

Consolidated financial statements

**Emblem Corp.**

[formerly Saber Capital Corp.]

December 31, 2016 and 2015

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
**Emblem Corp.**

We have audited the accompanying consolidated financial statements of Emblem Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of operations and comprehensive loss, cash flows and changes in shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

## **Auditors' Responsibility**

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

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

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

## **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Emblem Corp. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLP*  
Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Ontario  
May 1, 2017

**Emblem Corp.**

[formerly Saber Capital Corp.]

**Consolidated statements of financial position**

[Expressed in Canadian dollars]

As at December 31

	2016	2015
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	26,202,542	1,236,646
Trade and other receivables	417,440	213,330
Prepaid expenses	256,644	458,591
Inventory <i>[note 6]</i>	748,188	47,704
Biological assets <i>[note 5]</i>	124,434	9,125
	<u>27,749,248</u>	<u>1,965,396</u>
Equipment deposits	663,813	—
Property, plant and equipment, net <i>[note 7]</i>	9,483,867	8,461,356
	<u>37,896,928</u>	<u>10,426,752</u>
<b>Liabilities and shareholders' equity (deficiency)</b>		
<b>Current</b>		
Trade and other payables	2,295,673	610,241
Provisions <i>[note 14]</i>	600,000	724,884
Due to related parties <i>[note 15]</i>	59,690	—
Class A preferred shares liability <i>[note 9]</i>	—	8,560,847
	<u>2,955,363</u>	<u>9,895,972</u>
Long-term debt <i>[note 11]</i>	5,334,613	3,807,877
	<u>8,289,976</u>	<u>13,703,849</u>
<b>Shareholders' equity (deficiency)</b>		
Common shares <i>[note 12]</i>	47,148,696	1,580,125
Special shares <i>[note 12]</i>	534,959	—
Warrants <i>[note 12]</i>	4,678,264	958,174
Stock options <i>[note 12]</i>	548,587	99,512
Deficit	(23,303,554)	(5,914,908)
<b>Total shareholders' equity (deficiency)</b>	<u>29,606,952</u>	<u>(3,277,097)</u>
	<u>37,896,928</u>	<u>10,426,752</u>

Commitments and contingencies *[note 14]*Subsequent events *[note 20]**The accompanying notes are an integral part of these consolidated financial statements*

Approved on behalf of the Board:

s/Gordon Fox  
Directors/Jeffrey Fineberg  
Director

**Emblem Corp.**

[formerly Saber Capital Corp.]

**Consolidated statements of operations and comprehensive loss**

[Expressed in Canadian dollars]

Years ended December 31

	2016	2015
	\$	\$
<b>Revenue</b>	<b>276,907</b>	—
Cost of sales <i>[note 6]</i>	<b>1,342,760</b>	69,519
Unrealized (gain) loss from changes in fair value of biological assets <i>[note 5]</i>	<b>(805,900)</b>	10,875
<b>Gross loss</b>	<b>(259,953)</b>	(80,394)
<b>Expenses</b>		
General and administrative	<b>2,211,664</b>	1,054,734
Research and development	<b>712,812</b>	556,676
Selling and marketing	<b>956,987</b>	345,753
Depreciation	<b>713,466</b>	282,814
Stock-based compensation	<b>430,455</b>	99,512
Advances to associate <i>[note 8]</i>	<b>527,592</b>	—
<b>Loss before the following</b>	<b>(5,812,929)</b>	(2,419,883)
Interest expense	<b>900,910</b>	239,252
Issuance costs on Class A preferred shares liability	—	254,438
Loss (gain) from changes in fair value of financial instruments <i>[notes 9 and 10]</i>	<b>4,425,305</b>	(300,000)
Other expenses <i>[notes 8 and 9]</i>	<b>113,383</b>	—
Reverse takeover costs <i>[note 2]</i>	<b>6,136,119</b>	—
Dividend on Class A preferred shares <i>[note 9]</i>	—	815,654
<b>Net loss and comprehensive loss</b>	<b>(17,388,646)</b>	(3,429,227)
Basic and diluted loss per ordinary share	<b>(0.44)</b>	(0.17)
Weighted average number of ordinary shares outstanding – basic and diluted	<b>39,534,366</b>	20,369,160

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

**Emblem Corp.**

[formerly Saber Capital Corp.]

**Consolidated statements of changes in shareholders' equity (deficiency)**

[Expressed in Canadian dollars]

	Common shares		Special shares		Warrants	Stock options		Deficit	Total
	#	\$	#	\$	Number of common shares issuable on exercise	#	\$	\$	\$
<b>Balance, January 1, 2015</b>	20,000,000	760,680	—	—	7,018,660	—	—	(2,485,681)	(1,088,316)
Stock dividend [note 12[b]]	1,638,900	819,445	—	—	—	—	—	—	819,445
Private placement issuance [note 9]	—	—	—	—	3,497,580	—	—	—	349,760
Share issuance costs [note 9]	—	—	—	—	—	—	—	—	(28,271)
Stock options issued [note 12[d]]	—	—	—	—	—	3,040,000	99,512	—	99,512
Net loss and comprehensive loss	—	—	—	—	—	—	—	(3,429,227)	(3,429,227)
<b>Balance, December 31, 2015</b>	21,638,900	1,580,125	—	—	10,516,240	3,040,000	99,512	(5,914,908)	(3,277,097)
<b>Balance, January 1, 2016</b>	21,638,900	1,580,125	—	—	10,516,240	3,040,000	99,512	(5,914,908)	(3,277,097)
Private placement issuance [note 12[b]]	12,565,764	7,264,611	—	—	6,282,882	—	—	—	7,967,923
Issuance costs [note 12[b]]	—	(280,683)	—	—	—	—	—	—	(311,383)
Broker units issued [note 12[b]]	127,038	87,656	—	—	63,519	—	—	—	95,278
Stock options issued [note 12[d]]	—	—	—	—	—	1,830,000	430,455	—	430,455
Conversion of Class A preferred shares [note 9]	17,032,520	11,748,650	—	—	—	—	—	—	11,748,650
Reclassification of broker units [note 10]	—	—	—	—	1,180,950	—	—	—	337,500
Shares of Saber Capital Corp. on RTO [note 2]	4,416,602	4,504,934	—	—	—	60,000	37,240	—	4,542,174
Special shares issued to shareholders of KindCann [notes 2 and 12[e]]	(14,065,285)	(534,959)	14,065,285	534,959	—	—	—	—	—
Issuances of units concurrent with RTO [notes 1 and 12[b]]	20,521,115	20,931,538	—	—	10,260,558	—	—	—	23,599,283
Share issuance costs [notes 1 and 12[b]]	—	(1,635,605)	—	—	—	—	—	—	(1,845,964)
Broker units issued [note 12[b]]	1,199,374	1,223,361	—	—	599,687	—	—	—	1,379,272
Finder's fee shares [note 12[b]]	1,500,000	1,530,000	—	—	—	—	—	—	1,530,000
Private placement issuance [note 12[b]]	684,789	698,448	—	—	342,394	—	—	—	787,507
Stock options exercised [note 12[d]]	30,000	30,620	—	—	—	(30,000)	(18,620)	—	12,000
Stock options forfeited [note 12[d]]	—	—	—	—	—	(66,667)	—	—	—
Net loss and comprehensive loss	—	—	—	—	—	—	—	(17,388,646)	(17,388,646)
<b>Balance, December 31, 2016</b>	65,650,817	47,148,696	14,065,285	534,959	29,246,230	4,833,333	548,587	(23,303,554)	29,606,952

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

**Emblem Corp.**

[formerly Saber Capital Corp.]

**Consolidated statements of cash flows**

[Expressed in Canadian dollars]

Years ended December 31

	2016	2015
	\$	\$
<b>Operating activities</b>		
Net loss for the year	(17,388,646)	(3,429,227)
Adjustments to reconcile net loss to net cash used in operating activities		
Loss (gain) from changes in fair value of financial instruments	4,425,305	(300,000)
Unrealized (gain) loss from changes in fair value of biological assets	(805,900)	10,875
Other non-cash expenses	215,383	—
Non-cash interest	464,969	—
Depreciation	713,466	282,814
Advances to associate	527,592	—
Stock-based compensation	430,455	99,512
Reverse takeover costs	5,423,129	—
Inventory write-off	15,660	—
Issuance costs on Class A preferred shares liability	—	254,438
Dividend on Class A preferred shares	—	819,445
	(5,978,587)	(2,262,143)
Changes in non-cash operating working capital		
Prepaid expenses	(99,950)	(442,591)
Inventory	(694,538)	(47,704)
Biological assets	690,591	(20,000)
Trade and other receivables	(155,388)	365,119
Trade and other payables	694,203	(195,019)
<b>Cash used in operating activities</b>	(5,543,669)	(2,602,338)
<b>Financing activities</b>		
Advances from related company	—	(162,172)
Advances from shareholders	—	(60,000)
Subscriptions receivable	—	100,000
Proceeds from long-term debt	5,500,000	3,500,000
Repayment of mortgage payable	(4,050,000)	—
Repayment of note payable	(1,000,000)	—
Mortgage issuance costs	—	(308,100)
Stock options exercised	12,000	—
Cash flows from private placements and other financings, net of issuance costs	31,810,308	3,211,104
<b>Cash provided by financing activities</b>	32,272,308	6,280,832
<b>Investing activities</b>		
Purchase of property, plant and equipment	(1,132,009)	(7,557,271)
Cash acquired from acquisition of Emblem Corp. [note 2]	677,985	—
Cash acquired from acquisition of GrowWise Health Limited [note 8]	7,570	—
Investment in and advances to associate [note 8]	(652,476)	(375,116)
Equipment deposits	(663,813)	—
<b>Cash used in investing activities</b>	(1,762,743)	(7,932,387)
Increase (decrease) in cash and cash equivalents during the year	24,965,896	(4,253,893)
Cash and cash equivalents, beginning of year	1,236,646	5,490,539
<b>Cash and cash equivalents, end of year</b>	26,202,542	1,236,646

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

## **Emblem Corp.**

[formerly Saber Capital Corp.]

