



## **Global Hemp Group Inc.**

### **Consolidated Financial Statements**

**Year Ended September 30, 2015**

(Expressed in Canadian Dollars)



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Global Hemp Group Inc.

We have audited the accompanying consolidated financial statements of Global Hemp Group Inc. which comprise the consolidated statements of financial position as at September 30, 2015 and 2014 and the consolidated statements of comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Global Hemp Group Inc. as at September 30, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Global Hemp Group Inc.'s ability to continue as a going concern.

DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada  
January 27, 2016

An independent firm associated with  
Moore Stephens International Limited

**MOORE STEPHENS**

**GLOBAL HEMP GROUP INC.**  
**Consolidated Statements of Financial Position**  
(Expressed in Canadian dollars)

	Note	September 30, 2015	September 30, 2014
		\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash		3,559	4,445
Accounts receivable		7,821	2,150
Prepayments		26,188	–
Inventory	<b>4</b>	-	1,500,000
<b>Total assets</b>		<b>37,568</b>	<b>1,506,595</b>
<b>Liabilities and shareholders' deficiency</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	<b>4,6</b>	219,454	1,514,060
Note payable	<b>8</b>	20,191	–
Due to related parties	<b>7</b>	99,715	77,813
		339,360	1,591,873
<b>Non-current liabilities</b>			
Convertible debentures	<b>9</b>	259,330	–
<b>Total liabilities</b>		<b>598,690</b>	<b>1,591,873</b>
<b>Shareholders' deficiency</b>			
Share capital	<b>5</b>	2,967,168	2,967,168
Reserve		1,472,950	1,465,931
Deficit		(5,001,240)	(4,518,377)
		(561,122)	(85,278)
<b>Total liabilities and shareholders' deficiency</b>		<b>37,568</b>	<b>1,506,595</b>

Subsequent events

**15**

*The accompanying notes are an integral part of the consolidated financial statements*

Approved and authorized for issuance by the Board of Directors on January 27, 2016

"Curt Huber"  
Director

"Charles Larsen"  
Director

**GLOBAL HEMP GROUP INC.****Consolidated Statements of Comprehensive Loss**

(Expressed in Canadian dollars)

		<b>Years ended September 30,</b>	
	<b>Note</b>	<b>2015</b>	<b>2014</b>
		\$	\$
Gross Revenue		11,833	–
Cost of Goods Sold		11,466	–
Gross Profit		367	–
<b>Expenses</b>			
Advertising and promotion		1,212	48,511
Business development		–	142,505
Interest	<b>4, 8, 9</b>	22,423	–
Consulting	<b>7</b>	174,016	589,162
Office and administration		9,374	68,574
Occupancy cost	<b>7</b>	15,000	17,500
Professional fees		28,643	23,705
Salaries		–	49,143
Share based compensation	<b>5, 7</b>	23,400	1,277,795
Shareholder communication		21,061	52,771
Travel		12,254	68,824
Trust and filing fees		29,526	125,915
Loss before the following		(336,542)	(2,464,405)
Bad debt	<b>12</b>	–	(48,735)
Exchange loss		(1,821)	(2,392)
Loss on debt settlement		–	(23,326)
Finance fees	<b>4</b>	–	(74,740)
Settlement of inventory	<b>4</b>	(144,500)	–
Net loss		(482,863)	(2,613,598)
Other comprehensive loss			
Translation loss		(17,949)	(6,951)
Comprehensive loss		(500,812)	(2,620,549)
<b>Loss per share, basic and diluted</b>		<b>(0.00)</b>	<b>(0.02)</b>
<b>Weighted average number of outstanding shares</b>		<b>137,917,545</b>	<b>127,115,382</b>

*The accompanying notes are an integral part to the consolidated financial statements*

**GLOBAL HEMP GROUP INC.**
**Statements of changes in shareholders' deficiency**

(Expressed in Canadian dollars except for number of shares)

