Condensed Interim Consolidated Financial Statements

LGC Capital Ltd.

For the three months ended December 31, 2017 and 2016

(Unaudited)

INDEX

NOTICE TO READER

Management has compiled the unaudited condensed interim consolidated financial statements of LGC Capital Ltd. as at December 31, 2017 and for the three month periods ended December 31, 2017 and 2016. These condensed interim consolidated financial statements have not been audited or reviewed by the Corporation's independent auditors.

LGC Capital Ltd.

Condensed interim consolidated statements of financial position (Unaudited)

As at,

	December 31, 2017	September 30, 2017
	$	$
Assets		
Current assets		
Cash	**3,472,823**	2,018,570
Available for sale investments *[note 6]*	**2,510,643**	677,241
Other receivables	**425,699**	51,469
	6,409,165	2,747,280
	6,409,165	2,747,280
Liabilities and equity		
Current liabilities		
Accounts payable and accrued liabilities *[note 10]*	**649,912**	845,902
Loan payable *[note 8]*	**—**	325,035
Total current liabilities	**649,912**	1,170,937
Equity		
Share capital *[notes 2 and 9]*	**17,192,339**	13,108,479
Warrants *[notes 2 and 9]*	**2,001,449**	1,008,365
Contributed surplus *[note 9]*	**4,974,854**	1,568,627
Accumulated other comprehensive loss	**(930,091)**	(1,102,365)
Deficit	**(17,479,298)**	(13,006,763)
Total equity	**5,759,253**	1,576,343
	6,409,165	2,747,280

Guarantees *[note 11]*

Contingent liabilities *[note 13]*

Subsequent events *[note 14]*

See accompanying notes

LGC Capital Ltd.

Condensd interim consolidated statements of loss and comprehensive loss (Unaudited)

Three-month periods ended December 31,

	2017	2016
	$	$
Revenues	—	—
Expenses		
Administrative expenses *[note 4]*	**4,599,893**	655,845
Realized gain on available for sale investments *[note 6]*	**(154,763)**	(154,382)
	4,445,130	501,463
Operating loss	**(4,445,130)**	(501,463)
Finance income	**(345)**	(64)
Share of losses of joint ventures	**—**	16,446
Foreign exchange loss (gain)	**27,750**	(1,950)
	27,405	14,432
Net loss for the period	**(4,472,535)**	(515,895)
Other comprehensive income (loss)		
Other comprehensive loss items that may subsequently be reclassified to profit or loss		
Increase (decrease) in value of available for sale investments, net of taxes *[note 6]*	**305,208**	(1,741,123)
Realized gain on available for sale investments reclassified to profit or loss *[note 6]*	**(154,763)**	(154,382)
Foreign exchange gain (loss) on translation of foreign subsidiaries, net of taxes	**21,829**	(232,939)
Other comprehensive income (loss)	**172,274**	(2,128,444)
Net loss and comprehensive loss	**(4,300,261)**	(2,644,339)
Basic and fully diluted	**(0.02)**	(0.00)
Weighted average number of outstanding shares		
Basic and fully diluted	**277,409,143**	234,045,310

See accompanying notes

LGC Capital Ltd.

Condensed interim consolidated statements of changes in equity
(Unaudited)

