts payables and accrued liabilities		489,274	46,678
Loan payable	7	18,367	168,367
Due to related parties	10	86,415	32,750
Total current liabilities		594,056	247,795
Non-current liabilities			
Secured convertible debentures	8	1,246,501	-
Total Liabilities		1,840,557	-
Shareholders' equity (deficiency)			
Capital stock	9	10,261,578	1,644,190
Common shares issuable	6	116,800	-
Contributed surplus	9	4,930,664	4,468,592
Deficit		(7,138,611)	(6,336,655)
Total shareholder's equity (deficiency)		8,170,431	(223,873)
Total Liabilities and Shareholder's Equity (Deficiency)		10,010,988	23,922

Subsequent Events (Note 14)

These consolidated financial statements were approved and authorized for issue by the Board of Directors on December 29, 2017.

APPROVED ON BEHALF OF THE BOARD:

/s/ Brendan Purdy
Brendan Purdy, Director

/s/ David Argudo
David Argudo, Director

High Hampton Holdings Corp.
Consolidated Statements of Comprehensive Loss
For the Years Ended August 31, 2017 and 2016
(Expressed in Canadian Dollars)

	Note	2017	2016
		$	$
EXPENSES			
Advertising and promotion		24,014	-
Building permits and licenses		36,778	-
Communications and travel		26,157	-
Management fees	10	5,425	213,000
Office and general		44,703	14,401
Professional and consulting fees	10	731,358	175,447
Loss before other items		(868,435)	(402,848)
OTHER INCOME (EXPENSES)			
Gain on settlement of debts	7, 11	75,000	238,990
Accretion expense	8	(9,763)	-
Interest income		5,049	-
Foreign exchange loss		(3,807)	-
Impairment of loan receivable		-	(64,800)
Gain on forfeiture of non-refundable deposits		-	67,000
Write-off of amounts receivable		-	(6,278)
Write-off of equipment		-	(907)
Net and comprehensive loss for the year		(801,956)	(168,843)
Loss per share - basic and diluted		(0.13)	(0.28)
Weighted average number of shares outstanding		6,413,756	603,068

High Hampton Holdings Corp.
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
For the Years Ended August 31, 2017 and 2016
(Expressed in Canadian Dollars)

	Capital Stock					
	Number of Common Shares	Amount	Common Shares Issuable	Contributed Surplus	Deficit	Total
		$	$	$	$	$
Balance at August 31, 2015	546,685	1,494,190	-	4,468,592	(6,167,812)	(205,030)
Shares issued on debt settlement	60,000	150,000	-	-	-	150,000
Loss for the year	-	-	-	-	(168,843)	(168,843)
Balance at August 31, 2016	606,685	1,644,190	-	4,468,592	(6,336,655)	(223,873)
Shares issued for cash	19,357,000	7,657,000	-	-	-	7,657,000
Share issuance costs	-	(1,217,112)	-	450,117	-	(766,995)
Shares issued for acquisition of Coachellagro Corp.	6,000,000	1,920,000	116,800	-	-	2,036,800
Shares issued on debt settlement	540,000	135,000	-	-	-	135,000
Shares issued for interest	195,000	97,500	-	11,955	-	109,455
Exercise of warrants	100,000	25,000	-	-	-	25,000
Loss for the year	-	-	-	-	(801,956)	(801,956)
Balance at August 31, 2017	26,798,685	10,261,578	116,800	4,930,664	(7,138,611)	8,170,431

High Hampton Holdings Corp.
Consolidated Statements of Cash Flows
For the Years Ended August 31, 2017 and 2016
(Expressed in Canadian Dollars)