	Note	Share Capital		Reserves			Shareholders' deficiency
		Number	Amount	Share-based payment reserve	Foreign currency translation	Deficit	
			\$	\$	\$	\$	\$
Balance, September 30, 2013		117,916,860	1,874,000	—	—	(1,904,779)	(30,779)
Share issuance - warrants exercised	5	10,000,000	200,000	—	—	—	200,000
Private placements		7,668,104	766,810	—	—	—	766,810
Fair value of warrants issued with private placements	5	—	(116,703)	116,703	—	—	—
Share issuance costs	5	—	(13,524)	3,644	—	—	(9,880)
Share issued for debt settlement	5	2,332,580	256,585	—	—	—	256,585
Share based compensation	5	—	—	1,277,795	—	—	1,277,795
Warrants issued for finance charges	5	—	—	74,740	—	—	74,740
Translation loss		—	—	—	(6,951)	—	(6,951)
Net loss for the year		—	—	—	—	(2,613,598)	(2,613,598)
Balance, September 30, 2014		137,917,545	2,967,168	1,472,882	(6,951)	(4,518,377)	(85,278)
Share based compensation	5	—	—	23,400	—	—	23,400
Fair value of finder's warrants issued with convertible debenture	9	—	—	1,568	—	—	1,568
Translation loss		—	—	—	(17,949)	—	(17,949)
Net loss for the year		—	—	—	—	(482,863)	(482,863)
Balance, September 30, 2015		137,917,545	2,967,168	1,497,850	(24,900)	(5,001,240)	(561,122)

*The accompanying notes are an integral part to the consolidated financial statements*

**GLOBAL HEMP GROUP INC.**  
**Consolidated Statements of Cash Flows**  
(Expressed in Canadian dollars)

	<b>Year ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash (used in) provided by:</b>	<b>\$</b>	<b>\$</b>
<b>Operating activities</b>		
Loss for the year	(482,863)	(2,613,598)
Non-cash items		
Share based compensation	23,400	1,277,795
Issuance of warrants for finance fees	—	74,740
Bad debt	—	48,735
Interest accrual	22,423	—
Loss on debt settlement	—	23,326
Settlement of inventory	144,500	—
Changes in non-cash operating working capital		
Accounts receivables and prepaid	(31,859)	(2,150)
Accounts payable and accrued liabilities	236,160	588,728
Due to related parties	40,902	77,813
Inventory	—	(150,000)
Cash used in operating activities	(47,337)	(674,611)
<b>Financing activities</b>		
Proceeds from convertible debenture issuance	64,400	—
Proceeds from private placements	—	533,930
Proceeds from loans received during the year	—	50,000
Proceeds from warrants exercise in common shares	—	150,000
Cash provided by financing activities	64,400	733,930
<b>Investing activities</b>		
Loans	—	(48,735)
Cash provided by investing activities	—	(48,735)
Effect of foreign exchange	(17,949)	(6,951)
<b>Change in cash</b>	<b>(886)</b>	<b>3,633</b>
<b>Cash, beginning of the year</b>	<b>4,445</b>	<b>812</b>
<b>Cash, end of the year</b>	<b>3,559</b>	<b>4,445</b>

Non-cash transactions - Note 14

*The accompanying notes are an integral part to the consolidated financial statements*

**GLOBAL HEMP GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended September 30, 2015**  
**(Expressed in Canadian Dollars)**

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Global Hemp Group (the “Company”) was incorporated on October 30, 2009 in British Columbia, Canada as Arris Holding Inc. and had its name change to Global Hemp Group effectively on March 24, 2014. The Company’s principal activity was exploration and development of mineral properties in prior periods and changed to agriculture and manufacturing in the industrial hemp sector since March 24, 2014.

The Company’s office is Suite 106 – 1169 Mt. Seymour Road, North Vancouver, BC V7H 2Y4. The Company’s common shares are currently traded on Canadian Securities Exchange under the symbol “GHG”, on Boerse-Frankfurt Exchange under the symbol “GHG”, on XETRA Exchange in Europe under the symbol GHG, and on the USA OTC Markets under the symbol “GBHPF”.

