HEMPCO FOOD AND FIBER INC.

Consolidated Financial Statements

(Expressed in Canadian Dollars)

Years Ended August 31, 2017 and 2016

HEMPCO FOOD AND FIBER INC.

MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Hempco Food and Fiber Inc.

We have audited the accompanying consolidated financial statements of Hempco Food and Fiber Inc. which comprise the consolidated statements of financial position as at August 31, 2017 and 2016, and the consolidated statements of comprehensive loss, changes in equity 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 audits 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 Hempco Food and Fiber Inc. 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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Hempco Food and Fiber Inc. to continue as a going concern.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
December 21, 2017

HEMPCO FOOD AND FIBER INC.

Consolidated Statements of Financial Position
As at August 31, 2017 and 2016
(Expressed in Canadian Dollars)

	Notes	**2017**	2016
		$	$
ASSETS			
Current			
Cash		**43,020**	1,454,047
Sales tax recoverable		**39,094**	64,444
Accounts receivable	17(b)	**523,387**	342,480
Inventory	6	**1,539,365**	1,557,863
Available-for-sale investments	8	**66,166**	45,176
Prepaid expenses	7	**110,735**	212,735
Deposits		–	67,500
		2,321,767	3,744,245
Deposits		**152,350**	78,244
Property and equipment	9	**2,524,580**	1,307,023
		4,998,697	5,129,512
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	12	**1,541,338**	1,203,024
Loans	10	**750,000**	–
Income taxes payable		–	416
Deferred revenue		–	216,851
		2,291,338	1,420,291
Shareholders' equity			
Share capital	11	**5,774,480**	5,526,059
Subscriptions receipts receivable	11	–	(983,500)
Reserves	11	**2,241,092**	1,863,322
Accumulated other comprehensive loss		**(807)**	(21,797)
Deficit		**(5,307,406)**	(2,674,863)
		2,707,359	3,709,221
		4,998,697	5,129,512

Nature of operations and going concern (Note 1)
Commitments (Note 15)
Subsequent events (Note 19)

Approved on behalf of the Board of Directors:

"Charles Holmes" *"Joel Watson"*

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

Consolidated Statements of Comprehensive Loss
For the years ended August 31, 2017 and 2016
(Expressed in Canadian Dollars)

	Notes	2017	2016
		$	$
Revenues	18	**6,548,507**	5,240,639
Cost of sales		**5,663,779**	3,705,632
Gross profit		**884,728**	1,535,007
Expenses			
Bank charges		**21,146**	17,279
Consulting fees		**214,026**	227,311
Depreciation	9	**4,038**	1,696
Investor relations and marketing		**159,721**	70,073
Foreign exchange loss		**17,454**	20,240
Professional fees		**407,951**	321,435
Regulatory and transfer agent		**16,741**	22,678
Research and development		**40,163**	69,817
Selling, general and administration	12	**2,052,884**	1,066,150
Share-based compensation	11	**470,861**	1,014,928
Travel and promotion		**145,464**	105,178
		3,550,449	2,936,515
Net loss before other items		**(2,665,721)**	(1,401,508)
Other items			
Listing expense	4	–	(1,866,146)
Interest income		**1,392**	–
Grant income		**53,099**	–
Interest expense		**(21,313)**	–
Loss before tax		**(2,632,543)**	(3,267,654)
Income tax recovery	14	–	26,136
Net loss for the year		**(2,632,543)**	(3,241,518)
Other comprehensive income (loss)			
Unrealized gain (loss) on available-for-sale investments	8	**20,990**	(21,797)
Comprehensive loss for the year		**(2,611,553)**	(3,263,315)
Loss per common share			
Basic and diluted		**(0.08)**	(0.14)
Weighted average number of common shares outstanding			
Basic and diluted		**34,369,389**	23,757,181

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

HEMPCO FOOD AND FIBER INC.

Consolidated Statement of Changes in Equity
For the years ended August 31, 2017 and 2016
(Expressed in Canadian Dollars)

		Share capital						
	Notes	Number of shares	Amount	Reserves	Accumulated other comprehensive loss	Subscription receipts (receivable)	Retained earnings (deficit)	Total
		#	$	$	$	$	$	$
Balance, August 31, 2015		**20,000,000**	**100**	–	–	**145,000**	**566,655**	**711,755**
Common shares issued for finder's fee	4,11	300,000	120,000	–	–	–	–	120,000
Common shares issued to Genview shareholders	4,11	4,200,000	1,680,000	–	–	–	–	1,680,000
Common shares issued on conversion of promissory notes	5,11	2,029,688	649,500	–	–	(145,000)	–	504,500
Shares issued for cash	11	7,582,500	3,470,000	–	–	(983,500)	–	2,486,500
Share issuance costs	11	–	(248,936)	–	–	–	–	(248,936)
Fair value of finder's warrants	11	–	(144,605)	144,605	–	–	–	–
Fair value of consultant warrants	11	–	–	685,074	–	–	–	685,074
Share-based compensation on options and warrants issued	11	–	–	329,854	–	–	–	329,854
Shareholder loan forgiveness	12(f)	–	–	703,789	–	–	–	703,789
Unrealized loss on available for sale investments	8	–	–	–	(21,797)	–	-	(21,797)
Net loss for the year		–	–	–	–	–	(3,241,518)	(3,241,518)
Balance, August 31, 2016		**34,112,188**	**5,526,059**	**1,863,322**	**(21,797)**	**(983,500)**	**(2,674,863)**	**3,709,221**
Shares issued on exercise of warrants	11	264,700	196,217	(90,337)	–	–	–	105,880
Shares issued on exercise of options	11	8,000	5,954	(2,754)	–	–	–	3,200
Shares issued for services	11	125,000	46,250	–	–	–	–	46,250
Proceeds received from share subscriptions		–	–	–	–	983,500	–	983,500
Share based compensation	11	–	–	470,861	–	–	–	470,861
Unrealized loss on available for sale investments	8	–	–	–	20,990	–	–	20,990
Net loss for the year		–	–	–	–	–	(2,632,543)	(2,632,543)
Balance, August 31, 2017		**34,509,888**	**5,774,480**	**2,241,092**	**(807)**	–	**(5,307,406)**	**2,707,359**

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

HEMPCO FOOD AND FIBER INC.
Consolidated Statements of Cash Flows
For the years ended August 31, 2017 and 2016
(Expressed in Canadian Dollars)

