LISTING STATEMENT

FORM 2A

BENCHMARK BOTANICS INC.

LISTING STATEMENT

November 2, 2017

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Cautionary Note Regarding Forward-Looking Statements

The information provided in this Listing Statement, including information incorporated by reference, may contain "forward- looking statements" about Benchmark Botanics Inc. (formerly Kaiyue International Inc.) (the "**Corporation**"). In addition, the Corporation may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of the Corporation that are not statements of historical fact and may also constitute forward-looking statements. All statements, other than statements of historical fact, made by the Corporation that address activities, events or developments that the Corporation expects or anticipates will or may occur in the future are forward- looking statements, including, but not limited to, statements preceded by, followed by or that include words such as "may", "will", "would", "could", "should", "believes", "estimates", "projects", "potential", "expects", "plans", "intends", "anticipates", "targeted", "continues", "forecasts", "designed", "goal", or the negative of those words or other similar or comparable words.

Forward-looking statements may relate to future financial conditions, results of operations, plans, objectives, performance or business developments. These statements speak only as at the date they are made and are based on information currently available and on the then current expectations of the Corporation and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to:

- the failure to realize benefits of the acquisition;
- the intention to grow the business and operations of the Corporation;
- treatment under government regulatory and taxation regimes and potential changes thereto in light of recent court decisions;
- the impact of potential legalization of cannabis in Canada;
- future liquidity and financial capacity;
- the availability of financing opportunities, risks associated with economic conditions, dependence on management and conflicts of interest; and
- other risks described in this Listing Statement and described from time to time in documents filed by the Corporation with Canadian securities regulatory authorities.

Consequently, all forward-looking statements made in this Listing Statement and other documents of the Corporation are qualified by such cautionary statements and there can be no assurance that the anticipated results or developments will actually be realized or, even if realized, that they will have the expected consequences to or effects on the Corporation. The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that the Corporation and/or persons acting on the Corporation's behalf may issue. The Corporation undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required under securities legislation.

Market and Industry Data

This Listing Statement includes market and industry data that has been obtained from third party sources, including industry publications. The Corporation believes that its industry data is accurate and that its estimates and assumptions are reasonable, but there is no assurance as to the accuracy or completeness of this data. Third party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there is no assurance as to the accuracy or completeness of included information. Although the data is believed to be reliable, the Corporation has not independently verified any of the data from third party sources referred to in this Listing Statement or ascertained the underlying economic assumptions relied upon by such sources.

Glossary of Terms

The following is a glossary of certain general terms used in this Listing Statement including the summary hereof. Terms and abbreviations used in the financial statements included in, or appended to this Listing Statement are defined separately and the terms and abbreviations defined below are not used therein, except where otherwise indicated. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.

"**ABCA**" means the *Business Corporations Act* (Alberta).

"**ACMPR**" means the *Access to Cannabis for Medical Purposes Regulations* (Canada), and any successor or replacement regulations, promulgated under the CDSA as the same may be amended from time to time and includes all notices, guidance, guidelines and ancillary rules or regulations promulgated thereunder or in connection therewith.

"**Affiliate**" means a Company that is affiliated with another Company as described below.

A Company is an "Affiliate" of another Company if:

(a) one of them is the subsidiary of the other; or

(b) each of them is controlled by the same Person.

A Company is "controlled" by a Person if:

(a) voting securities of the Corporation are held, other than by way of security only, by or for the benefit of that Person; and

(b) the voting securities, if voted, entitle the Person to elect a majority of the directors of the Corporation.

A Person beneficially owns securities that are beneficially owned by:

(a) a Company controlled by that Person; or

(b) an Affiliate of that Person or an Affiliate of any Company controlled by that Person.

"**Associate**" when used to indicate a relationship with a Person, means:

(a) an issuer of which the Person beneficially owns or controls, directly or indirectly, voting securities entitling him to more than 10% of the voting rights attached to outstanding securities of the issuer;

(b) any partner of the Person;

(c) any trust or estate in which the Person has a substantial beneficial interest or in respect of which a Person serves as trustee or in a similar capacity; or

(d) in the case of a Person who is an individual:

(i) that Person's spouse or child, or

(ii) any relative of the Person or of his spouse who has the same residence as that Person.

"**BCBCA**" means the *Business Corporations Act* (British Columbia).

"**Board of Directors**" means the board of directors of the Corporation.

"**CanGenX Agreement**" means the consulting agreement between Potanicals and CanGenX dated effective March 7, 2017 whereby CanGenX granted Potanicals a license to use its micro-propagation technology and agreed to provide consulting services to Potanicals.

"**CanGenX**" means CanGenX Bio Tech Inc.

"**CBD**" is a cannabis compound that has significant medical benefits, but does not make people feel “stoned” and can actually counteract the psychoactivity of THC.

"**CDSA**" means the *Controlled Drugs and Substances Act* (Canada).

"**Closing**" means closing of the Transaction.

"**Closing Date**" means November 2, 2017.

"**Common Shares**" means common shares in the capital of the Corporation.

"**Company**" unless specifically indicated otherwise, means a corporation, unincorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual.

"**Consideration Shares**" means the 124,186,752 post-Consolidation Common Shares issued by the Corporation to Potanicals Shareholders pursuant to the terms of the Share Exchange Agreement.

"**Consolidation**" means the consolidation of all of the issued and outstanding Common Shares on the basis of one (1) new Common Share for every two and one thousand one hundred and seventy-four (2.1174) issued and outstanding Common Shares.

"**Continuation**" means the continuation of the Corporation's corporate jurisdiction from Alberta under the ABCA to British Columbia under the BCBCA.

"**Contract of Purchase and Sale**" means the contract between Potanicals as purchaser and Douglas Turner as vendor dated effective November 8, 2016, as amended on September 19, 2017, for the purchase and sale of approximately 10 acres comprised in the lands on which the Facility has been built.

"**Corporation**" means Benchmark Botanics Inc. (formerly Kaiyue International Inc.)

"**CSE**" means the Canadian Securities Exchange.

"**CSE Approval**" means the final approval of the CSE in respect of the listing of the Corporation's Common Shares on the CSE, as evidenced by the issuance of the final approval bulletin of the CSE in respect thereof.

"**CSE Policies**" means the rules and policies of the CSE in effect as of the date hereof.

"**Escrow Agent**" means TSX Trust of 200 University Avenue, Suite 300, Toronto, Ontario M5H 4H1.

"**Escrow Agreement**" means the escrow agreement dated as of September 25, 2017 entered into by the Corporation, the Escrow Agent and certain securityholders of the Corporation in compliance with the requirements of the CSE.

"**Escrow Policy**" means National Policy 46-201 – *Escrow for Initial Public Offerings*.

"**Escrowed Securities**" means 33,174,000 Common Shares that are subject to the Escrow Agreement.

"**Facility**" means Potanicals' 12,700 square foot facility located on a 20-acre plot of land in Peachland, British Columbia.

"**kg**" means kilograms.

"**Lease Agreement**" means the agreement among Claude (Cliff) Stowell and Judith Stowell as landlord, Potanicals as tenant and 0995406 B.C. Ltd., a company controlled by Ping (Johnson) Zhang, dated March 24, 2014, as amended on September 24, 2014, regarding, among other things, the lease by Potanicals of approximately 10 acres comprised in the lands on which the Facility has been built and the transfer of the application for the License from Mr. Stowell to Potanicals.

"**License**" means a license from Health Canada issued pursuant to the ACMPR or the MMPR, and includes any successor or replacement license issued by Health Canada.

"**Licensed Producer**" means a "Licensed Producer" of medical cannabis within the meaning of the ACMPR.

"**Meeting**" means the annual general and special meeting of the Shareholders held on September 28, 2017.

"**MI 61-101**" means Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions*.

"**MMAR**" means the *Marihuana Medical Access Regulations* (Canada), which was replaced by the MMPR.

"**MMPR**" means the *Marihuana for Medical Purposes Regulations* (Canada), which was replaced by the ACMPR.

"**Name Change**" means the change of the Corporation's name from "Kaiyue International Inc." to "Benchmark Botanics Inc."

"**Narcotic Control Regulations**" means the *Narcotic Control Regulations* (Canada) pursuant to the CDSA.

"**Options**" means the outstanding incentive stock options to purchase up to 94,456 Common Shares exercisable at a price of $0.275 per Common Share any time before May 24, 2018, after giving effect to Consolidation.

"**Person**" means an individual or Company.

"**Potanicals**" means Potanicals Green Growers Inc.

"**Potanicals Private Placement**" means the private placement of 5,855,556 Potanicals Shares at a price of $0.90 per share which raised gross proceeds of $5,270,000.

"**Potanicals Shareholders**" means the holders of Potanicals Shares.

"**Potanicals Shares**" means common shares in the capital of Potanicals.

"**Share Exchange Agreement**" means the share exchange agreement among the Corporation, Potanicals and the Potanicals Shareholders, dated September 14, 2017, as amended on September 19, 2017.

"**Shareholders**" means shareholders of the Corporation.

"**Statutory Escrow**" means the release of the Consideration Shares which is subject to the release schedule set out in the Policy.

"**Stock Option Plan**" has the meaning ascribed to it in Section 9 – *Options to Purchase Securities*.

"**THC**" means tetrahydrocannabinol, which is a psychotropic cannabinoid and is the principal psychoactive constituent of cannabis.

"**Transaction**" means the acquisition by the Corporation of all of the issued and outstanding Potanicals Shares in exchange for the issuance of the Consideration Shares in accordance with the terms of the Share Exchange Agreement.

"**TSXV**" means the TSX Venture Exchange.

2. CORPORATE STRUCTURE

2.1 Corporate Name and Head and Registered Office

This Form 2A Listing Statement has been prepared with respect to the Corporation in connection with its listing on the CSE. The head office is located at #105 – 6111 London Road, Richmond, BC V7E 3S3 and the registered office of the Corporation is located at Suite 1000 – 595 Burrard Street, Vancouver, BC V7X 1S8. On November 2, 2017, the Corporation changed its name to 'Benchmark Botanics Inc.' and completed the Consolidation.

2.2 Jurisdiction of Incorporation

The Corporation was incorporated under the ABCA on November 23, 2009. On November 2, 2017 the Corporation continued into the Province of British Columbia under the BCBCA.

2.3 Inter-corporate Relationships

The Corporation has no subsidiaries. For an organizational chart following the completion of the Transaction, please refer to Section 2.4 – *The Transaction*.

2.4 The Transaction

On September 14, 2017, the Corporation entered into the Share Exchange Agreement whereby the Corporation, Potanicals and the Potanicals Shareholders agreed to a business combination by way of a transaction that constituted a reverse takeover of the Corporation by Potanicals. On November 2, 2017, the Transaction completed following completion of the Potanicals Private Placement, the Corporation issued Consideration Shares to the Potanicals Shareholders on a post-Consolidation basis in exchange for all of the then issued and outstanding Potanicals Shares, on the basis of four and a half (4.5) Consideration Shares for each issued and outstanding Potanicals Share, for a total 124,186,752 Consideration Shares. On Closing, there was a total of approximately 134,186,861 Common Shares issued and outstanding, plus Options to purchase up to 94,456 Common Shares of at a price of $0.275 per Common Share. Following Closing, the outstanding Options will remain in effect and it is expected that additional Options will be granted to the Corporation's management team.

On September 19, 2017, the Transaction was approved by the written consent of Shareholders holding a majority of the outstanding Common Shares. At the Meeting, the Shareholders approved, among other things, the Name Change, the Consolidation and the Continuation. A management information circular in respect of the Meeting was mailed to the Shareholders and filed under the Corporation's SEDAR profile at www.sedar.com.

Upon completion of the Transaction, and in compliance with the Corporation's articles, the Board of Directors will expand its membership from three (3) individuals to five (5) individuals. On Closing, the directors and officers of the Corporation became:

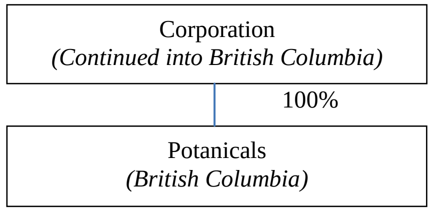
- Ping (Johnson) Zhang, Chief Executive Officer and Director
- Claude (Cliff) Stowell, Chief Operating Officer and Director
- Peter R. Hughes, Director
- George Dorin, Director
- Haifeng Liu, Director
- Richard (Rick) Lee, Chief Financial Officer

See Section 13 – *Directors and Officers – Management* in this Listing Statement

The Corporation's authorized share capital consists of an unlimited number of Common Shares without par value. Prior to giving effect to the Consolidation and the Transaction, the outstanding capital of the Corporation consisted of 21,174,230 Common Shares and 200,000 Options. Upon completion of the Consolidation and the Transaction, the outstanding capital of the Corporation consisted of approximately 134,186,861 Common Shares and 94,456 Options.

Post-Transaction Corporate Structure

Potanicals is incorporated under the BCBCA. Upon completion of the Transaction, Potanicals became a wholly-owned subsidiary of the Corporation. Other than Potanicals, the Corporation does not anticipate having any other subsidiaries. The organizational chart below sets out the post-Transaction corporate structure of the Corporation including its subsidiary Potanicals, their respective jurisdictions of incorporation, and the percentage of voting rights held.



