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

Condensed Consolidated Interim Financial Statements

Six Months Ended June 30, 2017

(Unaudited - Expressed in Canadian Dollars)

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

Six Months Ended June 30, 2017

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor Smythe Ratcliffe LLP, Chartered Accountants has not performed a review of these consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

August 29, 2017

Liberty Leaf Holdings Ltd.
(formerly Weststar Resources Corp.)
Condensed Consolidated Interim Statements of Financial Position
(Unaudited - Expressed in Canadian Dollars)

		June 30, 2017		December 31, 2016
Assets				
Current				
Cash	$	729,075	$	654,340
Receivables (note 6)		47,311		47,685
Prepaid expenses		119,934		26,965
		896,320		728,990
Property and Equipment (note 7)		795		954
Deposit (note 8)		27,065		-
Investment in GR8 (note 9)		66,050		-
	$	990,230	$	729,944
Liabilities				
Current				
Accounts payable and accrued liabilities (note 11)	$	94,344	$	76,500
		94,344		76,500
Shareholders' Equity				
Share Capital (note 12)		17,449,494		16,590,106
Reserves (note 12)		4,891,771		4,907,677
Deficit		(21,445,379)		(20,844,339)
		895,886		653,444
	$	990,230	$	729,944

Approved on behalf of the Board:

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

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

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

Liberty Leaf Holdings Ltd.
(formerly Weststar Resources Corp.)
Condensed Consolidated Interim Statements of Comprehensive Loss
For the Six Months Ended June 30
(Unaudited - Expressed in Canadian Dollars)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	**Six Months Ended June 30, 2017**	Six Months Ended June 30, 2016
Expenses				
Accounting, legal and audit	**$ 9,170**	$ 1,750	**$ 14,319**	$ 6,504
Amortization (note 7)	**79**	147	**159**	294
Consulting fees	**175,750**	75,966	**278,250**	101,966
Management fees (note 11)	**31,500**	(5,404)	**63,000**	26,096
Office and general	**2,968**	4,813	**6,424**	9,841
Rent	**46,500**	2,250	**83,099**	4,500
Share-based payments (note 12)	**32,803**	-	**80,957**	5,445
Shareholder communications and investor relations	**15,510**	3,242	**23,323**	9,292
Transfer agent and filing fees	**20,504**	7,910	**51,509**	11,929
	334,784	90,674	**601,040**	175,867
Forgiveness of Advances to North Road Ventures (note 10)	**-**	107,500	**-**	107,500
Net Loss and Comprehensive Loss for the Period	**$ 334,784**	$ 198,174	**$ 601,040**	$ 283,367
Basic and Diluted Loss Per Share	**$ 0.00**	$ 0.00	**$ 0.01**	$ 0.01
Weighted Average Number of Common Shares Outstanding – Basic and Diluted	**84,820,988**	49,369,089	**84,820,988**	49,369,089

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

Liberty Leaf Holdings Ltd.
(formerly Weststar Resources Corp.)
Condensed Consolidated Interim Statements of Changes in Equity
For the Six Months Ended June 30, 2017
(Unaudited - Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Reserves	Deficit	Total
Balance, December 31, 2015	**47,556,990**	**$ 14,649,516**	**$ 4,318,849**	**$ (18,769,073)**	**$ 199,292**
Private Placement	3,770,000	188,500	-	-	188,500
Residual value of warrants issued	-	(113,100)	113,100	-	-
Share options granted	-	-	5,445	-	5,445
Comprehensive loss for the period	-	-	-	(283,367)	(283,367)
Balance, June 30, 2016	**51,326,990**	**14,724,916**	**4,437,394**	**(19,052,440)**	**109,870**
Private placements	5,290,228	370,316	-	-	370,316
Share issue costs	-	(17,413)	-	-	(17,413)
Cancellation of shares	(4)	-	-	-	-
Residual value of warrants issued	-	(79,353)	79,353	-	-
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	-	-	477,369	-	477,369
Net loss for the period	-	-	-	(1,791,899)	(1,791,899)
Balance, December 31, 2016	**79,290,605**	**16,590,106**	**4,907,677**	**(20,844,339)**	**653,444**
Private Placements	2,270,000	283,750	-	-	283,750
Share issue costs	-	(29,261)	11,136	-	(18,125)
Residual value of warrants	-	(34,050)	34,050	-	-
Shares issued on the exercise of warrants	6,328,000	479,600	-	-	479,600
Fair value of warrants exercised	-	127,070	(127,070)	-	-
Shares issued on the exercise of share options	250,000	17,300	-	-	17,300
Fair value of share options exercised	-	14,979	(14,979)	-	-
Share options granted	-	-	80,957	-	80,957
Net loss for the period	-	-	-	(601,040)	(601,040)
Balance, June 30, 2017	**88,138,605**	**$ 17,449,494**	**$ 4,891,771**	**$ (21,445,379)**	**$ 895,886**