	2017	2016
	$	$
Cash flows used in operating activities		
Net loss for the year	**(2,632,543)**	(3,241,518)
Items not affecting cash:		
Depreciation	**161,096**	213,069
Income tax recovery	–	(26,136)
Share-based compensation	**470,861**	1,014,928
Listing expense	–	1,866,146
Shares issued for services	**46,250**	–
	(1,954,336)	(173,511)
Non-cash working capital items:		
Accounts receivable	**(180,907)**	217,583
Inventory	**18,498**	(844,464)
Sales tax recoverable	**25,350**	(16,710)
Prepaid expenses and deposit	**169,500**	(308,544)
Accounts payable and accrued liabilities	**338,314**	255,261
Income taxes payable	**(416)**	(62,530)
Deferred revenue	**(216,851)**	216,849
Net cash used in operating activities	**(1,800,848)**	(716,066)
Cash flows used in investing activities		
Deposits	**(74,106)**	
Acquisition of property and equipment	**(1,378,653)**	(806,680)
Sale of equipment	–	30,314
Net cash used in investing activities	**(1,452,759)**	(776,366)
Cash flows from financing activities		
Bank indebtedness and loans	**750,000**	(138,437)
Cash acquired from qualifying transaction	–	342,852
Proceeds received from issuance of shares	**109,080**	–
Proceeds received from issuance of promissory notes	–	504,500
Common shares issued for cash	–	2,486,500
Subscriptions received	**983,500**	–
Share issuance costs	–	(248,936)
Net cash provided by financing activities	**1,842,580**	2,946,479
Change in cash	**(1,411,027)**	1,454,047
Cash, beginning of the year	**1,454,047**	–
Cash, end of the year	**43,020**	1,454,047

Supplemental cash flow information (Note 13)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Hempco Food and Fiber Inc. (the "Company" or "HFF"), formerly Genview Capital Corp. ("Genview") was incorporated on March 15, 2007 under the laws of British Columbia and commenced trading on the TSX Venture Exchange ("TSX-V") on August 31, 2007.

The Company's head office and principal address is Suite 112, 5589 Byrne Road, Burnaby, BC. The registered and records office is Suite 900-885 West Georgia Street, Vancouver, British Columbia, V6C 3H1.

On April 15, 2016, Genview completed a qualifying transaction (the "Qualifying Transaction" or "QT") by acquiring Hempco Canada Superfoods Inc. ("Hempco Superfoods"), formerly Dharma Distributors Ltd., a private company incorporated under the laws of British Columbia (see Note 4). The Company's primary business activity is manufacturing and sale of hemp seed food products for human and animal consumption.

The Qualifying Transaction was accomplished through an exchange of shares which resulted in the former shareholders of Hempco Superfoods obtaining control of the Company. Accordingly, this transaction was recorded as a reverse acquisition for accounting purposes as Hempco Superfoods was deemed to be the acquirer. These consolidated financial statements are a continuation of the financial statements of Hempco Superfoods while the capital structure is that of the Company. The consolidated financial statements include the historical operations and assets and liabilities of Hempco Superfoods from its inception and those of Genview from April 15, 2016 to August 31, 2016 and for the year ended August 31, 2017.

Concurrent with this transaction, the Company changed its name from Genview Capital Corp. to Hempco Food and Fiber Inc., and effected a change in directors, management and business. On April 20, 2016, the Company's common shares resumed trading on the TSX-V under the symbol "HFF". Effective November 17, 2016, the Company changed its trading symbol to "HEMP".

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. During the year ended August 31, 2017 the Company had negative cash flows from operations, and as at August 31, 2017 had working capital and an accumulated deficit of $30,429 and $5,307,406 respectively. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon its ability to raise financing and generate profits and positive cash flows from operations in order to cover its operating costs. From time to time, the Company generates working capital to fund its operations by raising additional capital through equity or debt financing. However, there is no assurance it will be able to continue to do so in the future. As noted in Note 19, the Company raised $3.,246,793 subsequent to August 31, 2017, pursuant to the closing of a private placement with Aurora Cannabis Inc. ("Aurora") and also raised a further $2,074,645 million pursuant to the exercise of warrants and options. These consolidated financial statements do not give effect to any adjustments required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements.

2. BACKGROUND AND BASIS OF PRESENTATION

The consolidated financial statements were approved and authorized for issuance on December 21, 2017 by the Board of Directors of the Company.

a) Basis of Presentation, Functional Currency and Basis of Consolidation

These consolidated financial statements, including comparatives, have been 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").

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs except for certain financial instruments which are measured at fair value. The consolidated financial statements are presented in Canadian dollars, the Company's functional currency, unless otherwise noted.

These consolidated financial statements include the assets and operations of HFF, Hempco Superfoods, Hempco Europe Ltd. ("Hempco Europe"), and Natural Fibre Technologies Ltd. ("NFT").

Hempco Europe is a wholly-owned subsidiary of Hempco Superfoods which was incorporated under the Registrar of Companies for England and Wales on November 12, 2015. As at August 31, 2017, Hempco Europe has not commenced operations.

NFT was incorporated on August 4, 2016 in the province of Alberta under a joint arrangement between the Company and a third party (see Note 9).

All inter-company balances and transactions have been eliminated on consolidation.

b) Significant accounting judgements and estimates

The preparation of these consolidated financial statements requires management to make judgments in applying accounting policies. Judgments that have the most significant effect on the amounts recognized in the consolidated financial statements are described below. Management also makes assumptions and critical estimates. Critical estimates are those which are most subject to uncertainty and have the most significant risk of resulting in a material change to the carrying amounts of assets and liabilities within the next year. Judgments, assumptions and estimates are based on historical experience, business trends and all available information that management considers relevant at the time of the preparation of the consolidated financial statements. However, future events and their effects cannot be anticipated with certainty and so as confirming events occur, actual results could ultimately differ from assumptions and estimates. Such differences could be material.

The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of these consolidated financial statements.

<u>Critical Judgments</u>

Impairment Assessments of Long-Lived Assets

Impairment indicators include a significant decline in an asset's market value, significant changes in the technological, market, economic or legal environment in which the assets are operated, evidence of obsolescence or physical damage of an asset, significant changes in the planned use of an asset, or ongoing under-performance of an asset. Application of these factors to the facts and circumstances of a particular asset requires a significant amount of judgment.