Please refer to Section 3.1 – *General Development of the Business*.

2.5 Non-corporate Issuers and Issuers incorporated outside of Canada

This section is not applicable to the Corporation.

3. GENERAL DEVELOPMENT OF THE BUSINESS

3.1 General Development of the Business

The Corporation

General Development of the Business

Since listing on the TSXV on August 12, 2010 and before completion of the Transaction, the Corporation was an exploration stage public company whose principal business activities were the acquisition and exploration of mineral properties. The Corporation was a Capital Pool Company ("**CPC**") as defined in the Policy 2.4 *Capital Pool Companies* of the TSXV. On July 25, 2012, the Corporation entered into a letter agreement with BCGold Corp. ("**BCGold**") pursuant to which BCGold granted the Corporation an option to acquire up to 70% of its 100% interest in and to 76 mineral claims known as the Toe Property located in Yukon, which was the Corporation's Qualifying the Transaction. The Corporation received final acceptance of filing the Qualifying Transaction from the TSXV on November 15, 2012 and was no longer considered a CPC. Due to the current market situation, the Corporation has not completed all of its obligations under the option agreement with BCGold, resulting in the Corporation being in default.

On March 10, 2014, the Corporation entered into an option agreement with Rich Links Venture Limited ("**Rich Links**"), XingYuan Investment Mining Limited ("**XingYuan**"), a Hong Kong Corporation wholly owned by Rich Links, and Pui Kei Kwok, a person who owns 100% of the issued and outstanding share capital of Rich Links. Pursuant to the option agreement, the Corporation was granted an option to acquire up to 51% interest in the Shizipo project in Qiongzhong County and Jianlingcun project in Din'an County, both located in the Hainan province in People's Republic of China. Due to the current market situation, the Corporation has not completed all of its obligations due on March 10, 2016 under the option agreement, resulting in the Corporation being in default.

Management began seeking a new business opportunity outside of the resource sector and entered into the Share Exchange Agreement with Potanicals.

Recent Financings

On May 18, 2017, the Corporation completed a non-brokered private placement to raise gross proceeds of $50,000 through the issuance of 1,000,000 pre-Consolidation Common Shares to Hilda Sung, the President, Chief Executive Officer and a director of the Corporation. The proceeds of the private placement were put toward the Corporation's general working capital.

On March 6, 2017, the Corporation completed a non-brokered private placement to raise gross proceeds of $245,000 through the issuance of 4,900,000 pre-Consolidation Common Shares. The proceeds of the private placement were put toward the Corporation's general working capital.

Potanicals

Potanicals is a privately-owned company incorporated under the BCBCA on February 7, 2014. The registered and records office of Potanicals is located at 1000 – 595 Burrard Street, Vancouver, British Columbia V7X 1S8. The head office of Potanicals is located at 4715 Paradise Valley Drive, Peachland, British Columbia V0H 1X3. Potanicals has no subsidiaries.

Potanicals specializes in the advanced cultivation of medical marijuana. Together with an experienced cultivation team, Potanicals has in place a strong sales team in order to establish Potanicals as a leading producer in the Canadian medical marijuana industry.

In June 2013, management began the process of applying for a License under the new ACMPR. On, October 13, 2017, it received its License to cultivate cannabis under ACMPR and became a Licensed Producer for the Facility. Now that Potanicals has received its License to cultivate cannabis, it will be able to more quickly begin producing its first crops and capturing market share. It is Potanicals' goal to create one of the most technologically advanced and secure facilities in Canada in compliance with applicable rules and regulations.

Potanicals' management made the decision to move forward with construction of the Facility in March 2014, based on a review of the likelihood of receiving a License to produce and the rewards associated with being able to produce in a timely manner if Potanicals is successful with its application. Potanicals completed the construction of the Facility, which is a 12,700-square-feet production facility in Peachland, British Columbia to plant, grow and cultivate high-quality medical-grade marijuana using advanced and proprietary cultivation methods.

The Facility will be Potanicals' Phase 1 production facility, with additional phases contemplated upon further analysis of market demand and economics. The Facility is situated on two contiguous land plots that total 20 acres.

Potanicals' operations have been funded to-date through financings totaling approximately $4.68 million which has aided in implementing its business plan, including the cost to build Phase 1 of the Facility.

Immediately before completion of the Transaction, the Potanicals Private Placement closed, raising a total of $5,270,000. The proceeds from the Potanicals Private Placement will be used for production cost and the second phase facility cost.

On June 29, 2017, Potanicals issued 590,617 Potanicals Shares at a price of $0.50 per Potanicals Share to raise $295,308.50, which was used for the first phase facility and licensing cost.

On November 1, 2016, Potanicals issued 600,000 Potanicals Shares at a price of $0.50 per Potanicals Share to raise $300,000, which was used for the first phase facility and licensing cost.

On October 25, 2016, Potanicals issued 3,838,000 Potanicals Shares at a price of $0.25 per Potanicals Share and 4,300,000 Potanicals Shares at a price of $0.50 per Potanicals Share raising a total of $3,109,500, which was used for the first phase facility and licensing cost.

On November 24, 2014, Potanicals issued 400,000 Potanicals Shares at a price of $0.75 per Potanicals Share to raise $300,000, which was used for the first phase facility and licensing cost.

On September 24, 2014, Potanicals issued 4,500,000 Potanicals Shares at a price of $0.26 per Potanicals Share to raise $1,170,000, which was used for the first phase facility and licensing cost.

<u>What is Medical Marijuana?</u>

Marijuana and cannabis both have the same meaning when speaking about the drug. However, botanically, talking about the plant genus Cannabis is the generally accepted term. The drug, cannabis (marijuana), is produced from the Cannabis sativa or Cannabis indica plant which grows wild in many parts of the world. Cannabis has been used for hundreds of years by humans, for fiber (hemp), seed oils, seed, medical treatment and recreationally.

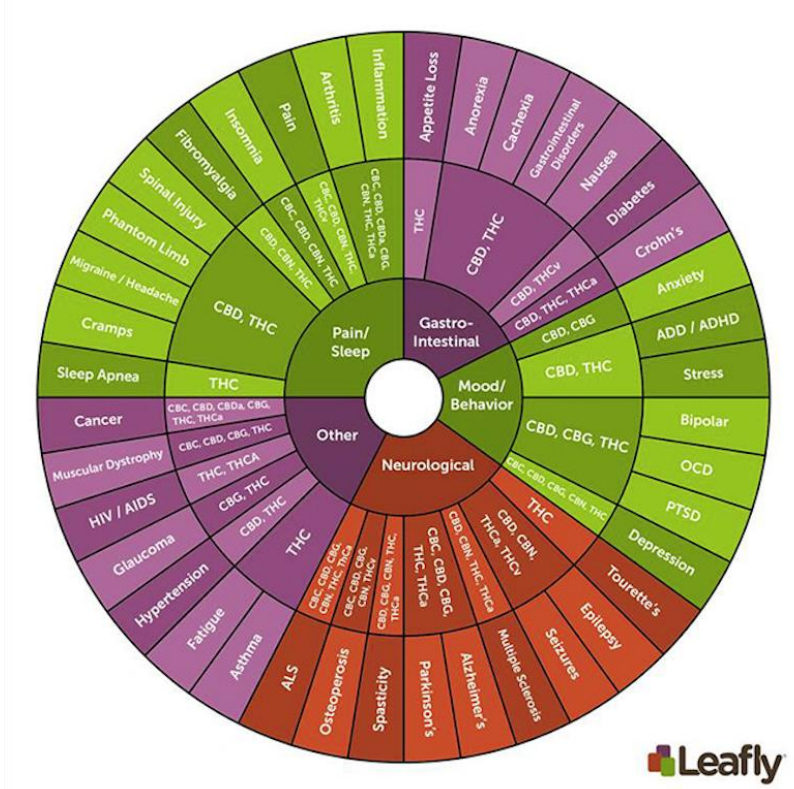
Cannabis, the plant, contains over 400 chemicals, including a penicillin-like antibiotic, cannabidiolic acid. The cannabis plants' chemical derivatives can be used for either recreational or therapeutic (medicinal) purposes. As a recreational drug, cannabis can come in a variety of forms, including: (a) as a dried plant (herbal); (b) a resin; (c) in powder form; and, (d) as oil.

The main active ingredients in cannabis are outlined below.

1. Tetrahydrocannabinol or delta-9-tetrahydrocannabinol (THC) has been shown in some tests to have mild to moderate painkilling (analgesic) effects, and can be used for the treatment of pain. THC alters transmitter release in the spinal cord, resulting in pain relief. The compound is also known to stimulate appetite, induces a relaxed state, and has effects on the person's sense of smell, hearing and eyesight. It can also cause fatigue. In some people, THC may reduce symptoms of aggression. Some limited studies have shown that THC shows promise for the treatment of nausea and/or vomiting.

2. Cannabidiol (CBD) has been shown in some studies to have a sedative effect and increase alertness. CBD has also been shown to relieve the symptoms of nausea, anxiety, inflammation and convulsions and have been suggested by oncologists to inhibit the growth of cancer cells. Scientists in more recent studies say CBD may be useful in treating atypical psychosis in schizophrenia patients, as well as relieving dystonia symptoms. Dystonia is a general term which describes involuntary movements and extended muscle contractions - the patient has tremor, unusual or awkward postures, and twisting body movements. Generally speaking, THC provides psychoactive effects while CBD provides non-psychoactive effects.

Cannabinoids are now recognized as a valuable option in the treatment of pain or other conditions for which it is more effective than any currently available medication. Many published studies are now supporting the use of medical marijuana as an adjunct to or substitute for prescription opiates in the treatment of chronic pain. For decades, reports have been published about the potential medical benefits of cannabis or substances that exist in cannabis. The graphic below outlines some of the uses of medical marijuana around the world.



Regulatory Regime in Canada

Cannabis for recreational use is a criminal offence in Canada. Two bills to decriminalize the recreational use of marijuana in Canada have been defeated, with the latest in 2004. Cannabis for medical use under the approval and supervision of a physician was legalized in 2001. While marijuana is not an approved drug or medicine in Canada, approximately 40,000 patients in Canada were using marijuana under Health Canada's MMAR. Prior to April 1, 2014, Health Canada reported 30,000 patients were growing their own cannabis plants and the remaining patients had a designated grower from whom they purchased their marijuana.

In 2012/2013 Health Canada made a decision to privatize the medical marijuana industry and spent more than a year drafting the MMPR to replace the MMAR. The MMPR was intended to create a more rigorously controlled market similar to other "narcotic" pharmaceuticals. The introduction of the MMPR in April 2014 brought about significant changes in the market from the previous MMAR regime. Under the MMPR, as of April 1, 2014, producing marijuana in a home or private dwelling was illegal and the only source of marijuana was to be that produced under secure and quality-controlled conditions by Licensed Producers who must comply with strict regulatory requirements to demonstrate security and quality.

Under the MMPR, patients growing cannabis at home were to send notification to Health Canada by April 30, 2014 stating that they had stopped production and destroyed their plants, or law enforcement would be notified. However, on March 21, 2014 a Federal Court judge in British Columbia granted an injunction allowing those who have a personal production license to grow medical marijuana to continue, pending the outcome of a trial to be held at a later date. The roughly 40,000 Canadians with an authorization to possess medical marijuana were also allowed to continue to do so under the injunction, though they would only be permitted to hold up to 150 grams.

In 2015, the Liberal party promises to fully legalize marijuana with then Liberal party leader Justin Trudeau declaring “The Liberal Party is committed to legalizing and regulating marijuana”. Following the Liberals’ win in the 2015 election, the party promised to commit to a framework for legalization in 2017.

In February 2016, in Allard v. Canada, a Federal Court judge struck down regulations restricting the rights of medical marijuana patients to grow their own cannabis, and gave the Liberal government six months to come up with new rules. The new rules, the ACMPR replaced the MMPR effective August 24, 2016.

The ACMPR is Canada's response to the Federal Court of Canada's February 2016 decision in Allard v. Canada. This decision found that requiring individuals to get their marijuana only from Licensed Producers violated liberty and security rights protected by section 7 of the Canadian Charter of Rights and Freedoms. The Court found that individuals who require marijuana for medical purposes did not have "reasonable access".

The ACMPR are designed to provide an immediate solution required to address the Court judgment. Moving forward, Health Canada intends to evaluate how a system of medical access to cannabis should function alongside the Government's commitment to legalize, strictly regulate and restrict access to marijuana.

Overall, the ACMPR contain four parts, each of which is summarized below.

Part 1 is similar to the framework under the MMPR. It sets out a framework for commercial production by Licensed Producers responsible for the production and distribution of quality-controlled fresh or dried marijuana or cannabis oil or starting materials (i.e., marijuana seeds and plants) in secure and sanitary conditions.

Part 2 is similar to the former MMAR regime. It sets out provisions for individuals to produce a limited amount of cannabis for their own medical purposes or to designate someone to produce it for them.

Parts 3 and 4 include:

- Transitional provisions, which mainly relate to the continuation of MMPR activities by Licensed Producers

- Consequential amendments to other regulations that referenced the MMPR (i.e., Narcotic Control Regulations, New Classes of Practitioners Regulations) to update definitions and broaden the scope of products beyond dried marijuana

- Provisions repealing the MMPR and setting out the coming into force of the ACMPR on August 24, 2016

As of August 24, 2016, Health Canada will now accept applications from individuals who wish to register to produce a limited amount of cannabis for their own medical purposes or to designate someone to produce cannabis for them.