	2017	2016
	$	$
Operating activities		
Net loss for the year	(801,956)	(168,843)
Items not affecting cash:		
Gain on settlement of debt	(75,000)	(238,990)
Accretion expense	9,763	-
Gain on forfeiture of non-refundable deposits	-	(67,000)
Impairment of loan receivable	-	64,800
Write-off amounts receivable	-	6,278
Write-off prepaid expenses	-	5,000
Write-off of equipment	-	907
Amortization	-	388
Net Change in Non-Cash Working Capital:		
Amounts receivable	(64,674)	(12,440)
Prepaid expenses	(85,178)	-
Accounts payables and other accrued liabilities	489,204	187,229
Related Parties	41,142	78,151
Net cash flows used in operating activities	(486,699)	(144,520)
Investing activities		
Pre-acquisition advances to Coachellagro Corp.	(2,711,541)	-
Net cash used in investing activities	(2,711,541)	-
Financing activities		
Shares issued for cash, net of costs	6,915,005	-
Proceeds from convertible debentures, net of costs	1,256,440	-
Proceeds from loans payable	-	150,000
Net cash provided by financing activities	8,171,445	150,000
Change in cash and cash equivalents	4,973,205	5,480
Cash and cash equivalents, beginning of year	5,480	-
Cash and cash equivalents, end of year	4,978,685	5,480
Cash and cash equivalents consists of:		
Cash held in bank accounts	95,478	5,480
Cash held in trust	4,883,207	-
	4,978,685	**5,480**

Supplemental Cash Flow Information (Note 13)

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

1. Nature of Business

High Hampton Holdings Corp. was incorporated in British Columbia under the name Infinity Minerals Corp. on November 12, 2010. The name of the Company was changed to Herbal Clone Bank Canada Inc. on August 29, 2014 and subsequently to High Hampton Holdings Corp. on June 18, 2015. The corporate office and principal place of business address is Suite 804 - 750 W Pender Street, Vancouver, British Columbia, Canada, V6C 2T7. The Company is a reporting issuer in British Columbia, Ontario and Alberta, and its common shares are traded on the Canadian Securities Exchange under the symbol “HC” and on the Frankfurt Exchange under symbol FSE: 0HC. During the year ended August 31, 2017, the Company raised net proceeds of $8,171,445 from debt and equity financings and acquired Coachellagro Corp. for its principal asset being land (see Note 6). The Company plans to use the remaining proceeds to fund further engineering studies and development of the Company's Coachella Property, seek additional acquisition opportunities and working capital. The Company is focused on the development of its medical cannabis cultivation facility located in Coachella, California, in addition to seeking out other potential strategic alliances, joint venture, acquisition or merger opportunities with existing licensed producers or entities offering products or services in the cannabis sector.

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 business for the foreseeable future.

2. Basis of Presentation and Statement of Compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements have been prepared on a going concern basis, under historical cost convention. The principal accounting policies and critical estimates and judgments, used when compiling these consolidated financial statements are set out below. These consolidated financial statements were approved by the Board of Directors on December 29, 2017.

On August 29, 2017 the Company consolidated its shares on the basis of one new share for every five old shares. All references to number of shares and per share amounts herein are expressed on a post-consolidation basis.

3. Significant Accounting Policies

a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All material intercompany transactions and balances have been eliminated on consolidation.

Subsidiaries

The legal subsidiaries of the Company as of August 31, 2017 are as follows:

Name of Subsidiary	Place of Incorporation	Ownership Interest
Advanced Greenhouse Technologies Ltd.	Canada	100%
American Greenhouse Technologies Inc.	USA	100%
Coachellagro Corp.	USA	100%
The Herbal Clone Bank Inc.	Canada	100%

The Company has included the accounts of Coachellagro Corp. from August 29, 2017, the date of acquisition (see Note 6). The Company's other subsidiaries were inactive during the year ended August 31, 2017.

b) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates. (the "functional currency"), which was determined to be Canadian dollars for the Company and all of its subsidiaries with the exception of Coachellagro Corp. The functional currency of Coachellagro Corp. was determined to be the United States dollars. The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Subsidiaries that have functional currencies other than the Canadian dollar translate their statement of operations items at the average rate during the year. Assets and liabilities are translated at exchange rates prevailing at the end of each reporting period. Exchange rate variations resulting from the retranslation at the closing rate of the net investment in these subsidiaries, together with differences between their statement of comprehensive loss items translated at actual and average rates, are recognized in accumulated other comprehensive income (loss). On disposition or partial disposition of a foreign operation, the cumulative amount of related exchange difference is recognized in the statement of comprehensive loss.

c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash held in trust, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

d) Amounts receivable

Amounts receivable consist primarily of GST/HST receivable from government authorities in Canada.