# **Notes to consolidated financial statements**

[Expressed in Canadian dollars]

December 31, 2016 and 2015

## **1. Nature of business**

Emblem Corp. ["Emblem" or the "Company"] was incorporated on February 25, 2008 pursuant to the *Business Corporations Act* [British Columbia] under the name "Kristina Capital Corp." and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange ["TSXV"]. The Company changed its name to "Saber Capital Corp." on January 19, 2011.

On December 6, 2016, the Company closed its qualifying transaction [the "Transaction"] with 9045538 Canada Inc. [f/k/a KindCann Holdings Limited and Emblem Corp.] ["KindCann"]. The Transaction was completed pursuant to a plan of arrangement [the "Plan of Arrangement"] under the *Canada Business Corporations Act* [the "CBCA"] pursuant to which the shareholders of KindCann completed a reverse take-over of the Company [note 2]. KindCann, through its wholly-owned subsidiary Emblem Cannabis Corporation, is a licensed producer under the Access to Cannabis for Medical Purposes Regulations ["ACMPR"]. Concurrent with the Transaction, KindCann amalgamated with its three subsidiaries, Emblem Cannabis Corporation, formerly KindCann Limited, KindCann Realty Limited ["KRL"] and 9845992 Canada Limited ["OHL"], formerly Oakbank Holdings Limited. The amalgamated entity was renamed Emblem Cannabis Corporation ["ECC"].

Prior to completion of the Transaction, the Company completed a brokered private placement by issuing 18,781,985 subscription receipts at a price of \$1.15 for gross proceeds of \$21,599,283. On closing of the Transaction, each subscription receipt was exchanged, without payment of any additional consideration, for one unit ["Unit"] of the Company, comprising one post-consolidation common share and one-half of one warrant [each whole warrant, a "Warrant"]. Each Warrant is exercisable to purchase one post-consolidation common share at an exercise price of \$1.75 per share for a period of 36 months.

Concurrent with completion of the Transaction, the Company completed a brokered financing pursuant to a TSXV short form offering document by issuing 1,739,130 Units for gross proceeds of \$2,000,000.

In connection with the Transaction, the Company changed its name from "Saber Capital Corp." to "Emblem Corp.", consolidated its common shares on a 4 to 1 basis and continued from a corporation governed by the laws of British Columbia to a corporation governed by the CBCA. Following these changes, KindCann amalgamated with Saber Acquisition Co., a wholly-owned subsidiary of the Company formed solely for the purpose of facilitating the Transaction. Pursuant to the amalgamation and the Plan of Arrangement, the shareholders of KindCann received one common share of the Company for each common share of KindCann registered in the names of such shareholders. Holders of KindCann's special non-voting shares also received one special non-voting share of the Company for each special non-voting share of KindCann registered in the names of such shareholders. Holders of KindCann's options and warrants [including all holders of Units] outstanding at the time of closing the Transaction also received equivalent instruments of the Company exercisable for or convertible into the Company's common shares.

Following completion of the Transaction, the Company had 64,936,028 common shares issued and outstanding. In addition, an aggregate 47,936,972 common shares of the Company were reserved for special shares, options, warrants and compensation options outstanding.

## **Emblem Corp.**

[formerly Saber Capital Corp.]

### **Notes to consolidated financial statements**

[Expressed in Canadian dollars]

December 31, 2016 and 2015

Effective upon the closing of the Transaction, as a result of the reverse take-over of the Company by the shareholders of KindCann and to align the financial years of the Company to that of KindCann, the financial year of the Company has been changed from January 31 of each year to December 31 of each year.

Upon issuance of the final exchange bulletin of the TSXV providing final acceptance of the Transaction, the Company ceased to be a Capital Pool Company and recommenced trading on the TSXV on December 12, 2016 under the symbol "EMC".

KindCann was incorporated on October 8, 2014 pursuant to the CBCA under the name "KindCann Holdings Limited". KindCann changed its name to "Emblem Corp." on September 1, 2016 and further changed its name to "9045538 Canada Inc." on December 5, 2016. ECC received its cultivation license under the ACMPR on August 26, 2015 and commenced cultivation in December 2015 at its facility in Paris, Ontario. On July 27, 2016, ECC received its distribution license and a renewal of its cultivation license upon meeting the standards set by the ACMPR and the *Controlled Drugs and Substances Act* and its Regulations. The registered office of the Company is 500 York Mills Road, Suite 500, North York, Ontario, Canada.

In addition to its 100% ownership of ECC, the Company also owns a 50% interest in GrowWise Health Limited, a corporation incorporated under the *Business Corporation Act* [Ontario].

#### **2. Reverse take-over**

The Transaction constitutes a reverse asset acquisition by KindCann of the Company. The Company did not meet the definition of a business, before acquisition, under IFRS 3 - *Business Combinations* ["IFRS 3"], and therefore the Transaction was not a business combination as defined therein. The substance of the transaction was a reverse acquisition of a non-operating company. Although legally, the Company is regarded as the parent or continuing company, KindCann, whose shareholders held approximately 89% of the voting shares of the Company immediately after the Transaction, is treated as the acquirer for accounting purposes following the principles of IFRS 3. As a result, the Transaction is accounted for as an asset acquisition with KindCann being identified as the acquirer and the transaction being measured at the fair value of the equity consideration deemed issued to Emblem shareholders in accordance with IFRS 2 - *Share Based Payments* ["IFRS 2"]. Consequently, the Transaction is accounted for as a continuation of the financial statements of KindCann, together with a deemed issuance of shares equivalent to the shares held by the former shareholders of the Company, and a recapitalization of the equity of KindCann.

These consolidated financial statements include the completion of the reverse asset acquisition transaction recorded on December 6, 2016. KindCann, the continuing entity for accounting purposes, is considered to have acquired the assets and liabilities of the Company in a capital transaction on December 6, 2016. The comparative figures that are presented in the consolidated financial statements are those of KindCann. The consolidated statements of operations and comprehensive loss include the full results of KindCann for the year ended December 31, 2016. As the acquirer for accounting purposes, KindCann's net assets are included in the consolidated statements of financial position at their carrying amounts.

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**Notes to consolidated financial statements**

[Expressed in Canadian dollars]

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The value of net identifiable assets of Emblem [a legal parent] acquired by KindCann [a legal subsidiary] is as follows:

	\$
Cash and cash equivalents	677,985
Trade and other payables	(28,938)
	<b>649,047</b>

IFRS 2 applies to transactions where an entity grants equity instruments and cannot identify specifically some or all of the goods or services received in return. In accordance with IFRS 2, the amount assigned to the reverse acquisition transaction costs in the consolidated statements of operations and comprehensive loss is \$6,136,119, being the difference between the estimated fair value of the Emblem shares prior to the Transaction, less the fair value of the net assets of Emblem acquired, less transaction costs. The fair value of Emblem shares prior to the Transaction of \$1.02 per share is determined based on the financings described in notes 1 and 12 [b] that were completed concurrently with the Transaction.

	\$
Fair value of 4,416,602 Emblem shares outstanding prior to the Transaction at \$1.02 per share	4,504,934
Less: estimated fair value of the net assets of Emblem acquired	(649,047)
	3,855,887
Transaction costs:	
Transaction costs [exchange, professional and consulting fees]	712,992
Finder's fees consisting of 1,500,000 common shares issued at a price of \$1.02	1,530,000
60,000 stock options granted to former option holders of Emblem, exercisable at \$0.40 per share, based on the Black-Scholes pricing model	37,240
<b>Reverse take-over costs</b>	<b>\$6,136,119</b>

**3. Basis of presentation****[a] Statement of compliance**

These financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada for publicly accountable enterprises, as set out in the *CPA Canada Handbook – Accounting*, which incorporates International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"]. The policies set out below have been consistently applied to all periods presented unless otherwise noted.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 1, 2017.

## **Emblem Corp.**

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### **Notes to consolidated financial statements**

[Expressed in Canadian dollars]

December 31, 2016 and 2015

#### **[b] Basis of presentation**

These consolidated financial statements ["financial statements"] include the accounts of the Company, its wholly owned subsidiary ECC and 50% owned subsidiary GrowWise Health Limited ["GrowWise"]. All intercompany accounts and transactions have been eliminated on consolidation. Subsidiaries are entities the Company controls when it is exposed, or has rights, to variable returns from its involvement and has the ability to affect those returns through its power to direct the relevant activities of the entity.

#### **[c] Basis of measurement**

These financial statements have been prepared on a historical cost basis, except for biological assets and Class A preferred shares liability that are measured at fair value less cost to sell and fair value respectively. Historical costs are generally based upon the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 - *Share-based Payments* and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 - *Inventories* or value in use in IAS 36 - *Impairment of Assets*.

#### **[d] Functional and presentation currency**

These financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

#### **[e] Use of estimates and judgments**

The preparation of these financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

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**Notes to consolidated financial statements**

[Expressed in Canadian dollars]

December 31, 2016 and 2015

[i] Biological assets

Biological assets, consisting of medical cannabis plants and agricultural produce, are measured at fair value less cost to sell up to the point of harvest. The determination of the fair value of the biological assets requires the Company to make assumptions with respect to how market participants would estimate fair value. These assumptions primarily relate to the costs required to bring the biological assets up to the point of harvest, cost to convert the harvested medical cannabis to finished goods, sales price, risk of loss and expected yield from the medical cannabis plants.

[ii] Estimated useful lives, residual values and depreciation of property, plant and equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives and residual values, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

[iii] Warrants and stock options

In calculating the value of warrants and stock options, key estimates such as the value of the common shares, the rate of forfeiture, the expected life, the volatility of the value of the Company's common shares and the risk free interest rate are used.