On December 15, 2014, the Company entered into a Letter of Intent (“LOI”) with House of Hemp (Pty) Ltd. (“HOH”), whereby the Company intends to acquire up to 50% of the issued and outstanding shares of HOH. The LOI with HOH was last extended to October 22, 2015 and management is currently reviewing how best to proceed with this transaction. The completion of the transaction is subject to a number of conditions, including signing of a definitive agreement and regulatory approval.

On March 5, 2015, the Company entered into a Letter of Intent (“LOI”) with Skunk Magazine (“Skunk”), whereby the Company intends to acquire up to 100% of the issued and outstanding shares of Skunk. The LOI with Skunk was last extended to October 22, 2015 and management is currently reviewing how best to proceed with this transaction. The completion of the transaction is subject to a number of conditions, including signing of a definitive agreement and regulatory approval.

On July 29, 2015 the Company entered into a Letter of Intent (“LOI”) with Western Sierra Mining Corp. (“WSM”) for the acquisition of agricultural lands for the purpose of hemp cultivation. The parties are in the process of arranging the necessary funding to proceed with the project. The completion of the transaction is subject to a number of conditions, including signing of a definitive agreement. The LOI with WSM was last extended on January 26, 2016, and both parties anticipate entering into a definitive agreement sixty days after receipt of project funding.

On December 2, 2015, the Company dissolved its wholly owned subsidiary, Global Hemp Group, Inc. (“Global Hemp Group, Inc.”) (incorporated in Nevada, U.S.A. on December 17, 2013). Global Hemp Group, Inc. had no net assets at September 30, 2015.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company’s continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with debt and or private placements of common shares. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its statement of financial position.

**GLOBAL HEMP GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended September 30, 2015**  
**(Expressed in Canadian Dollars)**

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## **2. STATEMENT OF COMPLIANCE**

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were approved and authorized by the Board of Directors on January 27, 2016.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of preparation**

These financial statements have been prepared on an accrual basis and are based on historical costs, except for financial instruments measured at their fair value. These consolidated financial statements are presented in Canadian dollars, unless otherwise noted.

The accompanying consolidated financial statements include the accounts of the Company and Global Hemp Group, Inc., which was dissolved subsequent to September 30, 2015. All intercompany transactions have been eliminated.

### **Significant estimates and assumptions**

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions concerning the future. The Company’s management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the fair value measurements for financial instruments and the recoverability and measurement of deferred tax assets.

### **Significant judgments**

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company’s financial statements include:

- the assessment of the Company’s ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- the classification of financial instruments; and
- the determination of the functional currency of the parent company and its subsidiaries.

### **Loss per share**

Basic loss per share is computed by dividing net loss attributable to common shareholders by the weighted average number of shares outstanding in the period. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.



### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Financial instruments**

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Fair value through profit or loss ("FVTPL") - Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. They are subsequently measured at fair value with changes in fair value recognized in profit or loss. The Company designates its cash as fair value through profit or loss financial assets.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company has designated accounts receivable as loan and receivables.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities and that the Company intends to hold to maturity. These assets are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. The Company does not hold any held-to-maturity financial assets.

Available-for-sale – These consist of non-derivative financial assets that are designated as available-for sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets. The Company does not hold any available-for-sale financial assets.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

The Company initially recognizes financial liabilities at fair value on the date that they originate. All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Financial instruments (continued)**

The Company classifies its financial liabilities as either financial liabilities at fair value through profit or loss or other liabilities. Subsequent to initial recognition other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in profit or loss.

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

#### **Functional currency and foreign currency translation**

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the parent company's functional and presentation currency. The functional currency of the Company's US subsidiary is the US dollar.

#### **Transactions and balances:**

Foreign currency transactions will be translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive income in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Functional currency and foreign currency translation (continued)**

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

#### Foreign operations:

The financial results and position of foreign operations whose functional currency is different from the Company's presentation currency will be translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are recorded to the Company's other comprehensive income.

