

KAIYUE INTERNATIONAL INC.

Condensed Interim Financial Statements

(Expressed in Canadian Dollars)

(Unaudited)

For the Three and Six Months Ended June 30, 2017 and 2016

Kaiyue International Inc.
Condensed Interim Financial Statements
For the Three and Six Months Ended June 30, 2017

Contents

| | |
|---|---|
| Notice of No Review of Condensed Interim Financial Statements | 3 |
| Condensed Interim Statements of Financial Position | 4 |
| Condensed Interim Statements of Comprehensive Loss | 5 |
| Condensed Interim Statements of Changes in Equity | 6 |
| Condensed Interim Statements of Cash Flows | 7 |
| Notes to the Condensed Interim Financial Statements | 8 |

Notice of No Review of Condensed 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 condensed 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 condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditors have not performed a review of these interim 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.

Kaiyue International Inc.
Condensed Interim Statements of Financial Position
(Expressed in Canadian dollars)

| | Notes | June 30, 2017 (Unaudited) \$ | December 31, 2016 (Audited) \$ |
|--|-------|---------------------------------------|---|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | | 267,436 | 87,660 |
| GST receivables | | 2,048 | 1,277 |
| Prepaid expenses | | 613 | 4,288 |
| | | 270,097 | 93,225 |
| Total Assets | | 270,097 | 93,225 |
| Liabilities and Equity | | | |
| Current Liabilities | | | |
| Trade payables and accrued liabilities | | 10,774 | 1,382 |
| Due to related parties | 6 | 27,850 | 19,950 |
| | | 38,624 | 21,332 |
| Equity | | | |
| Share capital | 9 | 2,175,070 | 1,881,741 |
| Contributed surplus | | 26,495 | 25,952 |
| Deficit | | (1,970,092) | (1,835,800) |
| | | 231,473 | 71,893 |
| Total Liabilities and Equity | | 270,097 | 93,225 |

Approved on behalf of the Board of Directors:

"Hilda Sung", Director "Alex Ku", Director

The accompanying notes form an integral part of these condensed interim financial statements

Kaiyue International Inc.
Condensed Interim Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)
(Unaudited)

| | Notes | Three Months Ended | | Six Months Ended | |
|---|-------|--------------------|---------------|------------------|----------------|
| | | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| | | \$ | \$ | \$ | \$ |
| Expenses | | | | | |
| Bank charges | | 402 | 309 | 769 | 556 |
| Consulting fees | 6 | 22,500 | 22,500 | 45,000 | 45,000 |
| Director fees | 6 | 2,200 | 2,200 | 4,400 | 4,400 |
| Filing fees | | 4,121 | - | 9,321 | 5,200 |
| Insurance | | 1,837 | 1,750 | 3,675 | 3,500 |
| General admin expenses | | 3,693 | 3,820 | 9,952 | 8,170 |
| Professional fees | | 13,789 | 10,200 | 13,789 | 10,200 |
| Rent | | 16,500 | 16,500 | 33,000 | 33,000 |
| Salaries and wages | | - | 2,350 | - | 6,455 |
| Share-based payment | 6 | 197 | 612 | 543 | 1,438 |
| Travel expense | | 1,810 | 4,210 | 13,844 | 11,422 |
| | | 67,049 | 64,451 | 134,293 | 129,341 |
| Net loss and comprehensive loss for the period | | 67,049 | 64,451 | 134,293 | 129,341 |
| Loss per ordinary share: | | | | | |
| Basic and Diluted | | \$ (0.00) | \$ (0.00) | \$ (0.01) | \$ (0.01) |
| Weighted average number of ordinary shares outstanding: | | | | | |
| Basic and diluted | 10 | 20,652,008 | 15,174,230 | 18,652,131 | 15,174,230 |

The accompanying notes form an integral part of these condensed interim financial statements

