Liberty Leaf Holdings Ltd.

Consolidated Financial Statements

December 31, 2017 and 2016

(Expressed in Canadian Dollars)

Liberty Leaf Holdings Ltd.

December 31, 2017 and 2016

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Smythe CPA

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF LIBERTY LEAF HOLDINGS LTD.

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, 2017 and 2016 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, 2017 and 2016, 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

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April 30, 2018

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Liberty Leaf Holdings Ltd.

Consolidated Statements of Financial Position
December 31, 2017 and 2016
(Expressed in Canadian Dollars)

		2017		2016
Assets				
Current				
Cash	$	1,211,065	$	654,340
GST receivable		53,450		47,685
Prepaid expenses		122,618		26,965
		1,387,133		728,990
Property and Equipment (note 6)		7,754		954
Investment in associate (note 8)		1,830,000		-
	$	3,224,887	$	729,944
Liabilities				
Current				
Accounts payable and accrued liabilities (note 10)	$	159,165	$	76,500
		159,165		76,500
Shareholders' Equity				
Share Capital (note 11)		21,070,550		16,590,106
Reserves (note 11)		4,704,354		4,907,677
Share subscriptions		1,100		-
Deficit		(22,710,282)		(20,844,339)
		3,065,722		653,444
	$	3,224,887	$	729,944

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.

Consolidated Statements of Comprehensive Loss
Years Ended December 31, 2017 and 2016
(Expressed in Canadian Dollars)

		2017		2016
Expenses				
Accounting, legal and audit (note 10)	$	77,774	$	39,758
Amortization (note 6)		3,016		588
Consulting fees		654,545		399,160
Management fees (note 10)		153,000		133,500
Office and general		78,946		26,206
Rent		147,329		71,750
Share-based payments (note 11)		378,657		482,814
Shareholder communications and investor relations (note 10)		143,630		40,792
Research and development costs (note 17)		93,865		-
Transfer agent and filing fees		69,131		42,254
		1,799,893		1,236,822
License application development costs (note 7)		-		724,735
Forgiveness of advances to North Road Ventures Ltd. (note 7)		-		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)
Transaction costs (note 12)		66,050		-
Net Loss and Comprehensive Loss for the Year	$	1,865,943	$	2,075,266
Basic and Diluted Loss Per Share	$	0.02	$	0.04
Weighted Average Number of Common Shares Outstanding – Basic and Diluted		89,127,181		55,185,855

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

Liberty Leaf Holdings Ltd.

Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2017 and 2016
(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Reserves	Share Subscriptions	Deficit	Total
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**
Private placements	2,270,000	283,750	-	-	-	283,750
Share issue costs	-	(29,261)	11,136	-	-	(18,125)
Residual value of warrants issued	-	(34,050)	34,050	-	-	-
Shares issued for investment in associate	4,000,000	1,680,000	-	-	-	1,680,000
Shares issued on the exercise of warrants	18,475,942	1,610,939	-	-	-	1,610,939
Fair value of warrants exercised	-	365,571	(365,571)	-	-	-
Shares issued on the exercise of share options	2,510,000	341,900	-	-	-	341,900
Fair value of share options exercised	-	261,595	(261,595)	-	-	-
Share options granted	-	-	378,657	-	-	378,657
Share subscriptions received	-	-	-	1,100	-	1,100
Net loss for the year	-	-	-	-	(1,865,943)	(1,865,943)
Balance, December 31, 2017	**106,546,547**	**$ 21,070,550**	**$ 4,704,354**	**$ 1,100**	**$ (22,710,282)**	**$ 3,065,722**

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

Liberty Leaf Holdings Ltd.

