Liberty Leaf Holdings Ltd.
(formerly Weststar Resources Corp.)

Consolidated Financial Statements

December 31, 2016 and 2015

(Expressed in Canadian Dollars)

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INDEX **Page**

Smythe CPA

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF LIBERTY LEAF HOLDINGS LTD.
(formerly Weststar Resources Corp.)

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

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

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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Liberty Leaf Holdings Ltd. 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.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 27, 2017

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Liberty Leaf Holdings Ltd.
(formerly Weststar Resources Corp.)
Consolidated Statements of Financial Position
December 31, 2016 and 2015
(Expressed in Canadian Dollars)

	2016	2015
Assets		
Current		
Cash	$ 654,340	$ 168,451
Receivables (note 6)	47,685	21,120
Prepaid expenses	26,965	4,888
	728,990	194,459
Property and Equipment (note 7)	954	1,542
Advances to North Road Ventures Ltd. (note 8)	-	107,500
Exploration and Evaluation Assets (note 9)	-	1
	$ 729,944	$ 303,502
Liabilities		
Current		
Accounts payable and accrued liabilities (note 10)	$ 76,500	$ 104,210
	76,500	104,210
Shareholders' Equity		
Share Capital (note 11)	16,590,106	14,649,516
Reserves (note 11)	4,907,677	4,318,849
Deficit	(20,844,339)	(18,769,073)
	653,444	199,292
	$ 729,944	$ 303,502

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

Approved on behalf of the Board:

"Keith Anderson" ……………………………… Director
Keith Anderson

"William Rascan" ……………………………… Director
William Rascan

Liberty Leaf Holdings Ltd.

(formerly Weststar Resources Corp.)
Consolidated Statements of Comprehensive Loss
Years Ended December 31, 2016 and 2015
(Expressed in Canadian Dollars)

	2016	2015
Expenses		
Accounting, legal and audit (note 10)	$ 39,758	$ 26,145
Amortization (note 7)	588	641
Consulting fees	399,160	482,164
Management fees (note 10)	133,500	126,000
Office and general	26,206	9,443
Rent	71,750	7,500
Share-based payments (note 11)	482,814	1,410
Shareholder communications and investor relations (note 10)	40,792	24,303
Transfer agent and filing fees	42,254	26,943
	1,236,822	704,549
License application development costs (note 8)	724,735	-
Forgiveness of advances to North Road Ventures Ltd. (note 8)	107,500	-
Loss on settlement of debt (note 11)	53,526	-
Gain on accounts payable write-off	(26,318)	-
Gain on sale of exploration and evaluation asset (note 9)	(20,999)	-
Realized gain on available-for-sale investments (note 12)	-	(19,095)
Loss Before Income Taxes	2,075,266	685,454
Income Taxes		
Deferred income tax expense (note 15)	-	3,700
Net Loss for the Year	2,075,266	689,154
Items that may be reclassified subsequently to profit or loss		
Unrealized loss on available-for-sale investments (note 12)	-	27,050
Comprehensive Loss for the Year	$ 2,075,266	$ 716,204
Basic and Diluted Loss Per Share	$ 0.04	$ 0.02
Weighted Average Number of Common Shares Outstanding – Basic and Diluted	55,185,855	35,637,869

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

Liberty Leaf Holdings Ltd.
(formerly Weststar Resources Corp.)
Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2016 and 2015
(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Reserves	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
Balance, December 31, 2014	**30,916,990**	**$ 14,278,181**	**$ 3,901,439**	**$ 27,050**	**$ (18,079,919)**	**$ 126,751**
Private placement	16,640,000	832,000	-	-	-	832,000
Residual value of warrants issued	-	(416,000)	416,000	-	-	-
Share issue costs	-	(44,665)	-	-	-	(44,665)
Share options granted	-	-	1,410	-	-	1,410
Net loss the year	-	-	-	(27,050)	(689,154)	(716,204)
Balance, December 31, 2015	**47,556,990**	**14,649,516**	**4,318,849**	**-**	**(18,769,073)**	**199,292**
Private placements	9,060,228	558,816	-	-	-	558,816
Share issue costs	-	(17,413)	-	-	-	(17,413)
Cancellation of shares	(4)	-	-	-	-	-
Residual value of warrants issued	-	(192,453)	192,453	-	-	-
Shares issued for license application	13,200,000	726,000	-	-	-	726,000
Shares issued for debt settlement	357,391	53,609	41,017	-	-	94,626
Shares issued on the exercise of warrants	8,671,000	650,325	-	-	-	650,325
Fair value of warrants exercised	-	107,250	(107,250)	-	-	-
Shares issued on the exercise of share options	445,000	34,250	-	-	-	34,250
Fair value of share options exercised	-	20,206	(20,206)	-	-	-
Share options granted	-	-	482,814	-	-	482,814
Net loss for the year	-	-	-	-	(2,075,266)	(2,075,266)
Balance, December 31, 2016	**79,290,605**	**$ 16,590,106**	**$ 4,907,677**	**$ -**	**$ (20,844,339)**	**$ 653,444**