Under the ACMPR, Health Canada will continue to accept and process applications to become an Licensed Producer that were submitted under the former MMPR. Further, all Licenses and security clearances granted under the MMPR will continue under the ACMPR, which means that Licensed Producers can continue to register and supply clients with cannabis for medical purposes. New applicants can continue to apply for Licenses to produce under the ACMPR.

Under the ACMPR, Licensed Producers are now allowed to sell cannabis for medical purposes in three basic forms: fresh or dried marijuana, or cannabis oil.

In December 2016, the federal Task Force on Cannabis Legalization and Regulation submitted its recommendations to the Canadian government which included recommendations on the following areas: promotion, advertising and marketing restrictions; THC potency; tax and price; public education; workplace safety; personal cultivation; personal possession; medical access; and, implementation of the recommendations. Notable Task Force recommendations are included below:

- Set a national minimum age of purchase of 18, acknowledging the right of provinces and territories to harmonize it with their minimum age of purchase of alcohol.

- Allow limited promotion in areas accessible by adults, similar to those restrictions under the Tobacco Act.

- No co-location of alcohol or tobacco and cannabis sales, wherever possible. When co-location cannot be avoided, appropriate safeguards must be put in place.

- Implement a seed-to-sale tracking system to prevent diversion and enable product recalls.

- Use licensing and production controls to encourage a diverse, competitive market that also includes small producers.

- Access via a direct-to-consumer mail-order system.

- Invest in baseline data collection and ongoing surveillance and evaluation in collaboration with provinces and territories.

On April 13, 2017, the Liberal party announced new regulations for recreational marijuana expected to be implemented by July 1, 2018. Highlights from the proposed set of bills are below:

- The existing program for access to medical marijuana would continue as it currently exists.

- Travellers entering Canada would still be subject to inspections for prohibited goods, including cannabis.

- Possession, production and distribution outside the legal system would remain illegal, as would imports or exports without a federal permit. Such permits will cover only limited purposes, such as medical or scientific cannabis and industrial hemp.

- Sales by mail or courier through a federally licensed producer would be allowed in provinces that lack a regulated retail system.

License Application Process and Requirements

Applicants and Licensed Producers are required to demonstrate compliance with regulatory requirements, such as quality control standards, record-keeping of all activities as well as inventories of cannabis, and physical security measures to protect against potential diversion. Licensed Producers are also required to employ qualified quality assurance personnel who ultimately approve the quality of the product prior to making it available for sale. This approval process includes testing (and validation of testing) for microbial and chemical contaminants to ensure that they are within established tolerance limits for herbal medicines for human consumption, and determining the percentage by weight of the two active ingredients of cannabis, THC and CBD.

Any applicant seeking to become a Licensed Producer under the MMPR/ACMPR is subject to stringent Health Canada licensing requirements. The table below provides a general overview of the licensing process as described by Health Canada. See Section 17 – *Risk Factors - Risks Related to the Operations of the Corporation – Licensing Requirements under the ACMPR.*

Stage	Overview
Stages 1	**Preliminary Screening**: When an application is received, it undergoes a preliminary screening for completeness. If an application is not complete, it will be returned. If an application is complete, it will be assigned an application number. The application number means that the application has completed the preliminary screening.
Stage 2	**Enhanced Screening**: Once an application has been assigned an application number, it will be reviewed to ensure: that the location of the proposed site does not pose a risk to public health, safety and security; that the proposed security measures outlined in the application meet the requirements of the ACMPR; and the proposed quality assurance person has the appropriate credentials to meet the good production requirements outlined in Part 1, Subdivision D of the ACMPR. It is the responsibility of the applicant to ensure that they are in compliance with all applicable provincial, territorial, and municipal legislation, regulations and bylaws, including zoning restrictions.
Stage 3	**Security Clearance**: Once the screening of an application is complete, the security clearance forms for key personnel will be sent for processing. The time required to conduct mandatory security checks varies with each application. Security clearances generally take several months at a minimum. Health Canada and the RCMP are not able to provide updates on the status of security checks. Applications will only advance to the review stage once the security clearances for the key personnel are completed. Please note that until such a time as Health Canada receives the results of the security checks, there will be no further communication from Health Canada.
Stage 4	**Review**: Once all security clearances are obtained, an application will be thoroughly reviewed to validate the information provided. Given the extensive review process, applicants are generally required to communicate with the Office of Controlled Substances multiple times to provide clarifications on the application. Physical security plans will be reviewed and assessed in detail at this stage. Applicants must meet a minimum of a level 7 (pursuant to the physical security directive) to be considered for a License.
Stage 5	**Pre-License Inspection**: Upon confirmation from the applicant that the site has been fully built and security measures are in place, a pre-License inspection will be scheduled. If any deficiencies are identified, they will be communicated to the applicant and must be addressed prior to a License being issued.

Stage 6 *Potanicals' current stage of the Licensing Process*	**Licensing**: Once it has been confirmed through the pre-License inspection that the applicant meets all the requirements of the ACMPRR, a License will be issued. Health Canada has introduced a staged process for the issuance of Licenses. Applicants will first be issued a License to produce only. This will enable Health Canada inspectors to confirm that the first batch of dried marijuana produced meets the good production practices and record keeping requirements outlined in the ACMPR. It also allows Health Canada to verify the test results of the dried marijuana (e.g. for microbial and chemical contaminants) to ensure that the dried marijuana meets all quality control requirements before it is made available for sale. Once a Licensed Producer has finished producing the first crop of marijuana, they must demonstrate through an inspection and test results that the planned growing processes will result in the production of a dried product that meets the Licensed Producer's specified quality control standards and the Good Production Practices set out in Part 1, Subdivision D of the ACMPR. Only once Health Canada is satisfied the Licensed Producer meets the requirements of Part 1, Subdivision D of the ACMPR will a License be amended to allow sale to the public.

Potanicals received its License to cultivate cannabis under ACMPR on October 13, 2017 and became a Licensed Producer. Potanicals has not yet produced its first crop of marijuana.

The Facility

The Facility is located on a twenty-acre lot in Peachland, British Columbia. Pursuant to the Contract of Purchase and Sale, Potanicals has agreed to purchase from Douglas Turner, Secretary and a director of Potanicals, approximately 10 acres comprised in the lands on which the Facility has been built. The purchase price is $825,000 of which $225,000 has been paid by the issuance to Mr. Turner of 450,000 Potanicals Shares at a price of $0.50 per Potanicals Share. Upon completion of the listing of the Common Shares on the CSE with a concurrent financing, Mr. Turner is entitled to receive a second payment of $600,000, which he has the option to convert into Potanicals Shares at the deemed price of $0.90 per Potanicals Share. Pursuant to the Contract of Purchase and Sale, if the CSE listing is not completed, Potanicals will pay the balance of the purchase price of $600,000 upon completion of a $5 million financing (one time or in series) of Potanicals. If Potanicals has not completed the CSE listing or the $5 million financing by December 31, 2017, then the vendor may terminate the Contract of Purchase and Sale and is such event the amount of $225,000 paid to Potanicals will be absolutely forfeited to Mr. Turner on account of damages, without prejudice to other remedies that may be available to Mr. Turner. Potanicals has also agreed to pay Mr. Turner rent of $1,000 per month pending completion of the purchase and sale of the lands, and to assume and pay all taxes, assessments, utilities, insurance and other charges related to the lands and buildings.

Pursuant to the Lease Agreement, Potanicals has leased from Claude (Cliff) Stowell, the President and a director of Potanicals, approximately 10 acres comprised in the lands on which the Facility has been built. Pursuant to the Lease Agreement, Mr. Stowell also transferred of his application for a License to Potanicals. The lease is for a term of five years commencing March 1, 2014 and Potanicals pays Mr. Stowell rent of $2,500 per month plus GST. The lease includes three five-year options for renewal and a Potanicals has a right of first refusal to buy the lands if Mr. Stowell wishes to sell them. Potanicals is responsible for paying all utilities in respect of the Facility and any increase in property taxes on the lands as a result of the construction and operation of the Facility.

The facility is built with steel frame structure with two floors with a total of approximately 12,700 square feet. All operations pertaining to the growing of marijuana are located on the first floor of the Facility, which contains five rooms for growing and vegetation. The first of these rooms is the vegetative chamber (approximately 480 square feet), followed by four reproductive chambers (approximately 520 square feet each). Each of these chambers are equipped with an air filtration system which serve to eliminate pathogens, insects, bacteria, among other pollutants and infectants. As each of these air filtration systems is connected to its own HVAC system, possible contamination in one growth chamber will be isolated and will not affect crops in other chambers. Each of the vegetative and reproductive chambers also have motion sensors, and access to each of these chambers require swiping a company-issued security card and entering a passcode on the keypad outside the chamber door.

Along the other side of the Facility across from the vegetative chamber are two culturing rooms where marijuana plants can be micropropagated and subsequently transferred to the reproductive chambers. Micropropagation is a proven technique that uses rapid vegetative multiplication in a laboratory of plant materials in a controlled environment under completely sterile conditions to produce high-quality and disease-free clones. The culturing rooms are laid out according to Potanicals' marijuana growing process to facilitate crop transfer between the many different chambers within the facility. The two culturing rooms lead to a trimming room, a drying chamber followed by a packaging room. At the far end of the building is a security Level 8 vault (approximately 230 square feet) that contains motion sensors and seismic sensors which are triggered when there is impact to the vault. The vault is capable of holding up to 3,125 kg of product.

The second floor of the Facility houses offices for sales and general administration purposes, in addition to bathrooms, shower facilities and a rest room for workers. The remainder of the second floor is largely occupied by the air conditioning system, which is capable of detecting changes in air quality and temperature and automatically adjusts accordingly. The air conditioning system also includes a filtration system that can filter out the potent smell of terpenes that are inherent in growing cannabis, which is especially important in order to avoid the smell of marijuana released from the facility into the neighbourhood areas.

Crucial to a successful marijuana crop is the environment in which it grows, and one of the most important components is lighting. The vegetative room described above is equipped with three rows of lights, each row containing seven lights, to total 21 lights. The reproductive chambers each have three rows of lights, with each row containing nine lights, to total 27 lights. Each of these growing lights is 1,000 watts. In contrast to conventional marijuana grow lights, the Facility’s vegetative and reproductive chambers will utilize full room lighting, which are ceiling-mounted lights that will overlap in their light coverage area, thereby serving to intensify and maximize crop yield and production.

The Facility is surrounded by an eight feet barbed wire fence, along with an electrical gate fitted with intercom, passcode, and surveillance cameras. On the four corners within the barbed wire fencing and outside of the building are laser motion sensors that will trigger when motion is detected. Installed on the exterior of the building are also 52 security cameras. On the outer perimeter of the Facility is a water shed and an electrical shed. The Facility also has a condenser and backup electricity generators within the fenced area which will power the facility should there be a power outage.

The land which houses the Facility has been zoned for the production and distribution of large-scale medical marijuana. To best of Potanicals knowledge, all zoning requirements as set out by the municipality of Peachland, British Columbia have been achieved and approved by the city inspectors and Potanicals abides by all city zoning by-laws with respect to operating a medical cannabis facility on the currently leased property. There are no outstanding Ministry of Environment issues and the land is clear of any notices or injunctions. There are no outstanding work orders, non-compliance orders, deficiency notices or other such notices relative to the Facility.

3.2 Significant Acquisitions and Dispositions

Please refer to Section 3.1 – *General Development of the Business* and Section 2.4 – *The Transaction*.

3.3 Trends, Commitments, Events or Uncertainties

There are no trends, commitments, events or uncertainties known to management which could reasonably be expected to have a material effect on the Corporation's business, the Corporation's financial condition or results of operations. However, there are significant risks associated with the Corporation's business, as described in Section 17 – *Risk Factors*.

4. NARRATIVE DESCRIPTION OF THE BUSINESS

4.1 Narrative Description of the Corporation's Business

Business of the Corporation

Business Objectives

Until Closing, the Corporation was an exploration stage public company whose principal business activities were the acquisition and exploration of mineral properties.

Following the Transaction, the principal business intended to be carried on by the Corporation is the production and sale of medical marijuana in Canada, through Potanicals, under the License granted to Potanicals under the ACMPR on October 13, 2017.

In the 12 months following completion of the Transaction, the Corporation intends to:

1. Marketing Collateral

Potanicals is currently working to ensure that the corporate website, product brochures, informational handouts and other marketing tools have a consistent, professional and quality image. All Potanicals information will focus on explaining Potanicals' production techniques and protocols as a commercial-scale medical marijuana producer, and create awareness of the "Potanicals" brand name for high-quality products.

2. Enter Seed Supply Agreements

Potanicals has identified marijuana strain suppliers that include local suppliers in Canada and various foreign suppliers from Israel, the Netherlands, and New Zealand. Potanicals plans to sign contracts with these strain suppliers to ensure the quality of the strains and an undisturbed supply to meet full production requirement.