Consolidated Statements of Cash Flows
Years ended December 31, 2017 and 2016
(Expressed in Canadian Dollars)

	2017	2016
Operating Activities		
Net loss for the year	$ (1,865,943)	$ (2,075,266)
Items not involving cash		
Amortization	3,016	588
Share-based payments	378,657	482,814
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
Changes in non-cash working capital		
Receivables	(5,765)	(26,565)
Prepaid expenses	(95,653)	(22,077)
Accounts payable and accrued liabilities	82,665	34,688
Cash Used in Operating Activities	(1,503,023)	(767,374)
Investing Activities		
Investment in associate	(150,000)	-
Proceeds on sale of exploration and evaluation asset	-	21,000
Cash acquired on asset acquisition	-	6,285
Purchase of equipment	(9,816)	-
Cash Provided by (Used in) Investing Activities	(159,816)	27,285
Financing Activities		
Share subscriptions received	1,100	-
Shares issued for cash, net of issue costs	2,218,464	1,225,978
Cash Provided by Financing Activities	2,219,564	1,225,978
Inflow of Cash	556,725	485,889
Cash, Beginning of Year	654,340	168,451
Cash, End of Year	$ 1,211,065	$ 654,340

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 in the province of British Columbia. The Company is listed on the Canadian Securities Exchange (the "Exchange").

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 7). On December 6, 2017, the Company signed an agreement to acquire an interest in Just Kush Enterprises Ltd. ("Just Kush") (note 8).

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

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, 2017 of $1,865,943 (2016 - $2,075,266) and has a deficit of $22,710,282 (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 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 of 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 plans will be successful. If the going concern assumption were not appropriate for these consolidated financial statements then adjustments may be necessary to the carrying value of assets and liabilities, the reported expenses and the statement 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 include the accounts of the Company and its wholly owned subsidiary, North Road, a British Columbia, Canada company. 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, 2017 were approved and authorized for issue by the Board of Directors on April 30, 2018.

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 impact 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:

- Control

  Management consolidates all subsidiaries and entities which it is determined that the Company controls. Control is evaluated on the ability of the Company to direct the activities of the subsidiary or entity to derive variable returns and management uses judgment in determining whether control exists. Judgment is exercised in the evaluation of the variable returns and in determining the extent to which the Company has the ability to exercise its power to generate variable returns.

- Acquisitions

  Management applies judgment relating to acquisitions of interests in another entity with respect to whether the acquisition is a business combination or an asset acquisition. Management applies 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.

- Significant influence

  The Company has an investment and has determined it has significant influence over Just Kush and, accordingly, has classified the investment as an associate.

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 December 31, 2017 and 2016.

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 valuing 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 presentation and 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 at the end of each reporting period.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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) Intangible assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization is provided on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) 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.

e) 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)

e) 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.

f) Share-based payment transactions

The Company grants share options and warrants 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 an expense 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 reserves is transferred to share capital.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Income taxes

Income tax expense consisting of current and deferred tax expense is recognized in the consolidated 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.

h) 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.

i) 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. Management does not expect these standards to have a significant impact on the Company's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) 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)

j) 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 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

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. 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 credit risk exposure with respect to cash was $1,211,065 as at December 31, 2017.

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, 2017 were $159,165 (2016 - $76,500). All of the liabilities presented as accounts payable are due within 90 days of December 31, 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 exposure within acceptable parameters, while optimizing the return on capital.

As at December 31, 2017, the Company is not exposed to significant market risk.

(Expressed in Canadian Dollars)

6. PROPERTY AND EQUIPMENT

		Computer Equipment		Office Equipment		Total
Cost						
Balance, December 31, 2015 and 2016	$	3,580	$	2,032	$	5,612
Additions		9,816		-		9,816
Balance, December 31, 2017	$	13,396	$	2,032	$	15,428
Accumulated 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		2,897		119		3,016
Balance, December 31, 2017	$	6,117	$	1,557	$	7,674
Net Book Value, December 31, 2016	$	360	$	594	$	954
Net Book Value, December 31, 2017	$	7,279	$	475	$	7,754

7. ACQUISITION OF NORTH ROAD VENTURES LTD.

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.

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)

7. 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 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 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.

8. INVESTMENT IN ASSOCIATE

On December 6, 2017, the Company signed an agreement to acquire shares of Just Kush Enterprises Ltd. ("Just Kush"), a private British Columbia company with an in process ACMPR license.

The capital of Just Kush consists of 100 Class A voting shares and 100 Class B common shares. The Company acquired 45 Class A voting shares and 24 Class B common shares of Just Kush, representing approximately 34.5% equity interest in Just Kush.