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

Liberty Leaf Holdings Ltd.
(formerly Weststar Resources Corp.)
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015
(Expressed in Canadian Dollars)

	2016	2015
Operating Activities		
Net loss for the year	$ (2,075,266)	$ (689,154)
Items not involving cash		
Amortization	588	641
Share-based payments	482,814	1,410
Forgiveness of advances to North Road Ventures Ltd.	107,500	-
Loss on settlement of debt	53,526	-
Gain on accounts payable write-off	(26,318)	
Gain on sale of exploration and evaluation asset	(20,999)	-
License application and development costs	724,735	-
Realized gain on available-for-sale investments	-	(19,095)
Deferred income tax expense	-	3,700
Changes in non-cash working capital		
Receivables	(26,565)	(2,960)
Prepaid expenses	(22,077)	42,362
Accounts payable and accrued liabilities	34,688	(43,531)
Cash Used in Operating Activities	(767,374)	(706,627)
Investing Activities		
Proceeds on sale of exploration and evaluation asset	21,000	-
Cash acquired on asset acquisition	6,285	-
Proceeds from disposal of investments	-	49,095
Advances to North Road Ventures Ltd.	-	(107,500)
Purchase of equipment	-	(856)
Cash Provided by (Used in) Investing Activities	27,285	(59,261)
Financing Activity		
Shares issued for cash, net of issue costs	1,225,978	844,335
Cash Provided by Financing Activity	1,225,978	844,335
Inflow of Cash	485,889	78,447
Cash, Beginning of Year	168,451	90,004
Cash, End of Year	$ 654,340	$ 168,451

Supplemental Disclosure with Respect to Cash Flows (note 13)

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

1. NATURE OF OPERATIONS

Liberty Leaf Holdings Ltd. (the "Company") is a Vancouver, British Columbia, based company incorporated under the name Weststar Resources Corp. on October 27, 2004 in the province of British Columbia. During the year ended December 31, 2006, the Company completed its initial public offering on the TSX Venture Exchange ("TSX-V") and the Company's shares were listed for trading on September 22, 2006. On February 10, 2015, the Company de-listed from the TSX-V and began trading on the Canadian Securities Exchange (the "Exchange") under the symbol "WER".

The Company was a mineral exploration company until October 21, 2016, when the Company changed its name, completed a transition to become a licensed producer of medical marijuana as regulated by the Access to Cannabis for Medical Purposes Regulations ("ACMPR"), and began trading under the symbol "LIB". On October 19, 2016, the Company acquired 100% of the issued and outstanding shares of North Road Ventures Ltd. ("North Road") (note 8).

The principal address of the Company is located at 1240 – 789 West Pender Street, Vancouver, British Columbia, Canada, V6C 1H2.

2. GOING CONCERN

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Several adverse conditions cast significant doubt on the validity of this assumption. The Company incurred an operating loss during the year ended December 31, 2016 of $2,075,266 (2015 - $689,154) and has a deficit of $20,844,339 (2015 - $18,769,073), has limited resources, no sources of operating cash flow and no assurances that sufficient funding will be available to continue operations for an extended period of time. The Company has not yet commenced revenue-producing operations.

The application of the going concern concept is dependent upon the Company's ability to satisfy its liabilities as they become due and to obtain the necessary financing to complete the application process for an ACMPR license or enter into agreements with other cannabis-related businesses. Management is actively engaged in the review and due diligence on opportunities of merit in the cannabis sector and is seeking to raise the necessary capital to meet its funding requirements. There can be no assurance that management's plan will be successful. If the going concern assumption were not appropriate for these consolidated financial statements then adjustments may be necessary in the carrying value of assets and liabilities, the reported expenses and the statements of financial position classifications used. Such adjustments could be material.

3. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis, except for financial instruments classified as available-for-sale ("AFS") and fair value through profit or loss ("FVTPL"). These consolidated financial statements have been prepared under the accrual basis of accounting, except for cash flow information.

3. BASIS OF PRESENTATION (Continued)

c) Principles of consolidation

The consolidated financial statements of the Company consolidate the accounts of the Company and its wholly owned subsidiary, North Road, a British Columbia, Canada company (acquired on October 19, 2016). All intercompany transactions, balances and unrealized gains and losses are eliminated on consolidation.

d) Approval of the consolidated financial statements

The consolidated financial statements of the Company for the year ended December 31, 2016 were approved and authorized for issue by the Board of Directors on April 27, 2017.

e) Use of estimates and judgments

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods.