Kaiyue International Inc.
Condensed Interim Statements of Changes in Equity
(Expressed in Canadian dollars)
(Unaudited)

| | Shares | Share capital \$ | Contributed Surplus \$ | Deficit \$ | Total \$ |
|--|------------|------------------------|------------------------------|---------------|-------------|
| Balance at December 31, 2015 | 15,274,230 | 1,881,741 | 23,806 | (1,604,060) | 301,487 |
| Share-based payment | - | - | 1,438 | - | 1,438 |
| Net loss for the period | - | - | - | (129,341) | (129,341) |
| Balance at June 30, 2016 | 15,274,230 | 1,880,741 | 25,244 | (1,733,401) | 173,584 |
| Balance at December 31, 2016 | 15,274,230 | 1,881,741 | 25,952 | (1,835,800) | 71,893 |
| Shares issued for cash private placement | 5,900,000 | 295,000 | - | - | 295,000 |
| Share issuance costs | - | (1,671) | - | - | (1,671) |
| Share-based payment | - | - | 543 | - | 543 |
| Net loss for the period | - | - | - | (134,292) | (134,292) |
| Balance at June 30, 2017 | 21,174,230 | 2,175,070 | 26,495 | (1,970,092) | 231,473 |

The accompanying notes form an integral part of these condensed interim financial statements

Kaiyue International Inc.
Condensed Interim Statements of Cash Flows
(Expressed in Canadian dollars)
(Unaudited)

| | | For the six months ended June 30, | |
|---|--------------|--|------------------|
| | Notes | 2017 | 2016 |
| | | \$ | \$ |
| Operating activities | | | |
| Net loss for the period | | (134,292) | (129,341) |
| Item not involving cash | | | |
| Share-based payment | | 543 | 1,438 |
| Changes in non-cash working capital balances: | | | |
| Other receivables | | (771) | 5,559 |
| Prepaid expenses | | 3,675 | 3,500 |
| Trade payables and accrued liabilities | | 9,392 | 2,099 |
| Net cash (used in) operating activities | | (121,453) | (116,745) |
| Financing activity | | | |
| Due to related parties | 6 | 7,900 | 86 |
| Share issued for cash | | 295,000 | - |
| Share issuance costs paid in cash | | (1,671) | - |
| Net cash provided by financing activity | | 301,229 | 86 |
| Net increase (decrease) in cash and cash equivalents during the period | | 179,776 | (116,659) |
| Cash at beginning of period | | 87,660 | 316,093 |
| Cash at end of period | | 267,436 | 199,434 |

The accompanying notes form an integral part of these condensed interim financial statements

Kaiyue International Inc.
Notes to the Condensed Interim Financial Statements
(Expressed in Canadian dollars)
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

1. NATURE OF OPERATIONS AND GOING CONCERN

Kaiyue International Inc. ("Kaiyue" or the "Company") was incorporated under the Business Corporation Act of Alberta on November 23, 2009. The Company trades under the symbol KYU.V on the TSX Venture (the "Exchange"). The principal address and registered and records office of the Company is located at 3500, 855 – 2 Street SW, Calgary, Alberta, Canada. The Company is an exploration stage public company whose principal business activities are the acquisition and exploration of mineral properties. Its shares are listed on the TSX Venture Exchange under the symbol KYU.

These condensed interim financial statements have been prepared using International Financial Reporting Standards ("IFRS") 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. Management is of the opinion that the funds available at the end of the period will allow the Company to meet its current ongoing obligations and future contractual commitments for at least the next twelve months. As at June 30, 2017, the Company had working capital of \$231,473 (December 31, 2016 - \$71,893). The Company did not generate revenue nor cash flows from its operations to date and has a cumulated deficit of \$1,970,092 (December 31, 2016 - \$1,835,800). Beyond the twelve month period, the Company will require additional financing or other sources of funding, which if not raised, would result in the curtailment of activities. As a result, there is a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and accordingly use accounting principles applicable to a going concern.

To date, the Company has raised funds principally through the issuance of shares. In the foreseeable future, the Company will likely remain dependent on the issuance of shares, obtaining additional financing from shareholders, receiving continued financial support from related parties and creditors, or generating profitable operations. The Company continues to minimize uncommitted capital expenditures and exploration expenditures in order to preserve the Company's financial resources.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The condensed interim financial statements (the "interim financial statements") have been prepared in accordance with International Financial Reporting standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting ("IAS 34") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC" and "SIC") adopted by the International Accounting Standards Board ("IASB").

