Consolidated financial statements

LGC Capital Ltd.

September 30, 2017

Independent auditors' report

To the Shareholders of
LGC Capital Ltd.

We have audited the accompanying consolidated financial statements of **LGC Capital Ltd.** [the "Company"], which comprise the consolidated statements of financial position as at September 30, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors 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 the Company as at September 30, 2017 and 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP [1]

Montréal, Canada
January 29, 2018

[1] CPA auditor, CA, public accountancy permit no. A122227

LGC Capital Ltd.

Consolidated statements of financial position

As at September 30,

	2017	2016
	$	$
Assets		
Current assets		
Cash	**2,018,570**	486,137
Available for sale investments *[note 8]*	**677,241**	6,773,904
Other receivables	**51,469**	104,345
Loans to associates and joint ventures *[note 11]*	—	478,980
	2,747,280	7,843,366
Non-current assets		
Investments in associates *[note 9]*	—	68,119
Investments in joint ventures *[note 10]*	—	143,055
	2,747,280	8,054,540
Liabilities and equity		
Current liabilities		
Accounts payable and accrued liabilities *[note 14]*	**845,902**	503,473
Loan payable *[note 12]*	**325,035**	—
Total current liabilities	**1,170,937**	503,473
Equity		
Share capital *[note 13]*	**14,025,265**	11,213,399
Warrants *[note 13]*	**91,579**	91,579
Contributed surplus *[note 13]*	**1,568,627**	1,049,052
Accumulated other comprehensive (loss) income	**(1,102,365)**	3,156,245
Deficit	**(13,006,763)**	(7,959,208)
Total equity	**1,576,343**	7,551,067
	2,747,280	**8,054,540**

Commitments *[note 15]*

Subsequent events *[note 18]*

Contingent liabilities *[note 17]*

See accompanying notes

On behalf of the Board

Director *Director*

LGC Capital Ltd.

Consolidated statements of loss and comprehensive loss

Years ended September 30,

	2017	2016
	$	$
Revenues	—	—
Expenses		
Administrative expenses *[note 6]*	**2,941,505**	4,927,360
Listing and compliance expenses *[notes 5 and 6]*	**—**	2,814,731
Realized gain on available for sale investments *[note 8]*	**(444,705)**	—
Impairment of available for sale investments *[note 8]*	**1,311,575**	—
Impairment of investments in associates *[note 9]*	**69,719**	69,628
Impairment of investments in joint ventures *[note 10]*	**81,905**	—
Impairment of loans to associates and joint ventures *[note 11]*	**903,208**	—
	4,863,207	7,811,719
Operating loss	**(4,863,207)**	(7,811,719)
Finance income	**(64)**	—
Finance expense *[note 6]*	**55,180**	—
Share of (profits) losses of associates *[note 9]*	**(6,464)**	2,402
Share of losses of joint ventures *[note 10]*	**56,980**	30,575
Foreign exchange loss	**78,716**	16,830
	184,348	49,807
Net loss for the year	**(5,047,555)**	(7,861,526)
Other comprehensive (loss) income		
Other comprehensive (loss) income items that may subsequently be reclassified to profit or loss		
(Decrease) increase in value of available for sale investments, net of taxes *[note 8]*	**(4,907,780)**	4,586,365
Realized gain on available for sale investments reclassified to profit or loss *[note 8]*	**(444,705)**	—
Impairment on available for sale investments reclassified to profit or loss *[note 8]*	**1,311,575**	—
Foreign exchange loss on translation of foreign subsidiaries, net of taxes	**(217,700)**	(1,419,501)
Other comprehensive (loss) income	**(4,258,610)**	3,166,864
Net loss and comprehensive loss	**(9,306,165)**	(4,694,662)
Net loss per share		
Basic and fully diluted	**(0.02)**	(0.05)
Weighted average number of outstanding shares		
Basic and fully diluted	**235,619,987**	169,146,920

See accompanying notes

LGC Capital Ltd.

Consolidated statements of changes in equity

Years ended September 30,

	Share capital		Warrants		Contributed surplus	Available-for-sale reserve	Foreign currency tralsation reserve	Deficit	Total
	#	$	#	$	$	$	$	$	$
Balance – October 1, 2015	490,000,001	8,399,794	—	—	—	—	(10,619)	(97,682)	8,291,493
Issuance of Leni Gas Cuba shares *[note 13]*	4,000,000	404,020	—	—	—	—	—	—	404,020
Share issue costs *[note 13]*	—	(22,391)	—	—	—	—	—	—	(22,391)
Issuance of Leni Gas Cuba warrants *[note 13]*	—	—	4,940,000	91,579	—	—	—	—	91,579
Stock-based compensation *[notes 6 and 13]*	—	—	—	—	1,049,052	—	—	—	1,049,052
Acquisition of LGC Capital *[notes 5 and 13]*	36,445,314	8,293,621	—	—	136,689	—	—	(6,236,858)	2,193,452
Elimination of LGC Capital equity upon RTO transaction *[notes 5 and 13]*	—	(8,293,621)	—	—	(136,689)	—	—	6,236,858	(2,193,452)
Share capital cancelled upon RTO transaction *[notes 5 and 13]*	(494,000,001)	—	—	—	—	—	—	—	—
Cancellation of Leni Gas Cuba warrants upon RTO transaction *[notes 5 and 13]*	—	—	(4,940,000)	—	—	—	—	—	—
Issuance of LGC Capital warrants upon RTO transaction *[notes 5 and 13]*	—	—	1,976,000	—	—	—	—	—	—
Issuance of LGC Capital shares in connection with RTO *[notes 5 and 13]*	197,599,996	2,431,976	—	—	—	—	—	—	2,431,976
Increase in value of available for sale investments, net of taxes *[note 8]*	—	—	—	—	—	4,586,365	—	—	4,586,365
Foreign exchange loss on translation of foreign subsidiaries, net of taxes	—	—	—	—	—	—	(1,419,501)	—	(1,419,501)
Net loss for the year	—	—	—	—	—	—	—	(7,861,526)	(7,861,526)
Balance – September 30, 2016	**234,045,310**	**11,213,399**	**1,976,000**	**91,579**	**1,049,052**	**4,586,365**	**(1,430,120)**	**(7,959,208)**	**7,551,067**
Issuance of LGC Capital shares and warrants *[note 13]*	**30,000,000**	**3,000,000**	**30,000,000**	**—**	**—**	**—**	**—**	**—**	**3,000,000**
Issue costs - shares and warrants *[note 13]*	**—**	**(128,086)**	**—**	**—**	**—**	**—**	**—**	**—**	**(128,086)**
Issue costs - warrants issued to brokers *[note 13]*	**—**	**(74,916)**	**992,000**	**—**	**74,916**	**—**	**—**	**—**	**—**
Stock-based compensation *[notes 6 and 13]*	**—**	**—**	**—**	**—**	**449,511**	**—**	**—**	**—**	**449,511**
Exercise of stock options *[note 13]*	**156,500**	**14,868**	**—**	**—**	**(4,852)**	**—**	**—**	**—**	**10,016**
Decrease in value of available for sale investments, net of taxes *[note 8]*	**—**	**—**	**—**	**—**	**—**	**(4,907,780)**	**—**	**—**	**(4,907,780)**
Realized gain on available for sale investments reclassified to profit or loss [note 8]	**—**	**—**	**—**	**—**	**—**	**(444,705)**	**—**	**—**	**(444,705)**
Impairment (loss) on available for sale investments reclassified to profit or loss [note 8]	**—**	**—**	**—**	**—**	**—**	**1,311,575**	**—**	**—**	**1,311,575**
Foreign exchange loss on translation of foreign subsidiaries, net of taxes	**—**	**—**	**—**	**—**	**—**	**—**	**(217,700)**	**—**	**(217,700)**
Net loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(5,047,555)**	**(5,047,555)**
Balance – September 30, 2017	**264,201,810**	**14,025,265**	**32,968,000**	**91,579**	**1,568,627**	**545,455**	**(1,647,820)**	**(13,006,763)**	**1,576,343**

Commitments *[note 15]*
Subsequent events *[note 18]*
Contingent liabilities *[note 17]*

See accompanying notes

LGC Capital Ltd.

Consolidated statements of cash flows

Years ended September 30,

	2017	2016
	$	$
Operating activities		
Net loss for the year	**(5,047,555)**	(7,861,526)
Items not impacting cash:		
Excess of consideration over net liabilities assumed *[notes 5 and 6]*	**—**	2,493,306
Realized gain on sale of available for sale investments *[note 8]*	**(444,705)**	—
Share of (profit) losses of associates *[note 9]*	**(6,464)**	2,402
Share of loss of joint ventures *[note 10]*	**56,980**	30,575
Impairment of available for sale investments *[note 8]*	**1,311,575**	—
Impairment of investment in associates *[note 9]*	**69,719**	69,628
Impairment of investment in joint ventures *[note 10]*	**81,905**	—
Impairment of loans to associates and joint ventures *[note 11]*	**903,208**	—
Finance expense *[note 6]*	**54,687**	—
Unrealized foreign exchange gains	**(8,392)**	—
Stock-based compensation *[notes 6 and 13(d)]*	**449,511**	1,140,631
	(2,579,531)	(4,124,984)
Change in non-cash working capital items	**(77,207)**	(311,543)
Net cash flows from operating activities	**(2,656,738)**	(4,436,527)
Investing activities		
Acquisition of available for sale investments *[note 8]*	**(18,552)**	(1,410,493)
Disposal of available for sale investments *[note 8]*	**1,026,829**	—
Acquisition of investment in associates *[note 9]*	**—**	(73,614)
Acquisition of investment in joint ventures *[note 10]*	**—**	(183,750)
Net cash acquired in connection with RTO *[note 5]*	**—**	204,586
Cash flows from investing activities	**1,008,277**	(1,463,271)
Financing activities		
Proceeds from issuance of shares and warrants *[note 13]*	**3,000,000**	404,020
Share issue costs *[note 13]*	**(106,486)**	(22,391)
Proceeds from the exercise of share options *[note 13]*	**10,016**	—
Proceeds from issuance of new loans *[note 12]*	**380,245**	—
Repayment of loans *[note 12]*	**(101,505)**	—
Cash flows from financing activities	**3,182,270**	381,629
Increase (decrease) in cash	**1,533,809**	(5,518,169)
Net foreign exchange differences	**(1,376)**	(568,519)
Cash, beginning of year	**486,137**	6,572,825
Cash, end of year	**2,018,570**	486,137

See accompanying notes

Notes to consolidated financial statements

Years ended September 30, 2017 and 2016

1. Nature of operations and comparative information

LGC Capital Ltd. [formerly Knowlton Capital Inc.] was incorporated under the Canada Business Corporations Act on July 9, 2004. LGC Capital Ltd. is a publicly listed company and its shares are listed on the TSX Venture Exchange under the symbol “LG” [“QBA” prior to September 19, 2017 and “KWC.H” prior to July 12, 2016]. The registered office of LGC Capital Ltd. is located at 800 Place Victoria, Suite 3700, Montréal, Québec, Canada.