3. Form Relationships with Doctors

Access to medical marijuana under the ACMPR is through Licensed Producers, which supply patients through prescriptions from doctors or health care practitioners, or through home growing for personal use. All approved Licensed Producers are listed on a Health Canada website for doctor referral, and patients send the original prescription to their preferred supplier, who then ships product directly to them, or to their doctor, for pick-up. According to Health Canada numbers, 7% of physicians and 14% of family doctors have recommended medical cannabis for patients in the past, but this percentage is expected to increase significantly once approved standardized and tested medical marijuana products become available. As part of the direct to consumer sales process, the Corporation intends to leverage a network of over existing doctors with which management currently has established relationships, in addition to continuing to expand its reach to potential patients and health care practitioners through various mediums such as attending conferences, Potanicals' website, and online information portals in the medical marijuana industry. All information provided to the public by Potanicals will be in compliance with Health Canada's guidelines on advertising and will remain up-to-date on any restrictions.

4. Harvest First Batch of Marijuana

Potanicals will commission its Facility, hire key personnel for operational execution, commence operations and harvest its first batch of dried marijuana. Potanicals must then demonstrate through an inspection and test results that the planned growing processes will result in the production of a dried product that meets Potanicals' specified quality control standards and the Good Production Practices set out in Part 1, Subdivision D of the ACMPR. Only once Health Canada is satisfied that Potanicals meets the requirements of Part 1, Subdivision D of the ACMPR will a licence be amended to allow sale to the public. Until such time that Potanicals receives the applicable License from Health Canada, it will not be able to sell medical marijuana.

5. Receive License to Sell Marijuana Product

Once Potanicals completes its first harvest, it must then demonstrate through an inspection and test results that the planned growing processes will result in the production of a dried product that meets Potanicals' specified quality control standards and the Good Production Practices set out in Part 1, Subdivision D of the ACMPR. Only once Health Canada is satisfied that Potanicals meets the requirements of Part 1, Subdivision D of the ACMPR will a licence be amended to allow sale to the public. Until such time that Potanicals receives the applicable License from Health Canada, it will not be able to sell medical marijuana.

6. Receive Orders and Complete First Sales

Once Potanicals has received an amendment to its License to allow it to sell product to the public, Potanicals will complete its first sales of dried medical marijuana to patients.

7. Commence Preparation and Build Out Phases II and III of the Facility

Potanicals will complete the planning, design and preparation of a second phase of the Facility to expand production. Subject to obtaining additional financing, Potanicals will complete build out of Phase II. If warranted and subject to obtaining additional financing, Potanicals will complete the planning, design and preparation of a third phase of the Facility to expand production.

8. Enhance Management Team for Long-Term Growth

The core, high performing management teams is in place. As the operations and scope of Potanicals expands, management will review and evaluate the potential for any roles and the types of individuals who may be required to join Potanicals' already high performing management team. Potanicals envisions its strength of an already established, lean, highly effective management team will result in only a few highly regarded individual additions.

9. Enhance Board of Directors and Advisory Board

The Corporation and Potanicals are at the early stage of building a board of directors and advisory board. Management believes independent advice and experience is important to ensuring the long-term enhancement of shareholder value. Ideal candidates for the Board of Directors will be professionals with legal, accounting, regulatory, government affairs and pharmaceutical experience. The advisory board will be more fluid as the Corporation and Potanicals adapt to anticipated changes in the market such as the legalization of recreational marijuana and changes in regulations with respect to the commercial production of products beyond dried marijuana (e.g., edibles, tinctures, lotions, etc.).

Significant Events or Milestones

The principal milestones that must occur during the 12-month period following the Transaction for the business objectives described above to be accomplished are as follows:

Milestone	**Target Date**	**Cost Estimated**
Engage with Public Relations Firm for website/PR/marketing collateral	October 31, 2017	$20,000
Agreement with full scope design, engineer, build and operational management company	October 31, 2017	No Cost (Agreement details)
Secure seed/plant supply agreements for start-up material	November 15, 2017	$15,000
Build operational Organizational Structure and hire key personnel for operational execution	November 15, 2017	$350,000
Submit bulk transfer form for start-up materials Submit import/export application for Chinese partner	November 15, 2017	No cost
Introduction to cultivation inspection hosted by Potanicals by Health Canada	December, 2017	No cost
Establish relationships with physicians and industry personnel	October 2017 to February 2018 and ongoing	$5,000
Initiate agreement with architect and team for PHASE II build out.	November 2017	$25,000
First harvest completed and sample sent to laboratory for quality assurance threshold analysis.	February 28, 2018	$50,000
Notice given to Health Canada for License to Sell inspection.	March 01, 2018	No Cost
Host License to Sell inspection conducted by Health Canada.	March 15th, 2018	No Cost
Obtain License to Sell from Health Canada. Start selling marijuana to patients. Full import/export volumes being processed through.	April 30, 2018	No Cost
PHASE II build out completed	May, 2018	Full construction budget to follow architect drawings.
Look for second site acquisition	June, 2018	No Cost
Phase III build out drawings initiated	August 2018	$25,000
PHASE III build out begins	August 2018	Full construction budget to follow architect drawings.

Milestone	Target Date	Cost Estimated
PHASE III build out completed. Second Site possible acquisition completed	December 2018	Full construction budget to follow architect drawings.
TOTAL		

Total Funds Available

The pro forma working capital position of the Corporation as at June 30, 2017, giving effect to the Transaction as if it had been completed on that date, was $5,059,677.

The unaudited pro forma balance sheet of the Corporation, which gives effect to the Transaction as if it had been completed on June 30, 2017, is attached to this Listing Statement as Schedule A – *Pro Forma Financial Statements*.

Use of Funds

The Corporation intends to use the available funds as set out below, but such use will depend on its operating needs, the implementation of its strategic plan and any changes in the business environment.

Use of Funds	Total
Commissioning and Operations	$1,450,000
Management Salaries	$306,000
Consulting Fees	$300,000
Land Purchasing	$600,000
Land Lease	$30,000
Office Lease	$36,000
Insurance	$10,800
Three-Phase Power	$300,000
Second Phase Design and Preparation	$1,700,000
General Overhead Costs	$60,000
Unallocated Working Capital	$266,877
Total	**$5,059,677**

Despite the foregoing, there may be circumstances where, for sound business reasons, a reallocation of funds may be necessary for the Corporation to achieve its objectives. The Corporation will require additional funds in order to fulfill all of its expenditure requirements to meet its new business objectives and expects to either issue additional securities or incur debt. There can be no assurance that additional funding required by the Corporation will be available if required. However, it is anticipated that the available funds will be sufficient to satisfy the Corporation's objectives over the next 12 months.

4.1.1 Principal Products or Services

The Corporation will produce and, if Potanicals' License is amended by Health Canada, will sell medical marijuana in Canada through Potanicals.

4.1.2 <u>Production and Sales</u>

Cultivation and Production

Potanicals' cultivation team will be led by General Manager, Geoffrey Mackenzie White, and will be made up of botany PhDs and practitioners who have over ten years of experience in marijuana cultivation. Potanicals' cultivation team will be capable of delivering the best quality products with the highest efficiency and the lowest production cost.

Potanicals' growing process is unique to other marijuana growing facilities, particularly in terms of seed supply and cultivation methods. As a start, Potanicals has identified a quality source of marijuana seed supply from Switzerland.

While there will be numerous marijuana strains that will be grown by Potanicals over time, it intends to start with eight strains. To fully cover patients' needs, four strains will be of the Cannabis sativa type and four will be of the Cannabis indica type. Within each type, there will be strain with high THC, a strain with high CBD, a strain with roughly equal THC and CBD, and a novelty strain.

Seeds will first be micro-propagated in tissue culture at the Facility, using licensed proprietary micropropagation technology. The proprietary micropropagation technology to be used by Potanicals allows for consistent quality production in cannabis stems from disease-free, genetically identical, healthy starting plant material without requiring the use of mother plants and lights.

Pursuant to the CanGenX Agreement, the micro-propagation technology is licensed to Potanicals by CanGenX at $1.00 per propagated plant with the associated growing media costs to a total of approximately $2.25 per plant. After the inclusion of labour and facility costs of propagation, the cost per plant is estimated at $5.50 per plant using this micropropagation method, which is significantly lower than the estimated $10 per plant using conventional cloning.

After the micropropagation process, plants are then transferred to pots with planting material consisting of 80% coconut husks and 20% expanded clay. Coconut husks are a natural, eco-friendly, biodegradable, renewable material and have become immensely popular because of its inherent ability to hold the optimal amount of water while letting the correct amount of oxygen to flow as well. Specifically, benefits of using coconut husks include the following:

- Similar to Growing in Soil: Coconut husks are a soilless growing medium which give the experience of growing in soil. Plants are kept in regular pots, and growers simply water their plants with nutrient water.

- Great for Plant Roots: Coconut husks are effective at holding onto moisture and nutrients for roots, but also has a lighter texture that lets them hold onto more oxygen. This helps prevent over and underwatering. Coconut husks tend to promote healthy and fast root development compared to other potting mixes.

- Good for the Environment: Unlike peat, coconut husks are sustainable for the environment. They also do not have to be replaced every grow. Instead of breaking down like peat, coconut husks are slow to break down and can be used more than once.

- Does Not Attract Insects: Coconut husks do not make a good home for many garden pests that affect soil growers.

- Benefits of Hydro: Hydro is effective at making plants grow faster because it provides exactly the right amount of nutrients to the roots, in the most easily accessible form. Plant roots do not have

> to go out and search for nutrients, saving the plant precious energy. However, growing directly in water can be complicated. Coconut husks provide many of the benefits of hydro with a soil experience, thereby resulting in a quicker harvest and bigger yields without having to manage a water reservoir.

Coconut husks can be used as a stand-alone substrate or in conjunction with other mediums. Expanded clay pellets are full of tiny air pockets, which give them good drainage, and are best for ebb and flow systems or other systems that have frequent watering needs. After the plants are transplanted into pots, they will be transferred to the vegetative chamber where they will grow for 20 days. The vegetative chamber has the capacity to accommodate approximately four plants per square foot; the ceiling-mounted grow lights in this chamber will be on for an 18/6 cycle. After this 20 day period, the plants are then transferred to the reproductive chambers in the same pots, where they will grow for another 50-60 day period. In the reproductive chambers, the placement of the plants will be approximately one plant per square foot; the ceiling-mounted grow lights in the reproductive chamber will be on for a 12/12 cycle. In the respective vegetative and reproductive chambers, the plants will be watered using a capillary water network structure that will adjust the amount of water according to the plants' needs.

Based on the above-mentioned growing process, Potanicals expects to yield 16kg of marijuana from each chamber every 15 days, which equates to 32kg of marijuana monthly production from each chamber. Management expects this growing schedule to yield a total of six crops per year. After the harvest of each crop, the chambers will be fogged with ozone to sterilize the chambers before planting the next crop.

Marketing Plan

Advertising in the industry is heavily regulated by Health Canada and general prohibitions against the advertising of cannabis are contained in the recommendations submitted by the federal Task Force, the proposed set of bills announced on April 13, 2017, the Food and Drugs Act and the Narcotic Control Regulations in Canada. As a result of these prohibitions, the information provided by Licensed Producers to the public must be limited to basic information for prospective clients such as the brand name, proper or common name of the strain, the price per gram, and the company's contact information.

The main target market for Potanicals are medical marijuana users and physicians, both of which require a legal, safe, organic and consistent supply of product – with an initial focus in Canada. It is expected that typical users will be patients from the ACMPR program and, eventually, recreational users. As physicians and doctors will be looking for a safe, standardized and reliable supply of medicinal marijuana to satisfy patients who demand a medical marijuana prescription, Potanicals' marketing will be focused on reaching out to and aligning themselves with physicians and doctors as a trusted source of medicinal marijuana supply to the medical community.

Potanicals plans to create an information-based company website on the topic of medical marijuana which will aim to educate potential patients and the medical community on the growing efficacy and benefits on the use of the product and will link visitors to the latest medical marijuana related news. Licensed patients can also place an order directly on Potanicals' website.

The limited space for product differentiation in the industry highlights the importance of an exceptional customer support program to establish brand power. In order to maximize profit and eliminate the risk of creating customer dissatisfaction due to inability to meet demand, Potanicals' growth strategy is to implement different marketing strategies during various growth stages to match sales to its production capacity.

Potanicals' marketing strategies are described as follows:

- **Autoship Program:** For clients' convenience, Potanicals plans to autoship the monthly-prescribed amount to them at the beginning of every month after verifying their prescriptions. The autoship program plays a significant role in customer retention as it creates value for customers by increasing the ease of access.

- **Doctor Program:** Partnerships with doctors will be integrated into Potanicals' customer acquisition strategy. Potanical plans to send representatives to visit clinics across Canada to establish relationships.

- **Web and Social Media:** ACMPR and recently announced legislation do not allow Licensed Producers to advertise products through traditional channels, including newspapers and magazines. As the result, a large component of Potanicals' marketing plan would be focusing on online marketing. Various versions of social media, including Facebook and Twitter, would be used as channels to reach potential customers and raise brand awareness. Potanicals' website would be used to strengthen relationships with customers through creating a sense of community and offering interactive services. A forum would be established to create a space for customers to discuss about information regarding medical marihuana regulations and Potanicals' products. Potanicals' customer representatives would be answering customers' questions and consistently providing educational information regarding of Potanicals' products.