The interim financial statements of the Company for the six months ended June 30, 2017 were reviewed by the Audit Committee and approved and authorized for issuance by the Board of Directors on August 16, 2017.

b) Basis of preparation

The preparation of these interim financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the interim financial statements, are disclosed in Note 4. Actual results may differ from these estimates.

The interim financial statements are presented in Canadian dollars, which is the Company's functional currency. Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At periods end, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the statement of financial position date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at periods end exchange rates are recognized in profit and loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

c) Change in accounting policies

The accounting policies applied in preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's financial statements for the year ended December 31, 2016. The Company did not adopt any accounting policies effective January 1, 2017 that would have a material impact on these interim financial statements.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company does not expect the impact of such changes on the financial statements to be material.

- **IFRS 9 Financial Instruments**

In July 2014, the IASB issued IFRS 9, Financial Instruments, will replace IAS 39, Financial Instruments: Recognition and Measurement, and some of the requirements of IFRS 7, Financial Instruments: Disclosures. The objective of IFRS 9 is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. The IASB has determined the revised effective date for IFRS 9 will be for annual periods beginning on or after January 1, 2018.

- **IFRS 16 Leases**

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, Leases, eliminating the current dual accounting model for lessees, which distinguishes between on balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning January 1, 2019. The extent of the impact of adoption of IFRS 16 has not yet been determined.

4. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the interim financial statements in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Kaiyue International Inc.
Notes to the Condensed Interim Financial Statements
(Expressed in Canadian dollars)
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

4. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS - CONTINUED

Deferred taxes

The Company recognizes the deferred tax benefit related to deferred tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods from deferred tax assets.

Share-based payment transactions

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grants. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share options, volatility and dividend yield and making assumptions about them.

Critical judgments in applying the Company's accounting policies

Critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements are limited to management's assessment of the Company's ability to continue as a going concern (Note 1).

5. EXPLORATION AND EVALUATION ASSETS

Toe Property – Yukon Territory

On July 25, 2012, the Company entered into a letter agreement (the "Letter Agreement") with BCGold Corp. ("BCGold") pursuant to which BCGold has agreed to grant the Company an option to acquire up to 70% of its 100% interest in and to 76 mineral claims known as the Toe Property ("Toe Property") located in Yukon (the "Transaction").

In order to acquire a 60% interest of the 70% interest in the Toe Property, the Company will be required to make the following payments, incur the following exploration expenditure and share issuance to BCGold:

| | Cash | Exploration Expenditure | Shares |
|--|-------------------|------------------------------------|----------------|
| upon signing of the Letter Agreement (paid) | \$ 25,000 | \$ - | - |
| upon receipt of the Final Approval (issued) | - | - | 100,000 |
| on or before from November 12, 2013 (unpaid) | 25,000 | - | - |
| on or before from November 12, 2013 (\$100,000 incurred) | - | 200,000 | - |
| on or before from November 12, 2013 (issued) | - | - | 100,000 |
| on or before from November 12, 2014 (unpaid, un-incurred and unissued) | 55,000 | 400,000 | 200,000 |
| on or before from November 12, 2015 (unpaid, un-incurred) | 50,000 | 650,000 | - |
| on or before from November 12, 2016 | 100,000 | 650,000 | - |
| | \$ 255,000 | \$ 1,900,000 | 400,000 |

Kaiyue International Inc.
Notes to the Condensed Interim Financial Statements
(Expressed in Canadian dollars)
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

5. EXPLORATION AND EVALUATION ASSETS - CONTINUED

On November 8, 2012, the Company also entered into the Finder's Fee Agreement (the "Agreement") with Canaccord Genuity Corp. ("Canaccord Genuity"). As compensation for its role in assisting the Company to purchase certain minerals claims from BCGold, the Agreement required the Company to make the following payment and shares issuance:

| | Cash | Shares |
|--|-----------|---------|
| upon signing of the Agreement (paid) | \$ 25,000 | - |
| upon closing of the Transactions (issued on November 12, 2012) | - | 25,000 |
| on or before from November 12, 2013 (unissued) | - | 25,000 |
| on or before from November 12, 2014 (unissued) | - | 25,000 |
| on or before from November 12, 2015 (unissued) | - | 25,000 |
| | \$ 25,000 | 100,000 |

The Company has not completed all of its obligations under the original Letter Agreement, resulting the Company being in default of the option agreement. Accordingly, the Company has recognized an impairment in the amount of \$180,000 in 2015 on Toe Property to reduce the carrying amount of interest in Toe Property to \$Nil. If there is an indication in the future that the impairment loss recognized no longer exists or has decreased, the recoverable amount will be estimated and the carrying value of the property will be increased to its recoverable amount.