3. Significant Accounting Policies (Continued)

e) Convertible debentures

Convertible debentures, where applicable, are separated into their liability and equity components and accounted for using the effective interest rate method. The fair value of the liability component at the time of issue is determined based on an estimated interest rate of the debentures without the conversion feature. The fair value of the equity component was determined as the difference between the face value and the fair value of the liability component. Issuance costs of the convertible debentures are applied as a reduction of proceeds and split pro-rata between the liability and equity components. The issuance costs applied to the liability component are recognized as accretion expense over the term of the debenture.

f) Critical accounting estimates and judgements

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from those estimates and judgments. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised.

Areas requiring a significant degree of estimation and judgment by the Company's management relate to but are not limited to:

- whether an indication of impairment loss of long-lived assets exists;
- the fair value measurements for financial instruments;
- the discount rate used to determine the fair value of the liability component of convertible debentures;
- the recoverability and measurement of deferred tax assets and liabilities;
- the fair value estimation of share-based payments and awards; and
- whether the Company has sufficient financing to operate as a going concern.

Actual results may differ from those estimates and judgments.

g) 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 financial assets and other 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.

Financial assets are classified at fair value through profit or loss ("FVTPL") 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. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss. The Company has designated its cash and cash equivalents as FVTPL.

3. Significant Accounting Policies (Continued)

g) Financial instruments (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost less any provision for impairment. Significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counter party will default. 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 does not have any financial instruments designated as loans and receivables.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statements of operations and comprehensive loss. 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.

Available-for-sale financial assets are 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. Unrealized gains and losses are recognized in other comprehensive income (loss), except for impairment losses and foreign exchange gains and losses.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company 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.

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise of accounts payables and due to related parties. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carrying in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

The Company has classified its accounts payable, loan payables, due to related parties and secured convertible debentures as other financial liabilities.

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 impairment has arisen.

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

3. Significant Accounting Policies (Continued)

h) Impairment of non-financial assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year-end. Other non-financial assets including exploration and evaluation assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of the value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The Company has one cash-generating unit for which impairment testing is performed.

An impairment loss is charged to profit or loss, except to the extent that they reverse gains previously recognized in accumulated other comprehensive loss/income.

i) Share-based payments

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purpose (direct employee) or provides services similar to those performed by a direct employee.

The Company accounts for stock options issued to employees at the fair value determined on the grant date using the Black-Scholes option pricing model. The fair value of the options is recognized as an expense using the graded vesting method where the fair value of each tranche is recognized over its respective vesting period. When stock options are forfeited prior to becoming fully vested, any expense previously recorded is reversed.

Share-based payments made to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured. These payments are recorded at the date of the goods and services are received.

Agent's warrants, stock options and other equity instruments issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued is based on the trading price of those shares on the date of the agreement to issue shares as determined by the Board of Directors. Proceeds from unit placements are allocated between share and warrants using the residual method.

3. Significant Accounting Policies (Continued)

j) 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 Canadian 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.

Current tax is recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred 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 exporting purposes.

Deferred tax is recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income or loss.

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.

k) Net loss per share

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the period. Dilutive earnings per share reflect the potential dilution of securities that could share in the earnings of an entity. In periods where a net loss is incurred, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive and basic and diluted loss per common share is the same. In a profit year, under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average price during the year.

3. Significant Accounting Policies (Continued)

l) Recent accounting pronouncements

The Company adopted the following accounting policy which had no impact on its consolidated financial statements:

IAS 1 – Presentation of Financial Statements

In December 2014, amendments to IAS 1 were issued to address perceived impediments to preparers exercising their judgement in presenting their financial statements. The amendments clarify the definition of materiality, the presentation of items on the statement of financial position and statement of profit or loss and other comprehensive income, and ordering of notes in the financial statements.

m) Accounting standards and amendments issued but not yet applied

The following standards have not been adopted by the Company.