#### **Revenue recognition**

Income from the sale of products is recognized when the Company has transferred the significant risks and rewards of ownership to the customer and it is probable that the Company will receive the previously agreed upon payment. Significant risks and rewards are generally considered to be transferred when the Company has shipped the product to customers. Revenue is recognized at the fair value of consideration received or receivable.

#### **Warrants**

Proceeds from issuances of security units by the Company consisting of shares and warrants are allocated based on the residual method. The fair value of the warrants is determined to be the difference between gross proceeds over the estimated fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a fair value of \$Nil is assigned to the warrants.

#### **Income taxes**

##### Current income tax:

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

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation

### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Income taxes (continued)**

##### Deferred income tax:

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

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

#### ***New Accounting standards issued but not yet applied***

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in October 2010 and will replace IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 will be effective January 1, 2018. Earlier adoption is permitted. The Company is in the process of assessing the impact of this pronouncement.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or not expected to have a significant impact on the Company’s financial statements.

**GLOBAL HEMP GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended September 30, 2015**  
**(Expressed in Canadian Dollars)**

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#### **4. INVENTORY**

On April 28, 2014, and as amended July 4, 2014, the Company entered into production agreements (the "Production Agreements") for the production of 1,500,000 pounds of hemp seeds (the "Inventory") for \$1,500,000.

Under the Production Agreements, the Company agreed to pay the purchase price in four instalments as follows:

- \$150,000 on July 4, 2014 (paid and held in escrow, the "Escrowed Funds");
- \$225,000 on July 31, 2014;
- \$375,000 on September 15, 2014; and
- \$750,000 at the time the Company picks up the Inventory.

The Company was in default on remaining payments due after July 4, 2014 and the liability of \$1,350,000 was included in accrued liabilities as at the year ended September 30, 2014.

As part of the Production Agreements, the Company agreed to issue 1,500,000 warrants exercisable into one common share at \$0.15 for a period of 3 years to amend the payment dates. The fair value of the warrants of \$74,740 has been recorded as financing fees in the consolidated statements of comprehensive loss during the year ended September 30, 2014.

Under the arrangement of the Company, an arm's length third party purchased 200,000 pounds of the hemp seeds directly from the parties in the Production Agreement (the "Producers") in November and December 2014. As a result, the Company's inventory and accounts payable were both reduced by \$200,000.

On September 3, 2015, the Company and the Producers, executed a settlement agreement and release document (the "Settlement Agreement") whereby the Escrowed Funds were released to the Producers in settlement of any and all accrued monies owed to them and released the Company from any further obligation relating to the agreements executed by the parties. The outstanding balance owing to the Producers was subject to storage costs and interest of 1% per month. During the year ended September 30, 2015, the Company incurred storage and interest costs of \$144,500, which has been settled in the Settlement Agreement and, accordingly, has been recorded in the statement of comprehensive loss.

#### **5. CAPITAL STOCK**

##### **Authorized**

Unlimited number of common shares and Class A and Class B preferred shares without par value.

##### **Issued and outstanding**

All share and per share information has been retroactively restated in these consolidated financial statements to reflect the one to five share split completed on February 16, 2014.

##### **Private placements**

On August 1, 2014, the Company completed a private placement of 4,668,104 units at \$0.10 per unit. Each unit consists of one common share and one share purchase warrant exercisable into one additional common share at \$0.15 per share and expiring in three years. \$116,703 was attributed to the warrants. 2,230,000 of the shares were issued in settlement of \$223,000 of accounts payable. The fair value of the finders' warrants was estimated to be \$3,644 with the Black-Scholes option pricing model with the following assumptions: expected life of 2.25 years, volatility of 117.9%, dividend yield of 0% and risk-free rate of 1.1%.

**GLOBAL HEMP GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended September 30, 2015**  
**(Expressed in Canadian Dollars)**

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**5. CAPITAL STOCK (Continued)**

**Private placements (continued)**

On April 4, 2014, the Company completed a private placement of 3,000,000 units at \$0.10 per unit. Each unit consists of one common share and one share purchase warrant exercisable into one additional common share at \$0.15 per share and expiring on August 6, 2016. No value was attributed to the warrants. Finders' fees of \$9,880 was paid and 98,880 finder's warrants with the same terms as the unit warrants were issued in connection with this private placement.