[iv] Class A preferred share financial liability measured at fair value through profit or loss

The fair value of the Company's Class A preferred shares liability was based on the value of the common shares to which the preferred shares were convertible into, which in turn required estimates of the inherent value of the Company, considering value indicators including recent rounds of financing and market comparable valuation metrics, plus accumulated and unpaid dividends.

[v] Broker warrants

Broker warrants were considered to be derivative liabilities measured at fair value through profit or loss given the instruments underlying the broker warrants include financial liabilities. In calculating the value of the broker warrants, key estimates such as the value of the underlying Class A preferred shares, warrants and royalty interests, the volatility of the value of the underlying instruments and the risk-free interest rate over the estimated life are used.

[vi] Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a previous event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligations. The provision as at December 31, 2015 for the Company's remaining funding obligations to GrowWise reflects the Company's estimates of minimal future distributions being received from GrowWise.

**Emblem Corp.**

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**Notes to consolidated financial statements**

[Expressed in Canadian dollars]

December 31, 2016 and 2015

**[vii] Investment in GrowWise**

At each reporting date, the Company assessed its investment in GrowWise for potential indicators of impairment prior to obtaining control in October 2016, taking into consideration business climate, economic factor and operational environment, the investee operated in combined with the early stage nature of the investee. If any impairment indicator existed, the Company estimated the asset's recoverable amount. The recoverable amount was determined for the investment on a standalone basis. Key assumptions used in determining the recoverable amount were the operating results and associated expected cash flows of the investment.

**[viii] Control of subsidiaries**

At each reporting date, the Company performs its control assessment of subsidiaries. The Company is deemed to control a subsidiary when it is exposed to, or has the right to, variable returns from its involvement with an investee and it has the ability to direct the activities of the investee that significantly affects the investee's returns through its power over the subsidiary.

**[ix] Going concern**

At each reporting period, management assesses the basis of preparation of the financial statements. These financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

**4. Significant accounting policies****[a] Foreign currency translation**

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign exchange rate applicable at that period-end date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Revenue and expenses are translated at the exchange rates that approximate those in effect on the date of the transaction. Realized and unrealized exchange gains and losses are recognized in the consolidated statements of operations and comprehensive loss.

**[b] Cash and cash equivalents**

Cash and cash equivalents include cash deposits in financial institutions and other deposits that are readily convertible into cash.

**[c] Biological assets**

The Company measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventory after harvest.

Gains or losses arising from changes in fair value less cost to sell during the year are included in the consolidated statements of operations and comprehensive loss of the related years.

**Emblem Corp.**

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**Notes to consolidated financial statements**

[Expressed in Canadian dollars]

December 31, 2016 and 2015

**[d] Inventory**

Inventory for finished goods, work-in progress, seeds, packaging and other supplies are initially valued at cost, and subsequently at the lower of cost and net realizable value. The cost of the finished goods and work-in progress of dry cannabis includes the value of the agricultural produce at the date of its conversion. Cost is determined using the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost to sell. The Company reviews inventory for obsolete, redundant and slow moving goods and any such inventory identified is written down to net realizable value.

**[e] Property, plant and equipment**

The Company's property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment includes expenditures that are directly attributable to the acquisition or construction of the asset. The cost includes the cost of materials and direct labour, site preparation costs, installation and assembly costs, and any other costs directly attributable to bringing the assets to the location and conditions necessary for the assets to be capable of operating in the manner intended by management. The cost of property, plant and equipment also includes any applicable borrowing costs. Borrowing costs are capitalized to property, plant and equipment until such time that the constructed asset is substantially complete and ready for its intended use.

Depreciation is recorded over the estimated useful lives as outlined below:

Building	25 years, straight-line method
Security equipment	5 years, straight-line method
Production equipment	5 years, straight-line method
Computer equipment	2 years, straight-line method
Furniture and fixtures	5 years, straight-line method

Significant components of property, plant and equipment that are identified as having different useful lives are depreciated separately over their respective useful lives. Depreciation methods, useful lives and residual values, if applicable, are reviewed and adjusted, if appropriate, on a prospective basis at the end of each fiscal year.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognized in profit or loss.

**[f] Impairment of non-financial assets**

The carrying amounts of the Company's non-financial assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets [the cash-generating unit, or "CGU"]. The recoverable amount of an asset or a CGU is the higher of its fair value, less cost to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is

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recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously.

**[g] Investment in equity accounted associate**

Investments over which the Company has joint control ["joint arrangements"] or the ability to exercise significant influence, where significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies, are accounted for using the equity method of accounting.

A joint venture is a joint arrangement whereby the parties of the arrangement have rights to the net assets of the arrangement. Joint control is the contractual sharing of control in an arrangement, which only exists when decisions about the relevant activities require the unanimous consent of the parties sharing control. To determine whether significant influence or joint control is present, considerations similar to those necessary to determine control over subsidiaries are reviewed.

The equity method of accounting requires the Company to record its initial investment at cost. At the time of initial recognition, if the cost of the associate or joint venture is lower than the Company's proportionate share of the investment's underlying fair value, the Company records a gain on the difference between the cost and the underlying fair value of the investment to the consolidated statements of operations and comprehensive loss. If the cost of the associate or joint venture is greater than the Company's proportionate share of the underlying fair value, goodwill relating to the associate or joint venture is included in the carrying amount of the investment.

The carrying value of the Company's initial investment is adjusted to include its pro rata share of the investee's post-acquisition earnings, which is included in the Company's determination of net income or loss. Investments are reviewed at each reporting period to determine whether there is any objective evidence of impairment. If evidence of impairment exists, the Company compares the carrying amount of the investment to its recoverable amount.

Should the Company lose joint control of a joint venture, the Company remeasures its remaining investment at fair value. Any resulting difference between the carrying amount of its investment in the joint venture and its fair value of the retained investment and any proceeds from disposal is recognized in the consolidated statements of operations and comprehensive loss.

The financial statements of the equity accounted investees are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring their accounting policies in line with those of the Company.

**[h] Business combinations**

Business combinations are accounted for using the acquisition method of accounting, where the fair value of consideration is allocated to the fair values of the assets acquired and the liabilities assumed at the date of acquisition.

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If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses if it has correctly identified all of the assets acquired and liabilities assumed and reviews the procedures used to measure the amounts recognized at the date of acquisition. If following its reassessment, the Company concludes that the fair value of net assets acquired exceeds the aggregate consideration transferred, the Company will record a gain to the consolidated statement of operations and comprehensive loss.

The excess of consideration over the fair value of the identifiable net assets acquired is recorded as goodwill and allocated to CGUs. For each business combination that includes a non-controlling interest, the Company, at its election, measures the non-controlling interest's investment in the acquiree at fair value or at the proportionate share of the acquiree's net identifiable assets acquired.

Any contingent consideration is recognized at fair value on the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with changes in fair value recorded to the statement of operations and comprehensive income or loss. Contingent consideration classified to equity is not re-measured and settlement is accounted for within equity.

Transaction costs that are incurred in connection with a business combination, other than costs associated with the issuance of debt or equity securities, are expensed as incurred.

**[i] Leased assets**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Leases for which the risks and rewards are retained by the lessor are considered operating leases. Lease payments, including lease incentives, under an operating lease are recognized as an expense on a straight-line basis over the lease term.

Assets held under finance leases are initially recognized as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

**[j] Revenue**

Revenue from the sale of products is recognized when all of the following criteria have been satisfied: significant risks and rewards of ownership have been transferred to the buyer, there is no continuing managerial involvement with respect to the goods sold, revenue can be reliably measured at the fair value of consideration received or expected to be received, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is recognized at the fair value of consideration received or receivable.

**[k] Income taxes**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statements of operations and comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The

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Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the year.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition [other than in a business combination] of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realized, based on tax rates [and tax laws] that have been enacted or substantively enacted by the end of the year.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the year, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive loss or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive loss or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**[I] Provisions**

Provisions are recognized when it is probable that the Company is required to settle an obligation [legal or constructive], as a result of a past event, and the obligation can be reliably estimated. The provision represents the Company's best estimate of the amounts required to settle the obligation at the end of the reporting period. When a provision is determined using the expected cash flow method, its carrying amount is the present value of those cash flows [when the effect of the time value of money is material]. When some or all of the amounts required to settle a provision are expected to be recoverable from a third party, a receivable is recognized when it is virtually certain reimbursement is receivable and the expected reimbursement can be reliably measured.

**[m] Share-based payments**

The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the period in which the service and, where applicable, the performance conditions are fulfilled [the vesting period] with a corresponding increase in equity [contributed surplus]. Fair value is measured using the Black-Scholes option pricing model. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period

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has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the consolidated statements of operations and comprehensive loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through the consolidated statements of operations and comprehensive loss.

**[n] Loss per ordinary share**

The Company presents basic and diluted loss per ordinary share data for its ordinary shares, which includes common shares and special shares. Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares and special shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which consist of convertible Class A preferred shares, common share purchase warrants, broker warrants and stock options issued. Anti-dilutive effects of potential conversions of securities are ignored for this calculation. When there is a loss from continuing operations, convertible Class A preferred shares, common share purchase warrants, broker warrants and stock options are considered to be anti-dilutive.

**[o] Financial instruments****[i] Financial assets**

The Company initially recognizes financial assets at fair value on the date that they are originated. All financial assets, including assets designated at fair value through profit or loss ["FVTPL"], 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 asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the

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risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company classifies its financial assets as financial assets at FVTPL or loans and receivables. A financial asset is classified at FVTPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses.

**[ii] Financial liabilities**

The Company initially recognizes financial liabilities at fair value on the date that they originate. All financial liabilities [including liabilities designated at FVTPL] 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.