New accounting standards effective September 1, 2017:

IAS 7 – Statement of Cash Flows

The objective of the amendments to IAS 7 is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The amendments to IAS 7 respond to investors' requests for information that helps them better understand changes in an entity's debt, which is important to their analysis of financial statements.

The adoption of this standard is not expected to have any material impact on the Company's consolidated financial statements.

New accounting standards effective September 1, 2018:

IFRS 9 – Financial Instruments

In November 2009, as part of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities. In November 2013, new general hedging requirements were added to the standard. In July 2014, the final version of IFRS 9 was issued and adds a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The standard must be applied for financial years commencing on or after January 1, 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before February 1, 2015. After that date, the new rules must be adopted in their entirety. The Company does not intend to adopt IFRS 9 before its mandatory date.

3. Significant Accounting Policies (Continued)

m) Accounting standards and amendments issued but not yet applied (continued)

IFRS 15 – Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued and replaces IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC-31 – Revenue – Barter Transactions Involving Advertising Services.

IFRS 15 establishes a single five–step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

The adoption of these standards is not expected to have any material impact on the Company's consolidated financial statements.

New accounting standards effective September 1, 2019:

IFRS 2 – Shared-Based Payments

In June 2016 the Board issued the final amendments to IFRS 2 which amended (a) the effects that vesting conditions have on the measurement of a cash-settled share-based payment; (b) the accounting for modification to the terms of a share-based payment that changes the classification of the transaction from cash-settled to equity settled; and (c) classification of share-based payment transactions with net settlement features.

IFRS 16 – Leases

IFRS 16 was issued in January 2016. It will result in substantially all leases being recognized on the balance sheet, as the distinction between operating and finance lease in removed. Under the new standard, an asset (the right to use a leased item) and a financial liability to pay rentals are recognized. The only exceptions are short term and low-value leases.

The accounting for lessors will not significantly change.

The extent of the impact of adoption of these standards and interpretations on the financial statements of the Company has not been determined. The standard is mandatory for financial years commencing on or after January 1, 2019. At the stage, the Company does not intend to adopt the standard before its effective date.

4. Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the development of the Company's land in Coachella, California and additional acquisition opportunities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include all components of its shareholders' equity.

The Company is not exposed to any externally imposed capital requirements. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended August 31, 2017.

5. *Financial Risk Management*

Fair value hierarchy

The following summarizes the fair value hierarchy under which the Company's financial instruments are valued.

Level 1 - Unadjusted quoted prices 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 or indirectly; and
Level 3 - Inputs for the asset or liability that are not based upon observable market data.

Cash and cash equivalents are carried at fair value using a level 1 fair value measurement. The carrying value of accounts payable, due to related parties and loan payable approximate their fair value because of the short-term nature of these instruments. The carrying value of secured convertible debentures approximates the estimated fair value of these instruments based on current market rates for similar instruments.

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.

Risk Management

The Company’s activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate and foreign exchange rate).

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents. Cash and cash equivalents consist of cash in bank accounts with reputable financial institutions with strong credit ratings which are closely monitored by management and in trust accounts with the Company’s legal representatives.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at August 31, 2017, the Company had sufficient cash and cash equivalents on hand to meet its current liabilities. The Company's accounts payable, due to related parties and loan payable have contractual maturities of less than 30 days and are subject to normal trade terms.

5. *Financial Risk Management (continued)*

Market Risk

Market risk is the risk of loss that might arise from changes in market factors such as interest rates and foreign exchange rates.

a) Interest Rate Risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to limited interest rate risk as its secured convertible debentures bear fixed interest rates.

b) Foreign Currency Risk:

The Company holds cash and cash equivalents in bank account denominated in United States dollars. Therefore, it is subject to risk in fluctuations in the exchange rate of the United States dollar. However, as at August 31, 2017, the balance in this account was nominal and therefore, any change in the Canadian dollar versus the United States would be insignificant.