Shizipo project and Jianlingcun Project

On March 10, 2014, the Company entered into an option agreement (the "Option Agreement") with Rich Links Parties, defined as Rich Links Venture Limited ("Rich Links"), XingYuan Investment Mining Limited ("XingYuan"), a Hong Kong Corporation wholly owned by Rich Links, and Mr. Pui Kei Kwok, a person who owns 100% of the issued and outstanding share capital of Rich Links. Pursuant to the Option Agreement, the Company received an option to acquire up to 51% interest in and to the Shizipo project in Qiongzong county and Jianlingcun project in Din'an county, both located in the Hainan province in People's Republic of China.

In order to acquire up to 51% interest in the Shizipo project and Jianlingcun Project, the Company will be required to pay Mr. Pui Kei Kwok (the "Vendor") the following payments, incur the following exploration expenditure and shares issuance from March 10, 2014 (the "Effective Date"):

| | Cash | Exploration Expenditure | Shares |
|--|------------|----------------------------|---------|
| To acquire an initial 6% interest in the Projects | | | |
| upon signing of the Option Agreement (paid) | \$ 10,000 | \$ - | - |
| on or before March 10, 2015 (paid) | 10,000 | - | - |
| on or before March 10, 2015 (issued on August 24, 2015) | - | - | 100,000 |
| on or before March 10, 2015 (incurred) | - | 50,000 | - |
| To acquire an additional 5% interest in the Projects | | | |
| on or before March 10, 2016 (unpaid, un-incurred and unissued) | 10,000 | 50,000 | 100,000 |
| To acquire an additional 10% interest in the Projects | | | |
| on or before March 10, 2017 (unpaid, un-incurred and unissued) | 20,000 | 250,000 | 100,000 |
| To acquire an additional 10% interest in the Projects | | | |
| on or before March 10, 2018 | 20,000 | 250,000 | 100,000 |
| To acquire an additional 20% interest in the Projects | | | |
| on or before March 10, 2019 | 50,000 | 150,000 | 100,000 |
| | \$ 120,000 | \$ 750,000 | 500,000 |

Kaiyue International Inc.
Notes to the Condensed Interim Financial Statements
(Expressed in Canadian dollars)
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

5. EXPLORATION AND EVALUATION ASSETS - CONTINUED

Due to the current market situations, management decided not to incur \$50,000 exploration expenditures, make the \$10,000 cash payment and issue 100,000 shares due on March 10, 2016, resulting the Company being in default of the option agreement. The Company has recognized an impairment in the amount of \$71,000 in 2015 on Shizipo project and Jianlingcun Project to reduce the carrying amount of interest to \$Nil. Due to uncertainty of management's intention to continue exploration activities on Shizipo and Jianlingcun projects, there is no recovery of the value of the property in current year.

Expenditure related to the property can be summarized as follows:

| | | Toe Property | | Shizipo project | | Total |
|---|----|-------------------------|----|----------------------------|----|--------------|
| Beginning balance - January 1, 2015 | \$ | 180,000 | \$ | 70,000 | \$ | 250,000 |
| Issuance of shares | | - | | 1,000 | | 1,000 |
| Write-down of property in 2015 | | (180,000) | | (71,000) | | (251,000) |
| Ending balance - June 30, 2017 and December 31, 2016 | \$ | - | \$ | - | \$ | - |

6. RELATED PARTIES TRANSACTION

Amounts due from (to) related parties

| | June 30, 2017 | December 31, 2016 |
|--|--------------------------|------------------------------|
| | \$ | \$ |
| Amounts owing to CFO of the Company (a) | 2,625 | 2,625 |
| Amounts owing to CEO of the Company (b) | 7,900 | - |
| Amounts owing to a director of the Company (c) | 825 | 825 |
| Zhongyi Financial Investment Consultants (Shenzhen) Ltd. (d) | 16,500 | 16,500 |
| | 27,850 | 19,950 |

- (a) Balance is related to payable to current CFO of her consulting service and reimbursement of expenses.
(b) Balance is related to payable to current CEO of her consulting service and reimbursement of expenses.
(c) Balance is related to payable to current Director for his directorship service.
(c) Balance consists of rental fees due to Zhongyi Financial Investment Consultants (Shenzhen) Ltd. ("Zhongyi") which the CEO of the Company is also part of the senior management team of. In September 2014, the Company entered into an office rental agreement with Zhongyi for \$5,500 per month.