Liberty Leaf Holdings Ltd.
(formerly Weststar Resources Corp.)
Condensed Consolidated Interim Statements of Cash Flows
For the Six Months Ended June 30
(Unaudited - Expressed in Canadian Dollars)

	2017	2016
Operating Activities		
Net loss for the period	$ (601,040)	$ (85,193)
Items not involving cash		
Amortization	159	147
Share-based payments	80,957	5,445
Changes in non-cash working capital		
Receivables	374	(2,432)
Prepaid expenses	(120,034)	1,888
Accounts payable and accrued liabilities	17,844	10,381
Cash Used in Operating Activities	(621,740)	(69,764)
Investing Activity		
Investment in GR8	(66,050)	-
Cash Used in Investing Activity	(66,050)	-
Financing Activity		
Shares issued for cash	762,525	-
Cash Provided by Financing Activity	762,525	-
Inflow (Outflow) of Cash	74,735	(69,764)
Cash, Beginning of Period	654,340	168,451
Cash, End of Period	$ 729,075	$ 98,687

Supplemental Disclosure with Respect to Cash Flows (note 15)

The accompanying notes are an integral part of these condensed consolidated interim 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 the cannabis industry, 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 10).

The principal address of the Company is located at 700 – 838 West Hastings Street, Vancouver, British Columbia, Canada, V6C 0A6.

2. GOING CONCERN

These condensed 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 six months ended June 30, 2017 of $601,040 (2016 - $283,367) and has a deficit of $21,445,379 (December 31, 2016 - $20,844,339), 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 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 Access to Cannabis for Medical Purposes Regulations ("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 condensed consolidated interim 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

The condensed consolidated interim financial statements of the Company have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The condensed consolidated interim financial statements of the Company should be read in conjunction with the Company's 2016 annual consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

3. BASIS OF PRESENTATION (Continued)

b) Basis of measurement

These 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 condensed consolidated interim financial statements have been prepared under the accrual basis of accounting, except for cash flow information.

c) Principles of consolidation

The condensed consolidated interim 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 condensed consolidated interim financial statements

These condensed consolidated interim financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on August 28, 2017.

e) Use of estimates and judgments

The preparation of these condensed consolidated interim financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities is as follows:

- Acquisitions

  Management had to apply judgment relating to its acquisition of a 100% interest in another entity 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.

3. BASIS OF PRESENTATION (Continued)

e) Use of estimates and judgments (Continued)

- 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 June 30, 2017.

The key estimates applied in the preparation of the condensed consolidated interim 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 condensed consolidated interim financial statements, as appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES

The policies applied in these condensed consolidated interim financial statements are consistent with policies disclosed in Note 4 of the consolidated financial statements for the year ended December 31, 2016. These condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2016.

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 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.

(Unaudited - Expressed in Canadian Dollars)

5. FINANCIAL INSTRUMENTS (Continued)

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 June 30, 2017 equal $94,344 (December 31, 2016 - $76,500). All of the liabilities presented as accounts payable are due within 90 days of June 30, 2017.

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 exposures within acceptable parameters, while optimizing the return on capital.

As at June 30, 2017, the Company is not exposed to significant market risk.

6. RECEIVABLES

At June 30, 2017, receivables consisted of GST recoverable of $30,811 (December 31, 2016 - $47,685) and share subscriptions receivable of 16,500 (December 31, 2016 - $nil).

7. PROPERTY AND EQUIPMENT

	Computer Equipment	Office Equipment	Total
Cost			
Balance, December 31, 2015 and 2016 and June 30, 2017	$ 3,580	$ 2,032	$ 5,612
Amortization			
Balance, December 31, 2015	$ 2,780	$ 1,290	$ 4,070
Amortization	440	148	588
Balance, December 31, 2016	3,220	1,438	4,658
Amortization	99	60	159
Balance, June 30, 2017	$ 3,319	$ 1,498	$ 4,817
Net Book Value, December 31, 2016	$ 360	$ 594	$ 954
Net Book Value, June 30, 2017	$ 261	$ 534	$ 795

8. DEPOSIT

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 (paid) 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.