The key areas of judgment applied in the preparation of the consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities is as follows:

- Acquisitions

  Management has had to apply judgment relating to its acquisition of the 100% interest in another entity during the year with respect to whether the acquisition was a business combination or an asset acquisition. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of the acquisition in order to reach a conclusion.

- Going Concern

  The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenses, meet its liabilities for the ensuing year, and to fund planned and contractual exploration programs, involves significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

- Treatment of license costs

  License costs are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 *Intangible Assets* are met. Those criteria require that the product is technically and economically feasible, which management assesses based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible. The Company has not capitalized any license costs as at December 31, 2016.

3. BASIS OF PRESENTATION (Continued)

e) Use of estimates and judgments (Continued)

The key estimates applied in the preparation of the consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- The inputs used in assessing the recoverability of deferred tax assets;
- Assumptions used as inputs to calculate share-based payments; and
- Fair value of equity issuances for non-cash consideration.

Actual results could differ from those estimates. Key judgments and estimates made by management with respect to those areas noted previously have been disclosed in the notes to the consolidated financial statements, as appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies have been applied consistently throughout the year to the Company for purposes of these consolidated financial statements.

a) Foreign currency translation

The Company's presentation currency and the functional currency of the Company and its subsidiary is the Canadian dollar, as this is the principal currency of the economic environment in which it operates.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of each reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions and are not subsequently restated.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined.

All gains and losses on translation of these foreign currency transactions are included in profit or loss.

b) Property and equipment

i) Recognition and measurement

On initial recognition, property and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property and equipment are subsequently measured at cost less accumulated amortization, less any accumulated impairment losses.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Property and equipment (continued)

ii) Subsequent costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

iii) Amortization

The amortization rates applicable to each category of property and equipment are as follows:

Class of equipment	**Amortization rate**
Computer equipment	55% declining-balance
Office equipment	20% declining-balance

c) Exploration and evaluation assets

i) Exploration and evaluation expenditures

Exploration and evaluation activities involve the search for minerals, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation costs incurred prior to obtaining licenses are expensed in the period in which they are incurred. Once a license to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized to exploration and classified as a component of mineral properties. Such expenditures include, but are not limited to, exploration license expenditures, leasehold property acquisition costs, evaluation costs, including drilling costs directly attributable to a property, and directly attributable to general and administrative costs.

From time to time the Company may acquire or dispose of a mineral property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets are tested for impairment and transferred to "mines under construction". No amortization is taken during the exploration and evaluation phase.

ii) Decommissioning liabilities

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by exploration, evaluation, development or ongoing production.

Decommissioning and site rehabilitation costs arising from the installation of plant and other site preparation work, discounted to their net present value, are provided when the obligation to incur such costs arises and are capitalized into the cost of the related asset. These costs are charged against operations through depreciation of the asset and unwinding of the discount on the provision.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Exploration and evaluation assets (continued)

ii) Decommissioning liabilities (continued)

Depreciation is included in operating costs while the unwinding of the discount is included as a financing cost. Changes in the measurement of a liability relating to the decommissioning or site rehabilitation of plant and other site preparation work are added to, or deducted from, the cost of the related asset.

The costs for the restoration of site damage, which arises during production, are provided at their net present values and charged against operations as extraction progresses.

Changes in the measurement of a liability, which arises during production, are charged against operating profit. The discount rate used to measure the net present value of the obligations is the pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. To date the Company does not have any decommissioning liabilities.

d) Intangible assets

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and has the ability to use or sell the asset.

e) Impairment of long-lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its noncurrent assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs 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 current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Share capital

Proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company upon exercise. Share capital issued for non-monetary consideration is valued at the closing market price at the date of issuance. The proceeds from the issuance of units are allocated between common shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to share capital based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the warrants reserve. The related reserve value is transferred to share capital.

g) Financial instruments

i) Financial assets

The Company classifies its financial assets in the following categories: FVTPL, held-to-maturity investments ("HTM"), loans and receivables, and AFS. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of assets at recognition.

- Financial assets at fair value through profit or loss
  Financial assets at FVTPL are initially recognized at fair value with changes in fair value recorded through profit or loss.

- Held-to-maturity investments
  HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs.

- Loans and receivables
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost, less any impairment.

- Available-for-sale financial assets
  AFS financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of AFS financial assets are recognized as other comprehensive income and classified as a component of equity.

  When financial assets classified as AFS are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in profit or loss. Management assesses the carrying value of AFS financial assets at least annually and any impairment charges are recognized in profit or loss.