The amount owing to CFO, CEO, Director and Zhongyi is unsecured, non-interest bearing and without fixed repayment terms.

Related party transactions

Compensation of key management personnel

The Company has identified its directors and key officers, including the Chief Executive Officer and Chief Financial Officer, as its key management personnel. No post-employment benefits, other long-term benefits and termination benefits were made during the six months ended June 30, 2017 and 2016.

Kaiyue International Inc.
Notes to the Condensed Interim Financial Statements
(Expressed in Canadian dollars)
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

6. RELATED PARTIES TRANSACTION - CONTINUED

The remuneration of directors and officers comprising key management personnel during the six months ended June 30, 2017 and 2016 was as follows:

| | June 30, 2017 | June 30, 2016 |
|--------------------------------------|--------------------------|--------------------------|
| | \$ | \$ |
| Consulting fees incurred to officers | 45,000 | 45,000 |
| Director fees | 4,400 | 4,400 |
| Share-based payments | 543 | 1,438 |

In September 2014, the Company entered into an office rental agreement with Zhongyi for \$5,500 per month. For the six months ended June 30, 2017, there was \$33,000 rental expense under the agreement incurred (June 30, 2016 – \$33,000).

On May 18, 2017, the Company closed a non-brokered private placement financing of 1,000,000 common shares of the Company (each, a “Share”), at \$0.05 per Share for proceeds of \$50,000 (the “Private Placement”) from the Company's CEO. The CEO previously had beneficial ownership of, and control and direction over, 4,275,000 common shares of the Company and, pursuant to the Private Placement acquired an additional 1,000,000 resulting in beneficial ownership of, and control and direction over, an aggregate total of 5,275,000 common shares of the Company, representing approximately 24.91% of the total issued and outstanding common shares of the Company.

The above transactions were entered into in the ordinary course of business and recorded at their exchange amounts being the amounts agreed upon by the related parties.

7. CAPITAL MANAGEMENT

The primary objective of managing the Company's capital is to ensure there is sufficient available capital to support the Company's ongoing operation and ensure the Company remains in a sound financial position. As of June 30, 2017, the Company's capital structure consists of share capital of \$2,175,070 (December 31, 2016 - \$1,881,741). As of June 30, 2017, the Company had a deficit of \$1,970,092 (December 31, 2016 - \$1,835,800).

The directors of the Company review the capital structure from time to time. As part of this review, the directors considered the cost of capital and the risks associate with the capital structure. The Company is not subject to any externally imposed capital requirements.

8. FINANCIAL INSTRUMENTS

Fair value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

The fair values of cash and cash equivalents, trade payables and accrued liabilities, and due to related parties approximates their carrying value due to their short term maturities.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Kaiyue International Inc.
Notes to the Condensed Interim Financial Statements
(Expressed in Canadian dollars)
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

8. FINANCIAL INSTRUMENTS - CONTINUED

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 - inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - inputs that are not based on observable market data.

The fair value of cash and cash equivalents is based on level 1 inputs of the fair value hierarchy.

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(a) Credit Risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash held with banks. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The credit risk on cash is limited because the Company banks with a large international bank with solid credit ratings.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages all liquidity risk through maintaining sufficient working capital through daily monitoring of controls, cash and cash equivalents balance and operating results. The financial liabilities consisting of trades payables and accrued liabilities are expected to be settled within three months.

9. SHARE CAPITAL

Capital stock

The Company's common shares have no par value and the authorized share capital is composed of 77,000,000 of common shares.

On March 6, 2017, the Company completed the Private Placement for aggregate gross proceeds of \$245,000. The Private Placement consisted of 4,900,000 common shares of the Company (each, a "Share"), at \$0.05 per Share. All of the Shares issued pursuant to the Private Placement are subject to a hold period expiring July 7, 2017.