As consideration, the Company paid $150,000 and issued 2,000,000 common shares of the Company upon execution of the agreement at a fair value of $840,000. In addition, the Company may acquire a further 36 Class B common shares pursuant to the milestones below. The Company issued a further 3,000,000 common shares on January 15, 2018 to be held in escrow and to be released upon the following milestones:

i. Within two days of receipt of written notice from Just Kush indicating that Just Kush passed the Security Clearance pursuant to the ACMPR application, the Company shall issue 1,000,000 common shares of the Company to shareholders of Just Kush in exchange for 12 Class B shares.

(Expressed in Canadian Dollars)

8. INVESTMENT IN ASSOCIATE (Continued)

ii. Within two days of receipt of written notice from Just Kush indicating that Just Kush received its License to Produce pursuant to the ACMPR application, the Company shall issue 500,000 common shares of the Company to shareholders of Just Kush in exchange for 6 Class B shares.

iii. Within two days of receipt of written notice from Just Kush indicating that Just Kush completed its Introduction Inspection pursuant to the ACMPR application, the Company shall issue 500,000 common shares of the Company to shareholders of Just Kush in exchange for 6 Class B shares.

iv. Within two days of receipt of written notice from Just Kush indicating that Just Kush completed its Pre-Sales Inspection pursuant to the ACMPR application, the Company shall issue 500,000 common shares of the Company to shareholders of Just Kush in exchange for 6 Class B shares.

v. Within two days of receipt of written notice from Just Kush indicating that Just Kush received its License to Sell, pursuant to the ACMPR application, the Company shall pay $600,000 to the shareholders of Just Kush, and issue 500,000 common shares of the Company to shareholders of Just Kush. The $600,000 is payable in cash and/or issuance of shares of the Company (based on a 20-day VWAP at the option of Company), in exchange for 6 Class B shares of Just Kush.

The 2,000,000 common shares were valued at $840,000 based on the market price of the shares on the date of issuance. In relation to this transaction, the Company paid a finder's fee of 1,000,000 common shares, which were valued at $420,000 and compensation shares of 1,000,000 common shares, which were valued at $420,000.

The Company has determined it has significant influence over Just Kush and accounts for its investment using the equity method. The following is a summary of the investment account:

		2017
Shares issued	$	1,680,000
Cash consideration		150,000
Investment in associate	$	1,830,000

Summarized financial information for Just Kush is as follows:

		2017
Current assets	$	100
Non-current assets	$	177,650
Current liabilities	$	177,984
Net loss	$	-

In addition, the Company is required to pay for certain expenses of Just Kush (note 18).

(Expressed in Canadian Dollars)

9. EXPLORATION AND EVALUATION ASSETS

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

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.

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.

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, 2017 and 2016:

		2017		2016
Accounting fees	$	4,500	$	6,500
Management fees	$	153,000	$	133,500
Shareholder communications	$	37,500	$	15,500
Share-based payments	$	51,628	$	138,237

These transactions were in the normal course of operations.

As at December 31, 2017, accounts payable and accrued liabilities included $38,264 (2016 - $28,522) due to officers and directors or companies controlled by officers and directors and former directors and officers. 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, 2017

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 and one share purchase warrant. Each warrant is exercisable by the holder to acquire one additional common share 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 two years from issuance at a price of $0.20. The fair value of the finder's warrants of $11,136 was estimated using the Black Scholes model with the following assumptions: risk-free interest rate of 0.70%; expected dividend yield of zero; expected share price volatility of 170%; and expected life of 2 years.

On December 11, 2017, the Company issued 3,000,000 common shares (valued at $1,260,000) as part of the investment in Just Kush (note 8). The Company also issued 1,000,000 common shares (valued at $420,000) as a finder's fee pursuant to the agreement.

During the year ended December 31, 2017, the Company issued 18,475,942 common shares for gross proceeds of $1,610,939 on the exercise of 18,475,942 share purchase warrants. The Company transferred $365,571 from reserves to share capital in conjunction with the exercises. The Company also issued 2,510,000 common shares for gross proceeds of $341,900 on the exercise of 2,510,000 options. The Company transferred $261,595 from reserves to share capital in conjunction with the exercises.