Leni Gas Cuba Limited was incorporated on March 3, 2015 as Leni Gas & Oil Limited under the British Virgin Islands [“BVI”] Business Companies Act 2004 with registered number 1864325. On April 23, 2015, Leni Gas & Oil Limited changed its name to Leni Gas Cuba Limited [“Leni Gas Cuba”].

On July 12, 2016, Leni Gas Cuba, an unrelated entity, completed a reverse asset acquisition and takeover [“RTO”] of Knowlton Capital Inc. [“Knowlton”] *[note 5].* The transaction occurred, pursuant to a Scheme of Arrangement [the “Scheme of Arrangement”], under section 179A of the BVI Business Companies Act 2004.

On completion of the RTO, Knowlton changed its name to LGC Capital Ltd. [“LGC Capital”]. Prior to the RTO, Leni Gas Cuba’s shares were traded on the ISDX Growth Market, in London, until July 12, 2016. As a consequence of the RTO and pursuant to securities legislation, the year-end of LGC Capital was changed to September 30, the year-end of Leni Gas Cuba. As a result of the RTO, for accounting purposes, Leni Gas Cuba, the legal acquiree, was the accounting acquirer of LGC Capital.

LGC Capital and its wholly-owned subsidiaries, Leni Gas Cuba, Leni Gas Holdings Spain, SLU and LGC Capital EU OU, are collectively referred to as the “Company” in these consolidated financial statements.

The Company’s objective is to become a diversified business group with core business divisions that provide shareholders with exposure to a diverse range of high growth businesses, products and services. Towards its growth strategy, the Company is currently increasing its investment footprint in the fast growing and globally expanding legalized medicinal cannabis sector, with the exception of investments in businesses operating in the United States.

On September 22, 2017, the Board of Directors resolved to exit all investments in companies or entities that have any business activities relating to Cuba.

2. Basis of preparation

Statement of compliance

The Company’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards [“IFRS”].

The consolidated financial statements have been prepared on a historical cost basis, except for investments available for sale that have been measured at fair value.

The Board of Directors approved these consolidated financial statements on January 29, 2018.

Notes to consolidated financial statements

Years ended September 30, 2017 and 2016

Basis of consolidation

The consolidated financial statements include the financial statements of LGC Capital and its subsidiaries as described in note 1. All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full on consolidation.

The financial statements of the subsidiaries are prepared using the same reporting period and same accounting policies as LGC Capital.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of LGC Capital. The functional currency of Leni Gas Cuba is pounds sterling ("GBP").

Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, at the date of the consolidated financial statements.

The Company has identified the following critical accounting policies under which significant judgments, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

[a] RTO accounting and fair value of listing expenses – Estimate

Reverse asset acquisitions whereby the accounting acquiree/legal acquirer is not a business, as defined under IFRS 3 [Revised], include an estimated listing expense which is considered a share-based payment. This share-based payment is measured based on the fair value of the shares that are either actually issued by the legal acquirer or deemed to be issued by the accounting acquirer, whichever basis is considered more reliable, since the fair value of the listing services received cannot be reliably measured. Any changes in the estimated fair value would result in a change in the listing expense recorded.

[b] Loans to associates and joint ventures – Estimate

The estimates to determine recovery of loans to associates and joint ventures includes the probability of recovery and timing of estimated repayments of loan balances. Any changes in estimates may have a significant impact on the Company's results.

[c] Share-based payments and warrants – Estimate

Where share-based payments are made to employees, the estimation of share-based payments at fair value at the date of grant requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The fair value of each option or warrant is evaluated using the Black-Scholes pricing model or a valuation model based on stochastic simulations at the date of grant. The Company has made estimates as to the volatility, the expected life of options or warrants, and where applicable, expected forfeiture rates. The expected life of the option or warrant is based on historical data. The expected volatility is based on the historical volatility of the Company or comparable companies, as applicable, over the period of the expected life of the stock option or warrant. These estimates may not necessarily be indicative of future actual patterns.

Where share-based payments are made to non-employees, management estimates the fair value of the services rendered at the date on which the services are provided, based on present value techniques. If the Company cannot estimate reliably the fair value of the goods or services received, management measures their value by reference to the fair value of the equity instruments granted using the Black-Scholes pricing model or a valuation model based on stochastic simulations.

[d] Income taxes and valuation allowance – Estimate

The estimation of income taxes includes evaluating the recoverability of deferred tax assets 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 will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. If changes were made to management's assessment regarding the Company's ability to use future tax deductions, the Company could be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected.

[e] Functional currency – Judgment

The functional currency of LGC Capital is the Canadian dollar and the functional currency of Leni Gas Cuba is GBP. Management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary indicators before considering the other indicators, which are designed to provide additional supporting evidence to determine the entity's functional currency. Since the Company doesn't generate revenues, the currency in which the investments, loans, expenditures and financing are made is considered by management in determining the functional currency.

[f] Fair value and impairment of investments – Estimate

Fair value for available-for-sale financial assets ["AFS"] are based on quoted [unadjusted] market prices in active markets for listed entities at year-end, or the most recent arm's length equity financing entered into or the sale proceeds of the investment by the Company for unlisted entities.

For AFS assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Objective evidence of impairment exists if the counter-party is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable that the counter-party will enter into bankruptcy or a financial reorganization. Any changes in estimates may have a significant impact on the Company’s results.

3. Principal accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Reverse takeover [RTO]

Reverse asset acquisitions and takeovers, whereby the accounting acquiree/legal acquirer is not a business, as defined under IFRS 3, are accounted for as a continuation of the financial statements of the legal acquiree, together with a deemed issue of shares, equivalent to the shares held by the former shareholders of the legal acquirer, and a re-capitalization of the equity of the legal acquiree. This deemed issue of shares is recorded as a listing expense in net loss and is, in effect, an equity-settled share-based payment transaction whereby the accounting acquirer/legal acquiree has received the net assets of the accounting acquiree/legal acquirer together with the listing status of the legal acquirer.

Investment in associates and joint ventures

An associate is an entity over which the Company is in a position to exercise significant influence, but not control or jointly control, through participation in the financial and operating policy decisions of the investee.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Company's net loss reflects the share of the results of operations of the associates or joint ventures. Any change in other comprehensive income or loss of those investees is presented as part of the Company's other comprehensive income or loss. In addition, when there has been a change recognized directly in the equity of the associates or joint ventures, the Company recognizes its share of any changes, when applicable, in the consolidated statements of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associates or joint ventures are eliminated to the extent of the interest in the associates or joint ventures.

The aggregate of the Company's share of loss of the associates and joint ventures is recorded on the consolidated statements of operations outside operating profit and represents loss after tax.

The financial statements of the associates and joint ventures are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associates or joint ventures. At each reporting date, the Company determines whether there is objective evidence that the investment in the associates or joint ventures is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associates or joint ventures and its carrying value, and then recognizes the loss in net loss.

Upon loss of significant influence over the associates or joint control over the joint ventures, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associates or joint ventures upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in net loss.

Share Capital

Proceeds from share units are allocated between share capital and warrants by calculating the fair value of the warrants using the Black-Scholes option pricing model or a valuation model based on stochastic simulations and pro-rating the relative fair value to share capital and warrants. On the exercise of the warrants, the related amounts are transferred from warrants to share capital, whereas on expiry of the warrants, such amounts are transferred to contributed surplus.

Issuance costs

Costs incurred in connection with the issuance of shares or warrants are allocated based on the fair value of each component and netted against each such component.

Share-based compensation

Where employees are rewarded using share-based payments, the fair values of employees' services are determined by reference to the fair value of the equity instruments granted. The fair value of each option [or warrant] is evaluated using the Black-Scholes pricing model or a valuation model based on stochastic simulations at the date of grant. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. All share-based remuneration is recognized as an expense with a corresponding increase to contributed surplus.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options or warrants expected to vest. Estimates are subsequently revised, if there is any indication that the number of share options or warrants expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense in prior periods if share options or warrants ultimately exercised are different from those estimated on vesting.

Share-based payments for non-employee and broker services, including warrants and options, are measured at the fair value of the goods or services received and are recorded at the date the goods or services are received. If the Company cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Upon exercise of share options, the proceeds received are allocated to share capital. On the exercise of the warrants, the Black-Scholes related amounts are transferred from warrants to share capital, whereas on expiry of the warrants, such amounts are transferred to contributed surplus.

