

WINSTON RESOURCES INC.

Financial Statements

For the Years Ended July 31, 2018 and 2017

(EXPRESSED IN CANADIAN DOLLARS)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Winston Resources Inc.

We have audited the accompanying financial statements of Winston Resources Inc., which comprise the statement of financial position as at July 31, 2018 and 2017, and the statements income (loss) and comprehensive income (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 Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of Winston Resources Inc. as at July 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which describes certain conditions that indicate the existence of a material uncertainty that cast significant doubt about Winston Resources Inc.'s ability to continue as a going concern.

A handwritten signature in black ink, appearing to read 'DMCL'.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
November 29, 2018

Winston Resources Inc.

Statements of Financial Position (Expressed in Canadian Dollars)

As at	July 31, 2018	July 31, 2017
ASSETS		
Current assets		
Cash	\$ 869,693	\$ 1,445,761
Prepaid expenses (note 6)	-	72,500
Loan receivable (note 9)	500	371,408
GST recoverable	61,508	33,377
Total current assets	931,701	1,923,046
Non-current asset		
Investment (notes 9 and 11)	-	125,000
Total non-current asset	-	125,000
Total assets	\$ 931,701	\$ 2,048,046
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	\$ 153,927	\$ 84,330
Total current liabilities	153,927	84,330
Shareholders' equity		
Share capital (note 10)	11,626,320	11,626,320
Reserves (note 10)	2,331,049	2,331,049
Deficit	(13,179,595)	(11,993,653)
Total shareholders' equity	777,774	1,963,716
Total liabilities and shareholders' equity	\$ 931,701	\$ 2,048,046

Nature of operations (note 1)
Going concern (note 2)
Assignment agreement (note 11)

Approved on behalf of the Board of Directors:

"Quinn Field-Dyde" (signed)
Quinn Field-Dyde, Director

"Suzette Ramcharan" (signed)
Suzette Ramcharan, Director

The notes to the consolidated financial statements are an integral part of these statements.

Winston Resources Inc.

Statements of Income (Loss) and Comprehensive Income (Loss)

For the Years Ended July 31, 2018 and 2017

(Expressed in Canadian Dollars)

	2018	2017
Operating expenses		
Advertising and promotion	\$ -	\$ 383,487
Bank service expenses	357	872
Consulting expenses (note 8)	420,111	437,670
Filing and listing fees	27,674	24,434
Interest expense	578	-
Office and rent expenses	89,480	59,481
Management fees (note 8)	-	4,000
Professional fees (note 8)	63,476	57,857
Shareholder information	2,115	4,547
Transfer agent fees (note 8)	17,548	46,799
Travel expenses	17,392	34,471
	(638,731)	(1,053,618)
Other income (expenses)		
Loss on forgiveness of loan (note 8)	-	21,691
Foreign exchange loss	(426)	-
Write-off of exploration and evaluation assets	-	(9,000)
Gain on assignment interest (note 11)	9,953,215	-
Change in fair value of marketable securities (note 11)	(7,500,000)	-
	2,452,789	12,691
Net income (loss) for the year	\$ 1,814,058	\$ (1,040,927)
Comprehensive income (loss) for the year	\$ 1,814,058	\$ (1,040,927)
Basic earnings (loss) per share (note 10)	\$ 0.07	\$ (0.08)
Diluted earnings (loss) per share (note 10)	\$ 0.05	\$ (0.08)
Weighted average number of common shares outstanding	25,133,840	12,564,526
Weighted average number of diluted common shares outstanding	33,909,350	12,564,526

The notes to the consolidated financial statements are an integral part of these statements.

