THC BIOMED INTL LTD.

Consolidated Financial Statements

For the Years Ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

THC BIOMED INTL LTD.

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WOLRIGE MAHON

Independent Auditor's Report

To the Shareholders of THC BioMed Intl Ltd.

We have audited the accompanying consolidated financial statements of THC BioMed Intl Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at July 31, 2016 and 2015 and the consolidated statements of comprehensive loss, statements of changes in equity, and statements of 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 consolidated financial position of THC BioMed Intl Ltd. and its subsidiaries as at July 31, 2016 and 2015 and their performance and 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 to the consolidated financial statements which describes the material uncertainties that may cast significant doubt about the ability of THC BioMed Intl Ltd. and its subsidiaries to continue as a going concern.

"Wolrige Mahon LLP"

CHARTERED PROFESSIONAL ACCOUNTANTS

November 28, 2016, except as to Note 20, which is as of January 19, 2017
Vancouver, British Columbia

THC BIOMED INTL LTD.

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at		Restated (note 20) July 31 2016		July 31 2015
Assets				
Current				
Cash	$	**109,101**	$	51,710
Amounts receivable (note 5)		**124,551**		50
Goods and services tax receivable		**19,107**		44,467
Investment held for sale (note 6)		**-**		3,150
Advances to related parties (note 13)		**75,613**		100,604
Biological assets and inventory (note 7)		**-**		-
Prepaid expenses and deposits		**126,156**		33,058
		454,528		233,039
Non-current				
Property and equipment (note 8)		**1,146,445**		1,034,388
	$	**1,600,973**	$	1,267,427
Liabilities				
Current				
Accounts payable and accrued liabilities	$	**473,118**	$	1,456,072
Deferred revenues		**-**		250,000
Current portion of mortgages payable (note 10)		**23,802**		22,878
Promissory notes payable (note 9 and 13)		**135,000**		198,915
Advances from related parties (note 13)		**213,718**		126,165
		845,638		2,054,030
Non-current				
Promissory notes payable (note 9 and 13)		**-**		301,095
Mortgages payable (note 10)		**404,668**		427,006
		404,668		728,101
		1,250,306		2,782,131
Shareholders' Equity (Deficiency)				
Share capital (note 11)		**3,865,413**		1,734,048
Share subscription received in advance		**250,000**		-
Reserves		**70,652**		59,754
Accumulated deficit		**(3,835,398)**		(3,308,506)
		350,667		(1,514,704)
	$	**1,600,973**	$	1,267,427

Nature and continuance of operations (note 1)
Contingency (note 15)
Subsequent events (note 21)

These consolidated financial statements were authorized for issue by the Board of Directors on January 19, 2017. They are signed on the Company's behalf by:

"John Miller" Director

"Jason Walsh" Director

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

THC BIOMED INTL LTD.

Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	For the year ended	
	Restated (note 20) July 31 2016	July 31 2015
Sales	**$ -**	$ -
Loss on changes in fair value of biological assets (note 7)	**100,579**	-
Gross loss	**(100,579)**	**-**
Expenses		
General and administration (note 13)	**818,266**	1,904,316
Depreciation (note 8)	**46,895**	11,686
Share-based compensation (note 12)	**68,595**	59,754
	933,756	1,975,756
Other (income) expense items		
Consulting fees	**(250,000)**	-
Foreign exchange loss	**2**	7,420
Forgiveness of debt	**(126,527)**	-
Gain on sale of investment held for sale (note 6)	**(1,575)**	-
Interest income	**(885)**	(235)
Listing expense (note 2)	**-**	1,062,815
Scientific research and experimental development claims	**(119,010)**	-
Unrealized loss on investment held for sale	**-**	6,300
Write off deposit	**-**	10,000
	(497,995)	1,086,300
Net and comprehensive loss for the year	**$ (536,340)**	$ (3,062,056)
Basic and diluted loss per share	**$ (0.01)**	$ (0.08)
Weighted average number of shares outstanding	**89,072,034**	40,779,909

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

THC BIOMED INTL LTD.

Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Share Subscriptions Receivable	Share Subcription Received in Advance	Share-Based Payment Reserve	Deficit	Total Equity
Balance at July 31, 2015	75,674,620	$ 1,734,048	$ -	$ -	$ 59,754	$ (3,308,506)	$ (1,514,704)
Shares issued for cash	10,675,000	1,090,500	-	-	-	-	1,090,500
Share issuance costs	240,000	(38,900)	-	-	-	-	(38,900)
Shares issued for debt	8,359,924	906,516	-	-	-	-	906,516
Share subscription received in advance	-	-	-	250,000			250,000
Stock options exercised	1,250,000	173,249	-	-	(48,249)	-	125,000
Fair value of stock options cancelled	-	-	-	-	(9,448)	9,448	-
Share-based compensation	-	-	-	-	68,595	-	68,595
Loss for the year	-	-	-	-	-	(536,340)	(536,340)
Balance at July 31, 2016 - Restated (note 20)	**96,199,544**	**$ 3,865,413**	**$ -**	**$ 250,000**	**$ 70,652**	**$ (3,835,398)**	**$ 350,667**
Balance at July 31, 2014	23,040	$ 138,221	$ (115)	$ -	$ -	$ (246,450)	$ (108,344)
Shares issued as a private company	4,546	820,000	-	-	-	-	820,000
Share issuance costs as a private company	-	(65,600)	-	-	-	-	(65,600)
Share subscription received	-	-	115	-	-	-	115
Share restructuring	56,948,660	-	-	-	-	-	-
Shares issued for acquisition of Thelon Capital Ltd.	18,698,374	841,427	-	-	-	-	841,427
Share-based compensation	-	-	-	-	59,754	-	59,754
Loss for the year	-	-	-	-	-	(3,062,056)	(3,062,056)
Balance at July 31, 2015	75,674,620	$ 1,734,048	$ -	$ -	$ 59,754	$ (3,308,506)	$ (1,514,704)

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

THC BIOMED INTL LTD.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	For the year ended Restated (note 20) July 31 2016	July 31 2015
Cash provided by (used for)		
Operating activities		
Net loss for the year	**$ (536,340)**	$ (3,062,056)
Add items not affecting cash		
Accrued interest revenue	**(42)**	(50)
Accrued liabilities	**135,935**	166,693
Depreciation	**46,895**	11,686
Foreign exchange loss	**2**	7,420
Forgiveness of debt	**(126,527)**	-
Gain on sale of investment held for sale	**(1,575)**	-
Interest paid with shares	**14,331**	-
Listing expenses	**-**	1,062,815
Share-based compensation	**68,595**	59,754
Unrealized loss on investment held for sale	**-**	6,300
	(398,726)	(1,747,438)
Net change in non-cash working capital	**(749,568)**	1,351,715
	(1,148,294)	(395,723)
Financing activities		
Advances from (repaid to) related parties	**169,303**	(191,699)
Issuance of shares for cash, net of cash share issuance costs	**1,176,600**	754,400
Share subscription received in advance	**250,000**	-
Mortgage proceeds repaid	**(21,564)**	(26,639)
Promissory notes issued (repaid)	**(239,416)**	5,000
Share subscription received	**-**	115
	1,334,923	541,177
Investing activities		
Acquisition of property and equipment	**(158,952)**	(346,374)
Advances to related parties	**24,991**	5,838
Cash acquired in RTO transaction	**-**	267,398
Proceeds on sale of investment held for sale	**4,725**	-
	(129,236)	(73,138)
Effect of foreign exchange translation on cash	**(2)**	(7,420)
Net increase in cash	**57,391**	64,896
Cash (cheques written in excess of bank balance), beginning of year	**51,710**	(13,186)
Cash, end of year	**$ 109,101**	$ 51,710

Supplemental cash flow information (note 17)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

THC BioMed Intl Ltd. ("THC" or the "Company"), formerly Thelon Capital Ltd. ("Thelon"), was formed by a reverse take-over ("RTO") on January 14, 2015, by the shareholders of THC BioMed Ltd. and THC Meds Inc. (collectively the "THC Companies").