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

**[iii] Financial liabilities and equity instruments**

*Classification as debt or equity*

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.

*Equity instruments*

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 the Company 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. When the carrying value exceeds the purchase price, the excess of the average carrying value over the purchase price is recorded as contributed surplus. When the purchase price is higher than the average carrying value, the excess of the purchase price over the carrying value first reduces any previously recognized contributed surplus, with any remaining excess recorded as a reduction to retained earnings. No gain or loss is recognized in profit or loss.

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Subsequent to initial measurement, the Company does not remeasure certain equity instruments upon modification of the terms of such instruments.

#### **[iv] Classification of financial instruments**

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

Cash and cash equivalents	Loans and receivables
Trade and other receivables	Loans and receivables
Trade and other payables	Other liabilities
Provisions	Other liabilities
Due to related parties	Other liabilities
Class A preferred shares liability	Fair value through profit or loss
Long-term debt	Other liabilities

#### **[v] Effective interest rate method**

The effective interest rate method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

#### **[vi] Transaction costs**

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets and financial liabilities at FVTPL, are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or at FVTPL are recognized immediately in profit or loss.

#### **[vii] Impairment of financial assets**

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of the reporting periods. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

#### **[p] Segment reporting**

An operating segment is a component of the Company that engages in business activities. An operating segment may earn revenue and incur expenses, including revenue and expenses incurred by virtue of activities with any of the Company's other operations. An operating segment has discrete financial information available that is regularly reviewed by the Company's Chief Operating Decision Maker ["CODM"] to assess performance or make resource allocation decisions. The CODM has been identified as the Chief Executive Officer. The Company has a single operating and reportable segment.

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#### **[q] New standards, amendments and interpretations adopted by the Company**

The following new accounting standards applied or adopted during the year ended December 31, 2016 had no material impact on the financial statements:

##### *[i] Amendments to IAS 41 – Agriculture and IAS 16 – Property, plant and equipment [“IAS 41” and “IAS 16”]*

This amendment provides guidance regarding the accounting for bearer plants by providing a definition of bearer plants and brings bearer plants within the scope of IAS 16 from IAS 41. The amendment is effective for annual reporting periods beginning on or after January 1, 2016, and must be applied retrospectively. The Company adopted the amendments to IAS 41 and IAS 16 and the adoption of these amendments did not have any impact on the Company's consolidated statements of financial position or consolidated statements of operations and comprehensive loss.

##### *[ii] Amendments to IAS 1 - Financial Statement Presentation [“IAS 1”]*

The IASB has published “Disclosure Initiative” [Amendments to IAS 1]. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. They are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The amendments to IAS 1 did not have any impact on the Company's consolidated financial statements.

##### *[iii] Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization [“IAS 16” and “IAS 38”]*

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business [of which the asset is part] rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments were effective for annual periods beginning on or after January 1, 2016. The amendments did not have any impact on the consolidated financial statements of the Company as the Company has not used a revenue-based method to depreciate its non-current assets.

#### **[r] New standards and interpretations not yet adopted**

The Company has not applied the following new and revised IFRS that have been issued but are not yet effective:

##### *[i] IFRS 9 - Financial Instruments [“IFRS 9”]*

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 - *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not compulsory. The Company is in the process of evaluating the impact of IFRS 9 on the Company's consolidated financial statements.

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#### *[ii] IFRS 15 - Revenue from Contracts with Customers ["IFRS 15"]*

In May 2014, the IASB issued IFRS 15, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The core principle of the new standard is that an entity recognizes revenue to represent the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also provides a model for the recognition and measurement of gains or losses of non-financial assets. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The standard permits the use of either full or modified retrospective application. This new accounting guidance will also result in enhanced disclosures about revenue. The Company is evaluating the effect that IFRS 15 will have on its consolidated financial statements and related disclosures, as well as the transition method to apply the new standard.

#### *[iii] IFRS 16 - Leases ["IFRS 16"]*

In January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and a lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. Early adoption is permitted if IFRS 15 has also been adopted. The Company is in the process of evaluating the impact of IFRS 16 on the Company's consolidated financial statements.

#### *[iv] IAS 7 – Statement of Cash Flows ["IAS 7"]*

IAS 7 has been revised to incorporate amendments issued by the IASB in January 2016. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Company is in the process of evaluating the amendments to IAS 7 on the Company's consolidated financial statements.

#### *[v] IAS 12 – Income Taxes ["IAS 12"]*

IAS 12 has been revised to incorporate amendments issued by the IASB in January 2016. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Company does not expect the adoption of this standard to have a significant impact on the Company as it does not have any debt instruments that are measured at fair value.

#### *[vi] IFRS 2 – Share-based payments ["IFRS 2"]*

IFRS 2 has been amended to address [i] certain issues related to the accounting for cash-settled awards, and [ii] the accounting for equity settled awards that include a "net settlement" feature in respect of employee

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withholding taxes. IFRS 2 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of evaluating the amendments to IFRS 2 on the Company's consolidated financial statements.

**5. Biological assets**

The changes in the carrying value of biological assets, which consist of cannabis on plants, are as follows:

	\$
<b>Balance as at December 31, 2014</b>	—
Carrying amount, initial recognition	20,000
Loss on initial recognition	(18,000)
Net increase in fair value less cost to sell due to biological transformation	7,125
Transferred to inventory upon harvest	—
<b>Balance as at December 31, 2015</b>	<b>9,125</b>
Net increase in fair value less cost to sell due to biological transformation	805,900
Transferred to inventory upon harvest	(690,591)
<b>Balance as at December 31, 2016</b>	<b>124,434</b>

All biological assets are current assets. The fair value measurements for biological assets have been categorized as Level 3 fair value based on the inputs used. The significant assumptions used in determining the fair value of cannabis on plants includes:

- [i] Expected yields for cannabis on plants to be harvested, including wastage and the risk over the period;
- [ii] The costs incurred and costs at different stages in the growing, drying and selling cycle of the plants were estimated by calculating an average of total growing, drying and selling costs over the total production period; and
- [iii] The number of growing weeks incurred as a percentage of total growing weeks was applied to the total fair value per gram, which is determined based on market prices of medical cannabis.

These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The Company estimates the harvest yields for medical cannabis at various stages of growth. As at December 31, 2016, it is expected that the Company's biological assets will yield approximately 104,000 grams [2015 – 7,600 grams] of medical cannabis when harvested. The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

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**6. Inventory**

	2016 \$	2015 \$
Finished goods – dry cannabis	77,661	—
Work-in progress – dry cannabis	577,303	—
Seeds	27,398	34,433
Packaging and supplies	65,826	13,271
	<b>748,188</b>	<b>47,704</b>

The cost of inventory recognized as an expense during the years ended December 31, 2016 and 2015 was \$1,342,760 and \$69,519, respectively.

Included in cost of sales is inventory write-downs of \$15,660 and nil during the years ended December 31, 2016 and 2015, respectively.

**7. Property, plant and equipment**

	Land \$	Building \$	Security equipment \$	Production equipment \$	Computer equipment \$	Furniture and fixtures \$	Total \$
Balance, beginning of year	618,698	6,827,254	668,755	497,065	43,202	101,560	8,756,534
Additions	—	556,396	31,247	732,505	358,995	69,398	1,748,541
Additions through acquisition	—	—	—	—	46,166	—	46,166
Disposals	—	—	—	—	(71,170)	—	(71,170)
<b>Cost, December 31, 2016</b>	<b>618,698</b>	<b>7,383,650</b>	<b>700,002</b>	<b>1,229,570</b>	<b>377,193</b>	<b>170,958</b>	<b>10,480,071</b>
Accumulated depreciation, beginning of year	—	88,982	128,831	55,152	14,314	7,899	295,178
Disposals	—	—	—	—	(12,440)	—	(12,440)
Depreciation	—	318,379	137,805	151,109	80,328	25,845	713,466
<b>Accumulated depreciation, December 31, 2016</b>	<b>—</b>	<b>407,361</b>	<b>266,636</b>	<b>206,261</b>	<b>82,202</b>	<b>33,744</b>	<b>966,204</b>
<b>Net carrying cost, December 31, 2016</b>	<b>618,698</b>	<b>6,976,289</b>	<b>433,366</b>	<b>1,023,309</b>	<b>294,991</b>	<b>137,214</b>	<b>9,483,867</b>

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	<b>Land</b>	<b>Building</b>	<b>Security equipment</b>	<b>Production equipment</b>	<b>Computer equipment</b>	<b>Furniture and fixtures</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$	\$
Balance, beginning of year	420,000	3,704,914	284,268	—	1,272	—	4,410,454
Additions	198,698	3,122,340	384,487	497,065	41,930	101,560	4,346,080
<b>Cost, December 31, 2015</b>	<b>618,698</b>	<b>6,827,254</b>	<b>668,755</b>	<b>497,065</b>	<b>43,202</b>	<b>101,560</b>	<b>8,756,534</b>
Accumulated depreciation, beginning of year	—	—	12,046	—	318	—	12,364
Depreciation	—	88,982	116,785	55,152	13,996	7,899	282,814
<b>Accumulated depreciation, December 31, 2015</b>	<b>—</b>	<b>88,982</b>	<b>128,831</b>	<b>55,152</b>	<b>14,314</b>	<b>7,899</b>	<b>295,178</b>
<b>Net carrying cost, December 31, 2015</b>	<b>618,698</b>	<b>6,738,272</b>	<b>539,924</b>	<b>441,913</b>	<b>28,888</b>	<b>93,661</b>	<b>8,461,356</b>

Included in building is \$180,271 [2015 - nil] of assets under construction that are not ready for use and not depreciated as at December 31, 2016.

For the year ended December 31, 2016, the Company disposed of computer equipment resulting in a loss on disposal of \$58,730 [2015 - nil]. This loss on disposal is included in the general and administrative expenses in the consolidated statements of operations and comprehensive loss.