Winston Resources Inc.**Statements of Cash Flows****For the Years Ended July 31, 2018 and 2017****(Expressed in Canadian Dollars)**

	2018	2017
Operating activities		
Net income (loss) for the year	\$ 1,814,058	\$ (1,040,927)
Items not involving cash:		
Change in fair value of marketable securities	7,500,000	-
Loss on forgiveness of loan	-	(21,691)
Gain on assignment agreement	(9,953,215)	-
Write-off of exploration and evaluation assets	-	9,000
Net changes in non-cash working capital:		
GST recoverable	(28,131)	(28,211)
Prepaid expenses	72,500	(72,500)
Accounts payable and accrued liabilities	69,597	56,730
Due from/to related parties	-	(94,404)
Net cash used in operating activities	(525,191)	(1,192,003)
Investing activities		
Investment	-	(125,000)
Loan receivable	(50,877)	(371,408)
Net cash used in investing activities	(50,877)	(496,408)
Financing activities		
Proceeds for warrants exercise	-	7,500
Proceeds from issuance of shares	-	3,126,588
Net cash provided by financing activities	-	3,134,088
Net change in cash	(576,068)	1,445,677
Cash, beginning of year	1,445,761	84
Cash, end of year	\$ 869,693	\$ 1,445,761

The notes to the consolidated financial statements are an integral part of these statements.

Winston Resources Inc.

Statements of Changes in Shareholders' Equity For the Years Ended July 31, 2018 and 2017 (Expressed in Canadian Dollars)

	Common Share Capital	Preferred Share Capital	Subscription Receivable	Reserves			Accumulated Deficit	Total	
				Options	Warrants	Contributed Surplus			Total Reserves
	\$	\$	\$	\$	\$	\$	\$	\$	
Balance, July 31, 2016	9,603,437	671,844	-	11,306	37,000	499,694	548,000	(10,952,726)	(129,445)
Issuance of shares (note 10)	1,776,433	-	(30,000)	-	1,723,567	-	1,723,567	-	3,470,000
Share issuance costs (note 10)	(402,894)	-	-	-	59,482	-	59,482	-	(343,412)
Exercise of warrants (note 10)	7,500	-	-	-	-	-	-	-	7,500
Cancellation of options (note 10)	-	-	-	(11,306)	-	11,306	-	-	-
Net loss for the year	-	-	-	-	-	-	-	(1,040,927)	(1,040,927)
Balance, July 31, 2017	10,984,476	671,844	(30,000)	-	1,820,049	511,000	2,331,049	(11,993,653)	1,963,716
Share dividend paid (note 11)	-	-	-	-	-	-	-	(3,000,000)	(3,000,000)
Net income for the year	-	-	-	-	-	-	-	1,814,058	1,814,058
Balance, July 31, 2018	10,984,476	671,844	(30,000)	-	1,820,049	511,000	2,331,049	(13,179,595)	777,774

The notes to the consolidated financial statements are an integral part of these statements.

Winston Resources Inc.

Notes to Financial Statements

For the Years Ended July 31, 2018 and 2017

(Expressed in Canadian Dollars)

1. Nature of Operations

Winston Resources Inc. (“Winston” or the “Company”) is incorporated under the laws of the province of British Columbia. Winston was an exploration stage company engaged in the acquisition and exploration of mineral resource properties in Canada. Prior to January 29, 2016, the Company also invested in four other companies operating in the Canadian resource sector as well as a United States based company providing management services to Canadian based mineral exploration companies. On January 29, 2016, the Company distributed to its shareholders all its interest in CNRP Mining Inc. (“CNRP”), Zara Resources Inc. (“Zara”), Leo Resources Inc. (“Leo”) and Hadley Mining Inc. (“Hadley”) and no longer has any interest in these companies. As of July 31, 2017, the Company is changing its business from natural resources to the cannabis sector.