Three-month periods ended December 31,

	Share capital		Warrants		Contributed surplus	Available-for-sale reserve	Foreign currency tralsation reserve	Deficit	Total
	#	$	#	$	$	$	$	$	$
Balance – October 1, 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
Stock-based compensation *[notes 4 and 9]*	—	—	—	—	45,334	—	—	—	45,334
Decrease in value of available for sale investments, net of taxes *[note 6]*	—	—	—	—	—	(1,741,123)	—	—	(1,741,123)
Realized loss on available for sale investments reclassified to profit or loss *[note 6]*	—	—	—	—	—	(154,382)	—	—	(154,382)
Foreign exchange loss on translation of foreign subsidiaries, net of taxes	—	—	—	—	—	—	(232,939)	—	(232,939)
Net loss for the period	—	—	—	—	—	—	—	(515,895)	(515,895)
Balance – December 31, 2016	234,045,310	11,213,399	1,976,000	91,579	1,094,386	2,690,860	(1,663,059)	(8,475,103)	4,952,062
Balance – October 1, 2017	**264,201,810**	**13,108,479**	**32,968,000**	**1,008,365**	**1,568,627**	**545,455**	**(1,647,820)**	**(13,006,763)**	**1,576,343**
Issuance of LGC Capital shares and warrants *[notes 2 and 9]*	**24,871,822**	**2,583,846**	**24,871,822**	**1,146,928**	**—**	**—**	**—**	**—**	**3,730,773**
Issue costs - shares and warrants *[notes 2 and 9]*	**—**	**(111,877)**	**—**	**(49,660)**	**—**	**—**	**—**	**—**	**(161,537)**
Issue costs - warrants issued to brokers *[notes 2 and 9]*	**—**	**(234,709)**	**1,100,828**	**(104,183)**	**338,892**	**—**	**—**	**—**	**—**
Stock-based compensation *[notes 4 and 9]*	**—**	**—**	**—**	**—**	**3,871,335**	**—**	**—**	**—**	**3,871,335**
Exercise of stock options *[note 9]*	**100,000**	**36,000**	**—**	**—**	**(21,000)**	**—**	**—**	**—**	**15,000**
Exercise of warrants *[note 9]*	**2,700,000**	**1,188,000**	**(2,700,000)**	**—**	**(783,000)**	**—**	**—**	**—**	**405,000**
Increase in value of available for sale investments, net of taxes *[note 6]*	**—**	**—**	**—**	**—**	**—**	**305,208**	**—**	**—**	**305,208**
Realized gain on available for sale investments reclassified to profit or loss [note 6]	**—**	**—**	**—**	**—**	**—**	**(154,763)**	**—**	**—**	**(154,763)**
Issuance of LGC Capital shares to acquire available for sale investments *[notes 6 and 9]*	**5,660,000**	**622,600**	**—**	**—**	**—**	**—**	**—**	**—**	**622,600**
Foreign exchange gain on translation of foreign subsidiaries, net of taxes	**—**	**—**	**—**	**—**	**—**	**—**	**21,829**	**—**	**21,829**
Net loss for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,472,535)**	**(4,472,535)**
Balance – December 31, 2017	**297,533,632**	**17,192,339**	**56,240,650**	**2,001,449**	**4,974,854**	**695,900**	**(1,625,991)**	**(17,479,298)**	**5,759,253**

Guarantees *[note 11]*
Contingent liabilities *[note 13]*
Subsequent events *[note 14]*

See accompanying notes

LGC Capital Ltd.

Condensed interim consolidated statements of cash flows (Unaudited)

Three-month periods ended December 31,

	2017	2016
	$	$
Operating activities		
Net loss for the period	**(4,472,535)**	(515,895)
Items not impacting cash:		
Realized gain on sale of available for sale investments *[note 6]*	**(154,763)**	(154,382)
Share of losses of joint ventures	**—**	16,446
Unrealized foreign exchange gains	**405**	—
Stock-based compensation *[notes 4 and 9(d)]*	**3,871,335**	45,334
	(755,558)	(608,497)
Change in non-cash working capital items	**(195,094)**	125,883
Net cash flows from operating activities	**(950,652)**	(482,614)
Investing activities		
Acquisition of available for sale investments *[note 6]*	**(1,478,699)**	(18,635)
Disposal of available for sale investments *[note 6]*	**585,528**	231,764
Cash flows from investing activities	**(893,171)**	213,129
Financing activities		
Proceeds from issuance of shares and warrants *[note 9]*	**3,357,611**	—
Share and warrant issue costs *[note 9]*	**(161,537)**	—
Proceeds from the exercise of share options *[note 9]*	**15,000**	—
Proceeds from the exercise of warrants *[note 9]*	**405,000**	—
Repayment of loans *[note 8]*	**(325,440)**	—
Cash flows from financing activities	**3,290,634**	—
Increase (decrease) in cash	**1,446,811**	(269,485)
Net foreign exchange differences	**7,442**	(10,003)
Cash, beginning of period	**2,018,570**	486,137
Cash, end of period	**3,472,823**	206,649

See accompanying notes

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three-month periods ended December 31, 2017 and 2016

1. Nature of operations and comparative information

LGC Capital Ltd. 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 ("TSX-V") under the symbol "LG" ("QBA" prior to September 18, 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").