**8. Investment in GrowWise**

The Company holds a 50% interest in an entity, GrowWise, a company incorporated and operating in the Province of Ontario, Canada. The remaining 50% is held by White Cedar Pharmacy Corporation ["White Cedar"]. Key management of the Company owns approximately 51% of the issued and outstanding shares of White Cedar. The business of GrowWise is to offer education services and other related services to prospective medical marijuana patients in Canada.

As part of the Company's amended shareholder agreement ["Amended Shareholder Agreement"] with White Cedar with respect to GrowWise dated October 31, 2016, the Company is committed to make available to GrowWise an unlimited revolving loan facility in order to fund all of GrowWise's working capital requirements. The advances to GrowWise under the facility bear interest at a rate of 10%. Payments of interest on, and the principal of, the facility are without recourse to the assets of White Cedar. Until repayment in full of the facility, GrowWise cannot make distributions to White Cedar or the Company. On October 31, 2016, the Company and White Cedar also executed an option agreement ["Option Agreement"] whereby the Company also has an option to purchase White Cedar's 50% interest in GrowWise at any time on or after December 31, 2017 for 50% of the net book value of GrowWise's net assets, excluding related party liabilities. The Company estimates the funding requirements required by GrowWise under the revolving loan facility to be

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approximately \$1,800,000 up to December 31, 2017 in addition to amounts already funded through December 31, 2016.

The initial funding commitment prior to the October 31, 2016 Amended Shareholder Agreement was \$500,000 and was previously accounted for as an onerous contract and provided for and expensed in 2014. Such amount was fully funded in 2015 and 2016 and an additional \$527,592 above the \$500,000 commitment was funded in 2016 and prior to October 31, 2016. The Company's initial investment of \$1,000,000 related to GrowWise was impaired in 2014. As at October 31, 2016, the carrying amount of the investment in GrowWise was nil [2015 - nil].

Prior to October 31, 2016, the Company determined that White Cedar had control over GrowWise and the Company as the sole additional 50% shareholder had significant influence. The original shareholder agreement established that decision making power related to GrowWise was with White Cedar. White Cedar also had exposure to variable returns thru its 50% ownership interest and entitlement to future distributions and the ability to affect those returns thru its decision making power.

On October 31, 2016, with the execution of the Amended Shareholder Agreement and the Option Agreement, the Company assessed whether it had acquired control over GrowWise and determined that the definition of control as defined under IFRS 10 – *Consolidated Financial Statements* was now met.

The determination of control was based on the following:

- Power over the investee:

Effective October 31, 2016, as a consequence of the Amended Shareholder Agreement requiring the Company to provide 100% of GrowWise's funding requirements without limit and the Option Agreement allowing the Company to acquire White Cedar's interest in GrowWise based on the formula in the Option Agreement indicates White Cedar's exposure to variable returns is now much more limited. This, combined with the fact that certain members of the Company's management are acting as management of GrowWise, lead the Company to conclude that despite White Cedar continuing to retain GrowWise decision making power under the Amended Shareholder Agreement, White Cedar is now exercising that decision making power as the Company's de facto agent. Accordingly, White Cedar's decision making power is now attributed to the Company.

- Exposure, or rights to variable returns of the investee:

The Company is now exposed to substantially all of the variable returns of GrowWise as a result of its 50% equity interest, the potential operating synergies the Company will benefit from with GrowWise should GrowWise be successful, its expanded funding commitment in the Amended Shareholders' Agreement and its right to acquire White Cedar's 50% interest in GrowWise after December 31, 2017 at the formula price in the Option Agreement.

- The ability to use power over the investee to affect the amount of the investor's returns:

The Company, through its agent White Cedar, has the ability to use its power to affect its returns.

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Accordingly, a business combination occurred in accordance with IFRS 3 – *Business Combinations* and as a result, the acquisition of control of GrowWise is accounted for by applying the acquisition method. As a result, the Company's existing equity interest must be re-measured to fair value as at the date of change in control, October 31, 2016, and such amount assigned to the fair value of the identifiable assets and liabilities of GrowWise now consolidated by the Company with any residual recognized as goodwill.

The fair value of the Company's equity interest in GrowWise before the business combination was determined to be nominal based on the significant deficit that GrowWise has accumulated to date and the current uncertainties associated with the future economic benefits that GrowWise may generate.

The Company also determined that the Option Agreement providing it with the right to acquire White Cedar's interest in GrowWise at a formula price and the expectation is that there will be no equity distributions to the owners of GrowWise prior to the Option Agreement becoming exercisable, means in substance that White Cedar no longer has a present equity ownership in GrowWise and instead the substantial majority of the benefits associated with that equity interest now accrue to the Company. Accordingly, White Cedar's interest in GrowWise from October 31, 2016 is accounted for as a liability rather than as non-controlling interest.

The business combination was accounted for using the purchase method and identified a net working capital deficiency of \$17,248, capital assets of \$46,166 and a liability to White Cedar of \$28,918 representing application of the formula price in the Option Agreement based on circumstances as at October 31, 2016. The purchase price consideration was nil and no intangible assets or goodwill were identified as part of the purchase price equation.

The results of the operations of GrowWise, as well as its assets and liabilities, are now included in the consolidated financial statements of the Company effective October 31, 2016 at 100%.

From the date of acquisition, 100% of GrowWise revenues of \$39,208 and net loss of \$196,506 have been included in the consolidated statements of operations and comprehensive loss.

As at October 31, 2016, the balance owed by GrowWise to the Company under the facility of \$1,027,592 was determined to be impaired in full, which resulted in an impairment charge of \$527,592 from the period January 1, 2016 to October 31, 2016. Funding of \$375,116 in 2015 and \$124,884 in 2016 up to October 31, 2016 was applied to the provision recorded in 2014.

The following unaudited pro forma results of operations assume GrowWise was acquired by the Company on January 1, 2016:

Revenue	\$353,428
Net loss	(\$17,468,616)

The liability to White Cedar was re-measured to \$42,301 at December 31, 2016 based on circumstances as at that date. The liability is included in Due to Related Parties in the consolidated statement of financial position. The change in the liability of \$13,383 is included in other expenses in the consolidated statement of operations and comprehensive loss.

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*Summarized financial information of GrowWise as an investment in associate*

Summarized statement of financial position of GrowWise [prior to acquisition of control] as at October 31, 2016 and December 31, 2015 is as follows.

	2016 \$	2015 \$
<b>Assets</b>		
Current assets	62,238	28,901
Property, plant and equipment	54,050	35,654
	<b>116,288</b>	<b>64,555</b>
<b>Liabilities</b>		
Trade and other payables	58,452	62,297
Due to related parties	1,048,861	385,469
	<b>1,107,313</b>	<b>447,766</b>
<b>Shareholders' deficiency</b>		
Common shares	200	200
Deficit	(991,225)	(383,411)
	<b>(991,025)</b>	<b>(383,211)</b>
	<b>116,288</b>	<b>64,555</b>

The summarized statement of operations and comprehensive loss for deficiency in associate under equity method of accounting, for the period from January 1, 2016 to October 31, 2016 and for the year ended December 31, 2015 is as follows:

	2016 \$	2015 \$
Revenue	76,521	13,081
Cost of sales	150,278	2,398
Gross (loss) profit	<b>(73,757)</b>	<b>10,683</b>
Expenses		
General and administrative	168,668	233,741
Sales and marketing	336,989	148,478
Depreciation	14,278	6,562
Interest expense	13,870	5,313
	<b>533,805</b>	<b>394,094</b>
Net loss and comprehensive loss	<b>(607,562)</b>	<b>(383,411)</b>
Ownership interest in GrowWise	50%	50%
Share of loss from investment in associate	<b>(303,781)</b>	<b>(191,706)</b>

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The Company's share of GrowWise's losses have not been recognized due to the investment in GrowWise balance being nil as a consequence of the previous impairment recorded and the expensing of the funding provided to GrowWise.

*Summarized financial information of GrowWise as a subsidiary*

Summarized statement of financial position of GrowWise included in the Company's consolidated statement of financial position as at December 31, 2016 is as follows.

	2016 \$
<b>Assets</b>	
Current assets	93,063
Property, plant and equipment	80,702
	<u>173,765</u>
<b>Liabilities</b>	
Trade and other payables	89,164
Due to related parties	1,271,879
	<u>1,361,043</u>
<b>Shareholders' deficiency</b>	
Common shares	200
Deficit	(1,187,478)
	<u>(1,187,278)</u>
	<u>173,765</u>

The summarized statement of operations and comprehensive loss included in the Company's consolidated statement of operations and comprehensive income for the period from October 31, 2016 to December 31, 2016 is as follows:

	2016 \$
Revenue	39,208
Cost of sales	40,384
Gross loss	<u>(1,176)</u>
Expenses	
General and administrative	63,038
Sales and marketing	118,354
Depreciation	8,213
Interest expense	5,725
	<u>195,330</u>
Net loss and comprehensive loss	<u>(196,506)</u>

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#### **9. Class A preferred shares financial liability**

KindCann completed private placements in 2014 and 2015 for 701,886 and 349,760 units ["Pref Share Units"] respectively. Each Pref Share Unit includes 20 Class A preferred shares, warrants to acquire 10 common shares and a royalty interest related to the Company's interest in GrowWise. The components of the Pref Share Units were initially recognized based on their fair values. Due to the nominal fair value ascribed to the royalty interests from GrowWise, the proceeds from the private placement were attributed to the Class A preferred shares financial liability and the common share purchase warrants. The Class A preferred shares are non-voting and rank in priority to the common shares and to any other class of shares with respect to the payment of dividends.