6. Acquisition of Coachellagro Corp.

On August 29, 2017 the Company acquired all of the issued and outstanding shares of Coachellagro Corp. ("Coachellagro"). In consideration, the Company issued an aggregate of 6,000,000 common shares of the Company to the shareholders of Coachellagro with an estimated fair value of $1,920,000. In connection with the acquisition, the Company had advanced loans totalling $2,711,540 to Coachellagro prior to its acquisition to fund the purchase of 10.82 acres of land in the city of Coachella, California (the "Coachellagro Property"). Under the agreement, the Company is also committed to issuing 365,000 common shares as finders' fees. The Coachellagro Property is located in the Coachella Cultivation Zone. Coachellagro is required to obtain a Conditional Use Permit in order to begin any cultivation activity on the Coachellagro Property.

For accounting purposes, the acquisition of Coachellagro was treated as an asset acquisition as the Company determined that Coachellagro did not meet the definition of a business. The following table summarizes the consideration transferred, the fair value of the identifiable assets acquired and liabilities assumed as of the date of the acquisition:

	$
Loans advanced to Coachellagro prior to the acquisition	2,711,540
Common shares issued	1,920,000
Finders' shares issuable (recorded as shares issuable)	116,800
Total consideration	4,748,340
Assets acquired:	
Land	4,774,256
Less liabilities assumed:	
Accounts payable	(25,916)
Net assets acquired	4,748,340

7. Loan Payable

a) The Company's subsidiary, Advanced Greenhouse Technologies Ltd. ("AGT"), entered into a loan agreement dated February 5, 2013 with an arm's length party in the principal amount of $80,000. The loan was unsecured, carried an imputed interest rate of 10.4% and matured on January 15, 2015. As at August 31, 2017, $18,367 remains outstanding on the loan.

b) During the year ended August 31, 2016, the Company received loan advances totaling $150,000 from an arm's length party. The loan advances did not bear interest and were unsecured with no fixed terms of repayment. In January 2017 the Company settled the $150,000 of debt through the issuance of 150,000 units of the Company. Each unit consisted of one common share and half share purchase warrant, with each full warrant being exercisable for a period of 24 months at a price of $0.25 per share. The fair value of the units issued was estimated to be $75,000 and the remaining balance of $75,000 was recorded as a gain on settlement of debt in the statement of comprehensive loss.

8. Secured Convertible Debentures

On August 2, 2017 the Company closed a private placement of secured convertible debentures (the "Debentures") in the aggregate amount of $1,300,000 (the "Offering"). The Debentures bear an interest of 7.5% per annum and mature two years following the date of issuance of the Debentures (the "Maturity Date"). The Debentures are convertible at the holders' option into common shares of the Company at any time prior to the Maturity Date, subject to acceleration provisions, at a conversion price of $0.60 per common share. Under the terms of the Debentures, if any common shres of the Company are sold for a price less than $0.50 per common share prior to the conversion or repayment of the debentures, the conversion price of the Debentures will be adjusted to equal the price of the common shares sold.

The Debentures are guaranteed by Coachellagro Corp. pursuant to a guarantee agreement, and secured by a general security agreement of the Company issued in favour of the holders of Debentures and a deed of trust lien on the Coachellagro Property from Coachellagro Corp.

In addition, the Company also issued 1,083,332 share purchase warrants to holders of the debentures to purchase common shares of the Company at an exercise price of $0.85 per share for a period of three years.

For accounting purposes, the Debentures are separated into their liability and equity components using the residual method. The fair value of the liability component at the time of issue was determined based on an estimated rate of 8% for Debentures without the conversion feature. The fair value of the equity component is determined as the difference between the face value of the Debentures and the fair value of the liability component. After initial recognition the liability component is carried on an amortized cost basis and will be accreted to its face value over the term to maturity of the convertible debenture at an effective interest rate of approximately 11%.

On August 9, 2017 the Company recorded payment of interest of $97,500 for the first year of interest through the issuance of 195,000 common shares. The interest paid in advance, net of interest incurred of $7,747 was recorded as a prepaid expense as at August 31, 2017.

9. Capital Stock

a) Authorized – Unlimited common shares without par value.

b) Issued – 26,798,685 common shares

(i) On August 29, 2017 the Company the Company consolidated its outstanding common shares on a one-new-for-five-old basis. These consolidated financial statements have been presented on a retroactive basis showing the effect of the share-consolidation.

