# DANBEL VENTURES INC.

**Consolidated Financial Statements**

**Year ended December 31, 2016**

**(In Canadian dollars)**

**DANBEL VENTURES INC.**

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**Year ended December 31, 2016**


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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Danbel Ventures Inc.

We have audited the accompanying consolidated financial statements of Danbel Ventures Inc., which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of loss and comprehensive loss, changes in shareholders deficiency and cash flows for the year 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 controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the company'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 company's internal controls. 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 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 Danbel Ventures Inc. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## INDEPENDENT AUDITOR'S REPORT, continued

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to note 1 to the consolidated financial statements, which indicate that Danbel Ventures Inc. incurred a net loss of $90,956 during the year ended December 31, 2016 and, as of that date, the Company's current liabilities exceeded its current assets by $539,780 and had an accumulated deficit of $4,372,122. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern. We have not modified our opinion with respect to this matter.

*Other Matter*

The consolidated statement of financial position as at December 31, 2015 and the consolidated statements of loss and comprehensive loss, changes in shareholders deficiency and cash flows for the year then ended, were audited by another auditor who expressed an unmodified opinion on those statements on April 19, 2016.

HS & Partners LLP

Chartered Professional Accountants
Licensed Public Accountants

MISSISSAUGA, Ontario
April 7, 2017

**DANBEL VENTURES INC.**

**Consolidated statement of Financial Position**

**December 31**

| | | 2016 | | 2015 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CURRENT | | | | |
| Cash | **$** | **4,628** | $ | 519 |
| Professional fees and expenses recoverable (Note 9) | | **29,130** | | - |
| | **$** | **33,758** | $ | 519 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | | | | |
| CURRENT | | | | |
| Accounts payable and accrued liabilities (Note 3) | **$** | **134,428** | $ | 65,156 |
| Loan payable (Note 4) | | **250,000** | | 250,000 |
| Shareholder loans (Note 5) | | **189,110** | | 152,187 |
| | | **573,538** | | 467,343 |
| SHAREHOLDERS' DEFICIENCY | | | | |
| Capital stock (Note 6) | | **3,832,342** | | 3,814,342 |
| Deficit | | **(4,372,122)** | | (4,281,166) |
| | | **(539,780)** | | (466,824) |
| | **$** | **33,758** | $ | 519 |

**ON BEHALF OF THE BOARD**

*/s/ Michael Stein* *Director* */s/ Gabriel Nachman* *Director*

**DANBEL VENTURES INC.**

**Statement of Loss and Comprehensive Loss**

**Year ended December 31**

| | **2016** | 2015 |
|---|---|---|
| **REVENUE** | **$ -** | $ - |
| **EXPENSES (RECOVERIES)** | | |
| Office and administration | **76,995** | 54,435 |
| Interest (Notes 4 and 5) | **44,930** | 38,502 |
| Expense recovery (Note 9) | **(29,130)** | - |
| Sales taxes recovery | **(1,839)** | - |
| | **90,956** | 92,937 |
| **NET AND COMPREHENSIVE LOSS** | **$ (90,956)** | $ (92,937) |
| **Loss per share** (Note 8) | | |
| Basic and diluted | **(0.02)** | (0.02) |
| **Weighted average number of common shares outstanding** (Note 8) | | |
| Basic and diluted | **5,686,456** | 5,667,716 |

**DANBEL VENTURES INC.**

**Statement of Changes in Equity**

**Year ended December 31**

| | Capital stock | Deficit | Total |
|---|---|---|---|
| **Balance, December 31, 2014** | $ 3,814,342 | $(4,188,229) | **$ (373,887)** |
| Net and comprehensive loss | - | (92,937) | **(92,937)** |
| **Balance, December 31, 2015** | 3,814,342 | (4,281,166) | **(466,824)** |
| Net and comprehensive loss | - | (90,956) | **(90,956)** |
| Common shares issued (Notes 6 and 10) | 18,000 | - | **18,000** |
| **Balance, December 31, 2016** | **$ 3,832,342** | **$(4,372,122)** | **$ (539,780)** |