Functional currency

The functional currency is the currency of the primary economic environment in which an entity operates and has been determined by the Company to be the Canadian dollar for the Company and its subsidiaries.

Deferred tax assets and liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets and liabilities will be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

Consolidation

Management exercises judgement in determining whether the Company must consolidate an entity. The Company controls an entity only if it has decision making authority regarding the entity's relevant activities; has exposure or rights to variable returns from its involvement with the entity; and has the ability to use its power to affect the amount of the returns. When determining whether a decision-making authority exists, many factors are taken into account, including the existence and effect of actual and potential voting rights held by the Company that can be exercised. In addition, the Company must determine whether, as an investor with decision-making rights, it acts as a principal or agent.

Based on these principles, an assessment of control is performed at the inception of a relationship between any entity and the Company. When performing this assessment, the Company considers all facts and circumstances, and it must reassess whether it still controls an investee if facts and circumstances indicate there are changes to one or more of the three conditions of control. The Company consolidates the entities it controls from the date on which control is obtained and ceases to consolidate them from the date control ceases. The Company uses the acquisition method to account for the acquisition of a subsidiary from a third party on the date control is obtained.

Key Sources of Estimation Uncertainty

Significant estimates made by management affecting the financial statements include:

Useful life of property and equipment

Property and equipment is depreciated over its estimated useful life. Estimated useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset, the potential for technological obsolescence, and regulations.

Share-based payments

The Company uses the Black-Scholes option pricing model to determine the fair value of options and warrants in order to calculate share-based payments expense and the fair value of agent warrants. The Black-Scholes model involves six key inputs to determine fair value of an option: risk-free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life, and expected volatility. Certain of the inputs are estimates that involve considerable judgment and are or could be affected by significant factors that are out of the Company's control. The Company is also required to estimate the future forfeiture rate of options based on historical information in its calculation of share-based payments expense.

Inventory

In calculating the value of inventory, management is required to make a number of estimates, including estimating the manufacturing costs, selling costs, wastage and expected yields for the finished goods. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost to estimated net realizable value.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents, when applicable, are designated as fair value through profit or loss ("FVTPL") and include cash on account, demand deposits and money market investments with maturities from the date of acquisition of 90 days or less, which are readily convertible to known amounts of cash and are subject to insignificant changes in value. As at August 31, 2017, the Company had no cash equivalents.

Foreign currency translation

The reporting currency of the Company is the Canadian dollar.

Transactions in currencies other than the entity's functional currency are translated at the exchange rates in effect on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of the exchange in effect as at the statement of financial position date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities. Foreign currency differences arising on translation are recognized in the consolidated statements of comprehensive loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and discounts. The Company considers the terms of the sales contracts as well as industry practices, taking into consideration the type of customer, the nature of the transaction and the specific circumstances of each arrangement.

The Company's revenue is comprised of sales of its product line which consists of hemp nut, hemp protein and hemp oil. The Company recognizes revenues on product sales at the time the product is delivered. At the time of delivery the following criteria for revenue recognition are met: title has transferred to the customer according to the shipping terms, the Company no longer retains managerial involvement with the product associated with ownership, the amount of revenue and costs incurred with respect to the underlying transaction are measured reliably, and collection of the related receivable is probable. Anticipated product returns are provided for at the time of sale.

Trade receivables

Trade receivables are recognized initially at fair value less allowances made for doubtful receivables based on a review of year-end trade receivables, and do not carry any interest. An allowance for doubtful accounts receivables is generally made when there is objective evidence that the Company will not be able to collect the amounts due according to original payment terms or when there are indications of collection issues related to specific customers.

As at August 31, 2017, a provision for doubtful accounts of $36,723 (2016 - $Nil) was recorded by the Company.

Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost is determined using the standard costing method which is updated regularly to reflect current conditions and approximate cost based on the first-in, first-out costing method. Cost of inventory includes cost of purchase (purchase price, transport, handling, and other costs directly attributable to the acquisition of inventories), cost of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

All inventories are reviewed for impairment due to slow moving and obsolete inventory. The provisions for obsolete, slow moving or defective inventories are recognized in profit or loss. Previous write downs to net realizable value are reversed to the extent there is a subsequent increase in the net realizable value of the inventory.

Property and equipment

Property and equipment is recorded at cost less accumulated depreciation and impairment losses. The Company provides for depreciation using the following methods at rates designed to depreciate the cost of the equipment over their period of expected useful life. A half year of depreciation is recorded in the year of acquisition. No depreciation is recorded in the year of disposal or on assets under construction. The estimated useful lives of assets are reviewed by management and adjusted if necessary. The annual depreciation rates and methods are as follows:

Asset	Rate	Basis
Computer hardware	45 - 55%	Declining balance
Machinery	20%	Declining balance
Leasehold improvements	5 years, life of lease	Straight-line

Cost includes expenditures that are directly attributable to the acquisition of the asset or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to profit or loss during the period they are incurred.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its related cash generating unit ("CGU") exceeds its estimated recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit or loss for the period. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the CGU on a pro-rata basis.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to deprecation and are tested annually for impairment.

Investments in joint arrangements

Investments in joint arrangements, i.e., entities over which the Company exercises joint control and has rights to the assets and obligations for the liabilities are accounted for in proportion to the Company's rights to the joint arrangement's assets and obligations for the liabilities and entitlement of the revenues and expenses.

Share capital

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

Deferred financing costs incurred in connection with the issuance of common shares are capitalized until the financing is completed. In the event that the financing is not completed, these costs are expensed to profit or loss.

Proceeds that are received in advance of the completion of an issuance of common shares are recorded within equity as subscriptions received in advance.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost. The Company does not have any provisions for the periods presented.

Income taxes

Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantially enact at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purpose. Deferred tax is not recognized for the following temporary differences; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable operations and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to the applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Financial instruments

All financial instruments are initially recognized at fair value. The Company has classified each financial instrument into one of the following categories: (1) financial assets or liabilities at fair value through profit or loss ("FVTPL"), (2) loans and receivables, (3) financial assets available-for-sale, (4) financial assets held-to maturity, and (5) other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in profit or loss. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax.