LGC Capital, and its wholly-owned subsidiaries, Leni Gas Cuba and LGC EU OU, are collectively referred to as the "Company" in these condensed interim 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 condensed interim consolidated financial statements of the Company for the three-month period ended December 31, 2017 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). The same accounting policies and methods of computation were followed in the preparation of these condensed interim consolidated financial statements as were followed in the preparation of the financial statements for the year ended September 30, 2017 except for the new standards and interpretations effective October 1, 2017. These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended September 30, 2017 which have been prepared in accordance with IFRS.

The Board of Directors approved these condensed interim consolidated financial statements, effective March 1, 2018.

Basis of consolidation

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

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

Reclassification of fair value of warrants

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. 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 (the "Notice"). Initially, in the Company's consolidated financial statements for the year ended September 30, 2017, the Company allocated no value to the warrants based on the initial valuation model based on stochastic simulations. However, during the three month period ended December 31, 2017, the Company has updated its valuation model to properly reflect the fact that upon the receipt of the Notice, the holders of the warrants still have 30 days to exercise their warrants, and reclassified $983,325 from share capital to warrants as at September 30, 2017 and $66,539 from issue costs in share capital to warrants based on the relative fair value of the share capital and warrants.

Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of LGC Capital. The functional currencies of Leni Gas Cuba and LGC Estonia are GBP and Euro respectively.

Use of estimates and judgments

The preparation of the condensed interim consolidated financial statements in conformity with IAS 34 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. In preparing these condensed interim consolidated financial statements, the same significant judgments, estimates and assumptions were made as those in the Company's consolidated financial statements for the year ended September 30, 2017.

3. Recent accounting pronouncements

[a] 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 were effective for annual periods beginning on or after October 1, 2017. The adoption of this amendment did not have an impact on the Company's interim condensed consolidated financial statements.

4. Expenses by nature

The following is a breakdown of the nature of expenses included in administration expenses and finance expenses for the three-month periods ended December 31:

	2017	2016
	$	$
Administration expenses:		
Salaries and other employee benefits	**36,822**	19,079
Directors' fees and consultancy	**142,908**	146,367
Legal fees	**158,696**	38,138
Regulatory expenses	**136,916**	63,499
Consultancy fees	—	224,264
Travel and business development	**21,000**	28,864
Investor / public relations	**38,450**	8,696
Office expenses	**61,737**	52,460
Professional fees	**4,176**	15,950
Stock-based compensation (note 9(d))	**3,871,335**	45,334
House of Hemp	**70,707**	—
AAA Trichomes option expense	**50,000**	—
Other administration	**7,146**	13,194
Total	**4,599,893**	655,845

[i] House of Hemp expense

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 ended January 28, 2018. In connection with this exclusive option and due diligence, the Company accrued expenses of $77,707 for the three-month period ended December 31, 2017 [December 31, 2016 – $Nil]. The option was subsequently rolled over on a monthly basis.

[ii] AAA Trichomes option expense

On October 31, 2017, the Company signed a term sheet with Quebec based Tricho-Med Corporation, doing business as AAA Trichomes ["AAA Trichomes"] giving the Company an option to acquire a 49% interest in AAA Trichomes plus a 5% royalty on its net sales. The cost of this option of $50,000 was expensed in the reporting period.

5. 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 three-month periods ended December 31 is as follows:

	2017 $	**2016** $
Loss before income tax	**(4,449,535)**	(515,895)
Income tax recovery at the combined Federal and Provincial tax rate 26.82% [2016 – 26.90%]	**(1,199,534)**	(138,776)
Non-deductible expenses and non-taxable revenues	**994,445**	—
Effect of changes in tax rates on temporary items	**122**	1,208
Effect of foreign tax rate differences	**(22,437)**	57,551
Changes in valuation allowance	**227,404**	80,017
Tax recovery at an effective income tax rate	**—**	—

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

	December 31, 2017 $	**September 30, 2017** $
Future income tax assets		
Non-capital loss carry-forwards	**787,783**	**632,560**
Share issue costs	**73,351**	**1,260**
Other	**7,187**	**7,187**
Net future income tax assets	**868,411**	**641,007**
Unrecognized future income tax assets	**(868,411)**	**(641,007)**
Net future income tax	**—**	**—**

Tax loss carry-forwards

At December 31, 2017, LGC Capital had non-capital loss carry-forwards in the amount of $2,941,000 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
2038	579,000
	2,941,000