Effective May 31, 2017, the Company entered into a definitive agreement (the “Share Exchange Agreement”) with GT Therapeutics Corporation (“GTT”), pursuant to which the Company will complete a reverse takeover and acquire from the shareholders of GTT, all of the issued and outstanding shares of GTT, causing GTT to become a wholly-owned subsidiary of Winston. On completion of the transaction, the business of GTT will become the business of Winston. Effective on January 10, 2018, the Company entered into an assignment and novation agreement (the “Assignment Agreement”) among the Company, certain shareholders of GTT and Abattis Bioceuticals Corp. (“Abattis”), a company listed on the Canadian Securities Exchange, pursuant to which, the Company assigned all of its rights and interest (the “Assignment”) with GTT. On January 29, 2018, the acquisition has been completed by the Company’s assignee, Abattis (note 11). On December 22, 2017, the Company entered into a non-binding Letter of Intent (“LOI”) with Abattis which outlines the general terms and conditions of a proposed transaction that will result in Abattis acquiring all of the issued and outstanding common shares of Winston at the time of closing in exchange for 25 million common shares of Abattis. As a result of the proposed transaction, Winston Resources shareholders will own approximately 10.2 per cent of Abattis’s issued and outstanding common shares. This transaction has not been completed as at the date of the audit report.

Winston is a reporting issuer in the jurisdictions of British Columbia, Alberta and Ontario whose common shares are listed for trading on the Canadian Securities Exchange (“CSE”) under the symbol “WRW”. The head office of the Company is located at 800 – 1199 West Hastings St., Vancouver, BC, V6E 3T5, Canada.

2. Going Concern Assumption

These financial statements have been prepared on the basis of accounting principles applicable to a going concern under International Financial Reporting Standards (“IFRS”). The use of these principles under IFRS assumes that the Company will continue in operation for the foreseeable future and will be able to realize assets and discharge its liabilities in the normal course of operations. The Company continues to incur operating losses, which casts significant doubt about the Company’s ability to continue as a going concern.

Management’s current strategy is to focus on the completion of the LOI with Abattis and, at the same time, to exercise careful cost control to sustain operations in the short term. Management recognizes the Company’s need to expand its cash reserves in the coming year if it intends to adhere to its sales and marketing plans and has evaluated its potential sources of funds. Although management intends to assess and act on these options throughout the course of the year, there can be no assurance that the steps management take will be successful.

In the event that cash flow from operations, together with the proceeds from any future financings are insufficient to cover planned expenditures, Management will allocate available resources in such manner as deemed to be in the Company’s best interest. This may result in a significant reduction in the scope of existing and planned operations.

As at July 31, 2018, the Company has not generated any revenues from operations had started and has a deficit of \$13,179,595 (2017 - \$11,993,653). The Company is actively seeking additional sources of financing. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern that these uncertainties are material and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Winston Resources Inc.

Notes to Financial Statements

For the Years Ended July 31, 2018 and 2017

(Expressed in Canadian Dollars)

2. Going Concern Assumption (continued)

Accordingly, these financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore to realize its assets and discharge its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. These adjustments could be material.

3. Statement of Compliance and Basis of Presentation

(a) Statement of compliance

These financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") as of November 29, 2018, the date the Company's Board of Directors approved these consolidated financial statements.

(b) Basis of presentation

These financial statements have been prepared on a going concern basis, under the historical cost convention, except for certain financial instruments which may be carried at fair value in subsequent periods, and have been prepared using the accrual basis of accounting, except for cash flow information.

4. Significant Accounting Policies

These financial statements have been prepared by management in accordance with IFRS and IFRIC. Outlined below are those policies considered particularly significant:

Use of estimates and judgments

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

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

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's consolidated financial statements include the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty, and the classification of financial instruments.

Foreign currency translation

The functional currency of an entity is measured using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Canadian dollars which is the Company's functional and presentation currency.

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

Winston Resources Inc.
Notes to Financial Statements
For the Years Ended July 31, 2018 and 2017
(Expressed in Canadian Dollars)

4. Significant Accounting Policies (continued)

Foreign currency translation (continued)

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

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

Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to share-based payment reserves. The fair value of options is determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Warrants

When the Company issues units that are comprised of a combination of shares and warrants, the value is assigned to shares and warrants based on their relative fair values. The fair value of the shares is determined by the closing price on the date of the transaction and the fair value of the warrants is determined based on a Black-Scholes Option Pricing Model.

Income (loss) per share

Basic income (loss) per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the year. For all periods presented, basic income (loss) per share equals the dilutive income (loss) per share. Diluted income (loss) per share is calculated by using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted income (loss) per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year.