11. SHARE CAPITAL (Continued)

Issued share capital (continued)

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 and one share purchase warrant. Each warrant is exercisable by the holder to acquire one additional common share 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 and one share purchase warrant. Each warrant is exercisable by the holder to acquire one additional common share 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 7). 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 and one share purchase warrant. Each warrant is exercisable by the holder to acquire one additional common share 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 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 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:

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (Continued)

Warrants (continued)

	December 31, 2017		December 31, 2016	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	28,466,619	$ 0.08	27,720,000	$ 0.08
Issued	2,415,000	0.20	9,417,619	0.09
Exercised	(18,475,942)	0.09	(8,671,000)	0.08
Expired	(1,800,000)	0.08	-	-
Outstanding, end of year	10,605,677	$ 0.10	28,466,619	$ 0.08

The following warrants are outstanding and exercisable:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	Number of Warrants December 31, 2017	Number of Warrants December 31, 2016
July 22, 2017	-	$ 0.075	-	5,620,000
October 26, 2017	-	$ 0.075	-	7,030,000
April 4, 2018	0.26	$ 0.075	2,400,000	3,520,000
September 16, 2018*	0.71	$ 0.075	4,050,000	6,649,000
October 19, 2018	0.80	$ 0.10	2,837,677	5,290,228
October 27, 2018	0.82	$ 0.15	-	357,391
May 24, 2019	1.39	$ 0.20	1,318,000	-
	0.72	$ 0.10	10,605,677	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 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, 2017		December 31, 2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	3,835,000	$ 0.14	2,112,500	$ 0.06
Granted	4,000,000	0.17	3,675,000	0.14
Exercised	(2,510,000)	0.14	(445,000)	0.08
Expired	(235,000)	0.10	(1,507,500)	0.05
Outstanding, end of year	5,090,000	$ 0.17	3,835,000	$ 0.14

During the year ended December 31, 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 1.18%; expected dividend yield of zero; expected share price volatility of 150%; and expected life of 1.54 years. The Company used historical volatility to estimate the volatility of the share price. The weighted average grant date fair value of each option was $0.095. Accordingly, $378,657 was recognized as share-based payment expense during the year ended December 31, 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 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.

(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, 2017**	**December 31, 2016**
February 16, 2017	-	$ 0.05	-	130,000
July 9, 2017	-	$ 0.10	-	315,000
November 25, 2017	-	$ 0.07	-	40,000
December 19, 2017	-	$ 0.12	-	75,000
February 3, 2018	0.09	$ 0.195	50,000	-
April 13, 2018*	0.28	$ 0.16	200,000	-
July 20, 2018	0.55	$ 0.105	100,000	-
August 1, 2018	0.58	$ 0.11	100,000	-
August 10, 2018	0.61	$ 0.11	40,000	-
October 25, 2018	0.82	$ 0.12	100,000	-
October 26, 2018	0.82	$ 0.15	2,350,000	3,175,000
November 22, 2018	0.89	$ 0.215	250,000	-
November 25, 2018	0.90	$ 0.20	100,000	100,000
December 22, 2018	0.98	$ 0.49	350,000	-
May 15, 2019	1.37	$ 0.12	100,000	-
July 5, 2019	1.51	$ 0.10	750,000	-
August 1, 2019	1.58	$ 0.11	250,000	-
September 1, 2019	1.67	$ 0.095	100,000	-
November 24, 2019	1.90	$ 0.210	250,000	-
	1.02	$ 0.17	5,090,000	3,835,000

* Subsequent to December 31, 2017, these options expired unexercised.

12. TRANSACTION COSTS

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 company 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 CDN gross proceeds.

The due diligence period expired and management concluded it will not complete the execution of the LOI. Management has determined the Company will not recover the $50,000 USD deposit paid, which has been impaired to $nil in accordance with level 3 of the fair value hierarchy.

(Expressed in Canadian Dollars)

13. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

	2017	2016
Accounts payable settled with share capital	$ -	$ 41,100
Accounts payable acquired in asset acquisition transaction	$ -	$ 5,020
Shares issued for investments in associate	$ 1,680,000	$ -

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% (2016 - 26%) to income before income taxes.