6. Available for sale investments

A breakdown of available for sale investments as at December 31, 2017 and September 30, 2017 and the respective changes during the three-month period and the year then ended, are summarized as follows:

	Three-months ended December 31, 2017 $	**Year ended September 30, 2017** $
Balance, beginning of period / year	**677,241**	6,773,904
Additions	**2,101,299**	18,552
Disposals	**(430,765)**	(582,124)
Increase (decrease) in value	**150,445**	(4,040,910)
Impairment	**—**	(1,311,575)
Foreign currency gain (loss) on translation	**12,423**	(180,606)
Balance, end of period / year	**2,510,643**	677,241

[a] Petro Australis Limited

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) in other comprehensive (loss) income and also an impairment of A$1,594,250 ($1,248,417) in other comprehensive loss which was subsequently reclassified to net loss.

On November 29, 2017, the Company completed and executed an agreement, with a third party, to sell 100% of its shareholding in Petro Australis for total consideration of A$50,000 ($48,574).

[b] Melbana Energy Limited (note 14(h))

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 three-month period ended December 31, 2017, the Company divested 44,140,121 [December 31, 2016 – 9,046,943] shares in Melbana, at an average price of A$0.015 [December 31, 2016 – A$0.026], for total proceeds of A$556,074 ($536,953) [December 31, 2016 – A$230,900 ($231,319)], which resulted in a reduction of the Company’s interest in Melbana from 4.81% as at September 30, 2017 to 1.67% as at December 31, 2017. As a result, during the three-month period ended December 31, 2017, the Company recognized a gain on disposal of shares of Melbana of A$114,673 ($154,763) [December 31, 2016 – A$140,431 ($154,382)], recorded in other comprehensive (loss) income which was subsequently reclassified to net loss.

The closing share price of Melbana as at December 31, 2017 was A$0.015 and during the three-month period then ended the increase in fair value of the Company’s investment amounted to A$210,713 ($150,445) [2016 – decrease of A$1,910,738 ($1.895,505)].

[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.

[d] Habi Pharma Pty Limited (note 14(a))

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 ($422,969) 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.

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%.

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%.

As at December 31, 2017, the Company’s interest in Little Green Pharma was 11.91% [September 30, 2017 – nil].

7. Other investments

[a] Etea Sicurezza Group Ltd transaction (note 11)

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.

[b] 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.

[c] 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.

8. 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).

The balance of the loan, as at September 30, 2017, of A$330,027 ($325,440) was repaid in October 2017.

9. Share capital

Authorized

Common

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

[a] Common shares

Issuances during the three-months ended December 31, 2017

[i] On October 12, 2017, as part of a subscription agreement signed with Little Green Pharma, the Company issued 5,660,000 common shares of LGC Capital at a deemed issue price of $0.11 per share representing a total consideration of $622,600 as part payment for a 4.99% initial investment in Little Green Pharma [note 6[d]].

[ii] 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 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 $0.25 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 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, the gross proceeds of the combined first and second closings, totaling $3,730,773, was allocated $2,583,846 to share capital and $1,146,928 to warrants based on relative fair value [note 9[c]].

Concurrently, the Company issued a total of 1,100,828 broker compensation warrants, entitling holders to purchase one common share of the Company at a price of $0.15 per share at any time for a period of 18 months from the closing date. The total fair value of broker compensation warrants was $338,892, allocated to contributed surplus with the debit allocated $234,709 to share capital and $104,183 to warrants [note 9[c]].

In connection with this private placement, in addition to the broker compensation warrants, the Company also incurred professional fees and expenses of $161,537 which have been pro-rated between share capital and warrants in the amounts of $111,877 and $49,660 respectively.

[iii] During the three-month period ended December 31, 2017, the Company issued 100,000 common shares at an average exercise price of $0.15 per share for a total cash amount of $15,000 upon the exercise of stock options, and an amount of $21,000 related to exercised stock options was transferred from contributed surplus to share capital *[note 9[b]]*.

[iv] During the three-month period ended December 31, 2017, the Company issued 2,700,000 common shares at an average exercise price of $0.15 per share for a total cash amount of $405,000 upon the exercise of share purchase warrants, and an amount of $783,000 related to exercised share purchase warrants was transferred from contributed surplus to share capital *[note 9[c]]*.

Issuances during the three-months ended December 31, 2016

[i] There were no issuances of common shares during the three-month period ended December 31, 2016.