**DANBEL VENTURES INC.**

**Statement of Cash Flows**

**Year ended December 31**

| | 2016 | 2015 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net and comprehensive loss | $ (90,956) | $ (92,937) |
| Adjustment for | | |
| Interest accrued | 44,930 | 38,502 |
| **Total** | (46,026) | (54,435) |
| Change in non-cash working capital items | | |
| Professional fees and expenses recoverable | (29,130) | - |
| Accounts payable and accrued liabilities | 39,272 | (69,035) |
| **Cash flow used by operating activities** | (35,884) | (123,470) |
| **FINANCING ACTIVITIES** | | |
| Advances from shareholder | 21,993 | 122,886 |
| Issuance of capital stock | 18,000 | - |
| **Cash flow from financing activities** | 39,993 | 122,886 |
| **INCREASE (DECREASE) IN CASH** | 4,109 | (584) |
| **CASH - BEGINNING OF YEAR** | 519 | 1,103 |
| **CASH - END OF YEAR** | $ 4,628 | $ 519 |

## 1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Danbel Ventures Inc. [the "Company"] is incorporated under the laws of the Province of Alberta and filed articles of continuance in Ontario. The Company carries on the business of the identification and evaluation of assets or businesses with a view to completing a potential acquisition.

While these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ["IFRS"] on a going concern basis that presumes the realization of assets and discharge of liabilities in the normal course of business, there are material uncertainties related to events that cast significant doubt on the Company's ability to continue as a going concern.

During the year ended December 31, 2016, the Company incurred a loss of $90,956 [2015 – loss of $92,937] and, as of that date, the Company had an accumulated deficit of $4,372,122 [2015 – deficit of $4,281,166], a working capital deficiency of $539,780 [2015 – $466,824] and negative cash flows from operations of $35,884 [2015 – $123,470]. These factors create material uncertainties that cast significant doubt on the Company's ability to continue as a going concern.

The Company's continuing ability to meet its obligations as they come due is dependent upon continued financial support from related parties [notes 4 and 5] and its ability to raise additional funds through the issuance of shares or debt. There can be no assurances that either of these events will occur.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments would be material.

The registered office of the Company is located at 1 Adelaide Street East, Suite 801, Toronto, Ontario, M5C 2V9.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with International Financial Reporting Standards.

The consolidated financial statements of the Company were approved for issue by the Board of Directors on April 7, 2017.

The significant policies are detailed below:

(a) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss ["FVTPL"], which are stated at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(b) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, JSL Lighting Corp. and JSL Lighting Inc. These two subsidiaries are inactive.

(c) Functional and presentation currency

These consolidated financial statements have been prepared in Canadian dollars, which is the Company's functional and presentation currency.

(d) Financial instruments

Financial assets classified as FVTPL are measured at fair value with any resultant gain or loss recognized in net loss. Financial assets classified as available-for-sale are measured at fair value with any resultant gain or loss being recognized directly in other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. When available-for-sale financial assets are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in net loss. Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest rate method.

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. Financial liabilities are classified as other financial liabilities and are subsequently measured at amortized cost using the effective interest rate method.

The Company’s financial assets include cash, while the Company’s financial liabilities include accounts payable and other liabilities. Classification of these financial instruments is as follows:

| Financial instrument | Classification |
|---|---|
| Cash | FVTPL |
| Accounts payable and accrued liabilities | Other financial liabilities |
| Loan payable | Other financial liabilities |
| Shareholder loans | Other financial liabilities |

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(d) Financial instruments, continued

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

• Level 1: Valuation based on quoted prices [unadjusted] in active markets for identical assets or liabilities.

• Level 2: Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly [i.e., as prices] or indirectly [i.e., derived from prices].

• Level 3: Valuation techniques using inputs for the asset or liability that are not based on observable market data [unobservable inputs].

The Company's financial instruments measured at fair value on the consolidated statements of financial position consist of cash. Cash is measured at Level 1 of the fair value hierarchy.

(e) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the net loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the net loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding, if any, that may add to the total number of common shares. If the number of common shares outstanding increases or decreases as a result of a share split or consolidation, the calculation of basic and diluted loss per share for all periods presented is adjusted retrospectively. Anti-dilutive effects will not be disclosed.

(f) Income taxes

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting profit nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using the tax rates enacted or substantively enacted at the consolidated statement of financial position dates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(f) Income taxes, continued

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it does not record that excess asset.

(g) Use of judgments, estimates and assumptions

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities. The estimates and associated assumptions are based on anticipations and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the review affects both current and future years. There have been no significant judgments made by management in the application of IFRS that have a significant effect on these consolidated financial statements.

(h) Recent accounting pronouncements

*International Financial Reporting Standard 9, Financial Instruments [“IFRS 9”]*
IFRS 9 as issued in 2014, introduces new requirements for the classification and measurement of financial instruments, a new expected-loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. IFRS 9 also removes the volatility in profit or loss that was caused by changes in an entity’s own credit risk for liabilities elected to be measured at fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company does not expect this standard to have an effect on the Company’s consolidated financial statements.