**Shares issued for debt**

On April 11, 2014, the Company issued 2,332,580 common shares with a fair value of \$256,585 to officers and directors to settle debt of \$233,259. A loss of \$23,236 was recognized on this transaction.

**Warrants**

On July 4, 2014, the Company agreed to issue 1,500,000 warrants exercisable into one common share at \$0.15 for a period of 3 years (Note 4). The fair value of the warrants was estimated to be \$74,740 using the Black-Scholes option pricing model with the following assumptions: expected life of 3 years, volatility of 123.2%, dividend yield of 0% and risk-free rate of 1.1%.

On May 4, 2015 and June 12, 2015, the Company completed non-brokered private placements of 250 units of unsecured convertible debentures (the "Debentures") of \$125,000 and \$125,000, respectively (Note 9). Each \$1,000 of the Debentures includes 28,571 warrants exercisable at \$0.05 for a period of three years, totaling 7,142,750 warrants. A finder's fee of 112,000 warrants (the "finder's warrants") were issued. The finder's warrants are exercisable at \$0.05 for a period of one year. The fair value of the finder's warrants was estimated to be \$1,568 using the Black-Scholes option pricing model with the following assumptions: expected life of 1 year, volatility of 271%, dividend yield of 0% and risk-free rate of 0.67%.

**Warrants exercised**

During the year ended September 30, 2014, 10,000,000 warrants were exercised at \$0.02 per warrant. 2,500,000 of the warrants were exercised in settlement of a \$50,000 loan.

A continuity of the Company's warrants is as follows:

	Warrants	Weighted average exercise price	Weighted average number years to expiry
		\$	
Balance, September 30, 2013	10,000,000	0.02	0.54
Granted	9,266,905	0.15	2.01
Exercised	(10,000,000)	0.02	-
Balance, September 30, 2014	9,266,905	0.15	2.01
Granted	7,254,750	0.05	2.62
Cancelled	(1,500,000)	(0.15)	-
Balance, September 30, 2015	15,021,655	0.13	2.30

**GLOBAL HEMP GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
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**5. CAPITAL STOCK (Continued)**

**Warrants (continued)**

The warrants expire as follows:

Number of warrants	Expiry date
56,000	May 4, 2016
56,000	June 12, 2016
3,098,800	August 8, 2016
4,668,105	August 1, 2017
3,571,375	May 4, 2018
3,571,375	June 12, 2018

**Stock options**

On April 4, 2014, the Company granted 12,474,999 stock options. Each option can be exercised into one common share of the Company between \$0.10 and \$0.25 per share and vested immediately. 11,499,999 of the options will expire on April 7, 2019 and the remaining 975,000 options will expire on April 7, 2016. The fair value of the options was estimated to be \$1,277,795 using the Black-Scholes option pricing model with the following assumptions: expected life of 3-5 years, volatility of 192%, dividend yield of 0% and risk-free rate of 1.5%.

On January 15, 2015, the Company granted 1,300,000 stock options to directors and officers. Each option can be exercised into one common share of the Company at \$0.10 per share and vested immediately. All these options will expire on January 15, 2019. The fair value of the options was estimated to be \$23,400 using the Black-Scholes option pricing model with the following assumptions: expected life of 3-5 years, volatility of 188%, dividend yield of 0% and risk-free rate of 0.93%.

A continuity of the Company's options is as follows:

	Options	Weighted average exercise price	Weighted average number years to expiry
		\$	
Balance, September 30, 2013	-	-	-
Granted	12,474,999	0.11	4.30
Balance, September 30, 2014	12,474,999	0.11	4.30
Granted	1,300,000	0.10	3.30
Cancelled	(3,966,666)	(0.10)	-
Balance, September 30, 2015	9,808,333	0.11	3.19

**GLOBAL HEMP GROUP INC.**  
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**5. CAPITAL STOCK (Continued)**

**Stock options (continued)**

The stock options expire as follows:

Number of options issued and exercisable	Expiry date
975,000	April 4, 2016
1,300,000	January 15, 2019
7,533,333	April 4, 2019

**Basic and diluted loss per share**

Diluted loss per share for years ended September 30, 2015 and 2014 did not include the effect of outstanding warrants and options as the effect would be anti-dilutive.