On May 18, 2017, the Company closed its non-brokered private placement financing of 1,000,000 common shares of the Company (each, a "Share"), at \$0.05 per Share for proceeds of \$50,000 (the "Private Placement"). All of the Shares issued pursuant to the Private Placement are subject to a restricted period of four months and one day from the date of closing.

Share capital outstanding at June 30, 2017 was 21,174,230 common shares (December 31, 2016 - 15,274,230)

Escrow shares

As at June 30, 2017, the Company has nil of its shares held in escrow (December 31, 2016 - nil).

Kaiyue International Inc.
Notes to the Condensed Interim Financial Statements
(Expressed in Canadian dollars)
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

9. SHARE CAPITAL - CONTINUED

Stock options

The Company has adopted an incentive stock option plan which provides that the directors of the Company may from time to time, in their discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, nontransferable options to purchase common shares, provided that the number of common shares reserved for issue will not exceed 10% of the number of the outstanding common shares.

Such options will be exercisable for a period of up to five years after the date of grant thereof. The number of common shares reserved for issue to any individual director or officer will not exceed 5% of the number of then outstanding common shares and the number of common shares reserved for issue to all technical consultants will not exceed 2% of the number of then outstanding common shares. Options may be exercised the greater of 12 months after completion of the Qualifying Transaction and 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, or technical 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.

(a) Directors' and officers' options

As at June 30, 2017, the Company has stock options outstanding to directors and officers to acquire an aggregate of 200,000 common shares summarized as follows:

| | Number of Options | Exercise Price | Expiry Date |
|--|-------------------|----------------|----------------|
| Outstanding, December 31, 2014 | 400,000 | \$0.12 | |
| Cancelled on April 12, 2015 | (50,000) | 0.13 | May 24, 2018 |
| Cancelled on April 12, 2015 | (50,000) | 0.10 | August 6, 2015 |
| Expired on August 6, 2015 | (100,000) | 0.10 | August 6, 2015 |
| Outstanding, June 30, 2017 and December 31, 2016 | 200,000 | \$0.13 | May 24, 2018 |

On May 24, 2013, the Company granted an aggregate of 250,000 options to directors and officers of the Company at an exercise price of \$0.13 per share for a period of 60 months. All of the options were vested equally over a four year period (25% on each of the 1st to 4th anniversary dates of grant) and are exercisable in accordance with the terms of the Company's Stock Option Plan.

The fair value of the options at the time of grant using the Black-Scholes Option Pricing Model was \$0.11 per option assuming a volatility of 132%, a risk free interest rate of 1.37%, an expected life of 5 years and an expected dividend rate of 0%. The expected volatility assumptions have been developed taking into consideration of historical and implied volatility of the company. During the six months ended June 30, 2017, the Company recognized share-based payment of \$543 related to these options (2016 - \$1,438).

The options outstanding at June 30, 2017 have an exercise price \$0.13 (December 31, 2016 - \$0.13) and a weighted average remaining contractual life of 0.90 years (December 31, 2016 - 1.40 years). There are 200,000 options exercisable at June 30, 2017 (December 31, 2016 - 150,000).

10. SUBSEQUENT EVENTS

On August 3, 2017, the Company announced that it has entered into a binding letter of intent (the "LOI") dated July 28, 2017 with Potanicals Green Growers Inc. ("**Potanicals**") whereby the parties will complete a business combination by way of a transaction that will constitute a reverse takeover of the Company by Potanicals (the "**Transaction**"). Pursuant to the Transaction, all of the issued and outstanding common shares of Potanical (the "**Potanicals Shares**") will be exchanged for common shares of the Company (the "**Kaiyue Shares**"), which will result in Potanicals becoming a wholly-owned subsidiary of the Company or otherwise combining its corporate existence with a wholly-owned subsidiary of the Company. The resulting issuer that will exist upon completion of the Transaction (the "**Resulting Issuer**") will change its business from mining to the licensed production of marijuana under the Access to Cannabis for Medical Purposes Regulations ("**ACMPR**"). The final structure of the Transaction will be determined by the parties following receipt of tax, corporate and securities law advice. The Transaction is an arm's length transaction.