Financial instruments

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

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Winston Resources Inc.

Notes to Financial Statements

For the Years Ended July 31, 2018 and 2017

(Expressed in Canadian Dollars)

4. Significant Accounting Policies (continued)

Financial instruments (continued)

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

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets.

Non-derivative financial liabilities (excluding financial guarantees) are initially measured at fair value and subsequently measured at amortized cost.

On the Company's statement of financial position, cash, loan receivable, and investments are classified as loans and receivables; and accounts payable is classified as non-derivative financial liabilities.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. The Company does not have any derivative financial assets and liabilities.

Impairment of assets

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive income (loss).

The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Winston Resources Inc.
Notes to Financial Statements
For the Years Ended July 31, 2018 and 2017
(Expressed in Canadian Dollars)

4. Significant Accounting Policies (continued)

Impairment of assets (continued)

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous periods.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Income taxes

Current income tax:

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

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

Deferred income tax:

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

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

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

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

Restoration and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

Winston Resources Inc.

Notes to Financial Statements

For the Years Ended July 31, 2018 and 2017

(Expressed in Canadian Dollars)

4. Significant Accounting Policies (continued)

Restoration and environmental obligations (continued)

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements. These changes are recorded directly to mining assets with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit or loss for the year. The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for resource property interest.

The Company has no restoration, rehabilitation and environmental obligations.

Future accounting policies

Financial Instruments

In November 2013, the IASB issued IFRS 9, *Financial Instruments*, (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39). IFRS 9 (2009) establishes the measurement and classification of financial assets. Financial assets are measured either at fair value through earnings or at amortized cost if certain conditions are met. IFRS 9 (2010) includes guidance on the classification and measurement of financial liabilities.

The most recent amendment, IFRS 9 (2013) includes a new general hedge accounting model, which will align hedge accounting more closely with risk management. Additionally, the new standard removes the January 1, 2015 effective date. The new mandatory effective date of this standard is January 1, 2018. The Company has determined that the adoption of IFRS 9 has no impact on its financial statements.

Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption. The Company has determined that the adoption of IFRS 15 has no impact on its financial statements.

Leases

IFRS 16 replaces IAS 17 "Leases" and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019. The Company has not yet assessed the future impact of this new standard on its financial statements.

Other recent accounting pronouncements that have no material impact to the Company are not included above.

Winston Resources Inc.

Notes to Financial Statements

For the Years Ended July 31, 2018 and 2017

(Expressed in Canadian Dollars)

5. Financial Risk Management and Capital Management

Financial risk management objectives and policies

The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management, with the Board of Directors oversight, manages financial risks. Where material, these risks will be reviewed and monitored by the Board of Directors. The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

Financial risks

The Company's main financial risk exposure and its financial risk management policies are as follows:

Credit risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The credit risk is limited to the carrying value amount carried on the consolidated statement of financial position. The Company's assets most susceptible to credit risk is its cash, which is held at a Canadian chartered bank in a non-interest bearing account and government GST recoverable, which is due from the Canadian government. As such, the risk of loss on these assets is minimal.

Market risk

Market risk is the risk of uncertainty arising primarily from possible commodity market price movements and their impact on the future economic viability of the Company's projects and ability of the Company to raise capital. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis and adjusting operating and exploration budgets accordingly.

Fair value risk

Fair value risk is the potential for fair value fluctuations in the value of a financial instrument. The level of market risk to which the Company is exposed varies depending on market conditions, and expectations of future price and yield movements. The Company believes the carrying amounts of its financial assets and financial liabilities are a reasonable approximation of fair value.

Interest rate risk

Interest rate risk is the potential for fair value changes of a financial instrument resulting from changes in interest rates. The Company is not exposed to interest rate risk.

Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity needs by carefully monitoring cash outflows due in day-to-day business. As at July 31, 2018, the Company had, at its disposal, \$869,693 in cash. The Company will require additional working capital to fund its operations. There is no guarantee that market conditions will be conducive to raising such additional equity capital.