**Share-based payment reserve**

The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

**Foreign currency translation reserve**

The foreign currency translation reserve records unrealized exchange differences arising on translation of foreign operations that have a functional currency other than the Company's reporting currency.

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	September 30, 2015	September 30, 2014
	\$	\$
Trade payables	207,454	78,209
Accrued liabilities	12,000	1,435,851
	219,454	1,514,060



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**7. RELATED PARTY TRANSACTIONS**

Key Management Compensation:

	Nature of transaction	September 30, 2015	September 30, 2014
		\$	\$
Chief Executive Officer ("CEO")	Consulting fees	–	66,512
Chief Financial Officer ("CFO")	Consulting fees	–	24,233
Former CFO	Consulting fees	–	7,988
Directors	Consulting fees	–	225,612
	Share based compensation	23,400	–
Former director	Consulting fees	10,000	–
Companies controlled by the relative of a former director	Consulting fees	17,500	30,500

During the year ended September 30, 2015, the Company incurred occupancy cost of \$15,000 (2014 - \$17,500) to companies controlled by a relative of a former director.

As at September 30, 2015, \$Nil (2014-\$7,723 owing to the CEO) was owing by the CEO to the company, \$24,675 (2014 - \$8,905) was owing to companies controlled by a relative of a former director, \$63,655 (2014 - \$48,574) was owing to directors of the Company and \$11,385 (2014 - \$12,611) was owing to the former CFO of the Company.

**8. NOTE PAYABLE**

On December 1, 2014, the Company converted \$18,355 of its accounts payable owing to a company ("Lender"), controlled by the relative of a former director, into a promissory note. This promissory note is payable on demand and bears interest of 12% per annum. The Company grant in favor of the Lender, a general and continuing collateral security to secure the note payable. To September 30, 2015, the Company has accrued \$1,836 (2014 - \$Nil) in interest on the note payable.

**9. DEBENTURES**

During the year ended September 30, 2015, the Company completed two non-brokered private placements of 250 units of Debentures for gross proceeds of \$250,000. The principal amount of the Debentures matures on November 17, 2017 (the "Maturity Date") and accrue interest at 15% per annum payable on the Maturity Date. The Debentures are unsecured. As at September 30, 2015, the Company has accrued \$16,498 (2014 - \$Nil) in interest on the Debentures. The Company also recorded a one-time interest charge of \$4,089 for the conversion of trade payables to Debentures during the year ended September 30, 2015.

The principal amount of the Debentures is convertible into common shares of the Company and any accrued but unpaid interest thereon is convertible into shares at a price of \$0.035 per share at any time before the Maturity Date. Each \$1,000 of the Debentures includes 28,571 warrants exercisable at a price of \$0.05 for a period of three years (Note 5). A finder's fee of \$5,600 was paid and 112,000 finder's warrants were issued, with a fair value of \$1,568. The finder's warrants are exercisable at \$0.05 for a period of one year.

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**9. DEBENTURES (Continued)**

	<b>September 30, 2015</b>	<b>September 30, 2014</b>
Principal amount	\$ 250,000	\$ —
Less finder's fee and cash	(7,168)	
Accrued interest	16,498	—
	<b>\$ 259,330</b>	<b>\$ —</b>

**10. CAPITAL MANAGEMENT**

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence, safeguard the Company's ability to support the exploration and development of its exploration and evaluation asset and to sustain future development of the business. The capital structure of the Company consists of working and share capital.

There are no restrictions on the Company's capital and there were no changes in the Company's approach to capital management during the year.