Transfer of Listing to the CSE

Upon closing of the Transaction, but subject to receipt of approvals of the TSX Venture Exchange (the "**TSXV**") and the Canadian Securities Exchange (the "**CSE**"), the Resulting Issuer's common shares will be delisted from trading on the TSXV and will be listed for trading on the CSE. There can be no assurance that the proposed transfer of the listing to the CSE will be approved by the TSXV or that the CSE will approve the listing of the Resulting Issuer's shares. Non-approval of the transfer of the listing will prohibit or negatively impact closing of the Transaction with the result that the Company will need to seek and secure another acquisition of a business or assets to ensure that the Company will meet the TSXV's continued listing requirements.

Share Consolidation, Continuation and Name Change

Prior to closing of the Transaction, but subject to receipt of approvals of the TSXV and the CSE and if required, the Company's shareholders, Kaiyue will consolidate all its issued and outstanding common shares based on a consolidation ratio (2.1174-to-1) that will result in the reduction of Kaiyue's issued and outstanding common shares to not more than 10,000,000 shares on a non-diluted basis (the "**Consolidation**"), will continue its legal existence from Alberta to British Columbia, and Kaiyue will change its name to " such name as is acceptable to management of Potanicals and applicable regulatory authorities.

Share Exchange and Kaiyue Stock Options

Pursuant to the Transaction and following completion of the Private Placement, Kaiyue Shares will be issued to the holders of securities of Potanicals on a post-Consolidation basis in exchange for all of the then issued and outstanding securities of Potanicals, on the basis of 4.5 Kaiyue Shares for each issued and outstanding Potanicals Share, for an aggregate 124,186,750 Kaiyue Shares. On closing of the Transaction, there will be a total of 134,186,750 common shares of the Resulting Issuer issued and outstanding, plus 94,455 stock options to purchase post-Consolidated common shares of Kaiyue at a price of \$0.27 per share (the "**Kaiyue Options**"). Following closing of the Transaction, the outstanding Kaiyue Options will remain in effect.

Management of the Resulting Issuer

Upon closing of the Transaction, Kaiyue's directors and officers will resign, the board of directors of the Resulting Issuer will consist of five directors, as well as a Chief Executive Officer, a President, a Chief Financial Officer and a Corporate Secretary of the Resulting Issuer, all of whom will be as nominated by Potanicals. Potanicals' management team is comprised of entrepreneurs with experience in medical marijuana, real estate development, and agriculture businesses.

Closing Conditions

The completion of the Transaction is subject to a number of conditions, including but not limited to the following:

- the execution of a definitive agreement;
- completion of mutually satisfactory due diligence;
- completion of the Private Placement;

Kaiyue International Inc.
Notes to the Condensed Interim Financial Statements
(Expressed in Canadian dollars)
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

10. SUBSEQUENT EVENTS - CONTINUED

- receipt of all required regulatory, corporate and third party approvals, including approvals by the TSXV, the CSE and the shareholders of Kaiyue and Potanicals, and fulfilment of all applicable regulatory requirements and conditions necessary to complete the Transaction;
- all of the Company's mineral property interests and existing business being sold or terminated, provided that no liability is incurred by Kaiyue in doing so; and
- completion of the delisting of the Resulting Issuer from the TSXV and the listing of the Resulting Issuer's common shares on the CSE.

Termination of the LOI

The LOI may be terminated if one of the following events occurs:

- (a) written agreement of the parties to terminate the LOI;
- (b) the definitive agreement has not been entered into by the parties by 5:00 p.m. (Vancouver time) on October 31, 2017 or such later date as the parties may agree upon in writing;
- (c) a party has breached or is in default of any material term of the LOI and fails to cure such breach or default within ten days after receiving written notice from the other party containing details of the breach;
- (d) any condition of closing of the Transaction for the benefit of a party is not fulfilled or waived within the time required or becomes incapable of being satisfied; or
- (e) any applicable regulatory authority, the TSXV or the CSE having notified in writing either Kaiyue or Potanicals that it will not approve the Transaction or permit the Transaction to proceed.

Trading Halt

Trading in the Company's shares was halted on July 31, 2017 and is expected to remain halted until closing of the RTO and listing on the CSE.