Financial assets "held-to-maturity", "loans and receivables", and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method. The Company's financial assets and liabilities are recorded and measured as follows:

Asset or Liability	**Category**	**Measurement**
Cash	FVTPL	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Available-for-sale investments	Financial assets available-for-sale	Fair value
Accounts payable	Other liabilities	Amortized cost
Loans	Other liabilities	Amortized cost

The Company determines the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Cash and available-for sale securities are measured at fair value using Level 1 inputs.

There has been no change between the fair value levels during the years ended August 31, 2017 and 2016.

Earnings (loss) per share

Earnings (loss) per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of share options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding share options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

Share-based compensation

Equity-settled share-based compensation to employees and others providing similar services are measured at the fair value of equity instruments at the grant date. The fair value is measured at grant date, using the Black-Scholes option pricing model, and each tranche is recognized on a graded-vesting basis over the period in which options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

Equity-settled share-based compensation transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Consideration received on the exercise of stock options is recorded in share capital and the related share-based payment in reserves is transferred to share capital. Charges for options that are forfeited before vesting are reversed from equity.

New accounting pronouncements

The following accounting standards were adopted during the year ended August 31, 2017. The adoption of these standards did not have a significant impact on the Company's consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements - The IASB issued amendments to IAS 1 in December 2014 to address perceived impediments to preparers exercising their judgement in presenting their financial statements by clarifying that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply. The amendments also clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that an entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interest in Other Entities and IAS 28 Investments in Associates and Joint Ventures - The amendments to IFRS 10, IFRS 12 and IAS 28 were issued by the IASB in December 2014 to address issues that have arisen in the context of applying the consolidation exception for investment entities. The amendments provide clarification on the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value. It also clarifies that a subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity and when applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - In May 2014, the IASB issued amendments to IAS 16 and IAS 38. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments also clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

Future accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for future accounting periods. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

<u>The following standard is effective for annual periods beginning on or after January 1, 2017:</u>

IAS 7 Statement of Cash Flows - 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.

<u>The following standards are effective for annual periods beginning on or after January 1, 2018:</u>

IFRS 15 Revenue from Contracts with Customers - In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition.

IFRS 9 Financial Instruments - The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety with IFRS 9 – Financial Instruments (“IFRS 9”) which is intended to reduce the complexity in the classification and measurement of financial instruments.

IFRS 7 Financial Instruments: Disclosure - IFRS 7 was amended to required additional disclosures on transition from IAS 39 to IFRS 9.

IFRS 2 Share-Based Payment - In June 2016 the Board issued the final amendments to IFRS 2 *Share-Based Payment* as follows:

1. Effects that vesting conditions have on the measurement of a cash-settled share-based payment;
2. Accounting for modification to the terms of a share-based payment that changes the classification of the transaction from cash-settled to equity settled;
3. Classification of share-based payment transactions with net settlement features.

The following standards are effective for annual periods beginning on or after January 1, 2019:

IFRS 16 Leases - IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, lessees are no longer classifying leases as either operating leases or finance leases as it is required by IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019.

Management is currently evaluating any impact that the above standards may have on the Company's consolidated financial statements and this assessment has not yet been finished.

4. QUALIFYING TRANSACTION

On April 15, 2016, HFF acquired 100% ownership in Hempco Superfoods by issuing 20,000,000 common shares to the shareholders of Hempco Superfoods (see Note 1). For accounting purposes, the acquisition was considered to be reverse acquisition under IFRS 3 *Business Combinations* ("IFRS 3") as the shareholders of Hempco Superfoods obtained control of HFF. As HFF was a Capital Pool Company ("CPC") whose activities, prior to the acquisition, were limited to the management of cash resources and the maintenance of its listing, it did not constitute a business under IFRS 3. Accordingly, the transaction is accounted for in accordance with IFRS 2 *Share-based Payment* whereby Hempco Superfoods is deemed to have issued shares in exchange for the net assets of HFF together with its listing status at the fair value of the consideration received by Hempco Superfoods. The accounting for this transaction resulted in the following:

(i) The consolidated financial statements of the combined entities are issued under the legal parent, HFF, but are considered a continuation of the financial statements of the legal subsidiary, Hempco Superfoods.

(ii) Since Hempco Superfoods is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values.

(iii) As part of the completion of the Qualifying Transaction with HFF to facilitate the listing of Hempco Superfoods on the TSX-V the original shareholders of HFF retained 4,200,000 common shares of the Company.

Since the shares allocated to the former shareholders of HFF on closing the Qualifying Transactions is considered within the scope of IFRS 2, and the Company cannot identify specifically some or all of the goods or service received in return for the allocation of the shares, the value in excess of the net identifiable assets or obligations of HFF acquired on closing was expensed in the consolidated statement of comprehensive income (loss) as listing expenses.

The fair value of share-based consideration in the amount of $1,800,000 included in listing expense is comprised of $1,680,000 representing the fair value of the shares at $0.40 per share retained by shareholders of Genview, and $120,000 representing the fair value of 300,000 finders shares issued to a sponsor concurrent with the Qualifying Transaction. The Company also paid $28,000 in legal costs directly relating to the Qualifying Transaction. The $0.40 value for the shares was based on the private placement which closed concurrent with the Qualifying Transaction.

(Expressed in Canadian Dollars)

(iv) The fair value of all the consideration given and charged to listing expense was comprised of:

Fair Value of Share Based Consideration Allocated:

		$
	Deemed share issuance	1,680,000
	Shares issued to finders	120,000
		1,800,000
Identifiable Net Obligations Assumed:		
		$
	Cash and cash equivalents received	(342,852)
	Other assets received	(68,286)
	Liabilities assumed	449,284
		38,146
Legal fees incurred		28,000
Listing expense		1,866,146

5. CONVERTIBLE PROMISSORY NOTES

During the year ended August 31, 2016, Hempco Superfoods issued convertible promissory notes (the “Convertible Notes”) in the total aggregate principal amount of $649,500. The notes all had a term of 1 year from the issuance to maturity date.

Unless earlier converted in connection with the Qualifying Transaction, all unpaid principal, together with any then unpaid and accrued interest (10% per annum, non-compounding), were due and payable on the earlier of:

i. one year from note date, or such later date as may be agreed to by the Issuer and the Subscriber (the “Maturity Date”); or
ii. when such amounts become due and payable as a result of, and following, an event of default in accordance with the Convertible Note agreement.

As a result of completing the Qualifying Transaction all the outstanding principal was automatically converted into post-consolidated common shares of the Company at a conversion price equal to 80% of the Issue Price.