Taxes

Current income taxes

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Current income tax relating to items recognized directly in total comprehensive (loss) income or equity is recognized in other comprehensive (loss) income or equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income taxes

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

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses, can be utilized. Deferred income taxes are not recognized for temporary differences which arise for initial recognition of an asset or liability that affects neither the accounting nor taxable profit or loss at the time of the transaction.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and liabilities are presented as non-current.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

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

Commodity taxes

Expenses are recognized net of the amount of sales taxes, except where the sales taxes incurred are not recoverable from the taxation authority, in which case the sales taxes are recognized as part of the expense item.

Net loss per share

Net loss per share computations are based upon the weighted average number of common shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net income attributable to ordinary shares by the weighted average number of common shares outstanding during the period plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential ordinary shares into common shares. When the Company reports a loss, the diluted net loss per common share is equal to the basic net loss per common share due to the anti-dilutive effect of the outstanding warrants, share options and similar instruments.

Foreign currency translation

[i] Foreign operations

The assets and liabilities of subsidiaries that have a functional currency different from that of LGC Capital are translated into Canadian dollars at the closing rate at the date of the statements of financial position, and revenue and expenses are translated at the average rate for the period and the difference is recorded in accumulated other comprehensive (loss) income. Gains and losses from intercompany foreign currency transactions of a long-term investment nature are included in accumulated other comprehensive loss.

[ii] Transactions in foreign currency

Transactions in foreign currencies are translated at the exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates at the reporting date. All differences that arise are recorded in net loss. Non-monetary assets measured at historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions.

Financial instruments

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale investments (“AFS”), as appropriate. Financial liabilities are classified as other liabilities. The Company determines the classification of its financial assets or liabilities at initial recognition. When financial assets or liabilities are recognized initially, they are measured at fair value.

Subsequently, financial assets classified as loans and receivables and financial liabilities classified as other liabilities are measured at their amortized cost using the effective interest rate method. Financial assets and liabilities classified as fair value through profit or loss and assets classified as AFS are measured subsequently at their fair values.

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The Company’s financial assets and liabilities are classified and measured as follows:

	Classification	**Measurement**	**Fair value level**
Cash	Fair value through profit and loss	Fair value	I
Other receivables	Loans and receivable	Amortized cost	-
Loans to associates and joint ventures	Loans and receivable	Amortized cost	-
Available for sale investments [listed]	Available for sale	Fair value	I
Available for sale investments [unlisted]	Available for sale	Fair value	II
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	-
Loan payable	Other liabilities	Amortized cost	-

Derecognition of financial assets and liabilities

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Gains and losses on derecognition are recognized in net loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Gains or losses on these items are recognized in the net loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or AFS. Such assets are carried at amortized cost using the effective interest method, less impairment. Losses are recognized in net loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Other receivables classified as loans and receivables are non-interest bearing. Where the time value of money is material, receivables are discounted and are carried at their present value. A provision is made where the estimated recoverable amount is lower than the carrying amount.

Available for sale investments

Equity investments classified as AFS investments are those that are neither classified as held for trading nor designated at fair value through profit or loss. The unrealized gains and losses, net of applicable income taxes, on AFS investments are reported in other comprehensive loss until the investment is derecognized, at which time, the cumulative gain or loss is recognized in net loss, or the investment is determined to be impaired, when the cumulative loss is reclassified from the accumulated other comprehensive income to net loss.

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to net loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to net loss.

Other liabilities

Other liabilities are recognized initially at fair value net of any directly-attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Other liabilities are presented as current if payment is due within twelve months. Otherwise, they are presented as non-current liabilities. Finance expense is recognized in the net loss using the effective interest method.

Fair values of financial instruments carried at fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or most advantageous market for the asset or liability.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted [unadjusted] market prices in active markets for identical assets or liabilities, or
- Level 2 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable; such techniques may include using recent market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models. or
- Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization [based on the lowest level input that is significant to the fair value measurement as a whole] at the end of each reporting period.

Impairment of financial assets

Financial assets carried at amortized cost

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets carried at amortized costs are impaired. A financial asset or a group of financial assets carried at amortized cost is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows [excluding future credit losses that have not been incurred] discounted at the financial asset's original effective interest rate [i.e. the effective interest rate computed at initial recognition]. The carrying amount of the asset is reduced and the amount of the loss is recognized in the net loss.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in net loss to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS financial assets

For AFS financial assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost.

When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statements of loss and comprehensive loss – is removed from accumulated other comprehensive (loss) income and recognized in net loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in other comprehensive income.

Segment reporting

The Company operates in one business segment. The information provided is consistent with the internal reporting provided to the chief operating decision maker.

4. Recent accounting pronouncements

The following pronouncements are issued but not yet effective for the year ended September 30, 2016:

[a] Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Company applied the amendments retrospectively. However, their application has had no effect on the Company's financial position.

[b] IFRS 9 Financial Instruments

The final version of IFRS 9, Financial instruments ["IFRS 9"] was issued by the IASB in July 2014 which reflects all phases of the financial instruments project and replaces IAS 39, Financial Instruments: recognition and measurement ["IAS 39"]. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for the Company on October 1, 2018. Retrospective application is required, but comparative information is not compulsory. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

[c] IFRS 15, Revenue from contracts with customers

IFRS 15, issued in May 2014 provides a single, comprehensive revenue recognition framework for all contracts with customers to improve comparability of financial statements of companies globally. This new standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. IFRS 15 is effective for the Company on October 1, 2018. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

[d] IAS 7 – Statement of Cash Flows

In January 2016, the IASB amended IAS 7, Statement of Cash Flows, to require enhanced disclosure about changes in liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates and changes in fair value. The amendments to IAS 7 are effective on October 1, 2017. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

[e] IFRS 16, Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets and short-term leases.

At the commencement date of a lease, a lessee will recognize a liability to make lease payments [i.e., the lease liability] and an asset representing the right to use the underlying asset during the lease term [i.e., the right-of-use asset]. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events [e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments]. The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 is effective for the Company on October 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Company is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

[f] IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB issued IFRIC 22, Foreign Currency Transactions and Advance Consideration, to clarify the transaction date for the purpose of received or paid in advance consideration in a foreign currency. This interpretation will be effective on October 1, 2018 for the Company, with earlier application permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

5. Reverse takeover

On July 12, 2016, LGC Capital acquired 100% of the issued and outstanding shares of Leni Gas Cuba in exchange for common shares of LGC Capital whereby shareholders of Leni Gas Cuba were issued one post-consolidation common share for every two and one-half [2.5] Leni Gas Cuba common shares held. Furthermore, all stock options and warrants of Leni Gas Cuba were exchanged for stock options and warrants of the Company on the same basis.

After completion of the RTO, Leni Gas Cuba shareholders held 84.43% of common shares of the Company while original shareholders of LGC Capital held 15.57%. Accordingly, Leni Gas Cuba, the legal acquiree, is the accounting acquirer of LGC Capital and LGC Capital, the legal acquirer, is the accounting acquiree. As a result, Leni Gas Cuba's assets, liabilities and operations are presented since incorporation in these consolidated financial statements at their historical value. LGC Capital's results of operations have been included from July 12, 2016.

The net liabilities assumed of LGC Capital as at July 12, 2016, are summarized as follows:

	$
Net liabilities assumed:	
Cash	204,586
Accounts receivable	19,033
Accounts payable and accrued liabilities	(284,949)
Net liabilities assumed	(61,330)
Consideration paid:	
Share capital	2,431,976
Excess of consideration over net liabilities assumed	(2,493,306)
	(61,330)

LGC Capital did not meet the definition of a business, as defined by IFRS 3 [Revised].

The share capital represents the estimated fair value of 91,100,083 shares deemed to be issued by Leni Gas Cuba to LGC Capital shareholders for 15.57% of the combined entity calculated at $0.0267 per share. The excess of consideration over net liabilities assumed represents the difference between the estimated fair value of the Leni Gas Cuba shares deemed to be issued to LGC Capital shareholders less the net fair value of the liabilities of LGC Capital acquired.

As a result, the excess of consideration over net liabilities assumed of $2,493,306 together with transaction costs and professional fees associated with the RTO of $321,425 for a total of $2,814,731 have been recorded as listing expenses against profit and loss in the year ended September 30, 2016 *[note 6]*.

6. Expenses by nature

The following is a breakdown of the nature of expenses included in administrative expenses, listing and compliance expenses and finance expenses for the year ended September 30:

	2017	**2016**
	$	$
Administrative expenses:		
Salaries and other employee benefits	**151,974**	48,557
Directors' fees and consultancy	**610,426**	703,965
Legal fees	**297,224**	332,076
Regulatory expenses	**308,710**	831,245
Consultancy fees	**366,116**	1,200,725
Travel and business development	**50,654**	281,724
Investor / public relations	**136,009**	69,290
Office expenses	**130,726**	161,163
Professional fees	**78,221**	90,607
Stock-based compensation *[note 13(d)]*	**449,511**	1,140,631
House of Hemp related	**335,624**	—
Other administrative	**26,310**	67,377
Total	**2,941,505**	4,927,360

In June 2017, the Company entered into a strategic alliance with AfriAg (Pty) Ltd., to create a new 50/50 joint venture to grow and distribute medical and recreational cannabis products in the southern African region for export to regulated and certified end users around the world.

In July 2017, LGC Capital and AfriAg (Pty) Ltd. entered into a binding memorandum of agreement to acquire a 60% interest in South Africa's House of Hemp (Pty) Ltd.'s hemp and cannabis related businesses, subject to an exclusive option for the period ending January 28, 2018. In connection with this exclusive option, the Company incurred an expense of $335,624 for the year ended September 30, 2017 [2016 – nil].