At issuance, it was determined that the Class A preferred shares did not meet the IFRS definition of equity due to the variability of the conversion rate ratio from 1 Class A preferred share to 1 common share or 1 Class A preferred share to 1.25 common shares if KindCann fails to go public by a specified date, mandatory dividends for two years, and certain redemption provisions in the event that KindCann does not pay dividends when due, a cultivation license is not obtained by a specified date, KindCann's producer's license application is rejected by Health Canada or withdrawn, and certain other events of default. Accordingly, the fair value of the Class A preferred shares is treated as a financial liability measured at fair value through profit or loss. The fair values of the Class A preferred shares financial liability and common share warrants are classified as Level 3 in the fair value hierarchy.

In connection with the 2015 private placement, gross proceeds of \$3,497,600 were received on the issuance of 349,760 Pref Share Units of which \$3,147,840 and \$349,760 were allocated to the Class A preferred shares liability and common share warrants, respectively. In addition, KindCann incurred issuance costs of \$282,709, which were allocated between the Class A preferred shares liability [\$254,438] and the common share warrants [\$28,271] based on their relative fair value. Issuance costs attributable to the Class A preferred shares liability were expensed and the issuance costs attributable to the common share warrants were netted within share capital.

The holders of Class A preferred shares were entitled to cumulative dividends in the amount of \$0.05 per share per annum, payable semi-annually. In 2015, KindCann passed a motion, which was approved by a majority of preferred shareholders, to allow the Board of Directors, at its discretion, to allow these dividends on the Class A preferred shares to be paid in cash or by issuing common shares, with the number of common shares to be determined based on the market price of such shares. As at December 31, 2015, KindCann recognized an expense of \$819,445 in dividends which were settled by way of issuance of 1,638,900 common shares. In 2015, a holder of 2,000,000 Class A preferred shares dissented to certain resolutions of KindCann and is seeking to have the company to repurchase the shares for \$1,000,000. The provision related to a dissenting shareholder is subject to an ongoing process which will ultimately determine the settlement amount; the outcome may be materially different than the provision recorded [see note 14].

On May 5, 2016, KindCann agreed to repurchase 2,000,000 Class A preferred shares from another shareholder for \$1,000,000 and recognized a loss of \$100,000 on redemption presented as other expenses in the consolidated statement of operations and comprehensive loss.

On August 18, 2016, all outstanding Class A preferred shares were converted into common shares of KindCann. In connection with this conversion, the holders of the Class A preferred shares also surrendered their rights for

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any dividend that was accrued and unpaid as at the date of conversion. As noted above, the Class A preferred shares did not meet the IFRS definition of equity and were classified as a financial liability accounted for at fair value with changes in fair value recognized through profit or loss. The fair value of the Class A preferred shares liability was based on the fair value of the common shares to which the preferred shares were convertible into. This required estimates of the inherent value of KindCann, considering value indicators including recent rounds of financing and market comparable valuation metrics, plus accumulated and unpaid dividends. As at August 18, 2016 [date of conversion], it was determined that the fair value of the underlying common shares have increased in fair value resulting in an increase in Class A preferred shares liability of \$4,087,803 to \$11,748,650 with the corresponding balance being recognized as loss from changes in fair value of financial instruments through the consolidated statements of operations and comprehensive loss. Subsequent to the determination of fair value, the amount of \$11,748,650 was transferred from the Class A preferred shares liability to common shares. The Class A preferred shares were converted into common shares on a 1 to 1 ratio basis resulting in the issuance of 17,032,520 common shares.

**10. Broker warrants**

In connection with the issuance of Pref Share Units [note 9], KindCann also issued broker warrants.

At issuance, each broker warrant entitled the holder to purchase one Pref Share Unit at a purchase price of \$10 per Pref Share Unit with a term of two years following the go-public date of December 6, 2016. The fair value of the broker warrants was determined to be nominal at the time of issuance and as at each consolidated statement of financial position until September 30, 2016 based on the terms associated with the underlying agreement which precludes the holders of the broker warrants from exercising them until such a time KindCann becomes a public company.

On August 18, 2016, as a result of certain amendments to the KindCann's articles of incorporation, the features of these warrants were amended such that the holders of the warrants are entitled to 20 common shares and one-half warrant to acquire 10 common shares. As a result of this amendment, the broker warrants no longer met the definition of a derivative liability; effective August 18, 2016, the broker warrants are classified as equity. Immediately prior to the reclassification of these broker warrants from liability to equity, the Company was required to calculate the fair value of the broker warrants taking into consideration the Company obtaining its distribution license and initiation of a go-public transaction. The fair value of broker warrants was determined to be \$337,500. This amount has been recognized as a loss from changes in fair value of financial instruments in the consolidated statements of operations and comprehensive loss immediately prior to reclassification of the warrants to equity.

On the date of Transaction, these warrants were converted on a twenty-for-one stock basis. These replacement broker warrants provide the holder of the warrant the right to acquire 787,300 common shares for \$0.50 for each common share and warrants to acquire 393,650 common shares for \$0.75 for each common share for a total number of common shares of 1,180,950.

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**11. Long-term debt**

	2016	2015
	\$	\$
During the year ended December 31, 2015, KindCann entered into a mortgage in the amount of \$550,000 to finance the purchase of an industrial facility and surrounding land [note 7]. The mortgage was secured by a first charge on the property. Interest-only payments at a rate of 5% per annum, compounding semi-monthly, were due monthly and the mortgage was repayable in full on April 30, 2019. Interest charges of nil [2015 – \$36,265] relating to this mortgage have been capitalized as part of property, plant and equipment [note 7] in accordance with IAS 23 – <i>Borrowing Costs</i> . During the year ended December 31, 2016, the mortgage was repaid in full.	—	550,000
During the year ended December 31, 2015, KindCann entered into a mortgage in the amount of \$3,500,000 to finance the Phase II build out of the Company's facility. The mortgage was secured by a second charge on the property and a general security agreement with a fixed charge over all assets of KindCann, and a share pledge agreement with respect to all shares of KindCann and KindCann Realty. Interest-only payments at a rate of 15% per annum were due monthly. The mortgage was repaid in full on November 30, 2016.	—	3,500,000
During the year ended December 31, 2016, the Company entered into a promissory note in the amount of \$5,500,000. The note is secured by first charge on the property and a general security agreement with a fixed charge over all assets of the Company and a share pledge of all ECC and GrowWise shares. Interest-only payments at a rate of 8% per annum are due monthly. The promissory note is repayable in full on December 12, 2019. The Company has an option to repay in full on December 12, 2018.	5,500,000	—
	<b>5,500,000</b>	4,050,000
Long-term debt is presented net of transaction costs. Transaction costs are recognized in results of operations over the term of the long-term debt using the effective interest rate method.	<b>(165,387)</b>	(242,123)
	<b>5,334,613</b>	3,807,877

Interest in the amount of \$238,583 [2015 – \$591,336], including prepaid interest of nil [2015 – \$393,750], was paid in the year.

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#### **12. Share capital**

##### **[a] Authorized**

An unlimited number of common shares are available for issue.

##### **[b] Issued and outstanding**

In 2015, KindCann issued a stock dividend to Class A preferred shareholders for 1,638,900 common shares in lieu of cash settlement of related to the Class A preferred share dividend [note 9].

On June 23, 2016, KindCann completed a private placement for 5,825,600 units at a price of \$0.50 per unit for gross proceeds of \$2,912,800. Each unit includes one common share and one half warrant. Each whole warrant is detachable, transferable, and exercisable to acquire one common share of KindCann at an exercise price of \$0.75 per share for a term of five years from issuance. Issuance costs on the private placement were \$98,906 paid in cash.

Between September 9 and September 19, 2016, KindCann completed a private placement for 6,740,164 units at a price of \$0.75 per unit for gross proceeds of \$5,055,123. Each unit includes one common share and one-half common share purchase warrant. Each whole warrant is detachable, transferable, and exercisable to acquire one common share at an exercise price of price of \$1.20 per common share for a period of two years from issuance. Share issuance costs of \$117,199 were paid in cash and 127,038 broker units, with each unit consisting of one common share and one-half warrant. Fair value of broker units was determined to be \$95,278. Each whole warrant is detachable, transferable, and exercisable to acquire one common share at a purchase price of \$1.20 per common share for a term of two years from issuance.

Prior to completion of the Transaction in December 2016, the Company completed a brokered private placement by issuing 18,781,985 subscription receipts at a price of \$1.15 for gross proceeds of \$21,599,283. On closing of the Transaction, each subscription receipt was exchanged, without payment of any additional consideration, for one unit ["Unit"] of the Company, comprising one post-consolidation common share and one-half of one warrant [each whole warrant, a "Warrant"]. Each Warrant is exercisable to purchase one post-consolidation common share at an exercise price of \$1.75 per share for a period of 36 months.

Concurrent with completion of the Transaction in December 2016, the Company completed a brokered financing pursuant to a TSXV short form offering document by issuing 1,739,130 Units for gross proceeds of \$2,000,000.

Transaction costs for the December 2016 financings were \$226,300 in cash and 1,408,411 broker units, with each unit consisting of one common share and one-half warrant. As at December 31, 2016, 1,199,374 broker units were issued with a total fair value of \$1,379,272 and 209,037 broker units were issued subsequent to year end. As at December 31, 2016, the company recognized a liability of \$240,392 for the obligation to issue 209,037 broker units. Each whole warrant is detachable, transferable, and exercisable to acquire one common share at a purchase price of \$1.75 per common share for a term of three years from issuance.

On December 6, 2016, the Company issued 1,500,000 shares at a value of \$1,530,000 as compensation for the finder's fee with respect to the Transaction [note 3].

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On December 12, 2016 and December 13, 2016, the Company completed two private placements for 684,789 units at a price of \$1.15 per unit for gross proceeds of \$787,507. Each unit includes one common share and one-half common share purchase warrant. Each whole warrant is detachable, transferable, and exercisable to acquire one common share at a purchase price of \$1.75 per common share for a period of three years from issuance.