Foreign currency risk

The Company is exposed to currency risks on its United States dollar denominated working capital balances due to changes in the US dollar/Canadian dollar exchange rate. As of July 31, 2018, the Company does not use derivative instruments to reduce its exposure to currency risk.

The carrying values of the Company's financial instruments carried at amortized cost approximate fair values due to their short duration.

Winston Resources Inc.

Notes to Financial Statements

For the Years Ended July 31, 2018 and 2017

(Expressed in Canadian Dollars)

5. Financial Risk Management and Capital Management (continued)

Financial risks (continued)

Foreign currency risk (continued)

Cash, loan receivable and investment are categorized as loans and receivables whereby they are initially recognized at fair value and then subsequently carried at amortized cost. Accounts payables are classified as other financial liabilities whereby they are initially recognized at fair value and then measured at amortized cost.

The carrying values, which approximate fair values of the Company's financial instruments are as follows:

		As at July 31, 2018		As at July 31, 2017
Financial Assets				
<i>Loans and receivables</i>				
Cash	\$	869,693	\$	1,445,761
Loan receivable	\$	500	\$	371,408
Investment	\$	-	\$	125,000
Financial Liabilities				
<i>Other financial liabilities</i>				
Accounts payable	\$	141,427	\$	40,623

Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition of new business interests to ensure it continues as a going concern. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company defines its capital as its shareholders' equity. As at July 31, 2018, the Company's capital resources amounted to \$777,774 (2017 - \$1,963,716).

The Company's capital management objectives, policies and processes have remained unchanged during the year ended July 31, 2018. The Company is not subject to any capital requirements imposed by a lending institution.

6. Prepaid Expenses

As at July 31, 2018, the Company had prepaid expenses of \$nil (2017 - \$72,500) consisting of prepaid rent.

7. Accounts Payable and Accrued Liabilities

		As at July 31, 2018		As at July 31, 2017
Accounts payable (note 8)	\$	141,427	\$	40,623
Accrued liabilities		12,500		43,707
	\$	153,927	\$	84,330

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8. Related Party Transactions and Disclosures

During the year ended July 31, 2018, the Company incurred and paid consulting fees of \$33,500 (2017 - \$nil) and management fees of \$nil (2017 - \$4,000) to the CEO of the Company.

During the year ended July 31, 2018, the Company incurred transfer agent fees of \$nil (2017 - \$29,824) to Reliable Stock Transfer Inc., ("Reliable") a company owned by a former officer and director of the Company for the provision of share transfer services.

The following transaction occurred between related parties during the years ended July 31, 2018 and 2017:

	2018	2017
Management fees paid to the current CEO and director	\$ -	\$ 4,000
Consulting fees paid to the current CEO and directors	53,263	-
Consulting fees paid to a former director	8,000	72,000
Consulting fees paid to a company controlled by a former director	15,227	-
Share issuance costs paid to a company controlled by a former director	-	100,000
Professional fees paid to a company controlled by a former director	-	18,742
	\$ 76,490	\$ 194,742

As at July 31, 2018, \$nil (2017 - \$1,000) was payable to the current CEO and director and is included in accounts payable (note 7).

During the year ended July 31, 2017, an amount of \$21,691 due to related party was forgiven.

9. Loan Receivable

As at July 31, 2018, the Company had a loan receivable of \$500 from related party and \$371,408 from GTT as at July 31, 2017. The loans have no set terms of repayment, is interest free, and is due on demand (notes 1 and 11). The loan receivable from GTT of \$421,785 was forgiven and included in gain on assignment interest (note 11).

10. Share Capital and Reserves

Share capital

The Company's authorized share capital consists of:

- an unlimited number of common shares without par value; and
- an unlimited number of preferred shares without special rights or restrictions attached. A total of 671,844 preferred shares with a value of \$671,844 are issued and outstanding as of July 31, 2018.

On January 31, 2017, the Company consolidated its issued and outstanding share capital on the basis of one post-consolidation share for each three pre-consolidation common shares. The shares began trading on a consolidated basis on February 1, 2017. All references to share capital have been retroactively restated to reflect the share consolidation.