For accounting purposes, the Convertible Notes were recorded entirely as a liability as the Issue Price was unknown. At initial recognition the Convertible Notes were recognized at their fair value of $649,500. The Convertible Notes were then carried at amortized cost. The Qualifying Transaction closed on April 15, 2016 and all of the notes automatically converted into 2,029,688 common shares of the Company (Note 11). The shares issued were recorded at $649,500, the carrying amount of the loan at the date of conversion, and no gain or loss was recognized.

(Expressed in Canadian Dollars)

6. INVENTORY

	2017	2016
	$	$
Raw materials	185,733	407,065
Work in progress	12,275	73,407
Finished goods	1,341,357	1,077,391
	1,539,365	1,557,863

Inventories expensed in cost of sales for the year ended August 31, 2017 amounted to $5,663,779 (2016 - $3,705,632).

7. PREPAID EXPENSES

Prepaid expenses consisted of the following:

	2017	2016
	$	$
Insurance	8,750	27,065
Investor relation services	–	65,435
Marketing services	198	46,667
Rent	55,166	40,244
Research and development	–	29,941
Advances for assets	19,650	–
Security deposit	25,000	–
Other	1,971	3,383
	110,735	212,735

8. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	$	$
Cost	28,685	28,685
Accumulated unrealized gain	37,481	16,491
	66,166	45,176

The Company holds 114,740 common shares of Synergy CUC Corp. During the year ended August 31, 2017, the Company recorded an unrealized gain on available-for-sale investments of $20,990 (2016 - loss of $21,797).

(Expressed in Canadian Dollars)

9. PROPERTY AND EQUIPMENT

	Computer hardware	Machinery	Leasehold improvements	Furniture	Asset under construction	Total
	$	$	$	$	$	$
Cost						
Balance, August 31, 2015	3,678	1,339,102	39,648	–	–	1,382,428
Additions	3,434	793,262	92,777	1,207	–	890,680
Disposals	–	(46,104)	–	–	–	(46,104)
Balance, August 31, 2016	7,112	2,086,260	132,425	1,207	–	2,227,004
Additions	1,583	657,806	286,314	–	432,950	1,378,653
Reclassified to asset under construction	–	(145,000)	–	–	145,000	–
Balance, August 31, 2017	**8,695**	**2,599,066**	**418,739**	**1,207**	**577,950**	**3,605,657**
Accumulated Depreciation						
Balance, August 31, 2015	2,275	716,462	3,965	–	–	722,702
Depreciation	1,575	194,166	17,207	121	–	213,069
Disposals	–	(15,790)	–	–	–	(15,790)
Balance, August 31, 2016	3,850	894,838	21,172	121	–	919,981
Depreciation	2,952	89,508	67,550	1,086	–	161,096
Balance, August 31, 2017	**6,802**	**984,346**	**88,722**	**1,207**	–	**1,081,077**
Net Book Value						
At August 31, 2016	**3,262**	**1,191,422**	**111,253**	**1,086**	–	**1,307,023**
At August 31, 2017	**1,893**	**1,614,720**	**330,017**	–	**577,950**	**2,524,580**

Depreciation for the year ended August 31, 2017 is allocated as follows: $157,058 (August 31, 2016 - $211,373) is classified as cost of sales, and $4,038 (August 31, 2016 - $1,696) is included in expenses. The Company does not record any depreciation on idle assets or on assets under construction.

During the year ended August 31, 2017, the Company entered into a joint arrangement (the “Arrangement”) with a third party, whereby the Company and the third party each own 50% of NFT and hold joint control over NFT. NFT is in the process of building equipment (classified as assets under construction above) with the assistance of the third party which the Company has the obligation to purchase upon completion at its fair value. Under the Arrangement, the Company is to fund the construction of the equipment and all funds advanced will have priority of repayment upon the sale of the equipment, with the remaining proceeds distributed between the Company and the third party subsequent to settling all other obligations of the Company.

In accordance with IFRS 11, *Joint Arrangements,* the Company has recorded this arrangement as a joint operation and has consolidated the assets to which the Company has rights, liabilities which the Company is obligated for and the expenses of NFT.

10. LOANS

On June 9, 2017, Aurora Cannabis Inc. (“Aurora”) advanced $750,000 to the Company. The loan is secured by the Company’s assets acquired before and after the loan date, bears interest at the rate of 8% and is to be repaid when Aurora subscribes to common shares of the Company. Should Aurora not subscribe to the shares, Aurora could request payment of the loan, in which case the Company would have 90 days to repay the loan and interest in full. Subsequent to August 31, 2017, Aurora subscribed to common shares of the Company and the loan was repaid with interest (see Note 19).

11. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

During the year ended August 31, 2016 the Company completed the following transactions:

a) The Company consolidated all of its issued and outstanding share capital on a 2 for 1 basis. The Company gave retroactive effect in the financial statements for changes in the capital structure regarding the share consolidation at August 31, 2016 and 2015.

b) On April 15, 2016, HFF issued 20,000,000 shares to acquire all the issued and outstanding shares of Hempco Superfoods. On April 15, 2016, upon completion of the Qualifying Transaction, the 100 issued and outstanding common shares of Hempco Superfoods held by its former shareholders were exchanged for 20,000,000 common shares (“HFF Common Shares”) (Note 4).

   Prior to HFF’s acquisition of Hempco Superfoods, HFF had 4,200,000 common shares issued and outstanding (“HFF Shares”). On April 15, 2016, concurrent with the completion of the Qualifying Transaction, the Company issued 300,000 common shares to the finders of HFF’s acquisition of Hempco Superfoods. The value of these common shares was recorded as listing expense during the year ended August 31, 2016 (see Note 4).

c) The Company completed a non-brokered private placement of 3,212,500 common shares for total gross proceeds of $1,285,000 and paid finders’ fees totaling $62,650 and issued an aggregate of 156,625 warrants, each of which is exercisable to acquire one common share of the Company at a price of $0.40 per share over a period of two years from date of issue. The Company recognized a fair value of $50,114 on the finder’s warrants and paid a total of $30,925 in other share issuance costs related to the private placement.

d) The Company issued 2,029,688 common shares valued at $649,500 to holders of Hempco Superfoods convertible promissory notes (Note 5).

e) The Company completed a non-brokered private placement in the aggregate of 4,370,000 units for total gross proceeds of $2,185,000, of which $983,500 was received during the year ended August 31, 2017. Each unit consists of one common share and one-half of one common share purchase warrant exercisable at $0.65 per common share for a period of 15 months from closing date. The Company issued an aggregate of 283,500 finder’s warrants, each of which is exercisable to acquire one common share of the Company at a price of $0.65 per common share for a period of 15 months from date of issue. The Company recognized a fair value of $94,492 on the finder’s warrants and paid a total of $155,361 cash in other share issuance costs related to the private placement.