**11. BAD DEBT**

During the year ended September 30, 2014, the Company advanced US\$45,000 (CAD\$48,735) to a private company as part of a proposed share acquisition. At September 30, 2014, the agreement had not been finalized and management was uncertain of the outcome of the acquisition. As such, management assessed that the funds advanced were unlikely to be collected and have recorded bad debt expense of \$48,735 at September 30, 2014 to write-off the entire amount.

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**12. INCOME TAXES**

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	<b>September 30, 2015</b>	<b>September 30, 2014</b>
	\$	\$
Net loss before income taxes	(482,863)	(2,613,598)
Statutory tax rate	26%	26%
Expected income tax recovery at the statutory tax rate	(125,544)	(679,535)
Non-deductible items and other	6,084	370,372
Effect of changes in tax rates	-	(9,104)
Changes in valuation allowance	119,460	318,268
Income tax recovery	-	-

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	<b>September 30, 2015</b>	<b>September 30, 2014</b>
	\$	\$
Non-capital loss carry-forwards	618,009	498,549
Capital loss carry-forwards	44,474	44,474
Exploration and evaluation asset	2,836	2,836
Valuation allowance	(665,319)	(545,859)
Net deferred income tax assets	-	-

The Company's has \$2,376,957 in non-capital tax losses which expire as follows:

<b>Expires in</b>	
	\$
2030	84,548
2031	475,000
2032	102,652
2033	66,203
2034	1,189,092
2035	459,463

### **13. FINANCIAL INSTRUMENTS**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

#### Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's primary exposure to credit risk is on its cash. As most of the Company's cash is held by one bank, there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies.

#### Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to foreign exchange risk.

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk is minimal.

#### Liquidity Risk

Liquidity risk is the risk that the Company may be unable to meet its financial obligations as they fall due. The Company reviews its working capital position regularly to ensure there is sufficient capital in order to meet short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

#### **Classification of financial instruments**

Financial assets included in the statements of financial position are as follows:

	<b>September 30, 2015</b>	<b>September 30, 2014</b>
	\$	\$
Loans and receivables:		
Cash	3,559	4,445
Receivables	7,821	2,150
	<b>11,380</b>	<b>6,595</b>

Financial liabilities included in the statements of financial position are as follows:

	<b>September 30, 2015</b>	<b>September 30, 2014</b>
	\$	\$
Non-derivative financial liabilities:		
Trade payables and accruals	207,454	78,209
Note payable	20,191	—
Due to related parties	99,715	77,813
Convertible debentures	259,330	—
	<b>586,690</b>	<b>156,022</b>

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**13. FINANCIAL INSTRUMENTS (Continued)**

**Fair value**

The fair value of the Company's financial assets and liabilities approximates the carrying amount due to their short term nature.

**14. NON-CASH TRANSACTIONS**

	<b>September 30, 2015</b>	<b>September 30, 2014</b>
	\$	\$
Issuance of 2,332,580 shares for debt settlement	—	256,494
Units issued on private placement for repayment of accounts payable	—	223,000
Conversion of accounts payable and accrued liabilities for the issuance of convertible debentures	161,000	—
Conversion of due to related parties for the issuance of convertible debentures	19,000	—
Conversion of due to related parties for the issuance of note payable	18,355	—
Settlement for unpaid inventory	1,500,000	—
Issuance of finder's warrants	1,568	3,644
Warrants exercised for repayment of loan	—	50,000
Issuance of 1,500,000 warrants as finance fees	—	74,740

**15. SUBSEQUENT EVENTS**

On November 16, 2015, 90 units of the Debentures (Note 9) including accrued interest, were converted into 2,782,779 shares.

On December 17, 2015, the Company completed a non-brokered private placement of Convertible Debentures for gross proceeds of \$27,000. The principal amount of the Debentures matures within three years and accrue interest at 15% per annum, payable on the maturity date. The principal amount of the Debentures is convertible into common shares of the Company and any accrued but unpaid interest thereon is convertible into shares at a price of \$0.015 per share at any time before the maturity date. Each \$1,000 of the Debentures come with 20,000 warrants exercisable at a price of \$0.05 for a period of three years.