THC BioMed Intl Ltd. is a public company incorporated under the Company Act of British Columbia on February 2, 1982. The Company traded on the TSX Venture Exchange from February 4, 2010 until December 22, 2014 when the Company requested the Company's common shares be delisted. The Company also consolidated its share capital on a six old for one new basis on December 23, 2014. All references to share and per share amounts in these consolidated financial statements have been adjusted to reflect the share consolidation on a retrospective basis. On April 29, 2015, the Company was relisted and began trading on the Canadian Securities Exchange ("CSE") under the symbol THC.

On February 18, 2016, THC BioMed Ltd., a wholly-owned subsidiary of the Company, received its license to grow medical marijuana and on May 23, 2016, to produce cannabis oil and cannabis resin. THC BioMed Ltd. intends to cultivate medical marijuana and conduct scientific research and development in order to offer products and services through two revenue streams: (a) medical marijuana sales to other MMPR licensed producers; and (b) products and services related to medical marijuana.

The Company's corporate office and principal place of business is at Unit 27 – 2550 Acland Road, Kelowna, British Columbia, Canada, V1X 7L4.

These consolidated financial statements have been 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 for the foreseeable future. The continuing operations of the Company are dependent upon its ability to raise adequate financing to commence profitable operations in the future. To date the Company is considered to be in the development stage. These factors create material uncertainty that cast significant doubt about the Company being able to continue as a going concern. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Further discussion of liquidity risk has been disclosed in Note 19c.

2. REVERSE TAKE-OVER OF THELON CAPITAL LTD.

On January 14, 2015, the Company entered into a Share Exchange Agreement between the Company, THC BioMed Ltd. and THC Meds Inc. and the shareholders of the THC Companies which resulted in a Reverse Take-Over transaction for accounting purposes. Pursuant to the agreement, Thelon agreed to issue up to 67,200,000 common shares to the Vendors; 44,612,736 common shares of the Company were issued on January 14, 2015 and on January 22, 2015, 12,363,510 common shares of the Company were issued. The remaining up to 10,233,754 common shares were reserved as potentially issuable to consultants to the transaction and during fiscal 2016 this was resolved with the issuance of 6,660,000 common shares. An additional 16,600,000 common shares may be issued to the former shareholders of the THC Companies in the event a license pursuant to Canada's *Marihuana for Medical Purposes Regulations* ("MMPR") is received by one of the two subsidiaries.

2. REVERSE TAKE-OVER OF THELON CAPITAL LTD. (continued)

As a result of the RTO transaction, the THC Companies' shareholders control the Company and Thelon's name was changed to THC BioMed Intl Ltd. Since the mining exploration business of Thelon had been suspended, Thelon did not meet the definition of a business and the transaction was accounted for as the purchase of Thelon's net assets by the THC Companies. The net asset purchase price was determined as an equity settled share-based payment under *IFRS 2, Share-Based Payment*, at the fair value of the equity instruments of the Company retained by the shareholders of Thelon, based on the market value of the Company's common shares on the date the Company's stock last traded.

The transaction costs relating to the RTO plus the aggregate of the fair value of the consideration paid and the net liabilities acquired has been recognized as listing expenses in the consolidated statement of loss and comprehensive loss. There are no costs pertaining to the former mineral operations of Thelon after the date of the RTO and there are no prior operating revenues or costs of Thelon included in these consolidated financial statements.

The breakdown of listing expenses in the consolidated statement of comprehensive loss is as follows:

Purchase price of equity acquired	
18,698,374 common shares of Thelon Capital Ltd. at $0.045 per share	$ 841,427
Total of share-based payments	841,427
Cash acquired	(267,398)
Other working capital deficit acquired	488,786
Listing expenses	$ 1,062,815

3. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments that are measured at fair value and biological assets that are measured at fair value less costs to sell, as explained in the accounting policies. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

3. **BASIS OF PREPARATION** (continued)

c) Foreign currencies

i) Presentation and functional currency

The presentation and functional currency of the Company and its subsidiaries is the Canadian Dollar.

ii) Foreign currency transactions

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 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. Foreign exchange differences are recognized in the statement of comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

d) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its two wholly-owned subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. Subsidiaries are entities the Company controls when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

e) Significant accounting judgments and estimates

The preparation of the consolidated financial statements using accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The preparation of the consolidated financial statements also requires management to exercise judgment in the process of applying the accounting policies.

i) Critical accounting estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key estimates and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year:

(a) Impairment of non-financial assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the asset and a suitable discount rate in order to calculate present value. For the year ended July 31, 2016, the change in the fair value of biological assets was $100,579 (July 31, 2015 – $Nil).

3. BASIS OF PREPARATION (continued)

e) Significant accounting judgments and estimates (continued)

(b) Share-based compensation

Management is required to make certain estimates when determining the fair value of stock options awards, and the number of awards that are expected to vest. These estimates affect the amount recognized as share-based compensation in the Company's statements of comprehensive loss. For the year ended July 31, 2016, the Company recognized share-based compensation expense of $68,595 (July 31, 2015 - $59,754).

ii) Critical judgments used in applying accounting policies

In the preparation of these consolidated financial statements, management has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the consolidated financial statements:

(a) Acquisition of THC BioMed Ltd. and THC Meds Inc.

The determination that the acquisition of the THC Companies constituted a Reverse Take-Over transaction and the subsequent allocation of the listing expense required judgment.

(b) Purchase price allocation

The allocation of the purchase price and subsequent costs between land and building required judgment. The allocation was determined using the property tax assessments when the properties were acquired.