9. INVESTMENT IN GR8

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.

Pursuant to the terms of the agreement, the Company paid a deposit of $50,000 USD within 7 business days from execution of the LOI. The definitive agreement was subject to a 60-day due diligence period and the Company completing a minimum financing of $500,000 CAD gross proceeds.

As of the date of the filing of this report, the due diligence period has expired and the Company's Management has decided to no longer pursue the acquisition. Management believes the Company will recover some of the US$50,000 deposit paid. If necessary, Management will record an impairment loss during the year ended December 31, 2017 upon reaching a termination agreement.

10. 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. All expenses directly or indirectly incurred by North Road in relation to preparing the ACMPR license application would be forgiven.

During the year ended December 31, 2016, the ACMPR application was submitted by North Road and the Company forgave repayment of the advance.

(Unaudited - Expressed in Canadian Dollars)

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

On April 28, 2016 (and as amended July 4, 2016 and September 9, 2016), the Company entered into an agreement to acquire a 100% interest in North Road for the following consideration:

- Issuance of 12,000,000 common shares of the Company to the shareholders of North Road upon approval of the transaction by the Exchange (issued and valued at $660,000);
- Payment of $150,000 cash, or an equivalent dollar value of common shares of the Company, within 90 days of North Road completing the "Security Clearance" phase pursuant to and as defined in the ACMPR application;
- Payment of $350,000 cash, or an equivalent dollar value of common shares of the Company, within 90 days of North Road completing the "Pre-License Inspection" phase pursuant to and as defined in the ACMPR application; and
- Payment of $1,000,000 cash within 90 days of North Road receiving approval of the ACMPR License.

The closing of the definitive agreement constituted a change of business and was approved by the Exchange on October 19, 2016. The Company paid a finder's fee of 1,200,000 common shares of the Company in relation to the acquisition (valued at $66,000).

The acquisition of North Road did not meet the definition of a business in accordance with IFRS 3 *Business Combination*s 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.

11. RELATED PARTY TRANSACTIONS

These amounts of key management compensation are included in the amounts shown on the consolidated statements of comprehensive loss for the six months ended June 30, 2017 and 2016:

		2017		**2016**
Short-term compensation	$	79,500	$	35,096
Shared-based payments	$	8,052	$	-

11. RELATED PARTY TRANSACTIONS (Continued)

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 (note 14). These transactions were in the normal course of operations.

Of the $79,500 recorded as short-term compensation for the six months ended June 30, 2017 (2016 - $35,096), $63,000 was recorded as management fees (2016 - $26,096), $1,500 was recorded as accounting fees (2016 - $6,000) and $15,000 (2016 - $3,000) was recorded as shareholder communications and investor relations.

As at June 30, 2017, accounts payable and accrued liabilities included $25,316 (December 31, 2016 - $28,522) due to officers and directors or companies controlled by directors and officers for services included above and expense reimbursements. The amounts due are non-interest-bearing, unsecured and without stated terms of repayment

12. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value

Issued share capital

During the six months ended June 30, 2017

During the six months ended June 30, 2017, the Company issued 6,328,000 common shares of the Company for gross proceeds of $479,600 on the exercise of 6,328,000 share purchase warrants. The Company transferred $127,070 from reserves to share capital in conjunction with the exercises. The Company also issued 250,000 common shares of the Company for gross proceeds of $17,300 on the exercise of 250,000 stock options. The Company transferred $14,979 from reserves to share capital in conjunction with the exercises.

On May 24, 2017, the Company closed a non-brokered private placement and issued 2,270,000 units at a price of $0.125 per unit for gross proceeds of $283,750. 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 $0.20. The Company allocated $249,700 of the proceeds to the common shares and $34,050 to the warrants based on the residual value method. The Company paid finder’s fees of $18,125 and issued 145,000 finder’s warrants. Each finder’s warrant is exercisable into one common share for a period of up to twenty-four months at a price of $0.20. The Company recognized 11,136 in share issue costs to reserves to reflect the value of the finder’s warrants.

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.