- Effective interest method
  The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

  Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial instruments (continued)

ii) Financial liabilities

The Company classifies its financial liabilities in the following categories: borrowings and other financial liabilities and derivative financial liabilities.

- Borrowings and other financial liabilities
  Borrowings and other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method. Borrowings and other financial liabilities are classified as current or non-current based on their maturity date.

- Derivative financial liabilities
  Derivative financial liabilities are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value at each reporting period with changes in the fair value recognized in profit or loss. Derivative financial liabilities include warrants issued by the Company denominated in a currency other than the Company's functional currency.

iii) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1:	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2:	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3:	Inputs for assets or liabilities that are not based on observable market data.

h) Share-based payment transactions

The Company grants share options to acquire common shares of the Company to directors, officers, employees and consultants. The fair value of share-based payments to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period for employees using the graded vesting method. Fair value of share-based payments for non-employees is recognized and measured at the date the goods or services are received based on the fair value of the goods or services received. If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based payment is measured at the fair value of the equity instruments issued using the Black-Scholes option pricing model.

For both employees and non-employees, the fair value of share-based payments is recognized as either an expense or as mineral property interests with a corresponding increase in option reserves. The amount recognized as expense is adjusted to reflect the number of share options expected to vest. Consideration received on the exercise of stock options is recorded in share capital and the related share-based payment in option reserves is transferred to share capital.

For those options and warrants that expire or are forfeited after vesting, the recorded value remains in the reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Income taxes

Income tax expense consisting of current and deferred tax expense is recognized in the statement of comprehensive loss. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the year that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

j) Earnings (loss) per share

The Company presents basic earnings (loss) per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of shares outstanding during the year. The Company uses the treasury stock method for calculating diluted earnings (loss) per share. Under this method the dilutive effect on earnings per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

k) New and revised accounting standards issued but not yet effective

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been early-adopted by the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on the new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued, but are not expected to have an impact on the Company's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) New and revised accounting standard issued but not yet effective (continued)

IFRS 16 Leases

Issued by IASB January 2016, effective for annual periods beginning January 1, 2019

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 9 Financial Instruments

Issued by the IASB July 2014, effective for annual periods beginning January 1, 2018.

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- Classification and measurement of financial assets:
  Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: “amortized cost”, “fair value through other comprehensive income”, or “fair value through profit or loss” (default). Equity instruments are classified and measured as “fair value through profit or loss” unless upon initial recognition elected to be classified as “fair value through other comprehensive income”.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) New and revised accounting standard issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

- Classification and measurement of financial liabilities:
  When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- Impairment of financial assets:
  An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- Hedge accounting:
  Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

IFRS 15 Revenue from Contracts with Customers

Issued by IASB April 12, 2014, effective for annual periods beginning January 1, 2018.

This new standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue — Barter Transactions Involving Advertising Services*.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- Revenue is recognized based on a five-step model:

1. Identify the contract with customer;
2. Identify the performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations; and,
5. Recognize revenue when (or as) the performance obligations are satisfied.

- New disclosure requirements on information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

5. FINANCIAL INSTRUMENTS

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The Company classifies its financial instruments as follows: cash is classified as financial asset at FVTPL; advances as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities, which are measured at amortized cost. The carrying value of these instruments approximates their fair values due to their short term to maturity.

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company manages credit risk, in respect of cash, by placing cash with major Canadian financial institutions. The Company has minimal credit risk.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The contractual financial liabilities of the Company as of December 31, 2016 equal $76,500 (2015 - $104,210). All of the liabilities presented as accounts payable are due within 90 days of December 31, 2016.

c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return on capital.

As at December 31, 2016, the Company is not exposed to significant market risk.

6. RECEIVABLES

Receivables at December 31, 2016 consists of GST recoverable of $47,685 (2015 - $21,120).

(Expressed in Canadian Dollars)

7. PROPERTY AND EQUIPMENT

	Computer Equipment	Office Equipment	Total
Cost			
Balance, December 31, 2014	$ 2,724	$ 2,032	$ 4,756
Addition	856	-	856
Balance, December 31, 2015 and 2016	$ 3,580	$ 2,032	$ 5,612
Accumulated Amortization			
Balance, December 31, 2014	$ 2,324	$ 1,105	$ 3,429
Amortization	456	185	641
Balance, December 31, 2015	2,780	1,290	4,070
Amortization	440	148	588
Balance, December 31, 2016	$ 3,220	$ 1,438	$ 4,658
Net Book Value, December 31, 2015	$ 800	$ 742	$ 1,542
Net Book Value, December 31, 2016	$ 360	$ 594	$ 954

8. ACQUISITION OF NORTH ROAD VENTURES LTD.

On July 21, 2015, the Company signed a letter of intent to purchase shares of North Road, a private British Columbia company, representing up to a 50% interest in North Road.