International Financial Reporting Standard 15, Revenue from Contracts with Customers [“IFRS 15”]
IFRS 15 which was issued in May 2014, will replace all current revenue recognition requirements under IFRS. IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 is required for annual periods beginning on or after January 1, 2018, using either a full or modified retrospective application. Earlier adoption is permitted. The Company does not expect this standard to have an effect on the Company’s consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(h) Recent accounting pronouncements, continued

International Financial Reporting Standard 16, Leases
IFRS 16, Leases, which was issued in January 2016, will replace current lease accounting standards. It proposes to record all leases on the balance sheet with certain limited exceptions. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Limited earlier adoption is permitted. The Company has not yet begun the process of evaluating the impact of this standard on its consolidated financial statements.

3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | **2016** | 2015 |
|---|---|---|
| Trade payables | **$ 47,272** | $ 20,917 |
| Accrued interest | **66,740** | 36,740 |
| Accrued professional fees | **26,500** | 13,800 |
| Sales tax recoverable | **(6,084)** | (6,301) |
| | **$ 134,428** | $ 65,156 |

4. LOAN PAYABLE

The loan is payable to a corporation controlled by the controlling shareholder of the Company and bears interest at 12% per annum with interest payable on a monthly basis. The loan is collateralized through a general security agreement and is due on demand.

Included in accounts payable and accrued liabilities is interest owing on this loan of $66,740 [2015 – $36,740].

5. SHAREHOLDER LOANS

The Company has two shareholder loans payable.

A shareholder loan in the amount of $188,311 [2015 – $151,388] was advanced by the controlling shareholder which bears interest at 10% per annum, with interest payable on a monthly basis. The loan is collateralized through a general security agreement and is due on demand. Included in this shareholder loan amount is interest owing of $23,432 [2015 – $8,502].

The second shareholder loan, in the amount of $799 [2015 – $799], is non-interest bearing, unsecured and due on demand.

6. CAPITAL STOCK

| | **2016** | 2015 |
|---|---|---|
| Authorized: | | |
| - Unlimited number of common shares | | |
| - Unlimited preference shares, rights to be determined on issuance | | |
| Issued and outstanding: | | |
| 6,027,716 [2015 - 5,667,716] common shares | **$ 3,832,342** | $ 3,814,342 |

On December 12, 2016, 360,000 common shares were issued for aggregate proceeds of $18,000 upon the excersize of stock options (note 10).

7. INCOME TAXES

The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 26% (2015 - 26.5%) to the loss for the years as follows:

| | **2016** | 2015 |
|---|---|---|
| Loss for the year before income taxes | **$ (90,956)** | $ (92,937) |
| Anticipated income tax recovery | **$ (23,649)** | $ (24,628) |
| Tax effect of the following: | | |
| Benefit of tax losses not recognized | **25,230** | 24,628 |
| Other | **(1,581)** | - |
| Income tax expense | **$ -** | $ - |

## 8. LOSS PER SHARE

The calculation of basic and diluted loss per share for the years ended December 31, 2016 and 2015 was based on the net loss attributable to common shareholders of $90,956 [2015 – $92,937] and the weighted average number of common shares outstanding of 5,686,456 [2015 – 5,667,716].

## 9. BUSINESS COMBINATION

Effective December 14, 2016, the Company has entered into a binding letter agreement (the "Letter Agreement") with MariCann Inc. ("MariCann"), to acquire a 100% interest in MariCann which will be accounted for as a reverse takeover of Danbel by the shareholders of MariCann (the "Transaction"). As presently contemplated, it is expected that the Transaction will be completed by way of a merger under the Business Corporations Act (Ontario) or similar business combination transaction. The parties intend to apply for listing of the Resulting Issuer's common shares on the TSX Venture Exchange ("TSXV"), concurrently with the completion of the Transaction (the "Listing Date").

MariCann is a vertically integrated producer and distributor of marijuana for medical purposes. The company was founded in 2013 and is based in Langton, Ontario where it operates a cultivation, marijuana extraction and distribution business under federal license from the Government of Canada. As one of 36 companies with a federal license to cultivate cannabis and one of 22 independent licensed producers with a federal license to process and distribute cannabis, MariCann services a patient base with more than 3,000 active patients. MariCann is currently undertaking an expansion of the cultivation and support facilities to support existing and future patient growth.