During the year ended December 31, 2016, 30,000 stock options were exercised for gross proceeds of \$12,000. Non-cash charges of \$18,620 were reclassified from stock options to share capital on the exercise of these options.

**[c] Warrants**

As at December 31, 2016 and 2015, the Company has the following common share purchase warrants outstanding with the corresponding average exercise prices and expiry dates:

	Number of common shares issuable on exercise #	Weighted average exercise price \$	Expiry date
<b>Balance as at January 1, 2015</b>	7,018,660	0.75	December 6, 2021
Issued pursuant to private placement <i>[note 9]</i>	3,497,580	0.75	December 6, 2021
<b>Balance as at December 31, 2015</b>	10,516,240	0.75	
Issued pursuant to private placement <i>[note 12[b]]</i>	2,912,800	0.75	June 23, 2021
Reclassification of broker warrants <i>[note 10]</i>	787,300	0.50	December 6, 2018
Reclassification of broker warrants <i>[note 10]</i>	393,650	0.75	December 6, 2018
Issued pursuant to private placement <i>[note 12[b]]</i>	3,370,082	1.20	September 2018
Compensation unit warrants <i>[note 12[b]]</i>	63,519	1.20	September 2018
Issued pursuant to private placement <i>[note 1 and 12[b]]</i>	10,860,245	1.75	December 6, 2019
Issued pursuant to private placement <i>[note 12[b]]</i>	342,394	1.75	December 12, 2019
<b>Balance as at December 31, 2016</b>	<b>29,246,230</b>	<b>1.19</b>	

Pursuant to the private placement of the Class A preference share units completed in 2015, KindCann issued 174,879 warrants. Each whole warrant is detachable, transferable, and exercisable to acquire 20 common shares at an exercise price of \$0.75 per warrant share and expires December 6, 2021. The fair value of these warrants was estimated at \$0.10 per warrant using the Black-Scholes option pricing model with a market price per common share of \$0.45, a risk-free interest rate of 1.01%, an expected annualized volatility of 60% and expected dividend yield of 0%.

Pursuant to the private placement of common shares completed on June 23, 2016, KindCann issued 2,912,800 warrants. Each whole warrant is detachable, transferable, and exercisable to acquire 20 common shares at an exercise price of price of \$0.75 per common share and expires June 23, 2021. The fair value of these warrants was estimated at \$0.10 per warrant using the Black-Scholes option pricing model with a market price per

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common share of \$0.45, a risk-free interest rate of 1.01%, an expected annualized volatility of 60% and expected dividend yield of 0%.

Pursuant to the private placement of common shares completed in September 2016, KindCann issued 3,370,082 warrants. An additional 63,519 warrants were issued as part of the share issuance cost. Each whole warrant is detachable, transferable, and exercisable to acquire one common share at an exercise price of price of \$1.20 per warrant share and expires in September 2016. The fair value of these warrants was estimated at \$0.12 per share using the Black-Scholes option pricing model with a market price per common share of \$0.69, a risk-free interest rate of 1.01%, an expected annualized volatility of 60% and expected dividend yield of 0%.

On December 6, 2016, all warrants granted by KindCann were cancelled and exchanged for warrants of the Company. All previous warrants that were exercisable for 20 common shares were exchanged for 20 warrants each exercisable for one common share.

Pursuant to the private placements of common shares completed in connection with the Transaction, the Company issued 10,260,558 common share purchase warrants. An additional 599,687 broker warrants [see note 12[b]] were issued as compensation to brokers and classified as a share issuance cost. Each warrant is detachable, transferable, and exercisable to acquire one common share at a price of \$1.75 and expires December 6, 2019. The fair value of these warrants was estimated at \$0.26 per share using the Black-Scholes option pricing model with a market price per common share of \$1.02, a risk-free interest rate of 0.67%, an expected annualized volatility of 60% and expected dividend yield of 0%.

Pursuant to the private placements of common shares completed on December 12, 2016 and December 13, 2016, the Company issued 342,394 common share purchase warrants. Each warrant is detachable, transferable, and exercisable to acquire one common share at a price of \$1.75 and expires three years from date of issuance. The fair value of these warrants was estimated at \$0.26 per share using the Black-Scholes option pricing model with a market price per common share of \$1.02, a risk-free interest rate of 0.67%, an expected annualized volatility of 60% and expected dividend yield of 0%.

#### **[d] Stock options**

The Company has a stock option plan for employees that is administered by the Board of Directors of the Company. The maximum number of common shares reserved for issuance for options that may be granted under the Plan is 10% of the total common shares outstanding.

On September 16, 2015, 300,000 options were granted to employees, exercisable in increments with one-third being exercisable on each of the first, second and third anniversaries from the grant date. Also, 300,000 options were granted to non-employees. The options were all issued with an exercise price of \$0.50 and an expiry date five years from date of issuance.

On December 16, 2015, 2,340,000 options were granted to employees, exercisable in increments with one-third being exercisable on each of the first, second and third anniversaries from the grant date. Also, 100,000 options were granted to non-employees. The options were all issued with an exercise price of \$0.50 and an expiry date five years from date of issuance.

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On July 31, 2016, 1,830,000 options were granted to employees, exercisable in increments with one-third being exercisable on each of the first, second and third anniversaries from the grant date. The options were all issued with an exercise price of \$0.50 and an expiry date five years from date of issuance.

On December 6, 2016, 60,000 outstanding share purchase options held by pre-Transaction Emblem executives, consultants and two charities were cancelled and replaced with post-Transaction share purchase options. The replacement stock options were issued immediately upon completion of the Transaction.

On December 6, 2016, all stock options granted by KindCann were cancelled and exchanged for stock options of the Company.

In the year ended December 31, 2016, 30,000 options granted to non-employees were exercised, while 66,667 options granted to employees were forfeited.

The following is a summary of the outstanding stock options as at December 31, 2016.

**Employees**

Number outstanding as at December 31, 2016	Options outstanding		Options exercisable	
	Weighted average remaining contractual life [years]	Exercise price	Number exercisable as at December 31, 2016	Exercise price
233,333	3.71	0.50	99,999	0.50
2,340,000	3.96	0.50	913,333	0.50
1,830,000	4.58	0.50	-	0.50
4,403,333	4.21		1,013,332	

**Non-employees**

Number outstanding as at December 31, 2016	Options outstanding		Options exercisable	
	Weighted average remaining contractual life [years]	Exercise price	Number exercisable as at December 31, 2016	Exercise price
300,000	3.71	0.50	166,666	0.50
100,000	3.96	0.50	-	0.50
30,000	0.18	0.40	30,000	0.40
430,000	3.52		196,666	

The Company recorded \$398,630 in share-based compensation expense for the year ended December 31, 2016 related to employee stock options, which are measured at fair value at the grant date and expensed over the options vesting period.

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In determining the amount of share-based compensation to employees, the Company used the Black-Scholes option pricing model to establish the fair value of options granted by applying the following:

Grant date share price	\$0.45
Risk-free interest rate	0.85%
Weighted average expected life of options	5 years
Expected annualized volatility	60%
Expected dividend yield	—
Weighted average Black-Scholes value of each option	\$0.22

Volatility was estimated by using other companies that the Company considers comparable over similar periods to the expected life of the options. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options.

The Company recorded \$31,915 in share-based compensation expense for the year ended December 31, 2016 related to non-employee options. The amount of share-based compensation to non-employees is measured over the service period at the fair value of the services received.

The Company recorded \$37,240 in reverse acquisition transaction costs for the year ended December 31, 2016 related to the 60,000 stock options issued immediately upon completion of the Transaction.

In determining the amount of reverse acquisition transaction costs, the Company used the Black-Scholes option pricing model to establish the fair value of options granted by applying the following:

Grant date share price	\$0.40
Risk-free interest rate	0.49%
Weighted average expected life of options	0.25 years
Expected annualized volatility	60%
Expected dividend yield	—
Weighted average Black-Scholes value of each option	\$0.62

Volatility was estimated by using other companies that the Company considers comparable over similar periods to the expected life of the options. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options.

**[e] Special shares**

Upon completion of the Transaction, 14,065,285 KindCann common shares held by the three founding shareholders were exchanged for 14,065,285 Special Shares of the Company. The Special Shares are non-voting and are not entitled to receive dividends. The 14,065,285 Special Shares can be exchanged for

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14,065,285 common shares ["Exchange Right"]. The holders of the Special Shares can require Emblem to exchange each Special Share to one common share of the Company upon occurrence of the following events:

- [i] one-third of the Special Shares registered to each holder if the Company achieves gross sales of \$5,000,000;
- [ii] one-third of the Special Shares registered to each holder if the Company completes construction of additional grow rooms in its production facility comprising the four rooms with the result that after commissioning of such grow rooms the annualized production capacity of the entire building, will be reasonably expected to allow for capacity of an aggregate of 1,500 kilograms of marihuana; and
- [iii] one-third of the Special Shares registered to each holder if GrowWise opens a total of eight education centres, including those hosted within existing clinics or standalone education centres and including those open as of August 23, 2016.

Irrespective of whether the events occur, the Exchange Right will be exercisable on June 6, 2018, 18 months after the Transaction.