  Management will ensure information provided by Potanicals to the public will be in strict compliance with guidelines on advertising provided by Health Canada.

4.1.3 Competitive Conditions and Position

Market in Canada

Demand for medical cannabis in Canada is growing quickly. According to data from Health Canada, the number of medical marijuana patients registered with Health Canada had reached 201,398 by the end of June 2017.

Data from Canaccord Genuity Group Inc. ("**Canaccord**") indicates annual recreational sales in Canada may reach $6 billion by 2021. Canaccord believes *"patients in Canada will consume more than 150,000 kg of cannabis per year by 2021, which could equate to $1.8 billion in retail sales."* Recreational use could be a game changer, with a vast illegal market replaced by legal sales worth as much as $6 billion by 2021. Canaccord points out companies with current licenses are well-positioned to take advantage of the transition to a recreational market. Research from CIBC World Markets indicates an even bigger market, estimating the Canadian cannabis market would reach $10 billion if it were to be regulated like other retailers.

According to a survey conducted by Deloitte[1] in March and April of 2016, the base retail cannabis market in Canada is estimated to be between $4.9 billion to $8.7 billion. Deloitte estimates the ancillary cannabis market, which includes growers, infused product markers, testing labs, and security providers, is between $12.7 billion to $22.6 billion.

[1] Deloitte – Recreational Marijuana Insights and Opportunities

Data from Health Canada indicates that there are 67 Licensed Producers in all of Canada, with 16 Licensed Producers in British Columbia, representing 24% of total Licensed Producers. Data from Health Canada indicates between April 1, 2017 to June 30, 2017, around 5,896 kg of dried marijuana and 6,194 of cannabis oil were sold to clients. During the same period 9,188 kg of dried marijuana and 6,188 kg of cannabis oil was released for sale to clients, and a total amount of 68,723 kg of dried marijuana and 17,236 kg of cannabis oil was in Licensed Producers' inventory. As at June 30, 2017, Health Canada had reported 201,398 registered medical marijuana patients.

According to Health Canada, various surveys published in the peer-reviewed scientific and medical literature have suggested that the majority of people using smoked or orally ingested marijuana for medical purposes reported using between 10 - 20 grams of marijuana per week or approximately 1 - 3 grams of dried marijuana per day. A Health Canada survey indicates ~2.0% of Canadians believe they are eligible to use medicinal marijuana, compared to 0.08% of the population currently benefiting from use.

In order to continue to grow the patient base, education is required for doctors to prescribe marijuana to patients. Several of the Licensed Producers targeting patient populations are developing materials and working with scientists to develop more scientific support for the benefits of medical marijuana. Research has shown that many doctors have been reluctant to prescribe marijuana, saying they have yet to see conclusive studies that show benefits outweighing its potential harm. There also remains significant uncertainty as to the prescribed dosage.

Competition

As of May 25, 2017, Health Canada reports 1,665 companies have applied for Licensed Producer status. As of May 25, 2017, there were 428 applications still being assessed by Health Canada. According to Health Canada data, 67 companies, including Potanicals, are authorized Licensed Producers of dried and fresh marijuana and cannabis oil as set out in the table below.

Licensed producer	Province / Territory	Licence type (plants / dried)	Licence type (fresh / oil)	Date of initial licensing	Starting materials for sale
7 Acres	ON	Cultivation and Sale	N/A	March 11, 2016	N/A
Abba Medix Corp.	ON	Cultivation	N/A	September 1, 2017	N/A
ABcann Medicinals Inc.	ON	Cultivation and Sale	N/A	March 21, 2014	Not available
A B Laboratories	ON	Cultivation	N/A	October 21, 2016	N/A
Acreage Pharms Ltd.	AB	Cultivation	N/A	March 29, 2017	N/A
Aero Farms Canada	ON	Cultivation	N/A	October 13, 2017	N/A
Agripharm Corp.	ON	Cultivation and Sale	Production and Sale	December 11, 2014	N/A
Aphria	ON	Cultivation and Sale	Production and Sale	March 24, 2014	Not available
Aurora Cannabis Enterprises Inc.	AB	Cultivation and Sale	Production and Sale	February 17, 2015	Plants
Bedrocan Canada Inc.	ON	Sale	N/A	December 16, 2013	N/A
Bedrocan Canada Inc. (2nd site)	ON	Cultivation and Sale	Production and Sale	February 17, 2015	Not available
Bonify Medical Cannabis	MB	Cultivation	N/A	April 10, 2017	N/A
Broken Coast Cannabis Ltd.	BC	Cultivation and Sale	Production and sale	March 14, 2014	Not available
Canada's Island Garden Inc.	PEI	Cultivation and Sale	N/A	June 16, 2016	Not available
Canna Farms Ltd.	BC	Cultivation and Sale	Production and Sale	January 8, 2014	Plants
CanniMed Ltd.	SK	Sale	Sale	September 19, 2013	Not available
CannTrust Inc.	ON	Cultivation and Sale	Production and Sale	June 12, 2014	Seeds
CannTrust Inc. (2nd site)	ON	Cultivation	Production	October 6, 2017	N/A
Canveda Inc.	ON	Cultivation	N/A	June 12, 2017	N/A
DelShen Therapeutics Corp.	ON	Cultivation	N/A	February 28, 2017	N/A
Delta 9 Bio-Tech Inc.	MB	Cultivation and Sale	N/A	March 18, 2014	Plants

Licensed producer	Province / Territory	Licence type (plants / dried)	Licence type (fresh / oil)	Date of initial licensing	Starting materials for sale
Emblem Cannabis Corp.	ON	Cultivation and Sale	Production	August 26, 2015	Not available
Emerald Health Botanicals Inc.	BC	Cultivation and Sale	Production and Sale	February 5, 2014	Not available
Emerald Health Botanicals Inc. (2nd site)	BC	Sale	Sale	October 6, 2017	Not available
Evergreen Medicinal Supply Inc.	BC	Cultivation	N/A	March 16, 2017	N/A
Experion Biotechnologies Inc.	BC	Cultivation	N/A	August 18, 2017	N/A
First Access Medical Inc.	ON	Cultivation	N/A	May 18, 2017	N/A
FV Pharma Inc.	ON	Cultivation	N/A	October 13, 2017	N/A
Green Relief Inc.	ON	Cultivation and Sale	N/A	February 18, 2016	Not available
GrenEx Pharms Inc.	AB	Cultivation	N/A	September 29, 2017	N/A
Hydropothecary	QC	Cultivation and Sale	Production and Sale	March 14, 2014	Not available
HydRx Farms Ltd.	ON	Cultivation	N/A	September 22, 2017	N/A
In The Zone Produce Ltd.	BC	Cultivation and Sale	N/A	February 26, 2014	Not available
Indiva Inc.	ON	Cultivation	N/A	July 14, 2017	N/A
International Herbs Medical Marijuana Ltd.	BC	Cultivation	N/A	June 12, 2017	N/A
International Herbs Medical Marijuana Ltd. (2nd site)	NB	Cultivation	N/A	August 18, 2017	N/A
James E. Wagner Cultivation Ltd.	ON	Cultivation	N/A	January 10, 2017	N/A
Maricann Inc.	ON	Cultivation and Sale	Production and Sale	March 27, 2014	Plants
Maricann Inc. (2nd site)	ON	Sale	Sale	September 1, 2017	Plants
MedReleaf Corp.	ON	Cultivation and Sale	Production and Sale	February 14, 2014	Not available
MedReleaf Corp. (2nd site)	ON	Cultivation	N/A	April 12, 2017	N/A
Mettrum (Bennett North) Ltd.	ON	Cultivation and Sale	Production and Sale	November 1, 2013	N/A
Mettrum Ltd.	ON	Cultivation and Sale	Production and Sale	December 16, 2015	Not available
Natura Naturals Inc.	ON	Cultivation	N/A	September 29, 2017	N/A
Natural Med Company	ON	Cultivation	N/A	July 22, 2016	N/A
Northern Lights Marijuana Company Ltd.	BC	Cultivation	N/A	June 16, 2017	N/A
OrganiGram Inc.	NB	Cultivation and Sale	Production and Sale	March 26, 2014	Not available
Peace Naturals Project Inc.	ON	Cultivation and Sale	Production and Sale	October 31, 2013	Plants
Potanicals Green Growers Inc.	BC	Cultivation	N/A	October 13, 2017	N/A
Prairie Plant Systems Inc.	SK	Cultivation	Production	September 19, 2013	N/A

Licensed producer	Province / Territory	Licence type (plants / dried)	Licence type (fresh / oil)	Date of initial licensing	Starting materials for sale
RedeCan Pharm	ON	Cultivation and Sale	N/A	June 25, 2014	Not available
RedeCan Pharm (2nd site)	ON	Cultivation	Production	September 29, 2017	N/A
RockGarden Medicinals Inc.	ON	Cultivation	N/A	August 25, 2017	N/A
rTrees Producers Limited	SK	Cultivation	N/A	June 16, 2017	N/A
Solace Health Inc.	ON	Cultivation	N/A	July 10, 2017	N/A
Sundial Growers Inc.	AB	Cultivation	N/A	June 12, 2017	N/A
Tantalus Labs Ltd.	BC	Cultivation	N/A	May 26, 2017	N/A
THC Biomed Ltd.	BC	Cultivation and Sale	Production and Sale	February 18, 2016	Plants
The Green Organic Dutchman Ltd.	ON	Cultivation and Sale	N/A	August 17, 2016	N/A
Tilray	BC	Cultivation and Sale	Production and Sale	March 24, 2014	Not available
Tweed Farms Inc.	ON	Cultivation and Sale	N/A	August 8, 2014	N/A
Tweed Inc.	ON	Cultivation and Sale	Production and Sale	November 18, 2013	Seeds
United Greeneries Inc.	BC	Cultivation	N/A	June 28, 2016	N/A
UP Cannabis Inc.	ON	Cultivation	Production	December 19, 2016	N/A
We Grow BC Ltd.	BC	Cultivation	N/A	August 25, 2017	N/A
WeedMD	ON	Cultivation and Sale	Production	April 22, 2016	Plants
Whistler Medical Marijuana Corp.	BC	Cultivation and Sale	Production and Sale	February 26, 2014	Plants

Currently Licensed Producers must dispose and incinerate all plant material except the dried flower (or "**bud**"), but in an environment with edibles, some of the cannabinoid-containing product that is currently considered waste can be distilled down to an extract and be used in oils, creams, and food products. Potanicals' financial projections are currently based on selling dried bud only, however, the Facility would be capable of quickly adapting to the supply of material to edible manufacturers as regulations evolve.

See Section 17 – *Risk Factors – Risks Related to the Medical Cannabis Industry – Competition*.

4.1.4 Lending and Investment Policies and Restrictions

This section is not applicable to the Corporation.

4.1.5 Bankruptcy and Receivership

The Corporation has not been the subject of any bankruptcy or any receivership or similar proceedings against the Corporation or any voluntary bankruptcy, receivership or similar proceedings by the Corporation, within the three most recently completed financial years or the current financial year.

4.1.6 Material Restructuring

Except for the Transaction, the Corporation has not been subject to any material restructuring transaction within the three most recently completed financial years nor is the Corporation proposing any material restructuring transaction for the current financial year.

4.2 Social and Environmental Policies

The Corporation does not currently have any social and environmental policies in place.

4.3 Asset Backed Securities

The Corporation does not have any asset backed securities.

4.4 Companies with Mineral Projects

The Corporation does not have any mineral projects.

4.5 Companies with Oil and Gas Operations

The Corporation does not have any oil and gas operations.

5. SELECTED CONSOLIDATED FINANCIAL INFORMATION

5.1 Consolidated Financial Information – Annual Information

The Corporation Annual Information

The following table sets forth selected financial information for the Corporation for the years ended December 31, 2016, 2015 and 2014 and the interim period ended June 30, 2017. Such information is derived from the financial statements of the Corporation and should be read in conjunction with such financial statements. See Schedule B – *Financial Statements of the Corporation.* The financial statements are also available under the Corporation's SEDAR profile at www.sedar.com.

	Six Months Ended June 30, 2017 (unaudited) ($)	Year Ended December 31, 2016 (audited) ($)	Year Ended December 31, 2015 (audited) ($)	Year Ended December 31, 2014 (audited) ($)
Revenue…………………………..	-	-	-	-
Net income (loss).	(67,049)	(231,740)	(520,756)	(330,571)
Basic and diluted income (loss) per Common Share	(0.00)	(0.02)	(0.03)	(0.02)
Total assets……………………….	270,097	93,225	326,981	840,410
Total long-term liabilities………..	-	-	-	-
Cash dividends per Common Share……………………………..	-	-	-	-

5.2 Consolidated Financial Information – Quarterly Information

The results for each of the Corporation's eight most recently completed quarters ending at the end of the most recently competed fiscal year, namely December 31, 2016, are summarized below:

	Fiscal 2016			
	Q4	**Q3**	**Q2**	**Q1**
Revenue..	-	-	-	-
Net income (loss).................................	(48,619)	(53,780)	(64,451)	(64,890)
Basic and diluted income (loss) per Common Share.....................................	(0.00)	(0.00)	(0.00)	(0.00)

	Fiscal 2015			
	Q4	**Q3**	**Q2**	**Q1**
Revenue..	-	-	-	-
Net income (loss).................................	(133,048)	(244,670)	(72,807)	(70,231)
Basic and diluted income (loss) per Common Share	(0.01)	(0.02)	(0.00)	(0.00)

5.3 Dividends

The future payment of dividends will be dependent upon the financial requirements of the Corporation to fund further growth, the financial condition of the Corporation and other factors which the Board of Directors may consider in the circumstances. It is not contemplated that any dividends will be paid in the immediate or foreseeable future, if at all.