During the year ended December 31, 2015, the Company advanced $107,500 to North Road in order to further its ACMPR license application. The amount advanced was without interest. If North Road submitted a ACMPR license application by June 30, 2016, based on the ACMPR rules in place when the letter of intent with North Road was signed on July 21, 2015, the amount advanced would be forgiven. If the ACMPR license application was not submitted by June 30, 2016, then the amount advanced would be repaid to the Company by July 20, 2016.

The ACMPR application was submitted by North Road and the Company forgave repayment of the advance.

On April 28, 2016, as amended July 4, 2016 and September 9, 2016, the Company entered into an agreement to purchase all of the shares of North Road. As consideration for the purchase, the Company issued 12,000,000 common shares to the shareholders of North Road upon approval of the transaction by the Exchange. The common shares were valued at $660,000 based on the market price of the shares at the date of issuance. In relation to this transaction, the Company paid a finder's fee of 1,200,000 common shares, which were valued at $66,000.

(Expressed in Canadian Dollars)

8. ACQUISITION OF NORTH ROAD VENTURES LTD. (Continued)

Under the terms of the agreement, as the ACMPR license application progresses the Company will pay to the shareholders of North Road compensation for meeting certain milestones described in cash or the equivalent dollar value of common shares of the Company as follows: $150,000 upon North Road completing the "Security Clearance" phase; $350,000 upon North Road completing the "Pre-license Inspection" phase; and $1,000,000 upon North Road receiving an approved ACMPR license.

The closing of the definitive agreement constituted a change of business for the Company and was approved by the Exchange on October 19, 2016.

The acquisition of North Road did not meet the definition of a business in accordance with IFRS 3 *Business Combinations* and has been accounted for as an asset acquisition. The following is a summary of the acquisition:

Fair value of share consideration (12,000,000,000 shares at $0.055)	**$**	660,000
Fair value of finder's fee (1,200,000 shares at $0.055)		66,000
		726,000
Less: net assets acquired:		
Cash		6,285
Accounts payable		(5,020)
		1,265
	$	724,735

North Road's ACMPR license in progress did not meet the requirements to be recorded as an intangible asset. Accordingly, the Company accounted for the transaction as an issuance of shares for an in-progress ACMPR license application, which was expensed on acquisition.

9. EXPLORATION AND EVALUATION ASSETS

		Axe Property
Balance, December 31, 2014 and 2015	**$**	**1**
Sale of exploration and evaluation asset		(1)
Balance, December 31, 2016	**$**	**-**

Axe Property

Pursuant to an option agreement dated July 19, 2005, the Company acquired a 70% interest (originally 66%, but amended by mutual consent) in the Axe claims situated in the Similkameen Mining District, British Columbia. As consideration for the property, the Company paid $5,000, issued 150,000 common shares at a fair value of $243,500 and incurred exploration costs of $500,000.

9. EXPLORATION AND EVALUATION ASSETS (Continued)

Pursuant to an agreement dated March 23, 2007, the Company acquired four additional claims. As consideration for the claims, the Company paid $15,000. The claims are subject to a 2% net smelter royalty ("NSR"), and under the terms of the agreement the Company has the right to purchase the NSR in stages for up to $3,000,000.

On August 23, 2013, the Company and Bearclaw Capital Corp. ("Bearclaw"), the holder of the remaining 30% participating interest in the Axe property, entered into a Letter of Intent ("LOI") to enter into an option agreement with Copper Mountain Mining Corp. ("Copper Mountain"). The option agreement was completed with an effective date of February 12, 2014. Under the terms of the option agreement, the Company and Bearclaw agreed to grant Copper Mountain an option to earn a 75% undivided interest in and to the Axe Property.

Copper Mountain could earn a 51% interest in the Axe Property by incurring $3,000,000 of expenditures in exploration activities on the Axe Property during a five-year period, with a minimum of $100,000 per year. Copper Mountain was to pay to the Company and Bearclaw an aggregate of $555,000 over a period of five years (collectively, in proportion to their participating interests in the Axe Property, which are 70% for the Company and 30% for Bearclaw).

Copper Mountain was in default of certain payments and was determined to be in default of the agreement. The Company does not plan to further develop the Axe Property without a joint venture partner. Accordingly, the property was deemed to be impaired at December 31, 2014 and written down to $1, determined in accordance with Level 3 of the fair value hierarchy.

On December 9, 2016, the Company sold its 70% interest in the Axe Property for $21,000 and recorded a gain on sale of exploration and evaluation assets of $20,999.

Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and the expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

Title to exploration and evaluation interests

Although the Company has taken steps to verify the title to mineral property interests in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

(Expressed in Canadian Dollars)

10. RELATED PARTY TRANSACTIONS

These amounts of key management compensation are included in the amounts shown on the consolidated statements of comprehensive loss for the years ended December 31, 2016 and 2015:

		2016		2015
Accounting fees	$	6,500	$	6,500
Management fees	$	133,500	$	126,000
Shareholder communications	$	15,500	$	6,000

The amounts charged to the Company for the services provided have been determined by negotiation among the parties, and in certain cases, by signed agreements. These transactions were in the normal course of operations (note 17).

As at December 31, 2016, accounts payable and accrued liabilities included $28,522 (2015 - $24,132) due to officers and directors or companies controlled by directors and officers and former directors and officers, and an officer and director for services included above. The amounts due are non-interest-bearing, unsecured and without stated terms of repayment.

11. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

During the year ended December 31, 2016

On April 4, 2016, the Company closed a non-brokered private placement and issued 3,770,000 units at a price of $0.05 per unit for gross proceeds of $188,500. Each unit consists of one common share in the capital of the Company and one share purchase warrant. Each warrant is exercisable by the holder to acquire one additional common share of the Company for a period of two years from issuance at an exercise price of $0.075. The Company allocated $75,400 of the proceeds to the common shares and $113,100 to the warrants based on the residual value method.

On October 19, 2016, the Company closed a non-brokered private placement and issued 5,290,228 units at a price of $0.07 per unit for gross proceeds of $370,316. Each unit consists of one common share in the capital of the Company and one share purchase warrant. Each warrant is exercisable by the holder to acquire one additional common share of the Company for a period of two years from issuance at an exercise price of $0.10. In the event that the closing price of the Company's common shares is at or above $0.20 per share for ten consecutive days, the Company may provide notice to the warrant holders that the expiry date of the warrants has been accelerated and that warrants not exercised within 30 days will expire. The Company allocated $290,963 of the proceeds to the common shares and $79,353 to the warrants based on the residual value method. The Company paid finder's fees of $17,413 in relation to the private placement.

11. SHARE CAPITAL (Continued)

Issued share capital (continued)

On October 19, 2016, the Company issued 12,000,000 common shares (valued at $660,000) as part of the acquisition of North Road (note 8). The Company also issued 1,200,000 common shares (valued at $66,000) as a finder's fee on the acquisition.

On October 27, 2016, the Company issued 357,391 units (valued at $94,626) in order to settle accounts payable of $41,100, resulting in a loss on settlement of debt of $53,526. Each unit consists of one common share in the capital of the Company and one share purchase warrant. Each warrant is exercisable by the holder to acquire one additional common share of the Company for a period of two years from issuance at an exercise price of $0.15.

During the year ended December 31, 2016, the Company issued 8,671,000 common shares of the Company for gross proceeds of $650,325 on the exercise of 8,671,000 share purchase warrants. The Company transferred $107,250 from reserves to share capital in conjunction with the exercises. The Company also issued 445,000 common shares of the Company for gross proceeds of $34,250 on the exercise of 445,000 stock options. The Company transferred $20,206 from reserves to share capital in conjunction with the exercises.

During the year ended December 31, 2015

On July 22, 2015, the Company closed a non-brokered private placement and issued 6,460,000 units at a price of $0.05 per unit for gross proceeds of $323,000. Each unit consists of one common share in the capital of the Company and one share purchase warrant. Each warrant is exercisable by the holder to acquire one additional common share of the Company for a period of two years from issuance at an exercise price of $0.075. The Company allocated $161,500 of the proceeds to the common shares and $161,500 of the proceeds to the warrants based on the residual value method. The Company paid finder's fees of $12,100 and other share issue costs of $992.

On October 26, 2015, the Company closed a non-brokered private placement and issued 10,180,000 units at a price of $0.05 per unit for gross proceeds of $509,000. Each unit consists of one common share in the capital of the Company and one share purchase warrant. Each warrant is exercisable by the holder to acquire one additional common share of the Company for a period of two years from issuance at an exercise price of $0.075. The Company allocated $254,500 of the proceeds to the common shares and $254,500 of the proceeds to the warrants based on the residual value method. The Company paid finder's fees of $30,800 and other share issue costs of $773.

Share subscriptions receivable of $57,000 outstanding at December 31, 2014 were collected.

Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (Continued)

Warrants (continued)

	December 31, 2016		**December 31, 2015**	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	27,720,000	$ 0.08	12,135,250	$ 0.09
Issued	9,417,619	0.09	16,640,000	0.08
Exercised	(8,671,000)	0.08	-	-
Expired	-	-	(1,055,250)	0.20
Outstanding, end of year	28,466,619	$ 0.08	27,720,000	$ 0.08

The following warrants are outstanding and exercisable:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	**December 31, 2016**	**December 31, 2015**
December 16, 2016	-	$ 0.075	-	2,940,000
July 22, 2017	0.56	$ 0.075	5,620,000	6,460,000
October 26, 2017	0.82	$ 0.075	7,030,000	10,180,000
April 4, 2018	1.26	$ 0.075	3,520,000	-
September 16, 2018*	1.72	$ 0.075	6,649,000	8,140,000
October 19, 2018	1.80	$ 0.10	5,290,228	-
October 27, 2018	1.82	$ 0.15	357,391	-
	1.23	$ 0.08	28,466,619	27,720,000

* During the year ended December 31, 2016, the Company extended the expiry date of 8,140,000 share purchase warrants from September 16, 2016 to September 16, 2018.

Share options

The Company has adopted a share option plan pursuant to which the Board of Directors of the Company may, from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants of the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares at the time of grant and the options are exercisable for a period not to exceed 10 years from the date of grant. The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Options may be exercised within 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, employment or consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (Continued)

Share options (continued)

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest, except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

Options granted to directors, employees and consultants vest immediately. Options granted to consultants engaged in investor relations activities will vest in stages over a minimum period of 12 months with no more than one-quarter of the options vesting in any three-month period.

Share option transactions and the number of share options outstanding are summarized as follows:

	December 31, 2016		**December 31, 2015**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	2,112,500	$ 0.06	2,012,500	$ 0.06
Granted	3,675,000	0.14	100,000	0.05
Exercised	(445,000)	0.08	-	-
Expired	(1,507,500)	0.05	-	-
Outstanding, end of year	3,835,000	$ 0.14	2,112,500	$ 0.06

During the year ended December 31, 2016

The Company applied the fair value method using the Black-Scholes option pricing model in accounting for its share options granted with the following weighted-average assumptions: risk-free interest rate of 0.56%; expected dividend yield of zero; expected share price volatility of 170%; and expected life of 1.90 years. The expected volatility is based on an average of historical prices of a comparable group of companies within the same industry due to the Company's change of business. The weighted average grant date fair value of each option was $0.13. Accordingly, $482,814 was recognized as share-based payment expense during the year ended December 31, 2016.

During the year ended December 31, 2015

The Company applied the fair value method using the Black-Scholes option pricing model in accounting for its share options granted with the following weighted-average assumptions: risk-free interest rate of 0.57%; expected dividend yield of zero; expected share price volatility of 260%; and expected life of 1 year. The Company used historical volatility to estimate the volatility of the share price. The weighted average grant date fair value of each option was $0.014. Accordingly, $1,410 was recognized as share-based payment expense during the year ended December 31, 2015.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (Continued)

Share options (continued)

The following share options are outstanding and exercisable:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	**December 31, 2016**	**December 31, 2015**
March 11, 2016	-	$ 0.05	-	100,000
April 7, 2016	-	$ 0.10	-	57,500
June 13, 2016	-	$ 0.055	-	150,000
July 2, 2016	-	$ 0.05	-	750,000
July 4, 2016	-	$ 0.055	-	50,000
August 22, 2016	-	$ 0.05	-	300,000
September 5, 2016	-	$ 0.05	-	100,000
February 16, 2017	0.13	$ 0.05	130,000	-
July 9, 2017	0.52	$ 0.10	315,000	315,000
November 25, 2017	0.90	$ 0.07	40,000	140,000
December 19, 2017	0.97	$ 0.12	75,000	-
October 16, 2018	1.82	$ 0.15	3,175,000	-
November 25, 2018	1.90	$ 0.20	100,000	-
April 7, 2019	2.52	$ 0.10	-	150,000
	1.63	$ 0.14	3,835,000	2,112,500

12. INVESTMENTS

Canada Coal Inc. ("CCK")

The Company received common shares of CCK pursuant to the disposition of exploration and evaluation assets during the year ended December 31, 2010. During the year ended December 31, 2015, the Company sold its remaining holding of 75,000 common shares of CCK for proceeds of $1,400, and realized a gain of $3,700 previously recorded in accumulated other comprehensive income (loss).

Saint Jean Carbon Inc. ("SJL")

The Company received common shares of SJL pursuant to the disposition of exploration and evaluation assets. During the year ended December 31, 2015, the Company sold its remaining holding of 3,000,000 common shares of SJL for proceeds of $47,695, resulting in a realized gain of $17,695.

13. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

	2016	**2015**
Accounts payable settled with share capital	$ 41,100	$ -
Accounts payable acquired on acquisition of North Road	$ 5,020	$ -
Subscription receivables received	$ -	$ 57,000

(Expressed in Canadian Dollars)

14. SEGMENTED DISCLOSURE

The Company currently operates in one industry segment, being development of cannabis products, and in one geographic area, being Canada. Prior to October 19, 2016, the Company operated in the mining industry.

15. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26% (2015 - 26%) to income before income taxes.

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	2016	2015
Loss before income taxes	$ (2,075,266)	$ (685,454)
Statutory income tax rate	26.00%	26.00%
Income tax benefit computed at statutory tax rate	(539,569)	(178,218)
Items not deductible for income tax purposes	121,176	840
Change in timing differences	10,495	13,181
Unrecognized benefit of deferred income tax assets	407,898	167,897
Income tax expense	$ -	$ 3,700

Significant tax benefits and unused tax losses for which no deferred tax asset is recognized as of December 31 are as follows:

	2016	2015
Non-capital losses carried forward	$ 7,959,585	$ 6,296,099
Excess of tax value over carrying value of exploration and evaluation assets	4,398,073	10,160,822
Excess of tax value over carrying value of property and equipment	6,758	4,070
Share issue costs	61,962	63,914
Unrecognized deferred tax assets	$ 12,426,378	$ 16,524,905

(Expressed in Canadian Dollars)

15. INCOME TAXES (Continued)

The Company has non-capital losses of approximately $7,959,000 available for carry-forward to reduce future years' income for income tax purposes. These losses expire as follows:

2025	$	52,000
2026		92,000
2027		404,000
2028		607,000
2029		1,385,000
2030		727,000
2031		802,000
2032		839,000
2033		245,000
2034		397,000
2035		799,000
2036		1,610,000
	$	7,959,000

16. CAPITAL MANAGEMENT

The Company considers its capital to be comprised of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will continue this method of financing due to the current difficult market conditions.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

Management reviews the capital structure on a regular basis to ensure that the above objectives are met. There have been no changes to the Company's approach to capital management during the year ended December 31, 2016. The Company is not subject to external restrictions on its capital.

17. SUBSEQUENT EVENTS

The following events occurred subsequent to December 31, 2016.

(a) On January 31, 2017, the Company entered into a letter of intent ("LOI") to acquire up to a 27.5% interest in GR8 Track, Inc. ("GR8"), a private corporation based in California, USA, licensed to produce cannabis for medical use.

In order to earn a 27.5% interest in GR8, the Company must issue common shares with a value of $1,500,000 USD, with $600,000 USD issuable within ten business days of the execution of a definitive agreement and $900,000 USD issuable over a series of certain milestones to be achieved by GR8.

In addition, the Company must loan GR8 an aggregate $1,500,000 USD, repayable within two years of the Company completing the final common share issuance within the following timeline:

- $50,000 USD within seven business days from execution of the LOI (paid);

17. SUBSEQUENT EVENTS (Continued)

(a) (continued)

- $550,000 USD within ten business days of execution of the LOI and share purchase agreement;
- $900,000 USD upon achieving the following milestones:
    - $150,000 USD within five business days of GR8 providing evidence of the shell build out completion and evidence of installed equipment;
    - $250,000 USD within five business days of GR8 providing evidence of cultivation commencement; and
    - $500,000 USD within five business days of GR8 providing evidence of the first full harvest completion.

The definitive agreement is subject to a 60-day due diligence period and the Company completing a minimum financing of $500,000 CAD gross proceeds.

(b) On March 1, 2017, the Company entered into an agreement to acquire up to four proprietary cannabidiol ("CBD") formulations from Esev R&D LLC ("Esev"), a private corporation based in New York, USA.

The agreement has an initial term of three years, with an option to extend for one additional year. Under the terms of the agreement, the Company must pay $40,000 USD for each CBD formulation, with a $10,000 USD deposit and $30,000 USD based on milestones. Esev shall retain a 5% royalty on the gross sales received for each successfully commercialized CBD formulation for a period of six years.

(c) The Company received $448,100 on the exercise of 5,908,000 share purchase warrants and $17,300 on the exercise of 250,000 share options.

(d) The Company granted 750,000 share options to consultants on various dates, with terms to expiry of one year and exercise prices ranging from $0.135 to $0.195.

(e) On March 21, 2017, the Company entered into a consulting agreement with its CEO for a term of one year for a monthly consulting fee of $9,000. The Company also entered into a separate termination and severance agreement with the CEO, whereby the Company may terminate the consulting agreement without cause by paying a lump sum equal to 12 months of consulting fees, plus three months for every year of service, to a maximum of 24 months of consulting fees. In the event of a change of control, the CEO may terminate his engagement under certain conditions, and the Company will be required to pay a lump sum equal to 24 months of consulting fees.