(c) Income taxes

The measurement of deferred income tax assets requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the audited annual financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

a) Cash

Cash in the statement of financial position is comprised of cash at banks and on hand which are readily convertible into a known amount of cash. The Company does not invest in any asset-backed deposits or investments. The Company has no material banking arrangements for overdrafts or borrowings.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Biological assets, agricultural produce and inventory

The Company's biological assets include marijuana plants used for cuttings to initiate the marijuana growing process, which have a useful life of approximately one year, and marijuana plants that are being cultivated to be harvested for their flowers, which are subsequently dried to produce the finished product and include the harvest-in-process and its mother plants. Its agricultural produce consists of harvested marijuana flowers prior to completion of the drying, grading, and testing processes. Its inventory consists of purchased materials and packaged dried marijuana. The Company recognizes a biological asset or agricultural produce when, and only when: (a) it controls the asset as a result of past events; (b) it is probable that future economic benefits associated with the asset will flow to the Company; and (c) the fair value or cost of the asset can be measured reliably.

Biological assets are measured on initial recognition and at the end of each reporting period at their fair value less costs to sell, unless the Company is unable to reliably measure the fair value thereof. Agricultural produce is measured on initial recognition at its fair value less costs to sell at the point of harvest. Finished goods are measured at the lower of cost or net realizable value, wherein the cost of the dried marijuana contained therein includes the carrying value of the agricultural produce at the date of its conversion.

Any gains or write downs of inventories to net realizable value are included in profit or loss in the statement of comprehensive loss at the time they are determined.

c) Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property and 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.

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

Equipment is depreciated annually at the following rates using the declining-balance method when the asset becomes available for use and, in the year of acquisition, only one-half of normal rates are used:

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Property and equipment (continued)

Buildings	4%
Computer equipment	55%
Warehouse and office equipment	20%
Furniture and fixtures	20%
Software	100%

d) Impairment

At each financial reporting date, the carrying amounts of the Company's long lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. 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 to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell, and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. 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 assessment of the time value of money and the risks specific to the asset. If 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 is reduced to its recoverable amount and the impairment loss is recognized in profit or loss in the statement of comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss in the statement of comprehensive loss.

e) Financial instruments

Financial assets and financial liabilities are recognized in the statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument. The Company does not have any derivative financial instruments.

i) Financial assets

The Company classifies its financial assets into categories, at initial recognition, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial instruments (continued)

(a) Fair value through profit or loss

This category comprises derivatives or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value, with changes in fair value recognized in profit or loss in the statement of comprehensive loss. The Company has not classified any financial assets as fair value through profit and loss.

(b) 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 carried at amortized cost using the effective interest rate method less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. The effective interest rate method is a method for calculating the amortized cost of a financial assets or financial liability and of allocating the interest income or interest expense over the relevant period. The Company has classified cash, amounts receivable, advances to related parties, and deposits as loans and receivables.

(c) Held-to-maturity investments

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are 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 profit or loss in the statement of comprehensive loss. The Company has not classified any financial assets as held-to-maturity investments.

(d) Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in other comprehensive income or loss ("OCI"). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from OCI and recognized in profit or loss in the statement of comprehensive loss. The Company has not classified any assets as an available-for-sale assets.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial instruments (continued)

i) Financial assets (continued)

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

ii) Financial liabilities

The Company classifies its financial liabilities into one of two categories depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

(a) Fair value through profit or loss

This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value, with changes in fair value recognized in profit or loss in the statements of comprehensive loss. The Company has not classified any financial liabilities as fair value through profit and loss.

(b) Other financial liabilities

The Company has classified accounts payable and accrued liabilities, promissory notes payable, mortgages payable, and advances from related parties as other financial liabilities. These liabilities are recognized at amortized cost using the effective interest rate method.

f) Share capital

i) Common shares

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

ii) Equity units

Proceeds received on the issuance of units comprised of common shares and warrants are allocated on the residual value method where proceeds are allocated to the common shares up to their fair value as determined by the current quoted trading price on the announcement date, and the balance, if any, to the reserve for the warrants.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Share capital (continued)

iii) Non-monetary consideration

Where share capital is issued, or received, as non-monetary consideration and the fair value of the asset received or given up is not readily determinable, the fair market value of the shares is used to record the transaction. The fair market value of the shares is based on the trading price of those shares on the appropriate stock exchange on the date of the agreement to issue or receive shares as determined by the board of directors.

g) Share-based compensation

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

The fair value of the options granted to employees 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 actual number of share options that are expected to vest.

The fair value of share options granted to non-employees is recognized as an expense in profit or loss and is recorded at the fair value of the services received, unless they are related to the issuance of shares. The amount related to the issuance of shares is recorded as a reduction of share capital.

When the value of services received in exchange for the share-based compensation cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

All share-based compensation is reflected in reserves until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

h) Equity reserves

Where share options or warrants expire or are cancelled, the fair value previously recognized is transferred from the equity reserve to accumulated deficit.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

j) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

k) Revenue recognition

Revenue arises from the sale of goods and the rendering of services. It is measured at the fair value of consideration received or receivable, excluding sales taxes, and reduced by any rebates and trade discounts allowed.

Revenue generated from providing consulting services is recognized as revenue in the period in which the service is performed. Where payment is received in advance of providing the service, the amount received is recognized as deferred revenue.

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Sales revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. The transfer of risks and rewards occurs when the product is received by the customer.

l) Income taxes

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized as equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the year end, adjusted for amendments to the tax payable with regards to previous years.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Income taxes (continued)

Deferred tax is provided using the liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

m) Contingencies

The Company recognizes loss contingency provisions for probable losses when management is able to reasonably estimate the loss. When the estimated loss lies within a range, the Company records a loss contingency provision based on its best estimate of the probable loss. If no particular amount within that range is a better estimate than any other amount, the minimum amount is recorded. As information becomes known, a loss contingency provision is recorded when a reasonable estimate can be made. The estimates are reviewed at each reporting date and the estimates are changed when expectations are revised. An outcome that deviates from the Company's estimate may result in an additional expense or release in a future accounting period.

n) New accounting standards and interpretations not yet adopted

The following accounting pronouncements have been released but have not yet been adopted by the Company:

IFRS 9 *Financial Instruments*

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 *Financial Instruments* (IFRS 9) as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

(Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) New accounting standards and interpretations not yet adopted (continued)

IFRS 9 *Financial Instruments* (continued)

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities. Management has not yet determined the potential impact the adoption of IFRS 9 will have on the Company's financial statements.

IFRS 15 *Revenue Recognition*

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* (IFRS 15). The new standard provides a comprehensive five-step revenue recognition model for all contracts with customers and requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Management has not yet determined the potential impact the adoption of IFRS 15 will have on the Company's financial statements.

5. AMOUNTS RECEIVABLE

	July 31 2016	July 31 2015
Bank of Montreal	**$ 42**	$ 50
Government of Canada (Scientific Research & Experimental Development Claim)	**111,169**	-
Supra Research and Development Inc.	**840**	-
Trans-Medica Ltd.	**12,500**	-
	$ 124,551	$ 50

6. INVESTMENT HELD FOR SALE

Number of Shares		**July 31, 2016 Cost**	**July 31, 2016 FMV**	July 31, 2015 Cost	July 31, 2015 FMV
315,000	Zadar Ventures Ltd.	**$ -**	**$ -**	$ 81,900	$ 3,150

On September 25, 2013, Thelon Capital Ltd. sold its 18% interest in the Pasfield Lake property which was part of the Athabasca Basin property and was previously written down to $Nil, to Zadar Ventures Ltd., a company with common directors, for gross proceeds of $25,000 cash and 315,000 common shares of Zadar Ventures Ltd. The 315,000 common shares of Zadar Ventures Ltd. were issued on October 2, 2013 and sold on December 3, 2015 for net proceeds of $4,725.