On February 2, 2017, the Company closed a private placement of 10,000,000 units at a price of \$0.06 per unit. A total of \$600,000 was raised. Each unit consists of one common share and one share purchase warrant. Each warrant has an exercise price of \$0.06 per share, and is exercisable within two years after issuance. The fair value of warrants issued in connection with the private placement was estimated to be \$296,103.

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10. Share Capital and Reserves (continued)

Share capital (continued)

On March 22, 2017, the Company closed a private placement of 11,600,000 units at a price of \$0.25 per unit for total proceeds of \$2,900,000. Each unit consists of one common share and one share purchase warrant, exercisable within two years after issuance at an exercise price of \$0.50. In connection with the private placement, the Company incurred share issuance costs of \$402,894 including 245,440 finders' warrants valued at \$59,482. The finder's warrants have the same exercise price and terms as the warrants forming part of the units. The fair value of warrants issued in connection with the private placement was estimated to be \$1,427,464.

During the year ended July 31, 2017, the Company issued 50,000 common shares from exercise of warrants at \$0.15 per share for a gross proceeds of \$7,500.

	Number of Shares	Common Share Capital	Preferred Share Capital	Reserves	Total
Balance July 31, 2016	3,483,840	\$ 9,603,437	\$ 671,844	\$ 548,000	\$ 10,823,281
Private placement – February 2, 2017	10,000,000	303,897	-	296,103	600,000
Private placement – March 22, 2017	11,600,000	1,472,536	-	1,427,464	2,900,000
Subscription receivable	-	(30,000)	-	-	(30,000)
Exercise of warrants	50,000	7,500	-	-	7,500
Share issuance cost	-	(402,894)	-	59,482	(343,412)
Balance July 31, 2017 and 2018	25,133,840	\$ 10,984,476	\$ 671,844	\$ 2,331,049	\$ 13,957,369

Basic and diluted earnings (loss) per share

The calculation of basic earnings (loss) per share for the year ended July 31, 2018 was based on the income (loss) attributable to common shareholders of \$1,814,058 (2017 – (\$1,040,927)) and the weighted average number of common shares outstanding of 25,133,840 (2017 - 12,564,526).

Diluted income (loss) per share includes the 10,000,000 warrants issued on February 2, 2017 and is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all warrants issued on February 2, 2017. Diluted income (loss) per share did not include the effect of warrants issued on March 22, 2017 as they were anti-dilutive.

Stock options

The Company has a stock option plan in place under which the Board of Directors may grant options to acquire common shares of the Company to qualified directors, officers, employees and other service providers. The stock options vest according to the provisions of the individual option agreements approved by the directors' resolutions and have a maximum life of ten years. The plan allows for the issuance of up to 10% of the number of issued and outstanding common shares of the Company at any time on a non-diluted basis

There were no stock options outstanding as at July 31, 2018 and 2017.

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10. Share Capital and Reserves (continued)

Warrants

The issued and outstanding warrants balance at July 31, 2018 is comprised as follows:

	Number of warrants
Balance, July 31, 2016	1,159,447
Warrants issued on February 2, 2017	10,000,000
Warrants issued on March 22, 2017	11,845,440
Warrants exercised on April 25, 2017	(50,000)
Balance, July 31, 2017	22,954,887
Warrants expired	(1,109,447)
Balance, July 31, 2018	21,845,440

Issue date	Expiry date	Exercise price	Number of warrants
February 2, 2017	February 2, 2019	\$0.06	10,000,000
March 22, 2017	March 22, 2019	\$0.50	11,845,440
			21,845,440

During the year ended July 31, 2017, the fair value of the warrants issued was estimated using the Black - Scholes Option Pricing Model assuming a risk free rate of 0.74% to 0.77%, an expected life of 2 years, an expected volatility of 315.19% to 323.91%, and no expected dividends.