5.4 Foreign GAAP

This section does not apply to the Corporation.

6. MANAGEMENT'S DISCUSSION AND ANALYSIS

The Corporation's annual MD&A for the years ended December 31, 2016 and 2015 as well as the interim MD&A for the period ended June 30, 2017 are attached to this Listing Statement as Schedule C – *MD&A of the Corporation*.

Potanicals' MD&A for the years ended December 31, 2016 and 2015 as well as the interim MD&A for the six months ended June 30, 2017 are attached hereto as Schedule E – *MD&A of Potanicals*.

7. MARKET FOR SECURITIES

The Common Shares were listed on the TSXV under the symbol "KYU". The Common Shares were halted from trading on the TSXV on July 31, 2017 and delisted on November 1, 2017. The Potanicals Shares are not listed for trading on any exchange or market. The Corporation has obtained approval of the CSE to list the Common Shares on the CSE under the new symbol "BBT".

8. CONSOLIDATED CAPITALIZATION

On Closing, the outstanding capital of the Corporation consisted of approximately 134,186,861 Common Shares and 94,456 Options.

A detailed breakdown of the capital structure of the Corporation is provided in Section 14 – *Capitalization*.

9. OPTIONS TO PURCHASE SECURITIES

The Corporation has adopted the Stock Option Plan in order to encourage the achievement of the Corporation's growth objectives. Pursuant to the Stock Option Plan, the directors of the Corporation may, from time to time, in their discretion, and in accordance with the requirements of securities regulators, grant non-transferable Options to the directors, executive officers, employees and consultants of the Corporation, provided that the total number of Common Shares reserved for issue will not exceed 10% of the issued and outstanding Common Shares as at the date of the grant (on a non-diluted basis). The total number of Common Shares reserved for issuance to any one person may not exceed 5% of the issued and outstanding Common Shares in any twelve-month period. In addition, the total number of Common Shares reserved for issuance to any one consultant may not exceed 2% of the issued and outstanding Common Shares in any twelve-month period. The total number of Common Shares reserved for issuance to persons providing investor relations activities may not exceed 2% of the issued and outstanding Common Shares in any twelve-month period. Options pursuant to the Stock Option Plan are granted at the discretion of the Board of Directors and vest at schedules determined by the Board of Directors. The term of exercise of Options will not exceed ten years from the date of grant. The exercise price of the Options granted under the Stock Option Plan will be fixed by the Board of Directors at the time of grant. The exercise price cannot be lower than the Discounted Market Price as that term is defined in Policy 1.1 *Interpretation* of the TSXV.

As at the date of this Listing Statement, 94,456 Common Shares are reserved for issuance pursuant to the Stock Option Plan.

The table below sets out all Options granted by the Corporation.

Category of Option Holder	Number of Options to Acquire Common Shares Held as a Group
All executive officers and directors of the Corporation	94,456

Note:
(1) After giving effect to the Consolidation, a total of 94,456 Options are exercisable at a price of $0.275 per Common Share.

The table below sets out the material provisions of the outstanding Options.

Date of Grant of Options	Number of Options to Acquire Common Shares(1)(2)	Exercise Price per Common Share(2) ($)	Expiry Date
May 24, 2013	94,456	0.275	May 24, 2018

Notes:
(1) 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 Stock Option Plan.
(2) After giving effect to the Consolidation.

Subject to applicable regulatory approvals, the Corporation intends to grant Options to certain employees, directors, officers and consultants following completion of the Transaction. The terms of the Options will be disclosed once determined by the Board of Directors.

10. DESCRIPTION OF THE SECURITIES

10.1 Description of the Corporation's Securities

The Corporation is authorized to issue an unlimited number of Common Shares without par value. See Section 14 – *Capitalization*, for a breakdown of share capital.

There are no pre-emptive rights, no conversion or exchange rights, no redemption, retraction, purchase for cancellation or surrender provisions. There are no sinking or purchase fund provisions, no provisions permitting or restricting the issuance of additional securities or any other material restrictions, and there are no provisions which are capable of requiring a security holder to contribute additional capital attached to the Common Shares.

10.2 Debt Securities

This section does not apply to the Corporation.

10.3 Other Securities

For a detailed breakdown of Options, see Section 14 – *Capitalization*.

10.4 Miscellaneous Securities Provisions

None of the matters set out in section 10.4 of CSE Form 2A are applicable to the Corporation.

10.5 Miscellaneous Securities Provisions

None of the matters set out in section 10.5 of CSE Form 2A are applicable to the Corporation.

10.6 Prior Sales

The following table sets forth details regarding the Common Shares that have been sold within the 12 months before the date of this Listing Statement, or are to be sold, by the Corporation. All figures are pre-Consolidation except for the number of post-Consolidation Common Shares issued on Closing of the Transaction.

Date Issued	Number of Common Shares	Issue Price per Security ($)	Total Issue Price/Value Received ($)	Nature of Consideration
November 2, 2017	124,186,752	$0.20 (deemed)	$24,837,350 (deemed)	Share Exchange
May 18, 2017	1,000,000	0.05	50,000.00	Cash
March 6, 2017	4,900,000	0.05	245,000.00	Cash

10.7 Stock Exchange Price

The following table sets forth the reported high and low prices (including intra-day prices) and the total volume of trading of the Common Shares on a pre-Consolidation basis on the TSXV for the periods indicated below.

2017	High ($)	Low ($)	Volume (#)
January	0	0	0
February	0	0	0
March	0.070	0.045	70,500
April	0.050	0.050	20,000
May	0.050	0.050	31,000
June	0	0	0
July(1)	0	0	0

Quarter Ended	High ($)	Low ($)	Volume (#)
December 31, 2016	0	0	0
September 30, 2016	0.020	0	500
June 30, 2016	0.060	0.010	38,680
March 31, 2016	0	0	0
December 31, 2015	0.020	0.010	36,000
September 30, 2015	0.020	0.020	95,000
June 30, 2015	0.010	0.10	131,000

The Common Shares were listed and posted for trading on the TSXV under the symbol "KYU". Trading of the Common Shares on the TSXV was halted by the Corporation on July 31, 2017 pending the completion of the Transaction. The Common Shares were delisted from trading on the TSXV on November 2, 2017.

11. ESCROWED SECURITIES

As required under the policies of the CSE, Principals of the Corporation have entered into the Escrow Agreement with the Escrow Agent and the Corporation as if the Corporation was subject to the requirements of NP 46-201. The form of the Escrow Agreement must be the form provided in NP 46-201. Based on a total of 33,174,000 Escrowed Securities, one portion consisting of 3,317,350 Escrowed Securities will be released on scheduled periods specified in NP 46-201 for emerging issuers, that is, 10% will be released upon listing followed by six subsequent releases of 15% each every six months after listing. The remaining portion consisting of 29,856,150 Escrowed Securities will be released following listing in six subsequent tranches of 15% of the total Escrowed Securities each every six months after listing as specified in NP 46-201 for emerging issuers. The table below sets out the applicable release percentages and periods under the requirements of the:

Date	% of Total Escrowed Securities	Number of Escrowed Securities
On the listing date………………………………..............	10% of the Escrowed Securities	3,317,000
6 months after the listing date……………………………	15% of the Escrowed Securities	4,976,100
12 months after the listing date…………………………...	15% of the Escrowed Securities	4,976,100
18 months after the listing date…………………………...	15% of the Escrowed Securities	4,976,100
24 months after the listing date……………………...……	15% of the Escrowed Securities	4,976,100
30 months after the listing date…………………………...	15% of the Escrowed Securities	4,976,100

Date	% of Total Escrowed Securities	Number of Escrowed Securities
36 months after the listing date…………………………...	All remaining Escrowed Securities	4,976,100
TOTAL		**33,174,000**

The table below includes the details of Escrowed Securities after giving effect to the Consolidation and the Transaction:

	After Giving Effect to the Consolidation and Transaction	
Name and Municipality of Residence of Escrowed Security Holder	**Number of Escrowed Securities**	**Percentage of Outstanding Common Shares(1)**
0995406 B.C. Ltd. Richmond, BC	12,586,500(2)	10.14%
0889204 B.C. Ltd. Peachland, BC	15,750,000(3)	11.74%
Jin Hao Holding Ltd. Richmond, BC	2,700,000(4)	2.01%
Peachland Investments Ltd. Victoria, BC	2,137,500(5)	1.59%

Notes:

(1) The percentage of Common Shares owned will vary slightly due to fractional rounding of the Common Shares post-Consolidation.

(2) Ping (Johnson) Zhang, director and CEO of the Corporation, is the beneficial owner of these Common Shares.

(3) Claude (Cliff) Stowell, director and Chief Operating Officer of the Corporation and President and director of Potanicals, is the beneficial owner of these Common Shares.

(4) Haifeng Liu, director of the Corporation, is the beneficial owner of these Common Shares.

(5) Douglas Turner, Secretary and director of Potanicals, is the beneficial owner of these Common Shares.

12. PRINCIPAL SHAREHOLDERS

12.1 Principal Shareholders

To the knowledge of the directors and officers of the Corporation and Potanicals, on Closing, the following Persons beneficially owned, directly or indirectly, or exercise control or direction over voting securities carrying more than 10% of the voting rights attached to any class of voting securities of the Corporation.

Name and Municipality of Residence of Shareholder	Number and Percentage of Common Shares Held
0889204 B.C. Ltd. Peachland, BC	15,750,000 (11.74%)(1)

Note:

(1) Claude (Cliff) Stowell, director and Chief Operating Officer of the Corporation and President and director of Potanicals, is the beneficial owner of these Common Shares.

12.2 Voting Trusts

To the knowledge of the Corporation, no voting trust exists such that more than 10 per cent (10%) of any class of voting securities of the Corporation are held, or are to be held in the Corporation, subject to any voting trust or other similar agreement.

12.3 Associates and Affiliates

To the knowledge of the Corporation, none of the principal Shareholders is an Associate or Affiliate of any other principal Shareholder.

13. DIRECTORS AND OFFICERS

13.1 – 13.5 Directors and Officers

The following table lists the names, municipalities of residence of the current directors and officers of the Corporation, their positions and offices held with the Corporation, their principal occupations during the past five (5) years and the number of securities of the Corporation are beneficially owned, directly or indirectly, or over which control or direction will be exercised by each, after giving effect to the Consolidation and the Transaction.

Name, Municipality of Residence	**Present Occupation and Positions Held During the Last Five Years**	**Period During Which Director or Officer Has Served**	**Number of Common Shares Beneficially Held**	**Percentage of Common Shares Beneficially Held**
Ping (Johnson) Zhang Richmond, BC Chief Executive Officer and Director	See biography in Section 13.11 – *Management* below	Appointed on November 2, 2017	12,586,500	10.14%
Claude (Cliff) Stowell Peachland, BC Chief Operating Officer and Director	See biography in Section 13.11 – *Management* below	Appointed on November 2, 2017	15,750,000	11.74%
Peter R. Hughes(1) Vancouver, BC Director	See biography in Section 13.11 – *Management* below	Appointed on November 2, 2017	0	0%
George Dorin(1) Quesnel, BC Director	See biography in Section 13.11 – *Management* below	Appointed on November 2, 2017	0	0%
Haifeng Liu(1) Richmond, BC Director	See biography in Section 13.11 – *Management* below	Appointed on November 2, 2017	2,700,000	2.01%
Richard (Rick) Lee Surrey, BC Chief Financial Officer	See biography in Section 13.11 – *Management* below	Appointed on November 2, 2017	0	0%

Notes:

(1) Current member of audit committee.

13.6 – 13.9 Corporate Cease Trade Orders or Bankruptcies; Penalties or Sanctions; Personal Bankruptcies

To the best of the Corporation's knowledge, no director or executive officer of the Corporation is, or within the 10 years before the date of this Listing Statement has been, a director or executive officer of any company that:

(a) was subject to a cease trade order or similar order or an order that denied the corporation access to any statutory exemptions for a period of more than 30 consecutive days (an

"**Order**"), which was issued while the proposed director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or

(b) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

To the best of the Corporation's knowledge, no director or executive officer of the Corporation, or a Shareholder holding a sufficient number of Common Shares to affect materially the control of the Corporation:

(c) is, as at the date of this Listing Statement, or has been within the 10 years before the date of this Listing Statement, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has, within the 10 years before the date of this Listing Statement, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or Shareholder.

To the best of the Corporation's knowledge, no director or executive officer of the Corporation, or a Shareholder holding a sufficient number of Common Shares to affect materially the control of the Corporation, has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

13.10 <u>Conflicts of Interest</u>

Conflicts of interest may arise as a result of the directors and officers of the Corporation also holding positions as directors or officers of other companies. Some of the individuals who will be directors and officers of the Corporation have been and will continue to be engaged in the identification and evaluation of assets, businesses and companies on their own behalf and on behalf of other companies, and situations may arise where the directors and officers of the Corporation will be in direct competition with the Corporation. Conflicts, if any, will be subject to the procedures and remedies provided under BCBCA.