(ii) In January 2017, the Company issued 8,086,000 units pursuant to a private placement for gross proceeds of $2,021,500. Each unit consists of one common share and one-half share purchase warrant, with each full warrant exercisable at a price of $0.25 per one common share for a period of two years.

In connection with the private placement, the Company paid cash share issuance costs of $102,460 issued 408,640 warrants to finders exercisable at a price of $0.25 per common share for a period of two years. The Company recorded a fair value of $91,319 for the warrants issued to finders. The fair value of the warrants granted was estimated to be $0.22 per warrant using the Black-Scholes option pricing model using the following inputs: exercise price of $0.25, expected life of 2 years, volatility of 228%, dividends of 0%, risk free rate of 0.78%, and grant date stock price of $0.25.

(iii) In August 2017, the Company issued 11,271,000 units pursuant to a private placement for gross proceeds of $5,635,500. Each unit consists of one common share and one-half share purchase warrant, with each full warrant exercisable at a price of $0.75 per one common share for a period of two years.

In connection with the private placement, the Company paid cash share issuance costs of $664,535 issued 865,860 warrants to finders exercisable at a price of $0.50 per common share for a period of two years. The Company recorded a fair value of $358,798 for the warrants issued to finders. The fair value of the warrants granted was estimated to be $0.41 per warrant using the Black-Scholes option pricing model using the following inputs: exercise price of $0.50, expected life of 2 years, volatility of 193%, dividends of 0%, risk free rate of 0.69%, and grant date stock rice of $0.25.

(i) During the year ended August 31, 2017, the Company issued 540,000 units to settle outstanding debt and accounts payable totaling $210,000, consisting of one common share and one-half share purchase warrant, with each full warrant exercisable at a price of $0.25 per common share for a period of two years. The fair value of the units granted was estimated to be $135,000. As a result, the Company recorded a gain on settlement of debt of $75,000 (see Note 7(b)).

(ii) On August 29, 2017, the Company issued 6,000,000 common shares pursuant to its acquisition of Coachellagro Corp. (see Note 6). The fair value of the shares issued was estimated to be $1,920,000. In connection with the acquisition of Coachellagro Corp., the Company is also obligated to issue 365,000 common shares to finders which have recorded as shares issuable to finders with an estimated fair value of $116,800 on the statement of financial position.

c) Shares held in escrow

As at August 31, 2017 there were 5,580,000 shares held in escrow which form part of the 6,000,000 shares issued by the Company in relation to the acquisition of Coachellagro Corp. (see Note 6).

(Expressed in Canadian Dollars, unless otherwise noted)

9. Capital Stock (continued)

d) Stock options

The Company has a 10% rolling stock option plan for its directors, employees and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date of grant. The Company's stock option plan provides for immediate vesting or vesting at the discretion of the Board of Directors at the time of the option grant. Stock options granted to investor relations' consultants vest over a twelve month period, with one quarter of such options vesting in each three month period.

There were no changes in stock options during the years ended August 31, 2017 and 2016.

e) Warrants

The changes in share purchase warrants outstanding during the years ended August 31, 2017 and 2016 are as follows:

	Number of warrants	Weighted average exercise price
		$
Outstanding at August 31, 2016 and 2015	-	-
Granted	12,306,152	0.55
Exercised	(100,000)	0.25
Balance, August 31, 2017	12,206,152	0.55

The weighted average remaining life of the warrants outstanding at August 31, 2017 is 1.82 years.

10. Related party transactions and balances

During the year ended August 31, 2017 and 2016, the Company incurred the following expenses as compensation to directors, officers and companies that are controlled by directors of the Company:

Key management personnel compensation

	2017	2016
	$	$
Management fees	5,425	213,000
Professional and consulting fees	112,775	-
	118,200	213,000

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include directors, the chief executive officer and chief financial officer.

As at August 31, 2017, the Company has a balance payable of $86,415 (2016 - $32,750) to related parties, which is due on demand, unsecured and is non-interest bearing.