(Expressed in Canadian Dollars)

7. BIOLOGICAL ASSETS AND INVENTORY

	Mother Plants	Harvest in Progress	Inventory of Seeds	Total
Carrying amount, July 31, 2015	$ -	$ -	$ -	$ -
Cost of biological assets	19,254	71,948	9,377	100,579
Loss on changes in fair value of biological assets	(19,254)	(71,948)	(9,377)	(100,579)
Carrying amount, July 31, 2016	**$ -**	**$ -**	**$ -**	**$ -**

At July 31, 2016, the Company only had a license to produce and not a license to sell product from Health Canada; accordingly, all biological assets and inventory were valued at $Nil.

8. PROPERTY AND EQUIPMENT

	Land	Buildings	Warehouse and Lab Equipment	Warehouse and Lab Computer Equipment	Office Furniture and Equipment	Office Computer Equipment	Software	Total
Cost								
Balance at July 31, 2014	$ 181,577	$ 255,026	$ 6,612	$ 5,001	$ 2,087	$ 1,326	$ -	$ 451,629
Additions	225,030	325,913	15,679	23,358	5,301	-	1,093	596,374
Balance at July 31, 2015	406,607	580,939	22,291	28,359	7,388	1,326	1,093	1,048,003
Additions	16,006	104,414	28,051	4,209	4,037	2,235	-	158,952
Balance at July 31, 2016	**$ 422,613**	**$ 685,353**	**$ 50,342**	**$ 32,568**	**$ 11,425**	**$ 3,561**	**$ 1,093**	**$ 1,206,955**
Accumulated Depreciation								
Balance at July 31, 2014	$ -	$ -	$ -	$ 452	$ 584	$ 893	$ -	$ 1,929
Depreciation for the year	-	-	1,349	8,722	831	238	546	11,686
Balance at July 31, 2015	-	-	1,349	9,174	1,415	1,131	546	13,615
Depreciation for the year	-	25,326	6,993	11,708	1,599	722	547	46,895
Balance at July 31, 2016	**$ -**	**$ 25,326**	**$ 8,342**	**$ 20,882**	**$ 3,014**	**$ 1,853**	**$ 1,093**	**$ 60,510**
Carrying Amounts								
Balance at July 31, 2015	$ 406,607	$ 580,939	$ 20,942	$ 19,185	$ 5,973	$ 195	$ 547	$ 1,034,388
Balance at July 31, 2016	**$ 422,613**	**$ 660,027**	**$ 42,000**	**$ 11,686**	**$ 8,411**	**$ 1,708**	**$ -**	**$ 1,146,445**

The Company acquired the first property to house their warehouse and laboratory facilities in September of 2012 for $291,526, of which $162,140 was attributed to the land and $129,386 to the building. All costs of modifications to the property to meet all specifications required by Health Canada have been capitalized along with the mortgage interest until May 1, 2016 when growing commenced. For the year ended July 31, 2016, mortgage interest of $6,896 (July 31, 2015 - $8,302) was capitalized for the land and $5,230 (July 31, 2015 - $6,296) for the building.

8. PROPERTY AND EQUIPMENT (continued)

The Company acquired the second property to expand their warehouse facilities on October 2, 2014 for cash and mortgage payable totaling $341,604, of which $199,326 was attributed to the land and $142,278 to the building. All costs of modifications to the property to meet all specifications required by Health Canada have been capitalized along with the mortgage interest until May 1, 2016 when growing commenced. For the year ended July 31, 2016, mortgage interest of $9,109 (July 31, 2015 - $14,653) was capitalized for the land and $6,502 (July 31, 2015 - $8,472) for the building.

Depreciation began May 1, 2016 when the buildings were considered “in use” with the planting of the first crop of medical marijuana.

9. PROMISSORY NOTES PAYABLE

Thelon issued a promissory note in the principal amount of up to $150,000 on December 31, 2014 to BUA Capital Management Ltd., a private company controlled by a director, Jason Walsh. The note is without interest and due on December 31, 2016. At July 31, 2016, $135,000 (July 31, 2015 - $150,000) is owed against the note.

Thelon issued a promissory note in the principal amount of up to $155,000 on September 12, 2012 at 25% simple interest with the note and interest due on June 15, 2014. Thelon agreed to also issue common shares in such number to have an aggregate value of $37,500 on the day before the date upon which the shares are issued as additional consideration for providing funds to Thelon. On August 12, 2014, the note was amended to $107,363 being the outstanding principal of $58,000 plus accrued interest to that date of $49,363. The amended promissory note with accrued interest was due on April 15, 2016 with simple interest at the rate of 25%. On December 3, 2015, $125,269 (July 31, 2015 - $120,671) was owed with accrued interest which was paid in full by way of a cash payment of $52,640 plus the issuance of 83,334 shares at $0.12 per share, resulting in a gain on settlement of $62,629.

Thelon issued a promissory note in the principal amount of $12,700 on July 10, 2013 at 25% simple interest with the note and interest due on June 15, 2014. Thelon agreed to also issue common shares in such number to have an aggregate value of $3,175 on the day before the date upon which the shares are issued as additional consideration for providing funds to Thelon. On October 2, 2014, the note was amended for up to $35,000. The amended promissory note with accrued interest was due on December 31, 2016 with simple interest at the rate of 25%. Thelon agreed to also issue common shares in such number to have an aggregate value of $7,925 using the market price on the day before the date upon which the shares are issued as additional consideration for providing funds to Thelon. Prior to December 3, 2015, $24,200 was paid against the note. On December 3, 2015, $14,728 (July 31, 2015 - $37,308) was owed with accrued interest which was paid in full by the issuance of 122,732 shares at $0.12 per share.

Thelon issued a promissory note in the principal amount of $74,125 on August 15, 2014 to Thelon Diamond Company Limited, a private company with common directors. The amount is without interest and due on January 1, 2016. On December 3, 2015, $72,350 (July 31, 2015 – $72,350) was owed which was paid in full.

9. PROMISSORY NOTES PAYABLE (continued)

Thelon issued a promissory note in the principal amount of $25,000 on May 5, 2015 at 25% simple interest with the note and interest due on or before July 5, 2015; however, if the note is not paid by May 30, 2015, the Company agreed that the note will become a secured note by way of a second mortgage on the real property of the THC Companies. The Company also agreed to pay all legal fees associated with the registration of the mortgage including any title searches required to put the lender onto the mortgage title. The Company agreed to also issue common shares in such number to have an aggregate value of $6,250 using the market price on the day before the date upon which the shares are issued as additional consideration for providing funds to the Company. $10,000 of the amount of the promissory note was repaid prior to May 30, 2015 and no charge has been put against the real property. On December 3, 2015, $6,209 (July 31, 2015 - $5,894) was owed with accrued interest which was paid in full.