13.11 Management

Brief descriptions of the biographies for all officers and directors of the Corporation and Potanicals are set out below:

The Corporation

On the Closing Date, the following persons became the current directors and officers of the Corporation.

Ping (Johnson) Zhang, Age 49 – Chief Executive Officer and Director

Mr. Zhang has over 20 years of management experience and over five years of experience in marijuana growing. He started his successful entrepreneurial journey by building the four-star Qing Dao Liyun Hotel in China in 1994. Under Mr. Zhang's management, the hotel generates annual revenues of up to RMB40 million (C$8 million). Mr. Zhang became actively involved in local real estate development projects in Canada starting in 1999.

Mr. Zhang obtained a Bachelor degree of Education (major in Sports Science) from Yantai Education University, Shandong, China, and a Bachelor degree of Engineering (major in Civil Engineering) from Qingdao Institute of Architecture and Engineering, Shandong, China.

Claude (Cliff) Stowell, Age 63 – Chief Operating Officer and Director

Mr. Stowell developed a number of enterprises and has been building on his entrepreneurial expertise for over 40 years. In Kelowna British Columbia, his residential and commercial landscape firm served some of the city's most prominent families. Building upon this experience, he assisted with the construction of the original Ponderosa Golf Course – a Peachland, British Columbia icon and regional favorite for over 30 years.

Together with his wife, he opened a Kelowna restaurant called Chianti's in 1980. In deciding to explore the tourism and hospitality industry further, they sold Chianti's and immersed themselves in the operation of the biggest live entertainment night club in Kelowna – The Casbah. Later they took that customer-centered knowledge to Hawaii to open a fully-licensed real estate office and create a multi-faceted wholesale and retail travel business, successfully negotiating contracts with major hotels, airlines, and attractions. Their proven track record and strong strategic approach attracted distinguished corporate clients such as the Chanel Corporation.

Over the years, Mr. Stowell worked in property development collaborating with the City of Kelowna and regional districts on development projects. This experience was instrumental in his success working with the Regional District of the Central Okanagan to forge ahead with an innovative cottage development. With his ability to view situations in a fresh perspective and expanding on his landscaping and property development initiatives, Mr. Stowell invented and patented StreetPrint, a unique asphalt imprinting process now found in many countries worldwide.

Since 1995, Mr. Stowell developed his Internet skills and built his self-taught acumen into a flourishing web marketing service called Home and Web along with his wife. Together they developed, maintained and marketed the Canada-wide Bed and Breakfast Guide for 11 years and other high profile sites such as KelownaAirport.com. In addition, Home and Web is known for its success in enhancing search engine optimization for many small businesses across Canada.

Peter R. Hughes, Age 55 – Director

Mr. Hughes, has been a director of Kelso Technologies Inc., an industrial company, listed on the Toronto Stock Exchange and New York Stock Exchange, since October 2010. Mr. Hughes has 30 years' business experience including senior-level executive and director positions in both private and public companies specializing in pharmaceuticals/healthcare, alternative energy and mining. Mr. Hughes has built industrial and resource companies from the ground up and has obtained regulatory and exchange approval for numerous reporting issuers. His experience includes directorships of many public companies (listed on the Toronto Stock Exchange, TSXV, CSE and New York Stock Exchange), corporate governance, audit/governance/compensation committees, lead directorship, corporate structuring, technology assessments, proprietary protection, public and private financings, negotiating property agreements, and public company management. He has also worked with the National Research Council of Canada providing alternative energy companies with market intelligence and strategic planning. Mr. Hughes has a Bachelor of Science from University of British Columbia and has completed the Canadian Securities Course and Directors & Officers Program. Mr. Hughes currently serves as a director of Broome Capital Inc., SnoBro Enterprises Inc., a capital pool company listed on the TSXV, and as a director of Naturally Splendid Enterprises Ltd., a company also listed on the TSXV.

George Dorin, MSc(Econ), FCSI, CPA, CA, CF, Age 65 - Director

Mr. Dorin has 40 years of broad-based financial experience, including over 20 years as a corporate director or CFO for several private and public companies. He holds undergraduate degrees in both Science and Accounting from the University of British Columbia, a Master's Degree in Finance from the London School of Economics in England, and the Diploma FCSI (Fellow of the Canadian Securities Institute).

As a Chartered Professional Accountant, he was also granted a CF (Corporate Finance) specialist designation from CPA Canada in 2008. He has worked in the financial services sector with Ernst & Whinney (now KPMG), Price Waterhouse, Royal Bank of Canada, and with Pemberton Securities (now RBC Dominion Securities). In 2007 and 2008 he was a Senior Vice President, Corporate Finance with Wolrige Mahon, a BC-based CPA Firm. Most recently, he has been providing corporate finance, senior financial management, and corporate director (including Chairman and Audit Committee Chairman) services to several public companies through his personal services finance company CANUS Capital Corporation.

Haifeng Liu, Age 48 – Director

Mr. Liu has been the General Manager of Zhengzhou JinHao mechanical electric Co., Ltd., a Chinese company since 2003. Mr. Liu has over 20 years of industry leadership experience, has led the Linhe Winery Group's (China) strategic revival plan in 2013. As an experienced venture capital expert, he has also participated in many large enterprises' financing program.

In 2015, Mr. Liu successfully led the bankruptcy reorganization plan of the Galaxy Cotton company (China), and helped the newly born enterprise gradually enter the market. After just a few years of efforts, the company is now among the best in its industry.

Mr. Liu received a diploma Majored in Business Administration from the Henan University in China in 1997, and a certification with the Venture Capital & Private Equity Investment (VC/PE) advanced seminar course at the Tsinghua University School of Continuing Education from March, 2011 to April, 2012.

Richard (Rick) Lee, Age 61 – Chief Financial Officer

Mr. Lee graduated from the University of British Columbia in 1980 with a Bachelor of Commerce degree and is a Certified Management Accountant having obtained his designation in 1991. Mr. Lee has spent over 30 years either working for public accounting firms or for companies that trade on a recognized stock exchange.

Mr. Lee has been the Chief Financial Officer of Kelso Technologies Inc., an industrial company listed on the TSX and the NYSE from April 2010 to present and the Chief Financial Officer of Happy Creek Minerals Ltd., a mining exploration company listed on the TSXV, from June 18, 2012 to present. He was the Chief Financial Officer and a director of Elm Tree Minerals Inc. (now called Ximen Mining Corp.), a junior mining company listed on the TSXV, from October 2012 to December 2012.

Mr. Lee specializes in raising capital for public companies with a vast network of contacts at senior levels of finance in both Canada and the US.

Potanicals

The following persons are the current and proposed directors and officers of Potanicals.

Claude (Cliff) Stowell, Age 63 – President and Director

For information regarding Mr. Stowell, see Section 13.11 *Management* above.

Douglas Turner, Age 65 - Secretary and Director

Mr. Tuner has extensive knowledge in finance, real estate development, appraisal and in creating a business from the ground up. He has been self-employed since 1983 and has founded several successful companies. As president of Cycle BC Rentals, Mr. Turner transformed the company from a small bicycle rental outlet in 1993 into Canada's largest provider of rental motorcycles, scooters and bicycles with offices throughout Victoria, BC and Vancouver, BC. Cycle BC Rentals and its subsidiary, Coastline Motorcycle Tours, are planning to expand throughout southern BC and the rest of Canada.

From 2009 to 2016 Mr. Turner, acted as president of Camp Okanagan Resort Ltd., and along with Claude (Cliff) Stowell, designed, developed and completed the Peachland resort facility.

During Camp Okanagan Resort Ltd.'s development, Mr. Turner was instrumental in the overall vision for a medical marijuana facility within the Central Okanagan area. He purchased land, and with his partner Cliff, rezoned and subdivided the property, which today houses the Facility, and completed the regulatory process for the eventual approval of the Facility. Their combined vision, efforts and skills resulted in the Regional District of the Central Okanagan approving the Facility for an approximate 80,000 square-foot expansion.

Mr. Turner received a BA Economics from the University of Victoria in 1974. In 1978 he completed, through the University of British Columbia, his certification with the Real Estate Institute of BC specializing in appraisal, mortgage brokerage & marketing. In 1981 Mr. Turner received the designation as a Canadian Residential Appraiser (CRA) through the Appraisal Institute of Canada (AACI).

Calum Hughes, PMP, Age 39 – Proposed Chief Technology Officer/Quality Assurance

Mr. Hughes has been responsible for leading activities relating to large scale quality assurance and safety initiatives from concept to initiation, planning, implementation, controlling and closing. He is skilled in the Project Management Institute's Methodology© for managing projects through mitigating risk, maximizing communication and ensuring project success. The work that he has done in creating and operating the Quality Assurance, Risk Management and Accreditation Department within the Central Okanagan has received Provincial and National recognition by experts within the field.

In the past, Mr. Hughes has created and presented at top level educational presentations for healthcare executives, business professionals, psychiatrists, nursing staff, general practitioners, internal medicine specialists, obstetricians/gynecologists, and cardiologists. He has worked as an Adjunct Professor for the University of British Columbia's Faculty of Health and Social Development, as a consultant to the Healthy Heart Society of British Columbia, Bayer Pharmaceuticals Canada, Fraser Health Authority and the Interior Health Authority. Within his various roles, Mr. Hughes has facilitated health service planning and structural re-organizations of business processes and healthcare professionals within their respective departments.

Mr. Hughes, who has held an Appointment of Adjunct Professor for the University of British Columbia Faculty of Health and Social Development, is a Registered Kinesiologist with the British Columbia Association of Kinesiologists. He has also completed a Post Baccalaureate Diploma in Gerontology specializing in healthy aging and chronic disease prevention. He is skilled in data analysis, interpretation of medical laboratory results and validation of medical tests. Mr. Hughes holds a certification in Health Care Informatics from the University of British Columbia and the Global Gold Standard designation of *Project Management Professional* **(PMP)** from the Project Management Institute (Pennsylvania, USA). He achieved a 98% (certified with Gold Standing) in his studies towards a LEAN Greenbelt in 2009. Mr. Hughes is currently working towards the *Canadian HealthCare Executive* **(CHE)** designation and is also working towards his Physical Doctorate **(PhD)** degree in Health Systems Evaluation for Quality Assurance and BioStatistics.

Mr Hughes’s past clinical experience includes functioning as a health care provider for patients with co-morbid chronic diseases, acute disability and workplace health and wellness. Working as a clinician, Mr. Hughes has created *Physical & Functional Diagnostic Tools* and *Chronic Disease Management Protocols* for cardiovascular, orthopedic, obesity, respiratory, brain injury, and cerebrovascular diseases. He has created teaching resources and presented at top-level educational presentations regarding *Change Management*, *Quality Improvement*, *Personality & Communication*, *Project Management* and *Lean Manufacturing Method for Healthcare.*

14. CAPITALIZATION

14.1 Issued Capital

Fully Diluted Issued Capital – After Consolidation and Transaction

The following table sets out the fully diluted share capital of the Corporation after giving effect to the Consolidation and the Transaction:

Designation of Security	After Giving Effect to the Transaction and the Consolidation	
	Number of Securities	**Percentage of Securities**
Common Shares issued and outstanding post-Consolidation on a 2.1174:1 basis	10,000,109[1]	7.45%
Common Shares issued post-Consolidation to Potanicals Shareholders pursuant to the Share Exchange Agreement on a 4.5:1 basis	124,186,752	92.48%
Options issued and outstanding post-Consolidation	94,456	0.07%

Designation of Security	After Giving Effect to the Transaction and the Consolidation	
	Number of Securities	Percentage of Securities
Total Number of Diluted Securities	**134,281,347[(1)]**	**100%**

Note:
(1) The number will vary slightly due to fractional rounding of the Common Shares post-Consolidation.

Issued Capital

	Number of Securities (non-diluted)	Number of Securities (fully-diluted)	% of Issued (non-diluted)	% of Issued (fully diluted)
Public Float				
Total outstanding **(A)**	134,186,861[(1)]	134,281,317[(1)]	100%	100%
Held by Related Persons or employees of the Corporation or Related Person of the Corporation, or by persons or companies who beneficially own or control, directly or indirectly, more than a 5% voting position in the Corporation (or who would beneficially own or control, directly or indirectly, more than a 5% voting position in the Corporation upon exercise or conversion of other securities held) **(B)**	74,159,000	74,159,000	55.27%	55.23%
Total Public Float **(A-B)**	**60,027,861**	**60,122,317**	**44.73%**	**44.77%**
Freely-Tradeable Float				
Number of outstanding securities subject to resale restrictions, including restrictions imposed by pooling or other arrangements or in a shareholder agreement and securities held by control block holders **(C)**	33,174,000	33,174,000	24.72%	24.70%
Total Tradeable Float **(A-C)**	**101,012,861**	**101,107,317**	**75.28%**	**75.30%**

Note:
(1) The number will vary slightly due to fractional rounding of the Common Shares post-Consolidation.

Public Securityholders (Registered)[(1)]

Class of Security Size of Holding	Number of holders	Total number of securities
1 – 99 securities	0	0
100 – 499 securities	0	0
500 – 999 securities	0	0
1,000 – 1,999 securities	0	0
2,000 – 2,999 securities	0	0
3,000 – 3,999 securities	0	0
4,000 – 4,999 securities	0	0
5,000 or more securities	16	21,174,230
TOTAL	**16**	**21,174,230**

Note:
(1) Prior to giving effect to the Consolidation.