(Unaudited - Expressed in Canadian Dollars)

12. SHARE CAPITAL (Continued)

Issued share capital (continued)

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.

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 10). 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 8,6761,000 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.

Warrants

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

	June 30, 2017		December 31, 2016	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	28,466,619	$ 0.08	27,720,000	$ 0.08
Issued	2,415,000	0.20	9,417,619	0.09
Exercised	(6,328,000)	0.08	-	-
Outstanding, end of period	24,553,619	$ 0.09	28,466,619	$ 0.08

(Unaudited - Expressed in Canadian Dollars)

12. SHARE CAPITAL (Continued)

Warrants

The following warrants were outstanding and exercisable:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	**June 30, 2017**	**December 31, 2016**
July 22, 2017	0.06	$ 0.075	3,900,000	5,620,000
October 26, 2017	0.32	$ 0.075	4,680,000	7,030,000
April 4, 2018	0.76	$ 0.075	2,776,000	3,520,000
September 18, 2018*	1.22	$ 0.075	5,335,000	6,649,000
October 19, 2018	1.30	$ 0.10	5,090,228	5,290,228
October 27, 2018	1.33	$ 0.15	357,391	357,391
May 24, 2019	1.90	$ 0.20	2,415,000	-
	0.90	$ 0.09	24,553,619	28,466,619

* During the year ended December 31, 2016, the Company extended the expiry date of 8,140,000 share purchase warrants from September 18, 2016 to September 18, 2018.

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.

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.

(Unaudited - Expressed in Canadian Dollars)

12. SHARE CAPITAL (Continued)

Share options (continued)

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

	June 30, 2017		**December 31, 2016**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	3,835,000	$ 0.14	2,112,500	$ 0.06
Granted	850,000	$ 0.15	3,675,000	0.14
Exercised	(250,000)	$ 0.07	(445,000)	0.08
Expired	-	-	(1,507,500)	0.05
Outstanding, end of period	4,435,000	$ 0.15	3,835,000	$ 0.14

During the six months ended June 30, 2017

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 0.74%; expected dividend yield of zero; expected share price volatility of 161%; and expected life of 1.24 years. The expected volatility is based on an average of historical prices of a comparable group of companies within the same industry due the Company's change of business. The weighted average grant date fair value of each option was $0.10. Accordingly, $80,957 was recognized as share-based payment expense during the six months ended June 30, 2017.

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 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.

The following share options were outstanding and exercisable:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	**June 30, 2017**	**December 31, 2016**
February 16, 2017	-	$ 0.05	-	130,000
July 9, 2017	0.02	$ 0.10	235,000	315,000
November 25, 2017	-	$ 0.07	-	40,000
December 19, 2017	0.47	$ 0.12	75,000	75,000
January 10, 2018	0.53	$ 0.135	200,000	-
February 3, 2018	0.60	$ 0.195	250,000	-
April 13, 2018	0.79	$ 0.16	200,000	-

(Unaudited - Expressed in Canadian Dollars)

October 26, 2018	1.32	$ 0.15	3,175,000	3,175,000
November 25, 2018	1.41	$ 0.20	100,000	100,000
May 15, 2019	1.87	$ 0.12	100,000	-
June 1, 2019	1.92	$ 0.11	100,000	-
		$ 0.14	4,435,000	3,835,000

13. EXPLORATION AND EVALUATION ASSETS

		Axe Property
Balance, December 31, 2015	**$**	**1**
Sale of exploration and evaluation asset		(1)
Balance, December 31, 2016 and June 30, 2017	**$**	**-**

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.

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.

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.

(Unaudited - Expressed in Canadian Dollars)

13. EXPLORATION AND EVALUATION ASSETS (Continued)

Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates. The Company conducted 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 former properties that may result in material liability to the Company.

14. COMMITMENTS

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

15. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

		2017		2016
Income tax paid	$	-	$	-
Interest paid	$	-	$	-
Fair value of warrants exercised transferred to share capital	$	127,070	$	
Fair value of options exercised transferred to share capital	$	14,979	$	

16. 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.

17. 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 six months ended June 30, 2017. The Company is not subject to external restrictions on its capital.

18. SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 2017.

(a) The Company received $157,500 on the exercise of 2,100,000 share purchase warrants.

(b) The Company granted 1,850,000 stock options to consultants on various dates, with terms to expiry ranging from one to two years and exercise prices ranging from $0.10 to $0.11.