As part of the Transaction, Danbel will seek shareholder approval for the following: (i) the Transaction, (ii) a change of its name as determined by MariCann (the "Resulting Issuer"), (iii) a consolidation of its common shares at a ratio of 1 new common share for such number of Danbel shares (the "Consolidation") that results in Danbel having a maximum of 1,250,000 post-Consolidation common shares at a deemed price of $1.00 per share outstanding on a fully diluted basis on the closing date, (iv) the election of five (5) new board members who will replace the existing board members and take office upon completion of the Transaction; and (v) all such other ancillary matters as may be required. In addition, all current outstanding debt of Danbel will be settled by way of issuance of 5,500,000 common shares prior to closing and all unexercised incentive stock options of Danbel will be cancelled immediately prior to the closing of the Transaction.

9. BUSINESS COMBINATION, continued

Pursuant to the terms of the Transaction, each issued and outstanding common share of MariCann will be exchanged for one (1) common share of the Resulting Issuer. In addition, all outstanding incentive stock options and purchase warrants of MariCann will be exchanged for an option or warrant of the Resulting Issuer on equivalent terms after having given effect to all of the transactions contemplated by the Transaction.

On December 15, 2016, MariCann completed a $22,500,000 financing (the "Financing") with Dundee Securities Ltd. (the "Agent"). Pursuant to the terms of the Financing, MariCann issued 22,500 units (the "Units"), with each Unit comprised of one senior unsecured convertible debenture with a principal amount of $1,000 (a "Debenture") and 500 common share purchase warrants (the "Warrants"). Immediately prior to completion of the Transaction, the principal amount of the Debentures was converted into common shares of MariCann at a conversion price of $1.00 per share and subsequently be exchanged for common shares of the Resulting Issuer pursuant to the Transaction. The Warrants will similarly be exchanged pursuant to the Transaction or will otherwise be exercisable into common shares of the Resulting Issuer at an exercise price of $1.25 per share for a period of two years from the Listing Date, subject to an accelerated expiry in the event that the volume weighted average price of the Resulting Issuer common shares for any 20 consecutive trading days equals or exceed $1.90.

As partial consideration for their services, the Agent was issued 900,000 compensation options (the "Compensation Options"). Each Compensation Option will be exchanged pursuant to the Transaction or will otherwise be exercisable to purchase one unit of the Resulting Issuer at an exercise price of $1.00 for a period of two years from the Listing Date. Each unit will be comprised of one common share and one common share purchase warrant of the Resulting Issuer, with each warrant entitling the holder to acquire one common share of the Resulting Issuer for a period of two years from the Listing Date.

Upon completion of the Transaction, it is anticipated that the Resulting Issuer will have approximately 68,701,298 Resulting Issuer common shares issued and outstanding, which includes the conversion of the Debentures issued under the Financing. It is also anticipated that there will be 16,536,355 warrants and stock options of the Resulting Issuer outstanding, exercisable into 16,536,355 Resulting Issuer common shares and 900,000 Compensation Options outstanding.

The completion of the Transaction will be subject to, among other things, the execution of definitive documentation, the completion of all necessary due diligence and the receipt of any required shareholder, TSXV or other regulatory approvals.

On March 3, 2017, the Company entered into a definitive merger agreement with MariCann – see subsequent event note 14.

Professional fees and expenses incurred by the Company amounting to $29,130 (2015 - nil) with respect to the Transaction is recoverable from MariCann.

## 10. STOCK OPTION PLAN

In 1998, the Company established a stock option plan [the "Plan"], as amended in 1999, to encourage common share ownership in the Company by directors, officers, employees and consultants of the Company and its subsidiaries or affiliates. The maximum number of common shares that may be set aside for issue under the Plan is 2,000,000, provided that the Board of Directors has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company. The maximum number of common shares that may be reserved for issuance to any one person under the Plan is 5% of the common shares outstanding at the time of the grant [calculated on a non-diluted basis] less the number of shares reserved for issuance to such person under any option to purchase common shares as a compensation or incentive mechanism. Any shares subject to an option which for any reason are cancelled or terminated prior to exercise will be available for a subsequent grant under the Plan. The option price for any common shares cannot be less than the price permitted by any stock exchange on which the common shares are then listed or other regulating body having jurisdiction.