During the year ended August 31, 2017 the Company completed the following transactions:

a) The Company issued 264,700 common shares for cash proceeds of $105,880 pursuant to the exercise of share purchase warrants.

b) The Company issued 8,000 common shares for cash proceeds of $3,200 pursuant to the exercise of stock options.

c) The Company issued 125,000 common shares with a fair value of $46,250 in exchange for consulting services provided to the Company.

(Expressed in Canadian Dollars)

Escrow shares

At August 31, 2017, 255,000 (August 31, 2016 – 382,500) common shares were held in escrow and deposited with a trustee under a CPC escrow agreement. Under the escrow agreement, 10% are of the escrowed shares will be released on completion of a QT and 15% of the escrowed shares will be released every 6 months following the initial release on completion of a QT over a period of 36 months.

At August 31, 2017, 18,126,563 (August 31, 2016 – 19,516,094) common shares were held in escrow and deposited with a trustee under the Surplus escrow agreement. Under the Surplus escrow agreement, 5% of the original escrowed shares are released on each of the completion of a QT and 6 months from the QT completion date, 10% are released on both 12 and 18 months from QT completion date and 15% are released on each of 24, 30 and 36 months from QT completion date.

At August 31 2017, 16,000,000 (August 31, 2016 – 19,000,000) common shares held under the Surplus escrow agreement is subject to a voluntary pooling agreement. Upon release of the common shares under the surplus escrow agreement, the shares are deposited into a voluntary pool and will be released every 6 months following the QT completion date over a period of 60 months. As at August 31, 2017, 4,000,000 (August 31, 2016 – 1,000,000) common shares have been released from the Surplus escrow agreement and are held under the voluntary pooling agreement.

Warrants and stock options

The Company follows the policies of the TSX-V under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the policies, the exercise price of each option equals the market price or a discounted price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of five years and vest at the discretion of the Board of Directors.

Warrant and stock option activity is summarized as follows:

	Warrants		Stock Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, August 31, 2015	–	$ –	–	$ –
Granted	4,625,125	0.53	2,675,000	0.43
Forfeited	-	-	(75,000)	(0.40)
Outstanding, August 31, 2016	4,625,125	$ 0.53	2,600,000	$ 0.43
Exercised	(264,700)	(0.40)	(8,000)	0.40
Cancelled or forfeited	–	–	(650,000)	0.43
Granted	–	–	400,000	0.62
Outstanding, August 31, 2017	4,360,425	$ 0.54	2,342,000	$ 0.45
Exercisable, August 31, 2017	4,360,425	$ 0.54	1,110,750	$ 0.43

(Expressed in Canadian Dollars)

As at August 31, 2017, the following were outstanding:

	Expiry Date	Number of Shares	Weighted Average Exercise Price	Weighted average period
Warrants	November 18, 2017	1,166,210	$ 0.65	0.2 years
	November 30, 2017	1,302,290	$ 0.65	0.2 years
	April 15, 2018	141,925	$ 0.40	0.6 years
	March 25, 2019	1,750,000	$ 0.40	1.6 years
		4,360,425	$ 0.54	0.8 years
Options	April 15, 2019	1,317,000	$ 0.40	1.6 years
	April 20, 2019	300,000	$ 0.40	1.6 years
	August 2, 2019	475,000	$ 0.55	1.9 years
	February 23, 2022	150,000	$ 0.62	4.5 years
	April 6, 2022	100,000	$ 0.62	4.6 years
		2,342,000	$ 0.45	2.3 years

Stock option activities during the years ended August 31, 2017 and 2016:

a) On April 18, 2016, the Company granted 1,875,000 stock options to employees, directors and officers with an exercise price of $0.40 and expiring on April 15, 2019. These options vest and become exercisable in twelve equal tranches every three months from the grant date. As at August 31, 2016, 75,000 of the stock options were forfeited.

b) On April 20, 2016, the Company granted 325,000 stock options to an investor relations consultant and a consultant with an exercise price of $0.40 and expiring April 20, 2019. The stock options granted to the investor relations consultant will vest and become exercisable in four equal tranches every three months commencing on July 20, 2016 and the stock options granted to the consultant will vest and become exercisable in twelve equal tranches every three months commending on July 20, 2016.

c) On August 2, 2016, the Company granted 475,000 stock options to employees and a consultant with an exercise price of $0.55 and expiring August 2, 2019. The stock options vest and become exercisable in twelve equal tranches every three months commencing on November 2, 2016.

d) On February 23, 2017, the Company granted 300,000 stock options to directors with an exercise price of $0.62 and expiring February 23, 2022. The stock options vest and become exercisable in twelve equal tranches every three months commencing on May 23, 2017.

e) On April 6, 2017, the Company granted 100,000 stock options to an officer with an exercise price of $0.62 and expiring April 6, 2022. The stock options vest and become exercisable in twelve equal tranches every three months commencing on July 6, 2017.

Warrant activity during the years ended August 31, 2017 and 2016:

f) On April 15, 2016, the Company granted 2,000,000 warrants to a consultant with an exercise price of $0.40 and expiring on March 25, 2019. The Company recognized $685,074 in share-based compensation on the grant of these warrants.

(Expressed in Canadian Dollars)

g) On April 15, 2016, in connection with the private placement, the Company granted 156,625 warrants with an exercise price of $0.40 and expiring April 15, 2018. The Company recognized a fair value of $50,114 on the finder's warrants which is included in reserves on the statement of changes in equity. During 2017, 14,700 warrants were exercised for cash proceeds of $5,880 and $4,703 was transferred from reserves to share capital related to this exercise.

h) On August 18, 2016, in connection with the private placement, the Company issued 1,036,500 common share purchase warrants to subscribers and 129,710 finder's warrants in the Company's first tranche of the private placement with an exercise price of $0.65 per share expiring on November 18, 2017. The Company recognized a fair value of $43,267 on the finder's warrants which is included in reserves on the statement of changes in equity.

i) On August 31, 2016, in connection with the private placement, the Company issued 1,148,500 common share purchase warrants to subscribers and 153,790 finder's warrants in the Company's second and final tranche of the private placement with an exercise price of $0.65 per share expiring on November 30, 2017. The Company recognized a fair value of $51,224 on the finder's warrants which is included in reserves on the statement of changes in equity.