Thelon issued a promissory note in the principal amount of up to $30,543 on December 31, 2014 to GRW Inc., a private company controlled by a former director, Geoff Watson. The note is without interest and was due on December 31, 2016. On December 3, 2015, $30,543 (July 31, 2015 - $30,543) was owed which was paid in full by the issuance of 254,529 shares at $0.12 per share.

Thelon issued a promissory note in the principal amount of $20,000 on December 31, 2014 to International Ranger Corp., a public company with common directors. The note is without interest and was due on December 31, 2016. Prior to December 3, 2015, $12,001 was paid against the note. On December 3, 2015, $7,839 (July 31, 2015 - $19,840) was owed which was paid in full by the issuance of 65,328 shares at $0.12 per share.

The Company issued a promissory note in the principal amount of $90,377 on July 31, 2015 to John Miller, the President and Chief Executive Officer of the Company. The note is without interest and was due on December 31, 2016. On December 7, 2015, $63,403 (July 31, 2015 - $63,403) was owed which was paid in full.

10. MORTGAGES PAYABLE

The Company has a mortgage payable on its first property in the principal amount of $210,560 with interest at 5.50% per annum with monthly payments of $2,760 due on the 21st day of each month. The mortgage originally matured on September 21, 2015. On March 31, 2015, the mortgage was modified to mature on August 21, 2018 with interest at 10% per annum starting on September 22, 2015. At July 31, 2016, the balance payable is $189,645 (July 31, 2015 - $203,317) including accrued interest.

The Company has a mortgage payable on its second property in the principal amount of $250,000 with interest at 10% per annum with monthly payments of $2,656 due on the 2nd day of each month. The first payment was on November 2, 2014 and the mortgage matures on October 2, 2017. At July 31, 2016, the balance payable is $238,825 (July 31, 2015 - $246,567) including accrued interest.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL

a) Common shares

Authorized:

Unlimited number of common shares without par value

Issued:

	Issued Number		Amount
Balance at July 31, 2014	23,040	$	138,221
Shares issued as a private company, net of share issuance costs	4,546		754,400
Shares issued on restructuring	56,948,660		-
Shares issued for acquisition of Thelon Capital Ltd.	18,698,374		841,427
Balance at July 31, 2015	75,674,620		1,734,048
Shares issued for cash	10,675,000		1,090,500
Shares issued for debt	8,359,924		906,516
Shares issued for finder fees	240,000		(38,900)
Stock options exercised	1,250,000		125,000
Fair value of stock options exercised	-		48,249
Balance at July 31, 2016	**96,199,544**	**$**	**3,865,413**

On August 4, 2014, 240 common shares were issued for $0.01 per share for gross proceeds of $2, and 240 common shares were issued at $208.33 per share for gross proceeds of $49,999. A finder's fee of 8% was paid in the amount of $4,000.

On August 22, 2014, 240 common shares were issued for $0.01 per share for gross proceeds of $2.

On September 4, 2014, 240 common shares at $208.33 per share for gross proceeds of $49,999. A finder's fee of 8% was paid in the amount of $4,000.

On September 29, 2014, 3,586 common shares at $200.78 per share for gross proceeds of $719,998. A finder's fee of 8% was paid in the amount of $57,600.

On January 14, 2015, to effect the acquisition of Thelon Capital Ltd. (note 2) the Company implemented a share exchange whereby the former 27,586 common shares of the THC Companies were exchanged for 56,948,660 common shares of the Company.

On January 14, 2015, Thelon had 18,698,364 common shares outstanding prior to the RTO.

11. SHARE CAPITAL (continued)

a) Common shares (continued)

On October 26, 2015, the Company closed a non-brokered private placement of 4,119,583 units ("Unit") at a price of $0.06 per Unit for gross proceeds of $190,500 and settlement of $56,675 of short term debt. Each Unit consists of one common share and one common share purchase warrant exercisable at $0.15 per share until October 26, 2016. Warrants were valued at $Nil using the residual value method. A finder's fee of $2,900 was paid in cash along with 90,000 Units on the same terms for the private placement, for total a finder's fee of $8,300.

On November 6, 2015, the Company issued 4,660,000 common shares pursuant to a settlement agreement with Jacob Securities Inc. The shares were issued at a fair value of $0.12 per share and will be released pursuant to a stock restriction agreement over the course of 36 months. The value of the shares of $559,200 was recorded as consulting fees in fiscal 2015 and previously included in accounts payable and accrued liabilities.

On December 9, 2015, 250,000 stock options were exercised at $0.10 per share for gross proceeds of $25,000. The market price on the date of exercise was $0.10.

On December 10, 2015, the Company closed a non-brokered private placement of 7,500,000 units ("Unit") at a price of $0.12 per Unit for gross proceeds of $900,000. Each Unit consists of one common share and one common share purchase warrant exercisable at $0.25 per share until December 10, 2016. The warrants will have an acceleration clause such that, if after the required hold period, the shares in the Company trade above $0.30 for 10 consecutive trading days, the Company will notify the warrant holders that they have 30 days to exercise the warrants from the date that such notice is given. Warrants were valued at $Nil using the residual value method. A finder's fee of $36,000 was paid in cash along with 150,000 Units on the same terms for the private placement, for a total finder's fee of $54,000.

On December 10, 2015, the Company issued 755,341 common shares at $0.12 per share to settle $90,641 in debt. The market price on the date of exercise was $0.13.

On February 4, 2016, the Company issued 2,000,000 common shares pursuant to a settlement agreement with Cervus Business Management Inc. The shares were issued at a fair value of $0.10 per share and will be released pursuant to a stock restriction agreement over the course of 36 months. The value of the shares of $200,000 was recorded as consulting fees in fiscal 2015 and previously included in accounts payable and accrued liabilities.

On March 24, 2016, 500,000 stock options were exercised at $0.10 per share for gross proceeds of $50,000. The market price on the date of exercise was $0.13.

On May 24, 2016, 500,000 stock options were exercised at $0.10 per share for gross proceeds of $50,000.

b) Escrow shares

Currently 690 common shares (July 31, 2015 – 690) are held in escrow.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (continued)

c) Warrants outstanding

	Number of Warrants	Weighted Average Exercise Price
Balance at July 31, 2014	-	$ -
Warrants issued	8,416,666	$0.30/$0.60
Warrants exercised	(3,183,333)	0.30
Balance at July 31, 2015	5,233,333	$0.30/$0.60
Warrants issued	11,859,583	0.21
Balance at July 31, 2016	**17,092,916**	**$ 0.33**

Expiry Date	Remaining Life (Years)	Number of Warrants	Exercise Price
September 25, 2016 (note 20)	0.15	5,233,333	$ 0.60
October 26, 2016 (note 20)	0.24	4,209,583	$ 0.15
December 10, 2016	0.36	7,650,000	$ 0.25
		17,092,916	$ 0.33

On September 25, 2013, Thelon closed a non-brokered private placement of 8,416,666 units at $0.03 per unit for gross proceeds of $252,500. Each unit consisted of one common share and one warrant of the Company. Each warrant is exercisable to purchase one common share of the Company until September 25, 2016, at $0.30 per share until February 25, 2015 and at $0.60 during the remaining period. On March 19, 2015, the warrants which were exercisable at $0.30 per share until February 25, 2015 were extended to be exercisable at $0.30 per share until September 25, 2015 and then at $0.60 per share until September 25, 2016.