[b] Stock options *[note 14]*

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 approved by the TSX Venture Exchange and remains subject to shareholder approval.

The outstanding options as at December 31, 2017 and September 30, 2017 and the respective changes during the three-month period and the year then ended, are summarized as follows:

	Three-month period ended December 31, 2017		**Year ended September 30, 2017**	
	Number of options #	**Weighted average exercise price** $	**Number of options** #	**Weighted average exercise price** $
Outstanding, beginning of period / year	**46,513,179**	**0.28**	40,982,679	0.34
Grants by LGC Capital during the period / year	**11,975,000**	**0.26**	16,000,000	(0.08)
Cancellations during the period / year	**(12,000,000)**	**(0.70)**	(10,000,000)	(0.23)
Forfeitures during the period / year	—	—	(313,000)	(0.10)
Exercised during the period / year	**(100,000)**	**0.15**	(156,500)	(0.06)
Outstanding, end of period / year	**46,388,179**	**0.17**	46,513,179	0.28

The following options are outstanding and exercisable as at December 31, 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	3.20	0.08	15,513,179	0.07
0.15 to 0.299	19,400,000	2.01	0.20	19,400,000	0.20
0.30 to 0.449	6,475,000	9.94	0.36	6,475,000	0.36
0.00 to 1.499	**46,388,179**	**3.65**	**0.17**	**41,388,179**	**0.18**

The stock options granted during the three-month period ended December 31, 2017 vest immediately [year ended September 30, 2017 – 0 to 1.5 years]. The fair value of stock options granted during the three-month period ended December 31, 2017 and the year ended September 30, 2017 were estimated at their respective grant dates using the Black-Scholes option pricing model, using the following weighted average assumptions:

	Three-month period ended December 31, 2017	**Year ended September 30, 2017**
Risk-free interest rate	**1.66%**	**1.12%**
Expected volatility	**180%**	**180%**
Dividend yield	**Nil**	**Nil**
Expected life [in years]	**5.87**	**4.61**
Share price at grant date	**$0.30**	**$0.030**
Fair value at grant date	**$0.27**	**$0.028**

[c] Warrants *[note 14]*

The outstanding warrants as at December 31, 2017 and September 30, 2017 and the respective changes during the three-month period and the year then ended, are summarized as follows:

	Three months ended December 31, 2017		Year ended September 30, 2017	
	Number of warrants #	Weighted average exercise price $	Number of warrants #	Weighted average exercise price $
Outstanding balance, beginning of period / year	**32,968,000**	**0,15**	1,976,000	0.23
Warrants granted during the period / year	**24,871,822**	**0.25**	30,000,000	0.15
Broker compensation warrants granted during the period / year	**1,100,828**	**0.15**	992,000	0.10
Warrants exercised in the period / year	**(2,700,000)**	**(0.25)**	—	—
Outstanding balance, end of period / year	**56,240,650**	**0.19**	32,968,000	0.15

As at December 31, 2017, the warrants outstanding had a weighted average life of 1.13 years and all warrants were exercisable.

The fair value of warrants granted during the three-month period ended December 31, 2017 and the year ended September 30, 2017 were estimated at their respective grant dates using a valuation model based on stochastic simulationsl, using the following weighted average assumptions.

	Three months ended December 31, 2017	Year ended September 30, 2017
Risk-free interest rate	**1.47%**	**1.80%**
Expected volatility	**180%**	**180%**
Dividend yield	**Nil**	**Nil**
Contractual life [in years]	**1.50**	**1.00**
Share price at grant date	**$0.360**	**$0.137**
Fair value at grant date	**$0.160**	**$0.067**

The fair value of broker compensation warrants granted during the three-month period ended December 31, 2017 and the year ended September 30, 2017 were estimated at their respective grant dates using the Black-Scholes pricing model, using the following weighted average assumptions.

	Three months ended December 31, 2017	Year ended September 30, 2017
Risk-free interest rate	1.49%	1.54%
Expected volatility	180%	180%
Dividend yield	Nil	Nil
Expected life [in years]	1.50	0.50
Share price at grant date	$0.370	$0.137
Fair value at grant date	$0.310	$0.076

[d] Stock-based compensation

For the three-month period ended December 31, 2017, the stock-based compensation expense included in net loss, was $3,871,335 [2016 – $45,334] (note 4).