Options granted are subject to cancellation upon the termination of an optionee's employment, upon the optionee ceasing to be an employee, senior officer, director or consultant of the Company or any of its subsidiaries. The options are non-transferable. The Plan contains provisions for adjustment in the number of shares issuable thereunder in the event of a subdivision, consolidation, reclassification or change in the common shares, a merger or other relevant changes in the Company's capitalization. The Board of Directors may from time to time amend or revise the terms of the Plan or may terminate the Plan at any time.

On November 14, 2014, 450,000 options to purchase common shares were granted under the Plan to directors of the Company. These options were granted with an exercise price of $0.05 per share, are fully vested upon grant and expire on November 14, 2016 which date was extended to November 14, 2018. The fair value of these options was determined to be nominal. Shareholder approval was not required for the granting of options to purchase an aggregate of 450,000 common shares thereunder; however, in the event that the Board of Directors determines to increase the number of common shares subject to the Plan, such increase will be subject to the approval of the Company's shareholders.

In 2015, a director resigned from the board and consequently 90,000 options to purchase common shares were cancelled pursuant to the terms of the Plan. On December 12, 2016, the balance of the stock options of 360,000 options were excersized by four directors resulting in the issue of 360,000 common shares of the Company for aggregate gross proceeds of $18,000. There are no stock options outstanding as at December 31, 2016 (2015 - 450,000).

## 11. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, close family members and entities that are controlled by these individuals, the controlling shareholder of the Company, as well as certain persons performing similar functions.

Related party transactions conducted in the normal course of operations are measured at the exchange value [the amount established and agreed to by the related parties].

Included in accounts payable and accrued liabilities is:

[i] fees of $28,250 [2015 – $15,000] accrued to a company controlled by the controlling shareholder of the Company. This shareholder also controls the entity holding the debt [note 4] and has advanced funds personally [note 5]; and

[ii] interest payable of $66,740 [2015 – $36,740] accrued to a corporation controlled by the controlling shareholder of the Company. This shareholder also controls the entity holding the debt [note 4] and has advanced funds personally [note 5].

## 12. CAPITAL RISK MANAGEMENT

The Company includes shareholders' deficiency, consisting of capital stock and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the identification and evaluation of potential acquisitions. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners [note 1].

There has been no change with respect to the overall capital risk management strategy during the year ended December 31, 2016.

## 13. FINANCIAL INSTRUMENTS AND RISK FACTORS

The carrying values of the Company's financial instruments, consisting of cash and accounts payable and accrued liabilities, approximate their fair values due to the relatively short-term maturities of these instruments. It is management's opinion that the Company is not exposed to significant interest rate, currency or credit risks arising from these financial instruments. The fair values of the loan payable and shareholder loans approximate their carrying values.

The Company has liabilities of $573,538 [2015 – $467,343] due within 12 months, including the loan and shareholder loans due on demand, and has cash of $4,628 [2015 – $519]. As a result, the Company has liquidity risk and may not have sufficient funds to meet its ongoing obligations [note 1].

14. SUBSEQUENT EVENTS

a) Debt settlement agreement

On March 3, 2017, the Company entered into a Debt Settlement Agreement with a company controlled by the controlling shareholder of the Company (the "Secured Creditor"), to pay a nominal amount in full satisfaction of the principal amount of the Loan Payable owing to the Secured Creditor by the Company in the amount of $250,000.

The Company also agreed to settle all accrued interest owing on the Loan Payable and all dollar amounts owing on the secured Shareholder Loan inclusive of all interest owing to the Secured Creditor in an aggregate amount of not less than $305,258, by the issuance of 5,500,000 of its common shares at a deemed price of $0.0555 per common share to the Secured Shareholder, in full satisfaction of any and all principal and interest payable on the Shareholder Loan and interest owing on the Loan Payable to the Secured Creditor.

b) Amalgamation with MariCann Inc.

The Company has entered into a definitive merger agreement dated March 3, 2017 (the "Definitive Agreement") with MariCann Inc. ("MariCann") in respect of a proposed transaction whereby the Company will acquire all of the issued and outstanding shares of MariCann by way of a reverse three-cornered amalgamation under the Business Corporations Act (Ontario), pursuant to which a wholly owned subsidiary of the Company will merge with and into MariCann and the resulting entity will become a wholly-owned subsidiary of the Company. Upon completion of the transaction, the Company will change its name to "Maricann Ltd." or such other name as may be determined by MariCann.

It is expected that upon completion of the transaction, MariCann, as the resulting entity, will be the surviving wholly-owned subsidiary of the Company, will continue to exist as the same legal entity as existed before and will carry on business as a medically integrated producer and distributor of marijuana for medical purposes.