12. SHARE-BASED COMPENSATION

The Company is authorized to grant options to directors, officers, and employees to acquire common shares. The Company's previous stock option plan was cancelled and the Company has adopted the 2015 Stock Option Incentive Plan (the "Plan"). The essential elements of the Plan provide that the aggregate number of shares of the Company's capital stock issuable pursuant to options granted under the Plan may not exceed 10% of the issued common shares of the Company from time to time. Options granted under the Plan may have a maximum term of ten (10) years. The exercise price of options granted under the Plan will not be less than the fair market value price of the shares on the date of grant of the options (defined as the last closing market price of the Company's shares on the last day shares are traded prior to the grant date). Stock options granted under the Plan vest immediately subject to vesting terms which may be imposed at the discretion of the Directors. Stock options granted under the Plan are to be settled with the issuance of equity instruments.

The following summarizes the stock options outstanding:

(Expressed in Canadian Dollars)

12. SHARE-BASED COMPENSATION (continued)

	Number of Options		Weighted Average Exercise Price
Balance at July 31, 2014 and 2015	4,083,334	$	0.30
Options granted	1,000,000		0.10
Options cancelled/expired	(2,333,334)		0.44
Options exercised	(1,250,000)		0.10
Balance at July 31, 2016	**1,500,000**	**$**	**0.11**

Date of Grant	Expiry Date	Remaining Life (Years)	Number of Options Exercisable	Number of Options Outstanding		Exercise Price
July 22, 2015	July 22, 2017	0.98	500,000	500,000	$	0.13
October 5, 2015	October 5, 2017	1.18	1,000,000	1,000,000	$	0.10
			1,500,000	1,500,000	$	0.11

On July 10, 2015, Thelon granted 1,000,000 stock options to a consultant of the Company to acquire 1,000,000 common shares of the Company with an expiry date of July 10, 2017. 500,000 stock options have an exercise price of $0.10 per share and 500,000 stock options have an exercise price of $0.15 per share. The options vest over the course of one year with 25% vesting on the date of grant and 25% every four months following the date of grant. The options have a fair value, calculated using the Black-Scholes option pricing model, of $20,699 or $0.02 per option, assuming an expected life of 2 years, a risk-free interest rate of 0.50%, an expected dividend rate of 0.00%, stock price of $0.04 and an expected annual volatility coefficient of 147%. Volatility was determined using historical stock prices.

On July 22, 2015, Thelon granted 500,000 stock options to a consultant of the Company to acquire 500,000 common shares of the Company with an expiry date of July 22, 2017. 250,000 stock options have an exercise price of $0.10 per share and 250,000 stock options have an exercise price of $0.15 per share. The options vest over the course of one year with 25% vesting on the date of grant and 25% every four months following the date of grant. The options have a fair value, calculated using the Black-Scholes option pricing model, of $29,107 or $0.06 per option, assuming an expected life of 2 years, a risk-free interest rate of 0.43%, an expected dividend rate of 0.00%, stock price of $0.09 and an expected annual volatility coefficient of 158%. Volatility was determined using historical stock prices.

On July 28, 2015, Thelon granted 1,000,000 stock options to consultants of the Company to acquire 1,000,000 common shares of the Company with an expiry date of July 28, 2017. The options have a fair value, calculated using the Black-Scholes option pricing model, of $44,018 or $0.04 per option, assuming an expected life of 2 years, a risk-free interest rate of 0.44%, an expected dividend rate of 0.00%, and an expected annual volatility coefficient of 158%. Volatility was determined using historical stock prices.

(Expressed in Canadian Dollars)

12. SHARE-BASED COMPENSATION (continued)

On October 5, 2015, Thelon granted 1,000,000 stock options to employees of the Company to acquire 1,000,000 common shares of the Company with an expiry date of October 5, 2017. The options have a fair value, calculated using the Black-Scholes option pricing model, of $41,546 or $0.04 per option, assuming an expected life of 2 years, a risk-free interest rate of 0.51%, an expected dividend rate of 0.00%, stock price of $0.06 and an expected annual volatility coefficient of 165%. Volatility was determined using historical stock prices.

13. RELATED PARTY TRANSACTIONS

The Company has identified certain directors and senior officers as key management personnel. The following table lists the compensation costs paid to key management personnel and companies owned by key management personnel for the year ended July 31, 2016 and 2015:

	Consulting	Office and Administration	Salaries and Benefits	July 31, 2016 Total
BUA Capital Management Ltd.	$ 72,500	$ -	$ -	$ 72,500
BUA Group Holdings Ltd.	-	49,200	-	49,200
GRW Inc.	12,000	-	-	12,000
Hee Jung Chun	-	-	62,400	62,400
John Miller	-	-	62,400	62,400
PubliCo Services Ltd.	15,000	-	-	15,000
T. St. Denis, Inc.	92,255	-	-	92,255
	$ 191,755	**$ 49,200**	**$ 124,800**	**$ 365,755**

	Consulting	Office and Administration	Salaries and Benefits	July 31, 2015 Total
BUA Capital Management Ltd.	$ 49,355	$ -	$ -	$ 49,355
BUA Group Holdings Ltd.	-	26,980	-	26,980
GRW Inc.	19,742	-	-	19,742
Hee Jung Chun	-	-	64,990	64,990
John Miller	-	-	99,990	99,990
	$ 69,097	$ 26,980	$ 164,980	$ 261,057

13. RELATED PARTY TRANSACTIONS (continued)

BUA Capital Management Ltd. provided consulting services to the Company. It is a private company controlled by a director, Jason Walsh. On October 26, 2015, BUA Capital Management Ltd. was issued 250,000 Units (note 11a) at $0.06 for $15,000 in debt. At July 31, 2016, the Company owed $70,448 (July 31, 2015 - $4,933) to BUA Capital Management Ltd. which is included in advances from related parties, and $135,000 (July 31, 2015 - $150,000) which is included in the promissory notes payable.

BUA Group Holdings Ltd. provided administration services to the Company. It is a private company controlled by a director, Jason Walsh. At July 31, 2016, the Company owed $6,679 (July 31, 2015 - $Nil) to BUA Group Holdings Ltd.

Jason Walsh is a director and Chairman of the Company. At July 31, 2016, the Company owed $Nil (July 31, 2015 - $25,000) to Mr. Walsh for unpaid director fees which were written off as part of debt settlement on December 3, 2015. At July 31, 2016, the Company also owed $Nil (July 31, 2015 – $24,849) to Mr. Walsh.