Contributed surplus

Contributed surplus includes the accumulated fair value of share-based compensation and warrants transferred from share-based payment reserve and warrant reserve upon cancellation or expiry of the stock options and warrants. A summary of the changes in the Company's contributed surplus is set out below:

	Option reserve (\$)	Warrant reserve (\$)	Contributed surplus (\$)
Balance, July 31, 2016	11,306	37,000	499,694
Expired/forfeited	(11,306)	-	11,306
Warrants granted	-	1,783,049	-
Balance, July 31, 2017 and 2018	-	1,820,049	511,000

11. Assignment Agreement

On May 31, 2017, the Company entered into a definitive agreement to acquire GTT through a reverse take-over. After the completion of this transaction, GTT will become the business of Winston. Pursuant to the agreement, the Company will issue an aggregate of 5,500,000 common shares to the existing shareholders of GTT, on a pro rata basis, at a price of \$0.45 per share for total consideration of \$2,475,000 plus \$125,000 in cash (paid). The Company was required to complete a concurrent private placement. In connection with the same, during the year ended July 31, 2017, the Company closed a non-brokered private placement of 11,600,000 units (note 10). Completion of the transaction is subject to a number of conditions, including but not limited to satisfactory due diligence and acceptance of the Canadian Securities Exchange. This transaction was not completed.

Effective on January 10, 2018, the Company entered into an assignment and novation agreement (the "Assignment Agreement") among the Company, certain shareholders of GTT and Abattis.

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11. Assignment Agreement (continued)

Pursuant to the terms of an assignment and novation agreement, the Company assigned to Abattis all of its rights and interest under a share exchange agreement dated effective May 31, 2017, between the Company and GTT, pursuant to which the Company was granted the right to acquire GTT. On January 29, 2018, the Company's assignee, Abattis, completed its acquisition of GTT. In consideration of the assignment and upon closing of the acquisition, the Company received 15,000,000 shares from Abattis and recorded a realized gain on assignment of agreement of \$9,953,215.

The table below summarizes the computation of realized gain on assignment interest:

	Amount
Consideration received	
15,000,000 common shares at \$0.70 per share	\$ 10,500,000
Less: Cash payment to GTT	125,000
Forgiveness of loan (note 9)	421,785
	546,785
	\$ 9,953,215

On June 7, 2018, the Company distributed the 15,000,000 shares of Abattis to its shareholders. The decrease in fair value of the Abattis shares from January 10, 2018 to June 7, 2018 amounted to \$7,500,000, which is recorded in profit and loss. The fair value of the Abattis shares on June 7, 2018 of \$3,000,000 was recorded as a dividend paid to shareholders.

12. Deferred Income Taxes

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate. A reconciliation of the combined Canadian federal and provincial income tax rates, as well as the United States federal and state income tax rates, with the Company's effective tax rate is as follows:

	2018	2017
Income (loss) before income taxes	\$ 1,814,058	\$ (1,040,927)
Combined statutory rate	27%	26%
	489,796	(270,641)
Gain on assignment interest	(2,687,368)	-
Change in fair value of marketable securities	2,025,000	-
Taxable capital gain on assignment interest	331,184	-
Share issuance costs	-	(53,261)
Other	1,397	678
Effect of change in tax rate	(34,955)	-
Benefit of tax losses not recognized	(125,054)	323,224
	\$ -	\$ -

As at July 31, 2018, the Company has Canadian non-capital losses of approximately \$1,782,000 (2017 - \$2,335,000) available for deduction against future Canadian taxable income, the balances of which will expire as follows:

2033	\$ 67,000
2034	198,000
2035	377,000
2036	70,000
2037	1,070,000
	\$ 1,782,000

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12. Deferred Income Taxes (continued)

The tax effects of temporary differences that give rise to significant portions of future tax assets are as follows:

	2018	2017
Benefit of non-capital losses	\$ 482,000	\$ 607,000
Mineral property exploration	269,000	259,000
Share issue costs	33,000	43,000
Less: Valuation allowance (100% impairment deferred tax asset)	(784,000)	(909,000)
	\$ -	\$ -

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