Share-based compensation

During the year ended August 31, 2017, the Company recognized $470,861 (2016 - $329,854) as share-based compensation for options granted to directors, officers, consultants and employees. During the year ended August 31, 2016, the Company recognized $685,074 as share-based compensation for warrants granted to a consultant.

The Company applies the fair value method in accounting for its stock options granted during the year using the Black-Scholes option pricing model using the following estimates:

August 31,	2017	2016
Risk free rate	1.09%	0.54%-0.62%
Expected dividend yield	0%	0%
Expected stock price volatility	142%	170%-190%
Weighted average expected life	5 years	3 years
Weighted average fair value	$0.49	$0.41

The Company applies the fair value method in accounting for its finder's and consultant warrants using the Black-Scholes option pricing model using the following estimates:

August 31,	2017	2016
Risk free rate	–	0.55%-0.57%
Expected dividend yield	–	0%
Expected stock price volatility	–	170-199%
Weighted average expected life	–	1.83 years
Weighted average fair value	–	$0.34

Reserves

Reserves includes items recognized as share-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital.

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(Expressed in Canadian Dollars)

12. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties and related party transactions impacting the financial statements not disclosed elsewhere in these financial statements are summarized below and include transactions with the following individuals or entities:

Key management personnel
Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. Key management personnel comprise officers and directors of the Company.

Remuneration for short-term benefits attributed to key management personnel for the years ended August 31, 2017 and 2016 are summarized as follows:

	2017	2016
	$	$
Administrative fees	148,950	129,450
Consulting fees	100,200	100,200
Professional fees	29,250	-
Share-based compensation	173,290	121,306
	451,690	350,956

Other related party transactions and balances

a) Selling, general and administrative expenses includes contractor fees of $19,500 (2016 - $81,280) and sales-related activities of $48,000 (2016 - $6,505) that were paid or accrued to family members of the Company's CEO and COO.

   As at August 31, 2017, $2,007 (2016 - $1,021) was payable to family members of the Company's CEO and COO. This amount was included in accounts payable, is non-interest bearing, unsecured and due on demand.

b) Selling, general and administrative expenses includes advertising, marketing consultation and strategic planning expenses of $138,554 (2016 - $142,825) that were paid or accrued to a company in which a director of the Company has controlling interest.

   As at August 31, 2017, $87,217 (2016 - $35,131) was payable to this company in which a director of the Company has controlling interest. This amount was included in accounts payable, is non-interest bearing, unsecured and due on demand.

c) Sales includes $nil (2016 - $1,369) to a company owned by a family member of the Company's CEO and COO. Sales includes $nil (2016 - $1,692) of purchases from a company owned by the CEO.

   As at August 31, 2017, $nil (August 31, 2016 - $1,369) was receivable from the company owned by a family member of the Company's CEO and COO.

d) Selling, general and administrative expenses includes rent recovery of $12,000 (2016 - $16,326) received from the Company's CEO.

   As at August 31, 2017, $nil (2016 - $4,539) was payable to the CEO and companies owned by the CEO. This amount was included in accounts payable, is non-interest bearing, and has no specific terms of repayment.

(Expressed in Canadian Dollars)

e) During the year ended August 31, 2016, in connection to the Qualifying Transaction (Note 4), the amount due to shareholder (CEO) was extinguished in full upon completion of the Qualifying Transaction. The resulting gain of $703,789 was recorded as reserves in the statement of changes in equity during the year ended August 31, 2016.

13. SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash transactions during the years ended August 31, 2016 and 2015 affecting cash flows from investing and financing activities included:

August 31,	2017	2016
	$	$
Convertible debt exchanged for common shares (Note 5, 11)	–	649,500
Common shares issued in acquisition of Hempco Superfoods (Note 4)	–	1,680,000
Subscription receipts exchanged for convertible debt	–	145,000

Cash paid for interest and income taxes:

August 31,	2017	2016
	$	$
Cash paid for interest	–	–
Cash paid for income taxes	–	62,530

14. INCOME TAXES

a) Deferred tax assets and liabilities

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

	2017	2016
	$	$
Deferred tax assets (liabilities):		
Non-capital losses carried forward	938,000	338,000
Tax value of property and equipment in excess of book value	52,000	8,000
Share issue costs available to be deducted for tax purposes	40,000	52,000
	1,030,000	398,000
Unrecognized deferred tax assets	(1,030,000)	(398,000)
Net deferred tax assets	–	–

(Expressed in Canadian Dollars)

b) Non-capital losses carried forward and expiration dates

The Company has non-capital losses of approximately $3,480,000 (2016 - $1,302,000) which may be carried forward to apply against future years income tax for Canadian income tax purposes, subject to final determination by taxation authorities, and expiring as follows:

Fiscal Year of Expiry	Amount
	$
2027	29,000
2028	136,000
2029	106,000
2030	139,000
2031	61,000
2032	222,000
2033	89,000
2034	51,000
2035	68,000
2036	529,000
2037	2,050,000
	3,480,000

c) Income tax recovery (expense)

Income tax recovery (expense) included in the consolidated statement of comprehensive income (loss) is as follows:

	2017	2016
	$	$
Current income tax recovery (expense)	–	(26,136)
Deferred income tax recovery (expense)	–	-
Total income tax recovery (expense)	–	(26,136)

d) Reconciliation of tax rates

The Company is subject to Canadian federal and provincial taxes at an approximate rate of 26% for the year ended June 30, 2017 (2016 – 26%). The reconciliation of the provision for income taxes at the statutory rate compared to the Company's income tax recovery (expense) as reported is as follows:

	2017	2016
Statutory tax rate	26%	26%
	$	$
Expected income tax recovery at statutory rates	685,000	850,000
Permanent differences and other	(89,000)	(484,000)
Changes in estimates and other	36,000	6000
Change in unrecognized deferred tax assets	(632,000)	(398,136)
Income tax (recovery) expense	–	26,136

(Expressed in Canadian Dollars)

15. COMMITMENTS

a) Hemp seed purchase contracts:

The Company has contractual agreements in place, renewable yearly to purchase hemp seed produced from a fixed acreage, at a fixed price that meets certain quality specifications from farmers across Canada. The Company has determined there to be no hedging or derivative relationship with these contracts.

b) Lease Agreements:

On July 1, 2015, the Company entered into an agreement for its production facility in Macgregor, Manitoba. The lease term is for three years from July 1, 2015 to June 30, 2018 for a monthly rental fee of $7,500. The Company has an option to extend the lease for a further three years with costs not to increase by over 10%.