	2017 $	**2016** $
Listing and compliance expenses:		
Legal fees	**—**	321,425
Excess of consideration over net liabilities assumed *[note 5]*	**—**	2,493,306
Total	**—**	2,814,731

	2017 $	**2016** $
Finance expenses:		
Interest on loans payable *[note 12]*	**17,301**	—
Financing fees *[note 12]*	**37,386**	—
Other	**493**	—
Total	**55,180**	—

7. Income taxes

A reconciliation of income tax charge applicable to accounting loss before income tax at the weighted average statutory income tax rate to income tax charge at the Company's effective income tax rate for the year/period ended September 30 is as follows:

	2017 $	**2016** $
Loss before income tax	**(5,047,555)**	(7,861,526)
Income tax recovery at the combined Federal and Provincial tax rate 26.82% [2016 – 26.90%]	**(1,353,754)**	(2,114,751)
Non-deductible expenses and non-taxable revenues	**210,573**	—
Effect of changes in tax rates on temporary items	**5,243**	1,079
Effect of foreign tax rate differences	**733,567**	2,042,200
Changes in valuation allowance	**404,371**	71,472
Tax recovery at an effective income tax rate	**—**	—

The deferred tax asset and liability of the Company consist of the following:

	2017 $	2016 $
Future income tax assets		
Non-capital loss carry-forwards	**632,560**	226,772
Share issue costs	**1,260**	2,677
Other	**7,187**	7,187
Net future income tax assets	**641,007**	236,636
Unrecognized future income tax assets	**(641,007)**	(236,636)
Net future income tax	**—**	—

Tax loss carry-forwards

At September 30, 2017, LGC Capital had non-capital loss carry-forwards in the amount of $2,362,000 which are available to reduce future years' taxable income. These non-capital loss carry-forwards expire as follows:

	Non-capital losses $
2033	7,000
2034	203,000
2035	152,000
2036	459,000
2037	1,541,000
	2,362,000

8. Available for sale investments

A breakdown of AFS investments as at September 30, 2017 and 2016 and the respective changes during the years then ended are summarized as follows:

	2017 $	2016 $
Balance, beginning of year	**6,773,904**	1,599,774
Additions	**18,552**	1,410,493
Disposals	**(582,124)**	—
(Decrease) increase in fair value	**(4,040,910)**	4,586,366
Impairment	**(1,311,575)**	—
Foreign currency loss on translation	**(180,606)**	(822,729)
Balance, end of year	**677,241**	6,773,904

Notes to consolidated financial statements

Years ended September 30, 2017 and 2016

[a] Petro Australis Limited *[note 18]*

In July / August 2015, the Company acquired a total of 10,961,667 ordinary shares at an average of A$0.15 per share in Petro Australis Limited ["Petro Australis"], an unlisted Australian public company, at a total cost of A$1,644,250 ($1,599,328). The Company's shareholding represented, on acquisition, a 15.0% interest in Petro Australis. In August 2016, Petro Australis completed an equity raising at A$0.20 per share.

As at September 30, 2017, the Company's interest in Petro Australis was 12.1% [2016 – 14.0%].

Prior to September 30, 2017, the Company had sought interest in the acquisition of its interest in Petro Australis, and as at year end, had received a non-binding offer of AUD$50,000, which was accepted after year-end. As a result, as at September 30, 2017, the Company recorded a decrease of fair value of its investment in Petro Australis of A$548,083 ($820,716) [2016 – gains of A$500,296 ($944,816)], in other comprehensive (loss) income and also an impairment of A$1,594,250 ($1,248,417) [2016 – nil], in other comprehensive loss which was subsequently reclassified to net loss.

[b] Melbana Energy Limited *[note 18]*

In March 2016 the Company acquired 140,716,573 new ordinary shares at A$0.01 per share in Melbana Energy Limited ["Melbana"] [formerly MEO Australia Limited], an Australian incorporated public company listed on the Australian Stock Exchange [ticker "MAY"], for a total cash consideration of A$1,407,166 ($1,360,280). The Company's shareholding represented, on acquisition, a 15.8% interest in Melbana. As a result of share issues by Melbana in August and September 2016, the Company's interest was diluted to 14.76% as at September 30, 2016.

During the year ended September 30, 2017, the Company divested 68,814,234 shares in Melbana, at an average price of A$0.015, for total proceeds of A$1,031,601 ($1,026,829), which resulted in a reduction of the Company's interest in Melbana from 14.76% as at September 30, 2016 to 4.81% as at September 30, 2017. As a result, during the year ended September 30, 2017, the Company recognized a gain on disposal of shares of Melbana of A$343,458 ($444,705), recorded in other comprehensive (loss) income which was subsequently reclassified to net loss.

The closing share price of Melbana as at September 30, 2017 was A$0.009 and during the year then ended the decrease in fair value of the Company's investment amounted to A$3,167,667 ($3,220,194) [2016 – increase of A$2,814,331 ($3,641,550)].

[c] The Cuba Mountain Coffee Company Limited

In June 2016 the Company acquired a total of 273 ordinary shares at £100 per share in The Cuba Mountain Coffee Company Limited ["Cuba Mountain"] for a total cash consideration of £27,300 ($50,213). The Company's shareholding represented on acquisition a 10.14% interest in Cuba Mountain. In December 2016 the Company participated in a rights issue by Cuba Mountain and acquired a further 112 ordinary shares at £100 per share for an investment of £11,200 ($18,552).

As at September 30, 2017, the Company's interest in Cuba Mountain was 10.14% [2016 – 10.14%].

On October 2, 2017 the Company was advised that Cuba Mountain was insolvent and the directors of Cuba Mountain resolved to appoint a liquidator. Consequently, the Company terminated all agreements with Cuba Mountain and, as at September 30, 2017, recorded an impairment in other comprehensive (loss) income of £38,500 ($63,158) [2016 – nil], which was subsequently reclassified to net loss.

9. Investments in associates

The table below presents the Company's associates.

Associate	**Country of registration**	**Nature of business**	**Holding September 30, 2017**	**Holding September 30, 2016**
Travelwelcome Limited	England & Wales	Non-trading	—	40%
InCloud9 S.A.	Panama	Cuban travel business	—	40%
InCloud9 OU	Estonia	Cuban travel business	—	40%
Cuba Professionals Inc.	Panama	Cuban human resources	—	49%

A breakdown of investments in associates as at September 30, 2017 and 2016 and the respective changes during the year/period then ended are summarized as follows:

	2017	**2016**
	$	$
Balance, beginning of year	**68,119**	78,301
Additions	**—**	73,614
Share of profit (loss)	**6,464**	(2,402)
Impairment	**(69,719)**	(69,628)
Foreign currency loss on translation	**(4,864)**	(11,766)
Balance, end of year	**—**	68,119

Financial information	**2017**	**2016**
	InCloud9 Group	**InCloud9 Group**
	$	$
Current assets	**337,351**	242,747
Non-current assets	**25,973**	24,303
Total assets	**363,324**	267,050
Current liabilities	**(306,588)**	(226,474)
Net assets	**56,736**	40,576
Share of net assets	**22,694**	16,230
Revenue	**1,892,697**	1,358,723
Profit	**16,159**	5,081
Share of profit	**6,464**	2,321

[a] Travelwelcome / InCloud9

In September 2015, the Company acquired a 40% interest in Travelwelcome Limited, a private limited company incorporated in England and Wales, for a total consideration of US$60,000 ($78,568). In November 2015, Travelwelcome Ltd agreed to join forces IC9 S.A. and IC9 OU [collectively "InCloud9 Group"], which operates a bespoke Cuban travel and concierge business. As a result, the Company acquired a 40% interest in the InCloud9 Group. During the year ended September 30, 2017, the Company's share of profit amounted to £2,591 ($6,464) [2016 – £1,299 ($2,321)].

On September 22, 2017, the Board of Directors decided to exit all of the Company's investments with interests in Cuba. Consequently, as at September 30, 2017, the Company recorded an impairment, in net loss, on its investment in InCloud9 Group of £42,499 ($69,719) [2016 – nil] and has written off the balances of all loans provided by the Company to the InCloud9 Group amounting to £164,203 ($269,368) [2016 –nil] *[note 11]*.

On November 28, 2017, the Company finalized an agreement with the founder of the InCloud9 Group to assign the Company's 40% interest for no consideration and to write-off in full the working capital loans.

[b] Cuba Professionals Inc.

In March 2016, the Company acquired a 49% interest in Cuba Professionals Inc. ("CP") a private company incorporated in Panama. CP provided human resources and consulting services in Cuba. Pursuant to the binding term sheet signed between Leni Gas Cuba and CP, the Company subscribed for new ordinary shares representing 49% of CP's equity in consideration of EUR180,000 ($265,573), payable in instalments over a nine month period. Specifically, the Company was to acquire its 49% interest on payment of an initial EUR50,000 ($73,614) on signing of the binding term sheet on March 1, 2016, followed by further scheduled payments of EUR50,000 ($73,770) on June 1, 2016, EUR50,000 ($73,770) on September 1, 2016, and EUR30,000 ($44,262) on December 31, 2016.

On December 17, 2016, Leni Gas Cuba terminated its agreement with CP. Further, on January 21, 2018, the Company executed a settlement agreement with CP pursuant to which the Company transferred its shares in CP for nil consideration.

During the year ended September 30, 2017, the Company recorded an impairment of $nil [2016 – £36,869 ($69,628)].

10. Investments in joint ventures

The table below presents the Company's unincorporated joint ventures, which are accounted for using the equity method.