(Expressed in Canadian Dollars, unless otherwise noted)

11. Debt Settlements

During the year ended August 31, 2016, the Company entered into Debt Settlement Agreements with certain trade creditors for reduced cash payments whereby accounts payables totaling $155,019 were reduced to $76,679 and the remaining debt of $78,340 was forgiven.

In addition, the Company entered into Debt Settlement Agreements with its key management personnel whereby accrued management fees totaling $163,400 were reduced to $2,750 and the remaining debt of $160,650 was forgiven.

Accordingly the Company recorded an aggregate gain on debt settlements of $238,990 during the year ended August 31, 2016.

During the year ended August 31, 2017, the Company issued 540,000 units to settle outstanding debt and accounts payable totaling $210,000, consisting of one common share and one-half share purchase warrant, with each full warrant exercisable at a price of $0.25 per common share for a period of two years. The fair value of the units granted was estimated to be $135,000. As a result, the Company recorded a gain on settlement of debt of $75,000 (see Notes 7(b) and 9(b)).

12. Income Taxes

The difference between tax expense for the periods and the expected income taxes based on the combined federal and provincial statutory tax rate of 27% (2016 – 26%) arises as follows

	2017	**2016**
	$	$
Income tax recovery based on substantively enacted rates	(208,000)	(44,000)
Permanent differences and other	(186,000)	-
Effect of change in income tax rate	(36,000)	-
Changes in tax benefits not recognized	430,000	44,000
Net deferred tax (recovery)	-	-

Significant components of the company’s deferred income tax assets (liabilities) are as follows:

	2017	**2016**
	$	$
Non-capital loss carry forward	815,000	534,000
Share issuance costs and other	181,000	18,000
Convertible debentures	(14,000)	-
Unrecognized deferred income tax assets	982,000	552,000

The Company has available for deduction against future taxable income, Canadian non-capital losses of approximately $3,018,000 which will begin to expire in 2035.

(Expressed in Canadian Dollars, unless otherwise noted)

13. Supplemental Cash Flow Information

	2017	2016
	$	$
Income taxes paid	-	-
Interest paid	-	-
Common shares issued for interest on convertible debentures	97,500	-
Common shares issued for settlement of debt	135,000	150,000
Common shares issued for acquisition of Coachellagro Corp.	1,920,000	-

14. Subsequent Events

Subsequent to August 31, 2017:

a) The Company granted 2,150,000 stock options to certain directors, officers, employees and consultants of the Company exercisable for a period of two years at a price of $0.50 per common share.

b) The Company's board of directors approved the implementation of a restricted share unit plan (the "RSU Plan"), fixed stock option plan (the "Fixed Plan"), and grant of an aggregate of 2,550,000 restricted share units pursuant to the RSU Plan (each, an "RSU"). Under the RSU Plan, eligible persons may (at the discretion of the Board) be allocated a number of RSUs as the Board deems appropriate, with vesting provisions also to be determined by the Board, subject to a maximum vesting term of three (3) years from the end of the calendar year in which RSUs were granted. Upon vesting, eligible participants shall be entitled to a cash payment equal to the number of RSUs granted, multiplied by the fair market value of the Company's common shares on the redemption date. The Company shall also have the option (at the discretion of the Board) to settle amounts owing to eligible persons via the issuance of common shares of the Company.

   The Fixed Plan will replace the Company's "rolling" stock option plan. The Fixed Plan allows the board of directors to grant up to an aggregate of 2,679,868 stock options of the Company to encourage equity participation among senior officers, employees, consultants and directors through the acquisition of Common shares of the Company. The Fixed Plan will be submitted to the Company's shareholders for approval at its 2017 annual meeting of shareholders. Any stock options granted pursuant to the Fixed Plan after the date hereof and prior to shareholder approval will also be subject to, and will not be exercisable until disinterested shareholder approval has been obtained. If such approval is not obtained, the stock options granted under the Fixed Plan will terminate.

c) The Company issued 568,372 common shares in connection with the exercise of certain warrants outstanding from the January and August private placements.

d) The Company issued 383,876 common shares to Infrastructure Engineers as a retainer for future engineering services to be rendered on the Coachella Property.