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

	2017	2016
Loss before income taxes	$ (1,865,943)	$ (2,075,266)
Statutory income tax rate	26.00%	26.00%
Income tax benefit computed at statutory tax rate	(485,145)	(539,569)
Items not deductible for income tax purposes	115,624	121,176
Effect of change in tax rates	(153,361)	-
Change in timing differences	-	10,495
Unrecognized benefit of deferred income tax assets	522,883	407,898
Income tax expense	$ -	$ -

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

	2017	2016
Non-capital losses carried forward	$ 9,253,859	$ 7,959,585
Excess of tax value over carrying value of exploration and evaluation assets	4,593,852	4,398,073
Excess of tax value over carrying value of property and equipment	9,774	6,758
Share issue costs	48,167	61,962
Capital losses	1,430,459	-
Unrecognized deferred tax assets	$ 15,336,111	$ 12,426,378

(Expressed in Canadian Dollars)

15. INCOME TAXES (Continued)

The Company has non-capital losses of approximately $9,254,000 available for carry-forward to reduce future years' income for income tax purposes. These losses expire as follows:

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		390,000
2035		799,000
2036		1,523,000
2037		1,441,000
	$	9,254,000

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, 2017. The Company is not subject to external restrictions on its capital.

17. RESEARCH AND DEVELOPMENT

On March 1, 2017, the Company entered into an agreement for services to be provided by ESEV R&D LLC. ("ESEV"), a medical research company in Israel. Under the terms of the agreement, ESEV will organize and oversee medical studies to demonstrate the efficacy of formulas and products owned or licensed by Liberty for specific medical conditions in pets. The initial statement of work includes testing the efficacy of Cannabinoids (CBD) in canine osteoarthritis, which includes hip dysplasia, elbow dysplasia and stifle Degenerative Joint Disease (DJD). Costs incurred during the year ended December 31, 2017 were expensed as research and development costs.

On December 9, 2017, the Company entered into an agreement for services to be provided by BLOX Labs Inc. ("BLOX"), a blockchain technology company in Ontario. Under the terms of the agreement, BLOX will develop on behalf of the Company a blockchain based software application to track and monitor the sale and distribution of cannabis and marijuana products, from cultivator to end consumer. Costs incurred during the year ended December 31, 2017 were expensed as research and development costs.

18. COMMITMENTS

According to the terms of the agreement to purchase shares of Just Kush (note 8), the Company has agreed to pay all property taxes associated with the ACMPR application, all costs associated with furthering the ACMPR application process and upon commencement of the Buildout pursuant to the ACMPR application, a minimum of $2,500 per month in rent to Just Kush for a term not to exceed six months.

Pursuant to the terms of an agreement signed December 9, 2017 (note 17), the Company has agreed to purchase a minimum of $50,000 in shares of BLOX for investment purposes, when BLOX undertakes its next equity financing. As of the date of these consolidated financial statements, no such financing has been undertaken by BLOX.

19. SUBSEQUENT EVENTS

The following events occurred subsequent to December 31, 2017.

(a) On January 22, 2018, the Company closed a non-brokered private placement and issued 5,000,000 units at a price of $0.40 per unit for gross proceeds of $2,000,000. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant is exercisable by the holder to acquire one additional common share for a period of two years from issuance at an exercise price of $0.60. The Company paid finder's fees of $6,250 and issued 259,485 finder's units. Each finder's unit is comprised of one common share and one-half of one share purchase warrant. Each whole warrant is exercisable into one common share for a period of two years from issuance at a price of $0.60.

(b) On March 29, 2018, the Company issued 117,198 units at a deemed price of $0.40 per unit to settle $46,879 of debt due to an unrelated party. Each unit consists of one common share of the Company and one-half of one non-transferable share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of $0.60 per share for a period of two years from the closing.

(c) The Company received $448,171 on the exercise of 4,454,714 share purchase warrants and $100,437 on the exercise of 665,725 share options.

(d) The Company granted 3,075,000 share options to officers and consultants on various dates, with terms to expiry of one to two years and exercise prices ranging from $0.44 to $0.74.