Associate	Country of registration	Nature of business	Interest September 30, 2017	Interest September 30, 2016
Groombridge Trading Corporation	Cuba/Canada	Trading	—	50%
Rushmans Ltd.	Cuba/ International	Cuban sport	—	50%
Commercially Funded Solar Ltd.	Cuba/ International	Renewable energy	—	50%

A breakdown of investments in joint ventures as at September 30, 2017 and 2016 and the respective changes during the years then ended are summarized as follows:

	2017	2016
	$	$
Balance, beginning of year	**143,055**	—
Additions	**—**	183,750
Share of loss	**(56,980)**	(30,575)
Impairment	**(81,905)**	—
Foreign currency loss on translation	**(4,170)**	(10,120)
Balance, end of year	**—**	143,055

Financial information	2017	2016
	Rushmans JV	Rushmans JV
	$	$
Current assets	**—**	—
Total assets	**—**	—
Current liabilities	**—**	(55,269)
Net liabilities	**—**	(55,269)
Share of net liabilities	**—**	(27,635)
Revenue	**59,059**	—
Loss	**(112,702)**	(61,150)
Share of loss	**(56,980)**	(30,575)

[a] Rushmans joint venture

In April 2016 the Company executed a 50/50 unincorporated joint venture with Rushmans Ltd. [the “Rushmans JV”], to explore the opportunities available for international entities to participate in the development and marketing of Cuban sports.

Rushmans Ltd. [“Rushmans”] has played a key role in planning and delivering a host of major events including European Championships in Football and World Cups in Cricket and Rugby. Rushmans has also acted as a strategic advisor to sport and corporations worldwide.

The Rushmans JV was granted an exclusive licence to use the Rushmans brand and intellectual property in respect to Cuban sporting opportunities, in consideration for the Company paying £100,000 ($183,750). The Company was to fund any Rushmans JV projects accepted by LGC Capital, as well as providing an initial £40,000 in working capital.

During the year ended September 30, 2017, the Company’s share of losses amounted to £33,882 ($56,980) [2016 – £16,190 ($30,575)].

On September 22, 2017 the Board of Directors decided to exit all of the Company’s investments with interests in Cuba and the Company terminated the Rushmans JV on September 26, 2017. Further, on November 14, 2017, the Company executed an agreement with Rushmans confirming the termination of the Rushmans JV and the write-off of the working capital loan provided by the Company to the Rushmans JV. Consequently, as at September 30, 2017, the Company recognized an impairment in net loss related to its investments in and loans to the Rushmans JV amounting to £49,928 ($81,905) and £100,144 ($164,282) respectively [2016 – $nil and $nil respectively].

[b] Groombridge Trading Corporation joint venture

In November 2016, the Company entered into a binding agreement with Groombridge Trading Corporation [“GTC”] to establish an unincorporated 50/50 joint venture [the “GTC JV”] to expand GTC’s existing trading business of supplying products, machinery and equipment to Cuba, in particular to the growing tourism sector. GTC is a Canadian company that is approved to trade in Cuba by the Cuban Ministry of Foreign Trade and Investment and the Ministry of Agriculture and is also authorized to trade with other Cuban Government entities. The GTC JV was granted an exclusive, first right of refusal to participate on a deal by deal, 50/50 basis, on any transaction generated by GTC.

On September 22, 2017 the Board of Directors decided to exit all of the Company’s investments with interests in Cuba and the Company terminated the GTC JV on September 25, 2017. Further, on September 29, 2017, the Company executed an agreement with GTC confirming the termination of the GTC JV and the write-off of the working capital loan provided by the Company to the GTC JV. Consequently, as at September 30, 2017, the Company recognized an impairment in net loss related to its loan to the GTC JV amounting to £206,328 ($338,474) [2016 – nil].

[c] Commercial Funded Solar joint venture

On May 12, 2016, the Company entered into an agreement with UK solar power and storage specialists, Commercial Funded Solar Ltd., to establish an unincorporated joint venture [the "CFS JV"] to assess the potential for installing and operating renewable energy and hybrid power solutions [solar power, energy storage and integrated power management systems] in Cuba. As at September 30, 2017 and 2016, the Company has not established the CFS JV.

11. Loans to associates and joint ventures

	2017 $	2016 $
Loans due from an associate *[note 9]*	**269,368**	172,290
Loans due from Rushmans JV *[note 10]*	**164,282**	55,269
Loans due from GTC JV *[note 10]*	**338,474**	238,471
Other	**131,084**	12,950
Less: Impairment	**(903,208)**	—
Total	**—**	478,980

The loans provided to associates and joint ventures were unsecured and non-interest bearing and the carrying amount of loans to associates and joint ventures approximates to their fair value.

12. Loan payable

On March 20, 2017, the Company entered into an unsecured loan with Calima Energy Ltd (formerly Azonto Petroleum Limited), an unrelated entity, in the amount of A$325,000 ($330,460) for working capital purposes. On May 25, 2017 the Company obtained a further loan of A$50,000 ($49,735) bringing the total loan amount to A$375,000 ($380,245) maturing on June 23, 2017 [the "Loan Agreement"].

Pursuant to the Loan Agreement, financing fees in the amount of A$37,500 ($37,386) were payable, being 10% of the revised loan amount. In addition, the loan was subject to interest of 10% per annum.

During the year ended September 30, 2017, the Company repaid principal of A$100,000 ($101,505) and the amount of interest charged to net loss in respect of these loans amounted to $17,301 [2016 – $nil] *[refer note 6]*. The balance of the loan, as at September 30, 2017, of A$330,027 ($325,035) was repaid in October 2017.

13. Share capital

Authorized

Common

An unlimited number of common shares, voting, participating, without par value.

[a] Common shares

Issuances during the year ended September 30, 2017

[i] On September 12, 2017, the Company completed a private placement by issuing 30,000,000 units at a price of $0.10 per unit, for gross proceeds of $3,000,000 all of which was allocated to common shares. Each unit was composed of one common share and one common share purchase warrant. Each warrant entitles its holder to purchase one additional common share at a price of $0.15 for a period of one year from the closing date. In the event that the volume weighted average trading price of the Company's shares on the TSX Venture Exchange for a period of 20 consecutive trading days is at least $0.20, the warrants will expire at the sole discretion of the Company on the 30th day after the Company sends a notice to the holders of the warrants. As a result, using valuation model based on stochastic simulations at the date of grant, no value has been allocated to the warrants *[note 13 [c]]*.

Concurrently, the Company issued a total of 992,000 broker compensation warrants, entitling holders to purchase one common share of the Company at a price of $0.10 per share at any time for a period of six months from the closing date. The total fair value of broker compensation warrants was $74,916, allocated to contributed surplus and deducted from share capital.

In connection with this private placement, in addition to the broker compensation warrants, the Company also incurred professional fees and expenses of $128,086 all of which has also been allocated and deducted from share capital.

[ii] During the year ended September 30, 2017, the Company issued 156,500 common shares at an average exercise price of $0.064 per share for a total cash amount of $10,016 upon the exercise of stock options, and an amount of $4,852 related to exercised stock options was transferred from contributed surplus to capital stock *[note 13 [b]]*.

Issuances during the year ended September 30, 2016

[iii] Reverse takeover [July 12, 2016] *[notes 1 and 5]*

On July 12, 2016, prior to the RTO, LGC Capital had 46,575,000 common shares outstanding. The shares were consolidated at a ratio of 1.27795529 pre-consolidation shares to 1 post consolidation share resulting in LGC Capital having 36,445,314 common shares outstanding.

On July 12, 2016, prior to the RTO, Leni Gas Cuba had 494,000,001 common shares outstanding. On July 12, 2016, in conjunction with the RTO *[note 5]*, LGC Capital issued 197,599,996 common shares to Leni Gas Cuba shareholders.

[b] Stock options *[notes 1, 5 and 18]*

On July 6, 2016, the Company adopted the LGC Capital Stock Option Plan [the "Option Plan"]. Under the Option Plan, up to 46,809,065 options to acquire the Company's common shares may be granted to its directors, officers, employees and consultants. The Option Plan does not feature any options for a cash settlement. As a result of the adoption of the Option Plan, no further stock options will be granted under the previous Knowlton Stock Option Plan, which was established by the Board of Directors of the Company effective July 6, 2006 and approved by the Company's shareholders on November 20, 2006. However, stock options previously granted under the Knowlton Stock Option Plan will remain subject to the terms and conditions thereof.

On July 12, 2016, prior to the RTO, LGC Capital had 2,533,775 stock options vested and outstanding. The stock options were consolidated at a ratio of 1.27795529 pre-consolidation shares to 1 post-consolidation share resulting in LGC Capital having 1,982,679 stock options vested and outstanding. The exercise price of the options, while remaining in Canadian dollars, was adjusted by the consolidation ratio while the remaining life of the stock options remained unchanged.

On July 12, 2016, in conjunction with the RTO, all of the 95,000,000 Leni Gas Cuba vested and outstanding stock options were cancelled and replaced with 38,000,000 LGC Capital stock options using the exchange ratio 2.5 to 1. The exercise price of the replacement LGC Capital options is in Canadian dollars, and was also adjusted by the exchange ratio while the remaining life of the stock options remained unchanged.