**13. Income taxes****Tax rate reconciliation**

The provision for income taxes differs from that which would be expected by applying the combined Canadian federal and provincial statutory income tax rate to loss before income taxes. A reconciliation of the difference is as follows:

	2016 \$	2015 \$
Net loss before income taxes	<b>(17,388,646)</b>	(3,429,227)
Combined federal and provincial income tax rate	<b>26.50%</b>	26.50%
	<b>(4,607,991)</b>	(908,745)
Increase in tax expense resulting from		
Permanent differences	<b>2,499,489</b>	242,379
Deferred tax asset not recognized	<b>2,108,502</b>	666,366
<b>Income tax expense</b>	<b>—</b>	<b>—</b>

**Deferred tax assets and tax losses**

Deferred tax assets have not been recognized in respect of tax losses because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

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As at December 31, 2016, the Company's estimated non-capital losses that can be applied against future taxable profit amount to \$12,300,000. These non-capital losses expire in the years ended:

December 31, 2034	\$600,000
December 31, 2035	\$3,700,000
December 31, 2036	\$8,000,000

**14. Commitments and contingencies**

As of December 31, 2016, the Company had the following contractual maturities of undiscounted cash flows:

Contractual obligations	Carrying amount \$	Contractual cash flows			Total \$
		Less than 1 year \$	2 – 3 years \$	After 3 years \$	
Trade and other payables	2,295,673	2,295,673	—	—	2,295,673
Due to related parties	59,690	59,690	—	—	59,690
Long-term debt	5,334,613	440,000	6,357,096	—	6,797,096
Equipment purchase contracts	—	1,358,419	—	—	1,358,419
Corporate office rental contract	—	106,883	217,986	99,910	424,779
Service contract	—	37,860	75,720	50,480	164,060
	<u>7,689,976</u>	<u>4,298,525</u>	<u>6,650,802</u>	<u>150,390</u>	<u>11,099,717</u>

**Contingencies**

Certain of the Company's executives have been named in a claim that also identifies the Company in relation to certain services provided by an individual. It is the Company's determination that the claim of \$10 million is primarily against the founders of the Company and not the Company itself. The claim for damages against the Company, specifically, is not pleaded with sufficient particularity to allow an accurate assessment of the quantum of damages being sought against the Company. The likely measure of damages sought will either be the market value of the services the plaintiff provided to the Company or the degree to which the Company was enriched by those services. The Company is of the view that the amount of the claim bears no relationship to the value of the services provided. The outcome of this legal matter is subject to negotiations by the officers of the Company and the Company believes it is unlikely to be impacted and accordingly, no amount has been provided for.

On May 27, 2015, a preferred shareholder filed a dissent action after the Board of Directors of Emblem resolved to amend the share conditions of the Company's Class A preferred shares to provide the Board of Directors with the discretion to pay the annual dividend by the issuance of Emblem common shares. The matter is subject to an ongoing process, which will ultimately determine the settlement amount; the outcome may be materially different than the \$600,000 provision recorded.

In the ordinary course of business, from time to time, the Company may be involved in various claims related to its commercial and/or corporate activities. Although such matters cannot be predicted with certainty,

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management does not consider the Company's exposure to these claims to be material to these consolidated financial statements.

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

	<b>Dissenting shareholder [i]</b>	<b>GrowWise</b>	<b>Total</b>
	\$	\$	\$
<b>Balance, January 1, 2015</b>	—	500,000	500,000
Funding provided to GrowWise	—	(375,116)	(375,116)
Provision for dissenting preferred shareholder	600,000	—	600,000
<b>Balance, December 31, 2015</b>	600,000	124,884	724,884
Funding provided to GrowWise [note 8]	—	(124,884)	(124,884)
<b>Balance, December 31, 2016</b>	600,000	—	600,000

- [i] The provision for settlement of 2,000,000 of the Company's Class A preferred shares in the amount of \$600,000 related to a dissenting shareholder is subject to estimate and judgment. The matter is subject to an ongoing process, which will ultimately determine the settlement amount. The outcome may be materially different than the provision recorded.

**15. Related party transactions****Transactions and balances with related parties**

Prior to the acquisition of GrowWise, all transactions with GrowWise were related party transactions. Details of these transactions are discussed in note 8.

Due to related parties of \$17,289 represents the amount payable to White Cedar by GrowWise for services provided by White Cedar to GrowWise. In addition, due to related parties includes \$42,301 representing a liability to White Cedar related to its interest in GrowWise which is discussed in note 8.

**Management compensation**

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly including the Chief Executive Officer, Chief Financial Officer and equivalent, and Directors.

Compensation expense for the Company's key management personnel for the year ended December 31, 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>
	\$	\$
Salaries and benefits	<b>878,384</b>	563,500
Share-based compensation	<b>262,019</b>	11,585
	<b>1,140,403</b>	575,085

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**16. Loss per ordinary share**

Weighted average number of ordinary shares includes common shares and special shares.

The diluted loss per ordinary share equals basic loss per ordinary share due to the anti-dilutive effect of common share purchase warrants and stock options. The outstanding number and type of securities that could potentially dilute basic net loss per share in the future but that were not included in the computation of diluted net loss per ordinary share because to do so would have reduced the loss per ordinary share [anti-dilutive] for the year presented consist of the following:

	<b>Outstanding</b>	<b>Number of common shares issuable on exercise</b>
	<b>#</b>	<b>#</b>
Common share purchase warrants	29,246,230	29,246,230
Stock options	4,833,333	4,833,333
	<b>34,079,563</b>	<b>34,079,563</b>

**17. Capital management**

Emblem is an early-stage company and is dependent on raising further capital, primarily equity, to fund its capital expenditures and its operating expenses in excess of revenue until such time as it reaches cash break even. As at December 31, 2016, Emblem had raised, net of issuance costs, \$52,361,919 of equity by the issuance of common shares, special shares and warrants. Emblem may raise additional equity in 2017 by way of private placements although there can be no assurance that the Company will be successful in doing so. Emblem completed certain additional financings subsequent to year-end [note 22].

In addition to utilizing equity to finance its expansion and operations, Emblem had a total of \$5,334,613 of long-term debt as at December 31, 2016. This capital was used to finance its purchase of its production and office facilities in Paris, Ontario. Emblem, when appropriate, will continue to use debt to finance its real assets.

**18. Financial instruments and risk management****[a] Interest rate risk**

The Company's exposure to interest rate risk relates to surplus cash and cash equivalents and long-term debt. The Company generally invests surplus cash in a savings account or in highly liquid investments with short terms to maturity that would accumulate interest at prevailing rates for such investments. Interest rate risk on the long-term debt is fixed for the term of the debt.

**[b] Credit risk**

Credit risk is the risk that the Company's counterparties will fail to meet their financial obligations to the Company, causing a financial loss. The Company's principal financial assets are cash and cash equivalents and

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trade and other receivables. The carrying amounts of financial assets on the consolidated statement of financial position represent the Company's maximum credit exposure at that date. The cash and cash equivalents balance of \$26,202,542 is held by a major Canadian bank.

**[c] Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing, on an ongoing basis, its financial requirements for operations and capital expenditures. As at December 31, 2016, the Company had \$26,202,542 in cash and cash equivalents and working capital of \$24,793,885.

**[d] Fair values**

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables, due to related parties and provisions approximate their fair values due to their short-term in nature. The carrying value of the long-term debt approximates its fair value due to interest charged at the market rate.

**Fair value hierarchy**

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

Level 1: valuation based on quoted prices [unadjusted] in active markets for identical assets or liabilities;

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The fair value of the Class A preferred shares liability has been measured using the estimated enterprise value of the Company relative to the number of common and preferred shares plus accumulated unpaid dividends. As the key inputs to this valuation approach are not based on observable market data, the financial liability is classified as a Level 3 instrument.

Broker warrant entitled the holder to purchase one Unit [note 10] at a purchase price of \$10 per Unit with a term of two years following a go-public transaction. The fair value of the broker warrants was determined to be nominal at the time of issue based on the terms associated with the underlying agreement which precluded the holders of the broker warrants from exercising them until such a time the Company becomes a public company. As the key inputs to this valuation approach are not based on observable market data and takes into consideration the probability and timing of the Company becoming a public company, the financial liability was

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classified as a Level 3 instrument prior to the amendments to KindCann's articles of incorporation filed on August 16, 2016, at which time the broker warrants were classified as equity.

**19. Segmented information**

The Company operates in one segment, the production and sale of medical cannabis. All of the Company's assets are located in Canada.

**20. Subsequent events**

On January 4, 2017, the Company issued 300,000 common shares to a non-employee in exchange for a note receivable in the amount of \$345,000. The note receivable and the shares will be presented within shareholders' equity (deficiency) as the only collateral for the note consists of the Company's shares issued. The common shares are held in escrow and are released ratably over a three-year period as services are received.

On January 31, 2017, the Company closed an underwritten private placement [the "Offering"] of 4,385,668 special warrants of the Company [the "Special Warrants"] at a price of \$3.63 per Special Warrant for gross proceeds of \$15,919,975.

On March 17, 2017, the Company obtained a receipt for a short form prospectus that qualified for distribution the Units underlying the Special Warrants and, as a result of which, each Special Warrant was automatically exercised for one Unit. Each Unit was comprised of one common share of the Company [the "Common Shares"] and one-half of one common share purchase warrant [each whole warrant, a "Warrant"]. Each Warrant entitles the holder to purchase one Common Share at an exercise price of \$4.75 for a period of 36 months from January 31, 2017. The expiry date of the Warrants may be accelerated upon notice from the Company if the volume weighted average trading price of the Common Shares is equal to or greater than \$7.00 over a period of 10 consecutive trading days.

Net of a 7% commission equal to \$1,114,398 and filing, legal, and other fees \$342,483, the Company received net proceeds of \$14,463,093 from the Offering.

On March 13, 2017, the Company granted 1,165,000 incentive stock options [the "March Options"] to independent directors, non-executive employees and consultants of the Company. The March Options are exercisable at a price of \$2.58 per share for a period of five years and are subject to vesting as to one-third of the number of March Options granted on each of March 31, 2018, 2019 and 2020.

On April 17, 2017, the Company granted 280,000 incentive stock options [the "April Options"] to a consultant performing investor relations activities and employees of the Company. The April Options are exercisable at a price of \$2.60 per share for a period of five years and are subject to vesting as to one-third of the number of April Options granted on each of April 30, 2018, 2019 and 2020.