10. Related party transactions

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] On November 28, 2017, the Company finalized an agreement with the founder of the InCloud9 Group to to assign the Company's 40% interest for no consideration and to write-off in full the working capital loans provided by the Company to InCloud9 Group. During the three month period ended December 31, 2017, the Company did not purchase any travel services from its former associate InCloud9 [December 31, 2016 – $10,449]. During the three month period ended December 31, 2017, the Company made no working capital loans to its former associate InCloud9 [December 31, 2016 - $59,932].

[b] On September 29, 2017, the Company executed an agreement with Groombridge Trading Corporation ("GTC") confirming the termination of the 50:50 unincorporated joint venture with GTC ("the GTC JV") and the write-off of the working capital loan provided by the Company to the GTC JV. During the three-month period ended December 31, 2016, the Company made working capital loans to the former GTC JV of $12,423.

[c] On November 14, 2017, the Company executed an agreement with Rushmans Ltd confirming the termination of the 50:50 unincorporated joint venture with Rushmans ("Rushmans JV") and the write-off of the working capital loan provided by the Company to the Rushmans JV. During the three-month period ended December 31, 2016, the Company made no working capital loans to the former Rushmans JV [December 2016 – $29,011].

[d] During the three-month period ended December 31, 2017, the Company incurred fees to a number of management entities of which certain officers or directors of the Company are a related party. For the three-month period ended December 31, 2017, the total amount for such services was $93,008, which was recorded in directors fees [December 31, 2016 – $86,604]. As at December 31, 2017, an amount of $Nil [September 30, 2017 – $34,010] owing to these firms was included in accounts payable and accrued liabilities in respect of these fees.

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

Excluding the amounts reported above, during the three-month period ended December 31, 2017 and 2016, the Company recorded the following compensation for key management personnel and the Board of Directors:

	2017 $	2016 $
Directors' fees	73,900	59,763
Stock compensation	2,352,958	—
Total	2,426,858	59,763

11. Guarantees

The Company has provided a guarantee in respect of notes issued by Etea Sicurezza Group Ltd ("Etea Sicurezza") with a principal of US$1,000,000 and receives a 3% equity interest in Etea Sicurezza in consideration for providing this guarantee [note 7].

12. 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 $3,472,823 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 December 31, 2017 the exposure of the Company to foreign exchange rates is summarized as follows:

	GBP	AUD	USD	EUR
Cash	1,226	26,242	—	—
Available for sale investments	—	417,044	—	—
Other receivables	25,000	—	8004	—
Accounts payable and accrued liabilities	(190,949)	—	(18,058)	(2,435)
Loan payable	—	—	—	—
Total	(164,723)	443,286	(10,054)	(2,435)

The impact of foreign currencies has been determined based on the balances of financial assets and liabilities at December 31, 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 net comprehensive loss for the three-month period ended December 31, 2017 would have been as follows:

	Impact on net comprehensive loss		
Fluctuation in foreign currency rate	**CAD/GBP rate**	**CAD/USD Rate**	**CAD/AUD rate**
	$	$	$
+ 5%	3,998	619	21,306
- 5%	(3,998)	(619)	(21,306)

13. Contingent liabilities

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.

14. Subsequent events

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

On February 15, 2018, the Company announced the completion of an increase in its strategic interest in the Habi Pharma Pty Ltd from 11.91% to 14.99%. At closing, Little Green Pharma issued 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 paid for the shares by issuing 5,000,000 shares in the Company to Little Green Pharma at a deemed issue price of $0.53 per share, representing the closing price of the Company's shares on the TSX Venture Exchange on January 19, 2018, for a total consideration of $2,650,000, equivalent to A$2,679,150. The 5,000,000 shares in the Company are subject to a "hold period" which expires on June 15, 2018. The subscription agreement entered into by the Company and Little Green Pharma at closing 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 the Company's 14.99% shareholding in Little Green Pharma.

[b] Tricho-Med Corporation transaction

On January 8, 2018, the Company announced that it has finalized the transaction with Quebec based Tricho-Med Corporation, doing business as AAA Trichomes [“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.

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

On January 11, 2018, the Company announced the launch of the joint venture CLV Frontier Brands Pty Ltd [“CLV”], in which the Company, Creso Pharma Limited [“Creso”] and Baltic Beer Company Ltd (UK) [“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 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. 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.