The outstanding options as at September 30, 2017 and 2016 [adjusted for the consolidation ratio] and the respective changes during the years then ended, are summarized as follows:

	2017		**2016**	
	Number of options #	**Weighted average exercise price** $	**Number of options** #	**Weighted average exercise price** $
Outstanding, beginning of year	**40,982,679**	**0.34**	—	—
Grants by Leni Gas Cuba during the year	**—**	**—**	95,000,000	0.16
Acquisition of LGC Capital *[note 5]*	**—**	**—**	1,982,679	0.07
Cancellation of Leni Gas Cuba options upon RTO *[note 5]*	**—**	**—**	(95,000,000)	(0.16)
Replacement of Leni Gas Cuba options by LGC Capital upon RTO *[note 5]*	**—**	**—**	38,000,000	0.36
Grants by LGC Capital options during the year	**16,000,000**	**0.08**	1,000,000	0.14
Cancellations during the year	**(10,000,000)**	**(0.23)**	—	—
Forfeitures during the year	**(313,000)**	**(0.10)**	—	—
Exercised during the year	**(156,500)**	**(0.06)**	—	—
Outstanding, end of year	**46,513,179**	**(0.28)**	40,982,679	0.34

The following options are outstanding and exercisable as at September 30, 2017.

		Options outstanding			
Range of exercise price $	**Number outstanding** #	**Weighted average remaining contractual life** [in years]	**Weighted average exercise price** $	**Number exercisable** #	**Weighted average exercise price** $
0.00 to 0.149	20,513,179	3.46	0.08	15,513,179	0.08
0.15 to 0.299	14,000,000	2.72	0.22	14,000,000	0.22
0.45 to 0.599	4,000,000	1.09	0.46	4,000,000	0.46
0.60 to 0.749	4,000,000	1.09	0.70	4,000,000	0.70
0.90 to 1.049	4,000,000	1.09	0.93	4,000,000	0.93
0.00 to 1.499	**46,513,179**	**2.63**	**0.28**	**41,513,179**	**0.30**

The stock options granted during the year ended September 30, 2017 vest over 0-1.5 years [2016 – 0-1 year]. The fair value of stock options granted during the years ended September 30, 2017 and 2016 was estimated at their respective grant dates using the Black-Scholes option pricing model, using the following weighted average assumptions:

	2017	**2016**
Risk-free interest rate	**1.12%**	1.18%
Expected volatility	**180%**	83%
Dividend yield	**Nil**	Nil
Expected life [in years]	**4.61**	4.03
Share price at grant date	**$0.030**	$0.089
Fair value at grant date	**$0.028**	$0.011

[c] Warrants *[notes 1, 5 and 18]*

On July 12, 2016, in conjunction with the RTO, all of the 4,940,000 Leni Gas Cuba outstanding warrants were cancelled and replaced with 1,976,000 LGC Capital warrants using the exchange ratio 2.5 to 1. The exercise price of the replacement LGC Capital warrants is in Canadian dollars and was also adjusted by the consolidation ratio while the remaining life of the warrants remained unchanged.

The outstanding warrants as at September 30, 2017 and 2016 and the respective changes during the years then ended are summarized as follows:

	2017		2016	
	Number of warrants #	**Weighted average exercise price** $	**Number of warrants** #	**Weighted average exercise price** $
Outstanding balance, beginning of year	**1,976,000**	**0.23**	—	—
Grants in Leni Gas Cuba during the year	**—**	**—**	4,940,000	0.10
Cancellation of Leni Gas Cuba warrants upon RTO *[note 5]*	**—**	**—**	(4,940,000)	0.10
Replacement of Leni Gas Cuba warrants by LGC Capital warrants upon RTO *[note 5]*	**—**	**—**	1,976,000	0.23
Warrants granted during the year *[note 13(a)]*	**30,000,000**	**0.15**	—	—
Broker compensation warrants granted during the year	**992,000**	**0.10**	—	—
Outstanding balance, end of year	**32,968,000**	**0.12**	1,976,000	0.23

As at September 30, 2017, the warrants outstanding had a weighted average life of 1.18 years and all warrants were exercisable.

The fair value of warrants granted during the year ended September 30, 2017 was estimated at their respective grant dates using valuation model based on stochastic simulations [2016 – Black-Scholes pricing model], using the following weighted average assumptions:

	2017	2016
Risk-free interest rate	**1.54%**	1.60%
Expected volatility	**180%**	80%
Dividend yield	**Nil**	Nil
Expected life [in years]	**—**	7.00
Contractual life [in years]	**1.00**	—
Share price at grant date	**$0.15**	$0.035
Fair value at grant date	**$Nil**	$0.020

The fair value of broker compensation warrants granted during the year ended September 30 was estimated at their respective grant dates using the Black-Scholes pricing model, using the following weighted average assumptions:

	2017
Risk-free interest rate	**1.54%**
Expected volatility	**180%**
Dividend yield	**Nil**
Expected life [in years]	**0.50**
Share price at grant date	**$0.137**
Fair value at grant date	**$0.076**

[d] Stock-based compensation

For the year ended September 30, 2017, the stock-based compensation expense included in net loss was $449,511 [2016 – $1,140,631] *[note 6]*.

14. Related party transactions *[note 18]*

In addition to the related party transactions disclosed elsewhere, the Company entered into the following related party transactions in the normal course of operations.

[a] During the year ended September 30, 2017, the Company purchased travel services from its associate, InCloud9 and the total amount charged to administrative expenses in respect of such services amounted to $20,918 [2016 – $79,227].

[b] During the year ended September 30, 2017, the Company incurred expenditures related to the provision of serviced office facilities from a company in which a former director of the Company is a director and the total amount charged to administrative expenses in respect of such related party services amounted to $24,936 [2016 – $37,500].

[c] During the year ended September 30, 2017, the Company incurred fees to a number of management entities of which certain officers or directors of the Company are a related party and the total amount for such services was $399,986, which was recorded in directors' fees [2016 – $60,916]. As at September 30, 2017, an amount of $34,010 [September 30, 2016 – $14,810] owing to these firms was included in accounts payable and accrued liabilities in respect of these fees.

[d] Compensation of key management personnel and Board of Directors

Excluding the amounts reported above, during the years ended September 30, 2017 and 2016, the Company recorded the following compensation for key management personnel and the Board of Directors:

	2017	**2016**
	$	$
Directors' fees	**266,440**	643,049
Stock-based compensation	**313,008**	665,281
Total	**579,448**	1,308,330

15. Commitments

Operating lease commitments

During the year ended September 30, 2017, the Company terminated its operating lease. As at September 30, 2017, the Company had outstanding residual commitments payable under terminated operating leases, included in accounts payable and accrued liabilities, amounting to $5,429.

16. Financial instruments

General objectives, policies and procedures

The Company's objectives when managing capital are to safeguard its ability to continue its investments *[note 1]* As such, the Company relies primarily on the equity markets to fund its activities. In order to carry out planned activities and to pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company has not used term debt financing and has not paid any dividends. As well, the Company does not have any externally imposed capital requirements, either regulatory or contractual, to which it is subject.

The Company's Board of Directors has overall responsibility for the determination of the Company's risk management objectives and operating processes that ensure effective implementation of the policies set out below. The Company's Board of Directors receives regular reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Principles of risk management

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company is exposed through its activities to the following risks:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Foreign exchange risk.

The Company does not enter into financial instrument agreements, including derivative financial instruments, for speculative purposes.

Credit risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its contractual obligations; the Company's maximum exposure to credit loss is the carrying value of its financial instruments.

The Company is exposed to credit risk from its cash. The Company reviews the banks and financial institutions it deals with to ensure that standards of credit worthiness are maintained.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. All of the Company's financial liabilities are due within one year. The Company manages liquidity risk through the management of its capital structure.

As at September 30, 2017, the Company had a total of $2,018,570 in cash. Accounts payable and accrued liabilities and loan payable have contractual maturities of 30 days or less and are subject to normal trade terms, and amounts due to related parties are due on demand.

Market risk analysis

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company's primary market exposures are to foreign exchange risk and interest rate risk.

The sensitivity analyses are intended to illustrate the sensitivity to changes in market variables on the Company's financial instruments and show the impact on net loss and comprehensive loss where applicable.

The following assumptions have been made in calculating the sensitivity analyses:

- The consolidated statement of financial position sensitivity relates to foreign currency denominated cash, other receivables, AFS investments, and accounts payable and accrued liabilities.
- The sensitivity of the relevant net loss is the effect of the assumed changes in foreign currency. This is based on the financial assets and financial liabilities held at September 30, 2017 and 2016 and constant throughout the year/period.
- The impact on other comprehensive loss/income where applicable

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's foreign exchange risk arises primarily with respect to GBP, Australian dollars ("AUD") and USD.

To the extent that these financial instruments are unhedged, or are not adequately hedged, the value of the Company's financial instruments may fluctuate with exchange rates as well as with price changes in various local markets and currencies. The value of the financial assets may therefore be affected unfavourably by fluctuations in currency rates and exchange control regulations. The Company has not entered into hedging instruments to manage exposure to currency movements at this stage.

As at September 30, 2017 the exposure of the Company to foreign exchange rates is summarized as follows:

	As at September 30, 2017				
	GBP	**AUD**	**USD**	**EUR**	**CUC**
Cash	200,243	122,515	—	—	2,669
Available for sale investments	—	695,823	—	—	—
Other receivables	25,000	—	7,966	—	—
Accounts payable and accrued liabilities	(483,404)	(39,696)	(49,385)	(16,598)	—
Loan payable	—	(325,035)	—	—	—
Total	(258,161)	453,607	41,419	(16,598)	2,669

The impact of foreign currencies has been determined based on the balances of financial assets and liabilities at September 30, 2017. This sensitivity does not represent the consolidated statement of loss and comprehensive loss impact that would be expected from a movement in foreign currency exchange rates over the course of a period of time.