On November 18, 2016, the Company entered into an agreement for space in Nisku, Alberta. The lease has a ten year term, from January 1, 2017 to December 31, 2026. Monthly lease payments are $60,667 per month for the first year, $67,667 per month for the second year, $72,333 per month for the third year, $81,667 per month for the fourth year, and $86,333 per month thereafter. The Company has the option to extend the lease for a further five year period at a rate to be agreed. The Company also has the option to purchase the building for $13.2 million.

The Company's contractual commitments under its leases are as follows:

	Amount
	$
Not later than one year	851,671
Later than one year and not later than five years	3,845,328
Later than five years	4,489,316
	9,186,315

16. CAPITAL MANAGEMENT

The Company defines capital as consisting of shareholders' equity. The Company's objectives when managing capital are to support the identification and acquisition of a new business opportunity, and thus the creation of shareholder value, as well as to ensure that the Company is able to meet its financial obligations as they become due.

The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital, but rather relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the Company, is reasonable. As of August 31, 2017 and 2016, the Company was not subject to any externally imposed capital requirements or debt covenants. There was no change to the Company's approach to capital management during the year ended August 31, 2017.

(Expressed in Canadian Dollars)

17. FINANCIAL INSTRUMENTS

a) Fair Value

The fair values of accounts receivable, accounts payable, and loans approximate their carrying values due to their short term maturity. The Company's other financial instruments, cash and available-for-sale investments under the fair value hierarchy is based on level one quoted prices in active markets for identical assets or liabilities and are presented at fair value on the statement of financial position on a recurring basis.

b) Financial Risk Factors

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

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company is subject to credit risk on its cash and accounts receivable. The Company limits its exposure to credit loss on cash by placing its cash with a high quality financial institution. The Company has no investments in asset-backed commercial paper. The Company has concentrations of credit risk with respect to accounts receivable as large amounts of its accounts receivable are concentrated amongst a small number of customers. The Company controls credit risk through credit approvals and credit limits. The Company performs credit evaluations of its customers but generally does not require collateral to support accounts receivable. The Company has certain amounts of aged receivables that are not deemed impaired as follows:

Aging of accounts receivable	2017	2016
	$	$
1 - 60 days	499,910	277,928
61 - 90 days (past due)	8,199	15,963
Over 90 days (past due)	15,278	48,589
Total	523,387	342,480

Liquidity Risk

Liquidity risk arises from the Company's general and capital financing needs. The Company continuously monitors and reviews both actual and forecasted cash flows, and also matches the maturity profile of financial assets and liabilities, when feasible.

Contractual undiscounted cash flow requirements for financial liabilities as at August 31, 2017 are as follows:

	Less Than 1 Year	Years 2 and 3	Years 4 and 5	More Than 5 Years	Total
	$	$	$	$	$
Accounts payable and accrued liabilities	1,541,338	–	–	–	1,541,338
Loans	750,000				750,000
	2,291,338	–	–	–	2,291,338

As at August 31, 2017, the Company had a working capital of $30,429.

Market Risk

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

(i) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in interest rates. The Company has interest bearing debt through its loans. The Company is exposed to fluctuations in profit or loss as a result of varying interest rates on the bank indebtedness. A 10% change in the financial institution's prime rate would give rise to an insignificant variation in profit or loss.

(ii) Price Risk

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

The Company also maintains investments in certain available-for-sale securities. There can be no assurance that the Company can exit these positions, if required, resulting in proceeds approximating the carrying value of these securities.

(iii) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has sales denominated in US dollars. As a result, the Company is exposed to currency risk.

As at August 31, 2017, the Company has net financial assets of $242,495 USD. A 10% change in the Canadian dollar versus the US dollar would give rise to a gain/loss of approximately $24,000.

18. SEGMENT INFORMATION

The Company operates in one reportable operating segment, being the manufacturing and sale of hemp seed food products in North America.

Information by geographical segment is as follows:

	2017	2016
	$	$
Property and Equipment		
Canada	2,524,580	1,307,023
Revenues		
United States	2,180,058	2,180,900
Canada	672,559	903,810
Mexico/Latin America	22,244	12,093
Asia/Pacific	3,617,659	2,141,608
Europe	55,987	2,228
	6,548,507	5,240,639

(Expressed in Canadian Dollars)

Geographical information presented for revenues is aggregated by the location of the Company's customers.

The following table lists sales made by the Company to customers which were in excess of 10% of total revenues for the years ended August 31, 2017 and 2016:

August 31,	2017	2016
	$	$
Customer 1	3,593,105	1,759,025

19. SUBSEQUENT EVENTS

a) Subsequent to the year ended August 31, 2017, Aurora advanced $1.5 million to the Company which was repaid upon completion of the private placement noted in Note 19 b). Interest on this loan accrued at a rate of 10% until repayment.

b) Subsequent to the year ended August 31, 2017, the Company completed a private placement with Aurora for gross proceeds of $3,246,793. The Company issued 10,558,676 units at $0.3075 per unit consisting of one common share and one share purchase warrant. Each warrant can be converted to one common share at a price of $0.41 per share for a period of two years. Part of the proceeds were used to repay the Aurora loans of $750,000 (see Note 10) and $1.5 million (see Note 19a).

c) Subsequent to the year ended August 31, 2017, the Company issued 3,647,580 common shares pursuant to the exercise of share purchase warrants for gross proceeds of $2,074,645 and issued 709,000 common shares pursuant to the exercise of stock options for gross proceeds of $292,900.

d) Subsequent to the year ended August 31, 2017, the Company granted 1,100,000 stock options to certain officers, directors, employees and consultants of the Company exercisable at prices ranging from $0.53 to $0.60 per share of the Company for a period of three years from the date of grant.