[d] Private placement and loan to directors/officers

On February 16, 2018 the Company announced the completion of a private placement, including a partial exercise of the underwriter's option, by issuing 18,515,000 units at a price of $0.435 per unit for gross proceeds to the Company of $8,054,025. The units were sold to "accredited investors" in Canada and internationally through Cormark Securities Inc. as underwriter. Each of the units is comprised of one common share and one common share purchase warrant. Each full warrant entitles its holder to subscribe for one additional common share of the Company at an exercise price of $0.49 for 36 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 20 consecutive trading days commencing four months from the closing date is at least $0.65, the Comapny 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 trading days after the date of such notice.

At closing, the Company paid a cash commission to Cormark Securities, as underwriter, in an amount equal to 6% of the gross proceeds from the private placement, or $483,241. In addition, the Company issued 1,110,900 broker compensation warrants (“broker warrants") to Cormark Securities, representing 6% of the number of units issued and sold in the private placement. Each of the broker warrants entitles its holder to purchase one additional unit at the offering price of $0.435 for a period of three years from the closing date of the private placement.

The securities issued at the closing are subject to a "hold period" which expires on June 17, 2018.

In connection with the private placement, each of the Company's six directors and officers has entered into a Lock-up Agreement with Cormark Securities under which they have agreed not to sell any LGC common shares or any securities convertible or exchangeable into common shares of the Company for a period of 120 days from the closing date of the private placement without the prior consent of Cormark Securities, subject to limited exceptions.

The Company also announced that it has loaned an aggregate of $210,328 to three of the Company's directors and/or officers in order to fund the exercise by them of stock options in the Company and an additional $442,853 to fund the payment by them of related taxes. The loans, which are non-interest bearing, must be repaid within two years and are subject to approval by the TSX Venture Exchange.

[e] Exercise of stock options

During the period January 1, 2018 to March 1,2018, the Company issued a total of 12,768,779 common shares in respect of the exercise of stock options at an average exercise price $0.074 per share raising total proceeds of $945,983.

[f] Exercise of warrants

During the period January 1, 2018 to March 1, 2018, the Company issued 21,961,215 common shares in respect of the exercise of warrants at an average exercise price of $0.15 per share raising total proceeds of $3,282,782.

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

On February 8, 2018, the Company announced that it had completed the transaction with unrelated international investors YA II PN, Ltd and Cuart Investments PCC Limited pursuant to which they loaned an aggregate amount of US$2,340.000 (approximately $2,940,000) to the Company.

The loan has a term of twelve months and bears interest at an annual rate of 9.5%, payable quarterly in arrears. The principal amount of the loan is convertible into common shares in the Company 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% of the lowest daily volume weighted average trading price of LGC'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.

At closing, the Company issued an aggregate of 1,643,764 common share purchase warrants to the two lenders, representing an amount equal to 25% of the dollar amount of the loan 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 entitles 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 paid a cash due diligence fee to RiverFort Global Capital Ltd. ("RiverFort") of London, England. At closing, the Company also paid a structuring fee to RiverFort by issuing 376,162 shares to it, representing an amount equal to 12.5% of the dollar amount of loan from YA II PN, Ltd, less the amount of the due diligence fee, 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 securities issued at the closing are subject to a "hold period" which expires on June 9, 2018.

[h] Disposals of available for sale investments

During the period January 1, 2018 to March 1, 2018, the Company divested of 3,000,000 shares in Melbana at an average price of A$0.19 for total proceeds of A$56,304 ($56,113) which resulted in a reduction of the Company’s interest in Melbana from 1.67% on December 31, 2017 to 1.49% as at March 1, 2018 *[note 6[b]]*.

[i] 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.

[j] 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.

[k] 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.

LGC Capital Limited

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three-month periods ended December 31, 2017 and 2016

[l] Amendments to 2016 Stock Option Plan

On February 21, 2018, the Company announced the amendment to its 2016 Stock Option Plan so as to increase the number of shares that can be issued thereunder to 71,230,957 shares, equal to 20% of the 356,154,788 common shares issued and outstanding inremove the Company following the recent completion by the Company of its $8 million bought-deal private placement. The increase represents 12,294,231 additional common shares. The amendment to the 2016 Stock Option Plan is subject to approval of the TSX Venture Exchange and to shareholder approval, which the Company intends to seek at its next annual meeting.