If the Canadian dollar had gained or lost 5% against each of the following currencies the increase (decrease) in total comprehensive income for the year ended September 30, 2017 would have been as follows:

	Impact on other comprehensive loss		
Fluctuation in foreign currency rate	**CAD/GBP rate**	**CAD/USD Rate**	**CAD/AUD rate**
	$	$	$
+ 5%	5,638	2,583	22,106
- 5%	(5,638)	(2,583)	(22,106)

17. Contingent liability

From time to time, the Company is involved in legal proceedings, audits, claims and litigation which primarily relate to tax exposure, investment agreement terminations and related disputes, contractual disputes and employee claims arising in the ordinary course of its business. Certain of these matters seek damages in significant amounts and will ultimately be resolved when one or more future events occur or fail to occur. Although the outcome of such matters is not predictable with assurance, the Company has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Company’s consolidated financial position, results of operations or the ability to carry on any of its business activities.

18. Subsequent events

[a] Investment in Habi Pharma Pty Ltd (“Little Green Pharma”)

On October 5, 2017, the Company executed a subscription agreement with the licensed Australian medical cannabis company Habi Pharma Pty Ltd [doing business as “Little Green Pharma”]. On October 12, 2017 the Company completed the initial acquisition of 2,161,091 shares of Little Green Pharma representing an initial 4.99% of its issued and outstanding share capital by paying A$432,218 ($422,968) and issuing 5,660,000 common shares of LGC Capital at a deemed issue price of $0.11 per share ($622,600) for a total consideration of $1,045,568. Closing was conditional upon the Company having obtained all requisite regulatory and TSX Venture Exchange approvals.

Further, on November 1, 2017, as a result of share issuances by Little Green Pharma to other parties, the Company subscribed for a further 752,937 shares of Little Green Pharma for cash consideration of A$150,587 ($149,668) so as to maintain its 4.99% shareholding.

Under the subscription agreement, subject to certain Australian regulatory approvals, and subject to approval by Little Green Pharma in its sole discretion, the Company may further subscribe, at its option, for additional shares of Little Green Pharma in order to increase its shareholding to a maximum of 19.03%.

On December 14, 2017, the Company subscribed for an additional 4,585,972 shares of Little Green Pharma for cash consideration of A$917,194 ($906,062), thereby increasing its shareholding to 11.91%.

On January 22, 2018, the Company announced that it had entered into a Binding Term Sheet with Little Green Pharma to increase the Company's interest from 11.91% to 14.99%. Little Green Pharma will issue 2,283,495 additional shares to the Company at a deemed issue price of A$1.16398 per share for a total consideration of approximately A$2,657,950. The Company will pay for the shares by issuing 5,000,000 LGC Capital shares to Little Green Pharma at a deemed issue price of $0.53 per share, representing the closing price of LGC Capital's shares on the TSX Venture Exchange on January 19, 2018, for a total consideration of $2,650,000, equivalent to $2,657,950 based on the Bank of Canada exchange rate on January 19, 2018. The Binding Term Sheet also contains an undertaking by the Company to participate in Little Green Pharma's next capital raise, by June 30, 2018, to the extent required to maintain LGC Capital's 14.99% shareholding in Little Green Pharma. Closing of the transaction with Little Green Pharma is subject to the parties entering into a definitive subscription agreement and to standard closing conditions. The transaction is also subject to regulatory approval, including that of the TSX Venture Exchange.

[b] Etea Sicurezza Group Ltd transaction

On October 10, 2017, the Company established a merchant banking division, which will pursue global high-yield investment opportunities. Concurrently the Company entered into an agreement with a Toronto-based investment firm whereby the Company will guarantee repayment by Etea Sicurezza Group Ltd ["Etea Sicurezza"], an unrelated entity, of notes issued by Etea Sicurezza to an unrelated party in an aggregate principal amount of USD $1,000,000 [the "Notes"]. The Notes have a term of two years, bear interest at a rate equal to LIBOR + 8%, and are secured by the assets of Etea Sicurezza and by a pledge of shares by Etea Sicurezza's principal shareholder.
As consideration for the guarantee, Etea Sicurezza will issue shares to the Company representing 3% of its outstanding shares and pay an annual cash fee to the Company.

On November 1, 2017, the Company entered into a letter of intent with Etea Sicurezza for a potential acquisition of approximately 20% of Etea Sicurezza by the Company. The letter of intent will form the basis for the negotiation of a mutually-satisfactory definitive agreement to be entered into between the Company, on the one hand, and Etea Sicurezza and its shareholders, on the other hand.

The letter of intent provides that the Company will incorporate a new, wholly-owned subsidiary corporation ["Holdco"] which will issue 11,280,000 shares to the Company; Holdco will acquire 87.5% of the issued and outstanding shares of Etea Sicurezza from its principal shareholders in exchange for an aggregate of 45,120,000 Holdco shares and will acquire the balance of 12.5% of the issued and outstanding shares of Etea Sicurezza from a minority shareholder for cash, to be funded by the Company. Holdco will effect a private placement or other similar financing of 1,200,000 shares at a price of $0.83333 per share for gross proceeds of $1,000,000. The minority Etea Sicurezza shareholder will undertake to subscribe for common shares of the Company by way of private placement in an amount equal to the amount it receives for its 12.5% interest at a price per share equal to the then-market price of the Company's shares.

The letter of intent provides that at the closing of the proposed transaction, Holdco will have 60,000,000 shares issued and outstanding, of which, among others, the current Etea Sicurezza shareholders will hold an aggregate of approximately 75%, the Company will hold approximately 19%, and new investors will hold an aggregate of 2%. Holdco will own all of the issued and outstanding shares of Etea Sicurezza and have cash of approximately $1,000,000.

The letter of intent provides that at the closing of the proposed transaction, the Board of Directors of Holdco will consist of three nominees of Etea Sicurezza and two nominees of the Company, of whom at least a majority will be independent directors within the meaning of Canadian securities regulations.

The proposed transaction is subject to a number of conditions, including completion of due diligence reviews by the Company and Etea Sicurezza, to their respective satisfaction; the absence of any material adverse change with respect to Etea Sicurezza; the negotiation and execution by the Company and Etea Sicurezza of a definitive agreement in respect of the transaction; receipt of all corporate approvals, including approval of the Boards of Directors of the Company and Etea Sicurezza; and receipt of all other necessary regulatory approvals, including that of the TSX Venture Exchange.

[c] Tricho-Med Corporation transaction

On October 31, 2017, the Company signed a term sheet with Quebec based Tricho-Med Corporation, doing business as AAA Trichomes ["AAA Trichomes"] to acquire a 49% interest in AAA Trichomes plus a 5% royalty on its net sales. AAA Trichomes is planning to build a new cannabis processing facility in the Province of Quebec. Closing was conditional upon the Company having obtained all requisite regulatory and TSX Venture Exchange approvals.

On December 18, 2017, TSX Venture Exchange approved the Company's proposed transaction with AAA Trichomes.

On January 8, 2018, the Company announced that it has finalized the transaction with AAA Trichomes and entered into a four-year secured convertible loan agreement with AAA Trichomes in an amount of $4,000,000 [the "Loan"], which will be disbursed in accordance with a pre-agreed milestone disbursement schedule. Upon AAA Trichomes obtaining a license to produce medical cannabis from the relevant regulatory authorities, the Loan will convert into common shares of AAA Trichomes representing 49% of AAA Trichomes' then-issued and outstanding shares. The Company will also receive a 5% royalty on AAA Trichomes' net sales. The Loan will bear interest at an annual rate of 10%, have a term of four years and be secured by first-ranking security on all of AAA Trichomes' assets. In the event that AAA Trichomes does not become a publicly-listed company within twelve months of having obtained the licence, the Company will receive such number of shares so that it owns 54% of the then-issued and outstanding shares of AAA Trichomes, subject to approval by the TSX Venture Exchange.

[d] Joint venture with Creso Pharma Limited and Baltic Beer Company Ltd

On November 9, 2017, the Company announced the formation of a strategic alliance with Creso Pharma Limited ["Creso"], an Australian listed and Swiss based pharmaceutical company, intended to create a vertically-integrated cannabis operation with a global footprint spanning cultivation, IP generation, innovative product development and commercialization.

On November 29, 2017, the Company announced it had signed a Binding Letter of Intent with Creso and Baltic Beer Company Ltd (UK) ["Baltic Beer"] to develop and market a bespoke portfolio of cannabis- and hemp-derived alcoholic and non-alcoholic beverages containing various ingredients, seeds, extracts and terpenes from hemp and cannabis plants.

On January 11, 2018, the Company announced the launch of the joint venture CLV Frontier Brands Pty Ltd ["CLV"], in which the Company, Creso and Baltic Beer will each have a one-third interest. The Company's involvement in the joint venture is subject to the approval of the TSX Venture Exchange. CLV is targeting to ship the first test batch of an initial four-beer range containing cannabis-derived terpenes in April / May 2018, with commercial sales expected to commence in June / July 2018.

[e] Issuance of share capital by private placement

On December 1, 2017, the Company announced that it had raised gross proceeds of $2,980,773 at a first closing of a private placement by issuing 19,871,822 units at a price of $0.15 per unit. On December 7, 2017, the Company announced the completion of the private placement by issuing 5,000,000 additional units for gross proceeds of $750,000 at a second closing. Each warrant entitles its holder to acquire one additional common share of the Company at a price of $0.25 for a period of 18 months from the closing date. In the event that the volume weighted average trading price of the Company's shares on the TSX Venture Exchange for a period of ten consecutive trading days is at least $0.30, the Company will be entitled to send a notice to the holders of the warrants accelerating the expiry date of the warrants to a date not less than 30 days after the date of such notice.

At the first closing, the Company paid cash commissions to various securities dealers in an aggregate amount of $127,624, representing 5% of the proceeds from the sale of units sold through such dealers. In addition, the Company issued an aggregate of 850,828 "broker warrants" to such dealers, representing an amount equal to 5% of the number of units sold through them. Each of the "broker warrants" entitles its holder to purchase one additional unit at a price of $0.15 for a period of 18 months from the closing date of the private placement.