Geoff Watson is the former Chief Financial Officer and a former director of the Company. At July 31, 2016, the Company owed $Nil (July 31, 2015 - $26,000) to Mr. Watson for unpaid director fees which were written off as part of debt settlement on December 3, 2015.

GRW Inc. provided consulting services to the Company until November 30, 2015. It is a private company controlled by the former Chief Financial Officer, Geoff Watson. At July 31, 2016, the Company owed $Nil (July 31, 2015 - $12,037) to GRW Inc., which was previously included in advances from related parties. At July 31, 2016, the Company owed $Nil (July 31, 2015 - $30,543), which was previously included in long term promissory notes payable, as the Company issued 254,529 common shares to GRW Inc. pursuant to a debt settlement on December 3, 2015 (note 9).

Hee Jung Chun is the Chief Financial Officer, a director of the Company, and co-founder of the THC Companies. Ms. Chun receives a salary from the THC Companies of $5,200 per month. At July 31, 2016, $36,400 (July 31, 2015 - $31,200) in accrued salaries to Ms. Chun is included in accounts payable and accrued liabilities. At July 31, 2016, the Company also owed Ms. Chun $125,239 (July 31, 2015 - $Nil), which is included in advances from related parties.

John Miller is the President and Chief Executive Officer of the Company, a director, and co-founder of the THC Companies. Mr. Miller receives a salary from the THC Companies of $5,200 per month. At July 31, 2016, $36,400 (July 31, 2015 - $31,200) in accrued salaries to Mr. Miller is included in accounts payable and accrued liabilities. At July 31, 2016, the Company also owed $Nil (July 31, 2015 – $63,403) to Mr. Miller, which was included in long term promissory notes payable as the Company paid the amount in full on December 7, 2015 (note 9). On October 26, 2015, Mr. Miller was issued 208,333 Units (note 11a) at $0.06 for $12,500 of debt.

PubliCo Services Ltd. provided compliance services to the Company. It is a private company owned by the former Corporate Secretary, Dianne Szigety. During her tenure as the Corporate Secretary, PubliCo Services Ltd. received consulting fees of $15,000 (July 31, 2015 - $Nil).

13. RELATED PARTY TRANSACTIONS (continued)

T. St. Denis, Inc. is a private accounting firm owned by the former Chief Financial Officer, Tracey A. St. Denis. T. St. Denis, Inc. provides accounting services to the Company. On October 26, 2015, T. St. Denis, Inc. was issued 250,000 Units (note 11a) at $0.06 for $15,000 of debt. During her tenure as the Chief Financial Officer, T. St. Denis, Inc. received consulting fees of $74,255 (July 31, 2015 - $Nil).

International Ranger Corp. is a public company with common directors. At July 31, 2016, the Company owed $Nil (July 31, 2015 - $19,840) to International Ranger Corp., which was previously included in long term promissory notes payable, as the Company paid $7,839 and issued 65,328 shares (see note 11a) pursuant to a debt settlement in December 2015. At July 31, 2016, the Company is owed $1,881 (July 31, 2015 - $Nil) from International Ranger Corp. which is included in advances to related parties.

Scout Exploration Inc. is a public company with common directors. At July 31, 2016, the Company owed $Nil (July 31, 2015 – $3,955) to Scout Exploration Inc. which was previously included in advances from related parties. The amount was paid on December 3, 2015.

Thelon Diamond Company Limited is a public company with a common director, Jason Walsh. At July 31, 2016, the Company owed $Nil (July 31, 2015 - $72,350) to Thelon Diamond Company Limited which was previously included in promissory notes payable and paid on December 3, 2015 (note 9). At July 31, 2016, the Company owes Thelon Diamond Company Limited $1,000 (July 31, 2015 - $22,892) which is included in advances from related parties.

At July 31, 2016, the Company owed $10,352 (July 31, 2015 - $Nil) to Thelon Diamonds Ltd., a private company controlled by a director of the Company, Jason Walsh. The amount is included in advances from related parties.

At July 31, 2016, the Company was owed $5,850 (July 31, 2015 - $10,453) from 1177129 Alberta Ltd., a private company controlled by a director of the Company, Jason Walsh. The amount is included in advances to related parties.

At July 31, 2016, the Company was owed $66 (July 31, 2015 - $66) from 782618 B.C. Ltd., a private company controlled by a director of the Company, Jason Walsh. The amount is included in advances to related parties.

At July 31, 2016, the Company was owed $613 (July 31, 2015 - $613) from United Zeolite Ltd., a private company with common directors. The amount is included in advances to related parties.

At July 31, 2016, the Company was owed $67,203 (July 31, 2015 - $89,472) from Zadar Ventures Ltd., a public company with common directors. The amount is included in advances to related parties.

Amounts due to or from related parties are unsecured, do not bear interest, and are classified as a current asset or liability due to their nature and expected time of repayment.

(Expressed in Canadian Dollars)

14. INCOME TAXES

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

		July 31 2016		July 31 2015
Loss before income taxes	**$**	**(536,340)**	$	(3,062,056)
Statutory Canadian corporate tax rate		**26.00%**		26.00%
Income tax recovery at statutory rates	**$**	**(139,448)**	$	(796,135)
Non-deductible items for tax purposes		**(1,494)**		295,300
Tax benefits not recognized		**140,942**		500,835
	$	**-**	$	-

The significant components of the Company's deferred income tax assets are as follows:

		July 31 2016		July 31 2015
Deferred income tax assets				
Investment	**$**	**-**	$	1,638
Equipment		**-**		(17,365)
Cumulative eligible capital		**59**		59
Share issuance costs		**27,680**		15,517
Non-capital losses available for future years		**705,189**		583,687
		732,928		583,536
Tax benefits not recognzied		**(732,928)**		(583,536)
	$	**-**	$	-

At July 31, 2016 the Company has non-capital tax losses of approximately $2,713,000 available for carry-forward to reduce future years' income taxes, expiring as follows:

Expiry Date		**Amount**
2033	**$**	**78,000**
2034		**244,000**
2035		**1,924,000**
2036		**467,000**
	$	**2,713,000**

Future tax benefits, which may arise as a result of applying these deductions to taxable income, have not been recognized in these accounts.

(Expressed in Canadian Dollars)

15. CONTINGENCY

During the year, a Notice of Civil Claim was received by the Company from Jacob Securities Inc. (the "Complainant") claiming that the Company is in breach of a settlement agreement dated September 10, 2015 (the "Settlement Agreement"). The Complainant alleges it is owed delivery of certain original share certificates from the Company and possible damages. The Complainant alleges that pursuant to the Settlement Agreement, it was entitled to 4,660,000 common shares of the Company plus an additional 1,600,000 shares on the occurrence of certain events. The Complainant acknowledges it received from the Company and sold 1,165,000 shares but alleges at a later date that 3,495,000 of the remaining shares in its possession were represented by copies and not original share certificates. The Company intends to vigorously defend itself from this lawsuit as it believes it has meritorious defences to this action. Although it is not possible to predict the outcome of the pending litigation, the Company believes that the action will not have a material adverse effect upon the results of operations, cash flow, or financial condition of the Company.