The securities issued at the first closing are subject to a "hold period" which expires on April 2, 2018.

At the second closing, the Company paid a cash commission of $37,500 and issued 250,000 "broker warrants" to one person, representing 5% of the proceeds from the closing and 5% of the number of units issued at the closing, respectively. Each of the "broker warrants" entitles its holder to purchase one additional unit at a price of $0.15 for a period of 18 months from the closing date of the private placement.

The securities issued at the second closing are subject to a "hold period" which expires on April 8, 2018.

[f] Stock option grants and amendments to 2016 Stock Option Plan

On December 8, 2017, the Company's Board of Directors granted an aggregate of 6,475,000 stock options to six of the Company's directors and officers and two consultants. The stock options have an exercise price of $0.36, representing the closing price of the Company's shares on the TSX Venture Exchange on December 7, 2017, and a term of ten years. The stock options were granted under the Company's 2016 Stock Option Plan.

In addition, on December 8, 2017, the Board of Directors amended the 2016 Stock Option Plan so as to increase the number of shares that can be issued thereunder to 58,946,726 shares, equal to 20% of the 294,733,632 common shares of the Company's issued and outstanding. The amendment to the 2016 Stock Option Plan has been conditionally approval by the TSX Venture Exchange and remains subject to shareholder approval.

Following the amendment to the 2016 Stock Option Plan, the Board of Directors granted an aggregate of 12,025,000 additional stock options to six of the Company's directors and officers and two consultants. These additional stock options also have an exercise price of $0.36 and a term of ten years and were granted under the Company's 2016 Stock Option Plan, as amended. The 12,025,000 stock options may not be exercised until such time, if any, as the Company acquires disinterested shareholder approval for the grant of the 12,025,000 stock options.

On November 15, 2017, the Company granted an option to a consultant to purchase up to 5,500,000 common shares in the Company at $0.15 per share on or before November 15, 2018.

[g] Amendments to existing stock option grants

On November 15, 2017, the Company agreed to amend the stock options with a consultant previously granted a stock option to purchase up to 20,000,000 common shares of the Company in five tranches at varying exercise prices so that two tranches are exercisable in respect of an aggregate of 8,000,000 common shares of the Company on or before May 31, 2018 and that three tranches in respect of an aggregate of 12,000,000 common shares of the Company were cancelled.

[h] Exercise of stock options

During the period October 1, 2017 to January 29, 2018, the Company issued a total of 4,550,000 common shares in respect of the exercise of stock options at an average exercise price $0.10 per share raising total proceeds of $453,860.

[i] Exercise of warrants

During the period October 1, 2017 to January 29, 2018, the Company issued 23,001,211 common shares in respect of the exercise of warrants at an average exercise price of $0.15 per share raising total proceeds of $3,450,182.

[j] Investment Agreement for US$2,340,000 million loan

On January 2, 2018, the Company announced that it had entered into an Investment Agreement with international investors YA II PN, Ltd and Cuart Investments PCC Limited pursuant to which they will loan the Company an aggregate amount of US$2,340,000 ($2,940,000). The Company intends to use the net proceeds from the loan to further advance its core business divisions on its global platform.

The loan will have a term of twelve months and bear interest at an annual rate of 12%. The Company will pay the interest on the loan in cash on a quarterly basis.

The principal amount of the loan will be convertible into the Company's common shares at the option of the lenders at a price per share equal to the lesser of (i) US$0.538 ($0.675), representing the US dollar equivalent of 135% of the closing price of the Company's shares on the TSX Venture Exchange on December 29, 2017 ($0.50), and (ii) 90% percent of the lowest daily volume weighted average trading price of the Company's shares during the five trading days immediately preceding the date of a conversion notice from the lenders, subject to a minimum conversion price of $0.50.

Upon each advance of funds under the Investment Agreement, the Company will issue common share purchase warrants to the lenders in an amount equal to 25% of the dollar amount of the advance divided by $0.4465, being the volume weighted average trading price of the Company's shares during the five trading days ended December 29, 2017. Each warrant will entitle its holder to acquire one common share of the Company at a price of $0.70, representing 140% of the Company's closing price on December 29, 2017, for a period of one year from the date of issuance.

In connection with the Investment Agreement, the Company will pay a structuring fee to RiverFort Global Capital Ltd. of London, England by issuing shares to it in an amount equal to 12.5% of the dollar amount of any advance by YA II PN, Ltd, less the amount of the due diligence fee referred to below, divided by $0.675, representing 135% of the closing price of the Company's shares on the TSX Venture Exchange on December 29, 2017 ($0.50). The Company will also pay a cash due diligence fee to RiverFort Global Capital Ltd. in an amount of £10,000 (approximately $17,000).

Closing of the transaction and the advance of funds to the Company is expected to take place shortly, subject to standard closing conditions. The Investment Agreement, including all issuances of shares by the Company pursuant thereto, is subject to the approval of the TSX Venture Exchange. Any securities issued by the Company at the closing of the transaction, as well as any shares issued upon conversion of the loan or upon the exercise of warrants, will be subject to restrictions on resale for a period of four months from the closing date of the transaction. The Company is at arm's length from the lenders and RiverFort Global Capital Ltd.

[k] Disposals of available for sale investments

During the period October 1, 2017 to January 29, 2018, the Company divested of 47,140,121 shares in Melbana at an average price of A$0.0129 for total proceeds of A$612,378 ($596,348) which resulted in a reduction of the Company's interest in Melbana from 4.81% on September 30, 2017 to 1.49% as at January 29, 2017 *[note 8(b)]*.

On November 29, 2017, the Company completed an agreement, with a third party, under which it agreed to sell 100% of its shareholding in Petro Australis for total consideration of A$50,000 ($48,574) *[note 8(a)]*.

[l] House of Hemp option *[note 6]*

During the period October 1, 2017 to January 29, 2018, the Company incurred expenditures amounting to ZAR1,098,127 ($104,169) to continue the House of Hemp option.

[m] Repayment of loan payable

In October 2017, the Company repaid in full the balance of the short-term unsecured loan of A$330,027 ($325,035) *[note 12]*.

[n] Initiative to Establish Global Cannabis Blockchain Platform

On January 16, 2018 the Company announced that is to launch a new subsidiary company to specifically engage in the development of an efficient global marketplace technology platform designed to help producers, value-added processors and retailers in selling, and consumers in accessing, cannabis product. The Company will focus on providing a traceable and verifiable platform, thereby enabling producers to have an efficient payment mechanism that replaces current ad hoc cash-based payments and that will be fully compliant with all relevant jurisdictional regulations. The platform will utilize the latest blockchain technologies to create a reliable and verifiable purchase and payment system and use Internet of Things technologies to track cannabis product shipments so as to provide assurance to consumers regarding the sourcing and quality of products.

[o] Letter of Intent - Global Canna Labs Limited

On January 26, 2018, the Company announced it had entered into a Letter of Intent ("LOI") with Jamaican cannabis company Global Canna Labs Limited ("Global Canna Labs") and one of its major shareholders, which provides that LGC will subscribe for a $2,500,000 secured debenture, convertible into an initial 30% strategic interest in Global Canna Labs, and will also acquire a 5% royalty on Global Canna Labs' net sales for $2,000,000, payable in shares of LGC.

The transaction is comprised of two parts:

- LGC will, by way of a secured convertible debenture (the "Debenture"), invest $2,500,000 which will be disbursed in traches in accordance with the achievement of milestones in Global Canna Labs' business plan; and
- LGC will purchase a 5% royalty ("Royalty") on Global Canna Labs' net sales for $2,000,000, payable in shares of LGC.

The Debenture will have a four-year term, carry interest at an annual rate of 7%, and be secured by the assets of Global Canna Labs. The Debenture will be convertible into common shares of Global Canna Labs and to be formed Canadian affiliate so as to comply with Jamaican foreign ownership rules, corresponding to a 30% ownership interest in Global Canna Labs. The Debenture will be converted immediately prior to any liquidity event.

The Royalty will also be secured by the assets of Global Canna Labs, which will have the right to repurchase the Royalty for $6,000,000.

The Letter of Intent provides that LGC will carry out an accelerated due diligence review, to be completed by February 15, 2018, and that upon successful completion of due diligence, the parties will enter into definitive agreements by February 25, 2018.

Closing of the transaction with Global Canna Labs is also subject to the parties entering into definitive agreements and to standard closing conditions. The transaction is subject to regulatory approval, including that of the TSX Venture Exchange.

[p] Agreement with OCI Inc. for Strategic Advice

On January 26, 2018, the Company announced confirmation that it entered into an agreement with OCI Inc. of Toronto, Ontario in June 2017 whereby OCI provides advice to the Company on strategic alternatives and assists the Company in the execution of its strategic plan for certain international markets.

The agreement provides for partial payment by the Company of OCI's monthly advisory fee in shares. In that regard, for the five months from July to November 2017, inclusively, the Company will pay an aggregate amount of $40,000 to OCI through an issuance of 94,339 shares at a deemed issue price of $0.424 per share, representing the closing price of the Company's shares on the TSX Venture Exchange ("TSXV") ($0.53), less a 20% discount permitted by the TSXV. For December 2017, the Company will issue 21,333 shares in payment of $8,000 of OCI's monthly fee at a deemed price of $0.375 per share, representing the closing price of the Company's shares on the last trading day of December ($0.50) less a 25% discount. For January 2018 and future months, the Company will issue shares in payment of $8,000 of OCI's monthly fee at a deemed price equal to the last closing price of the Company's shares for the month on the TSXV, less the applicable maximum discount permitted by the TSXV. The various share issuances are subject to regulatory approval, including that of the TSXV.