16. SEGMENTED INFORMATION

The Company operates in a single reportable segment being the scientific research and development, and cultivation of medical marijuana in Canada.

17. SUPPLEMENTAL CASH FLOW INFORMATION

	July 31 2016	July 31 2015
Debt settled with share issuance	**$ 906,516**	$ -
Fair value of stock options cancelled	**$ 9,448**	$ -
Fair value of stock options exercised	**$ 48,249**	$ -
Income taxes paid	**$ -**	$ -
Interest paid	**$ 41,941**	$ 50,613
Interest received	**$ 843**	$ 186

18. OPERATING LEASE COMMITMENTS

The Company signed a 36 month lease for high performance liquid chromatography equipment for the laboratory. The lease began on October 31, 2013 with monthly payments of $2,651.

The Company signed a 36 month lease for a Toyota Matrix. A vehicle is to be available to the Quality Assurance person at all times to conduct their duties and in case of an emergency, as stipulated in the MMPR. The lease began on September 3, 2013 with monthly payments of $430.

The Company signed a 36 month lease for a Toyota Venza. A vehicle is to be available to the Responsible Person in Charge at all times in case of an emergency, as stipulated in the MMPR. The lease began on October 1, 2014 with monthly payments of $757.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value of financial instruments

The carrying values of cash, amounts receivable, advances due to/from related parties, accounts payable and accrued liabilities, and current promissory notes payable approximate their carrying values due to the immediate or short-term nature of these instruments.

b) Fair value hierarchy

IFRS 13, Fair Value Measurement, establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

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 (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The investment held for sale was valued using a Level 1 valuation technique.

c) Financial risk management

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

i) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist primarily of cash, amounts receivable, and advances to related parties. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada. For amounts receivable, the Company limits its exposure to credit risk by dealing with what management believes to be financially sound counterparties. The Company's financial assets are not subject to material credit risk as it does not anticipate significant loss for non-performance.

ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments, or the proposed transaction. The Company manages liquidity risk by maintaining adequate cash balances.

The Company's expected source of cash flow in the upcoming year will be through debt or equity financing. Cash on hand at July 31, 2016 and expected cash flows for the next 12 months are not sufficient to fund the Company's ongoing operational needs. The Company will need funding through equity or debt financing, entering into joint venture agreements, or a combination thereof.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

c) Financial risk management (continued)

iii) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

Interest rate risk consists of two components: to the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk; and to the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate risk.

Current financial assets and financial liabilities are generally not exposed to significant interest rate risk because of their short-term nature, fixed interest rates, and maturity. The Company is not exposed to interest rate risk on the promissory note payable as it is without interest.

The Company is exposed to interest rate risk when the mortgages payable mature if there is not significant cash available at that time and a mortgage renewal is required.

(b) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities area denominated in a foreign currency.

At July 31, 2016, the Company is exposed to foreign currency risk with respect to its US denominated bank accounts. At July 31, 2016, financial instruments were converted at a rate of $1.00 US to Canadian $1.3041. At July 31, 2016, the cash in US denominated bank accounts was minimal.

The Company has not entered into any foreign currency contracts to mitigate foreign currency risk.

(c) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through a suitable debt and equity balance appropriate for an entity of the Company's size and status. The Company's overall strategy remains unchanged from last year.

(Expressed in Canadian Dollars)

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

c) Financial risk management (continued)

iii) Market risk (continued)

(c) Capital risk management (continued)

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, warrants, reserves, and deficit. The availability of new capital will depend on many factors including positive stock market conditions, the Company's track record, and the experience of management. The Company is not subject to any external covenants on its capital.

(d) Price risk

Price risk is the risk that the fair value of investments will decline below the cost of the underlying investments. The Company is not exposed to price risk as it has no investments held for sale.

20. CORRECTION OF MISSTATEMENT

The Company incorrectly recorded the receipt of $250,000 as a consulting fee rather than a share subscription received in advance. The applicable Goods and Services Tax was also recorded. The consolidated financial statements have been restated as detailed in the following tables:

Consolidated Statements of Financial Position

	Previously Reported	Correction of Error	Restated
Amounts receivable	$ 137,051	$ (12,500)	$ 124,551
Goods and services tax receivable	6,607	12,500	19,107
Share subscription received in advance	-	250,000	250,000
Accumulated deficit	(3,585,398)	(250,000)	(3,835,398)

Consolidated Statements of Comprehensive Loss

	Previously Reported	Correction of Error	Restated
Consulting fees	$ 500,000	$ (250,000)	$ 250,000
Total other (income) expense items	(747,995)	250,000	(497,995)
Net and comprehensive loss for the year	(286,340)	(250,000)	(536,340)
Loss per share	0.00	(0.01)	(0.01)

(Expressed in Canadian Dollars)

20. CORRECTION OF MISSTATEMENT (continued)

Consolidated Statements of Changes in Equity

	Previously Reported	Correction of Error	Restated
Share subscription received in advance	$ -	$ 250,000	$ 250,000
Loss for the year	(286,340)	(250,000)	(536,340)

Consolidated Statements of Cash Flows

	Previously Reported	Correction of Error	Restated
Net loss for the year	$ (286,340)	$ (250,000)	$ (536,340)
Net change in operating activities	(898,294)	(250,000)	(1,148,294)
Share subscription received in advance	-	250,000	250,000
Net change in financing activities	1,084,923	250,000	1,334,923

21. SUBSEQUENT EVENTS

Effective August 1, 2016, director fees of $500 per month, on a month to month basis, are payable to John Miller, Hee Jung Chun, and George Smitherman. Jason Walsh declined the compensation.

On September 12, 2016, 1,000,000 common shares were issued pursuant to a private placement at $0.25 per share for gross proceeds of $250,000.

On September 20, 2016, the Company signed a 36 month lease to expand its facility in Kelowna, BC by renting an adjacent unit to the current property. The lease began on September 1, 2016 with monthly payments of $2,104. The lease includes an option for a further two terms of 36 months each.

On September 22, 2016, 250,000 stock options were exercised at $0.10 per share for gross proceeds of $25,000 and 250,000 stock options were exercised at $0.15 per share for gross proceeds of $37,500.

On September 26, 2016, the Company announced that it has signed a Letter of Intent to purchase 100% of Clone Shipper LLC, a US based company specializing in the packaging products used to transport live plants, for US$1,000,000.

On October 17, 2016, the Company announced that Health Canada has amended its license to allow the Company to sell its product to other licensed producers.

On October 27, 2016, the Company signed a Distribution Agreement with Clone Shipper LLC. Under this agreement, the Company has the distribution rights for all Clone Shipper products in Canada. The Distribution Agreement is for a period of two years for which the Company paid US$75,000.

21. SUBSEQUENT EVENTS (continued)

Subsequent to July 31, 2016, 774,332 warrants were exercised at $0.60 for gross proceeds of $464,599 and 4,459,001 warrants expired at $0.60.

Subsequent to July 31, 2016, 4,209,583 warrants were exercised at $0.15 for gross proceeds of $631,437.