Public Securityholders (Beneficial)[(1)]

Class of Security Size of Holding	Number of holders	Total number of securities
1 – 99 securities	0	0
100 – 499 securities	0	0
500 – 999 securities	1	800
1,000 – 1,999 securities	106	125,050
2,000 – 2,999 securities	1	2,000
3,000 – 3,999 securities	2	6,000
4,000 – 4,999 securities	4	17,900
5,000 or more securities	72	8,164,233
TOTAL	**186**	**8,315,983**

Note:
(1) Prior to giving effect to the Consolidation.

Non-Public Securityholders (Registered)

Class of Security Size of Holding	Number of holders	Total number of securities
1 – 99 securities		
100 – 499 securities		
500 – 999 securities		
1,000 – 1,999 securities		
2,000 – 2,999 securities		
3,000 – 3,999 securities		
4,000 – 4,999 securities		
5,000 or more securities	4	33,174,000
TOTAL	**4**	**33,174,000**

14.2 Convertible/Exchangeable Securities

Description of Security (include conversion/exercise terms, including conversion/exercise price)	Number of convertible/exchangeable securities outstanding[(1)]	Number of listed securities issuable upon conversion/exercise[(1)]
Stock Options	94,456	94,456 Common Shares/$0.275

Note:
(1) After giving effect to the Consolidation. These Options are exercisable at $0.275 per Common Share until May 24, 2018.

14.3 Other Listed Securities

The Corporation has no other listed securities reserved for issuance that are not included in section 14.1 or 14.2.

15. EXECUTIVE COMPENSATION

General

For the purpose of this Listing Statement:

"**compensation securities**" includes stock options, convertible securities, exchangeable securities and similar instruments including stock appreciation rights, deferred share units and restricted stock units granted or issued by the Corporation or one of its subsidiaries (if any) for services provided or to be provided, directly or indirectly to the Corporation or any of its subsidiaries (if any);

"**NEO**" or "**named executive officer**" means:

(a) each individual who served as chief executive officer ("**CEO**") of the Corporation, or who performed functions similar to a CEO, during any part of the most recently completed financial year,

(b) each individual who served as chief financial officer ("**CFO**") of the Corporation, or who performed functions similar to a CFO, during any part of the most recently completed financial year,

(c) the most highly compensated executive officer of the Corporation or any of its subsidiaries (if any) other than individuals identified in paragraphs (a) and (b) at the end of the most recently completed financial year whose total compensation was more than $150,000 for that financial year, and

(d) each individual who would be an NEO under paragraph (c) but for the fact that the individual was neither an executive officer of the Corporation or its subsidiaries (if any), nor acting in a similar capacity, at the end of that financial year;

"**plan**" includes any plan, contract, authorization or arrangement, whether or not set out in any formal document, where cash, compensation securities or any other property may be received, whether for one or more persons; and

"**underlying securities**" means any securities issuable on conversion, exchange or exercise of compensation securities.

Director and Named Executive Officer Compensation, excluding Compensation Securities

The following table sets forth, for the financial years ended December 31, 2016 and 2015, all direct and indirect compensation paid, payable, awarded, granted, given or otherwise provided, directly or indirectly, by the Corporation thereof to each NEO and each director of the Corporation, in any capacity, including, for greater certainty, all plan and non-plan compensation, direct and indirect pay, remuneration, economic or financial award, reward, benefit, gift or perquisite paid, payable, awarded, granted, given or otherwise provided to the NEO or director for services provided and for services to be provided, directly or indirectly, to the Corporation:

Name and Position	Fiscal Years Ended December 31	Salary, Consulting Fee, Retainer or Commission ($)	Bonus ($)	Committee or Meeting Fees ($)	Value of Perquisites ($)	Value of all other Compensation ($)	Total Compensation ($)
Hilda Sung Former President, Chief Executive Officer and Director(1)	2016 2015	60,000 60,000	Nil Nil	Nil Nil	Nil Nil	Nil Nil	60,000 60,000
Jin Kuang Former Chief Financial Officer and Corporate Secretary(2)	2016 2015	30,000 30,000	Nil Nil	Nil Nil	Nil Nil	Nil Nil	30,000 30,000
Yingting (Tony) Guo(3) Former Director	2016 2015	3,300 3,300	Nil Nil	Nil Nil	Nil Nil	Nil Nil	3,300 3,300
Alex Ku(4) Former Director	2016 2015	5,500 5,500	Nil Nil	Nil Nil	Nil Nil	Nil Nil	5,500 5,500

Notes:
(1) Hilda Sung resigned as President, Chief Executive Officer and a director of the Corporation on November 2, 2017.
(2) Jin Kuang resigned as Chief Financial Officer and Corporate Secretary of the Corporation on November 2, 2017.
(3) Yingting (Tony) Guo resigned as a director of the Corporation on November 2, 2017.
(4) Alex Ku resigned as a director of the Corporation on November 2, 2017.

Stock Options and Other Compensation Securities

The following table sets out all compensation securities granted or issued to each director and NEO by the Corporation or any subsidiary thereof in the financial years ended December 31, 2016 and 2015 for services provided, or to be provided, directly or indirectly, to the Corporation or any subsidiary thereof:

Compensation Securities							
Name and Position	**Type of Compensation Security**	**Number of Compensation Securities, Number of Underlying Securities and Percentage of Class**	**Date of Issue or Grant**	**Issue, Conversion or Exercise Price ($)**	**Closing Price of Security or Underlying Security on Date of Grant**	**Closing Price of Security or Underlying Security at Year End**	**Expiry Date**
Hilda Sung Former President, Chief Executive Officer and Director(1)	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Jin Kuang Former Chief Financial Officer and Corporate Secretary(2)	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Yingting (Tony) Guo(3) Former Director	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Compensation Securities							
Name and Position	Type of Compensation Security	Number of Compensation Securities, Number of Underlying Securities and Percentage of Class	Date of Issue or Grant	Issue, Conversion or Exercise Price ($)	Closing Price of Security or Underlying Security on Date of Grant	Closing Price of Security or Underlying Security at Year End	Expiry Date
Alex Ku(4) Former Director	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Notes:

(1) Post-Consolidation, Ms. Sung holds Options to purchase an additional 47,228 Common Shares at a price of $0.275 per Common Share until May 24, 2018.

(2) Post-Consolidation, Ms. Kuang holds Options to purchase 23,614 Common Shares at a price of $0.275 per Common Share until May 24, 2018.

(3) Post-Consolidation, Mr. Guo holds Options to purchase 23,614 Common Shares at a price of $0.275 per Common Share until May 24, 2018.

Exercise of Compensation Securities by Directors and NEOs

The following table sets out each exercise by a director or NEO of compensation securities during the year ended December 31, 2016:

Name and Position	Type of Compensation Security	Number of Underlying Securities Exercised (#)	Exercise Price per Security ($)	Date of Exercise	Closing Price per Security on Date of Exercise ($)	Difference between Exercise Price and Closing Price on Date of Exercise ($)	Total Value on Exercise Date ($)
Hilda Sung *Former President, Chief Executive Officer and Director*(1)	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Jin Kuang *Former Chief Financial Officer and Corporate Secretary*(2)	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Yingting (Tony) Guo *Former Director*	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Alex Ku *Former Director*	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Stock Option Plan and Other Incentive Plans

See Section 9 – *Options to Purchase Securities* for a description of the Stock Option Plan and its significant terms.

Employment, Consulting and Management Agreements

Effective May 15, 2013, the Corporation entered into a consulting agreement, as amended, with Hilda Sung, former President, Chief Executive Officer and a director of the Corporation, whereby Ms. Sung agreed to provide services as the Chief Executive Officer of the Corporation for a salary of $60,000 per year. On Closing, the consulting agreement was terminated and the Corporation paid Ms. Sung a termination payment of $90,000.

Effective May 15, 2013, the Corporation entered into a consulting agreement with Conscientia Consulting Inc., a private company wholly owned by Jin Kuang, former Chief Financial Officer and Corporate Secretary of the Corporation, whereby Ms. Kuang agreed to provide services as the Chief Financial Officer of the Corporation for a salary of $2,500 per month. On Closing, the consulting agreement was terminated and the Corporation paid Conscientia Consulting Inc. a termination payment of $30,000.

Oversight and Description of Director and NEO Compensation

The Corporation does not have in place a compensation committee or a nominating committee. All tasks related to developing and monitoring the Corporation's approach to the compensation of NEOs of the Corporation and to developing and monitoring the Corporation's approach to the nomination of directors to the Board are performed by the members of the Board. The compensation of the NEOs and the Corporation's employees is reviewed, recommended and approved by the Board without reference to any specific formula or criteria.

The Corporation's compensation program is intended to attract, motivate, reward and retain the management talent needed to achieve the Corporation's business objectives of improving overall corporate performance and creating long-term value for the Shareholders. The Corporation's current compensation program is comprised of base salary, short term incentives (discretionary bonuses) and long term incentives (Options). The compensation program is intended to reward executive officers on the basis of individual performance and achievement of corporate objectives. At this time, the Board has not established any benchmark or performance goals that the NEOs must achieve in order to maintain their respective positions as NEOs with the Corporation. However, the NEOs are expected to carry out their duties in an effective and efficient manner and to advance the business objectives of the Corporation. If the Board determines that these duties are not being met, the Board has the ability to replace such NEOs in its discretion.

In making compensation decisions, the Board strives to find a balance between short-term and long-term compensation and cash versus equity incentive compensation. Base salaries and discretionary cash bonuses primarily reward recent performance and incentive stock options encourage NEOs to continue to deliver results over a longer period of time and serve as a retention tool. The annual salary for each NEO is determined by the Board based on the level of responsibility and experience of the individual, the relative importance of the position to the Corporation, the professional qualifications of the individual and the performance of the individual over time. The NEOs' performances and salaries are to be reviewed periodically on the anniversary of their employment with the Corporation. Increases in salary are to be evaluated on an individual basis and are performance based. The amount and award of cash bonuses to key executives and senior management is discretionary, depending on, among other factors, the financial performance of the Corporation and the position of a participant.

The Corporation's compensation policies and practices are designed to provide certain executive officers incentives for the achievement of both short-term and long-term objectives without motivating them to take unnecessary or excessive risk.

Under the Corporation's compensation policies and practices, NEOs and directors are not prevented from purchasing financial instruments, including prepaid variable forward contracts, equity swaps, collars or units of exchange funds, that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the NEO or director.

Pension Plan Benefits

The Corporation does not have any pension, defined benefit, defined contribution or deferred compensation plans in place.

16. INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

At any time since the beginning of the most recently completed financial year of the Corporation or Potanicals, no officer, director or employee or former officer, director or employee of the Corporation or Potanicals, or person who acted in such capacity since the beginning of the most recently completed financial year of the Corporation or Potanicals, is or has been indebted to the Corporation or Potanicals, nor has any such persons indebtedness to another entity been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or Potanicals.

17. RISK FACTORS

Risks Related to the Transaction

Transactions Generally

While the Corporation conducted substantial due diligence in connection with the Transaction, there are risks inherent in any acquisition. Specifically, there could be unknown or undisclosed risks or liabilities of Potanicals for which the Corporation is not sufficiently indemnified pursuant to the provisions of the Share Exchange Agreement. Any such unknown or undisclosed risks or liabilities could materially and adversely affect the Corporation's financial performance and results of operations. The Corporation could encounter additional transaction and integration related costs or other factors such as the failure to realize all of the benefits anticipated in the Transaction. All of these factors could cause a delay of the anticipated accretive effect of the Transaction and cause a decrease in the market price of the Common Shares.

Failure to Realize Benefits of Transaction

The Corporation may not realize the anticipated benefits of the Transaction, or may not realize them in the time frame expected. The Corporation cannot provide assurance that it will be able to grow or even sustain the cash flow generated by the Transaction. Difficulties encountered as a result of the Transaction may prove problematic to overcome such as, without limitation, the inability to integrate or retain key personnel, the inability to retain business relationships with current customers, and difficulties with adoption or implementation of new business plans, standards, controls, processes and systems within Potanicals.

Risks Related to the Operations of the Corporation

The Corporation is Not a Licensed Seller Under the ACMPR

On October 13, 2017, Potanicals received its License to cultivate marijuana from Health Canada under the ACMPR, but Potanicals is not yet permitted to sell medical marijuana. Potanicals' ability to sell medical marijuana in Canada is dependent on obtaining an amendment to its License from Health Canada and there can be no assurance that Potanicals will obtain the amendment to its License.

Regulatory Risks

Some of the proposed activities of the Corporation will be subject to regulation by governmental authorities, including, but not limited to, Health Canada's Office of Controlled Substances. The Corporation's business objectives are contingent upon, in part, compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Corporation cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Corporation.

Furthermore, although the operations of Potanicals are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Corporation's ability to produce or sell medical cannabis. Amendments to current laws and regulations governing the importation, distribution, transportation and/or production of medical cannabis, or more stringent implementation thereof could have a substantial adverse impact on the Corporation.

Governmental Regulations and Risks

The Corporation's operations will be subject to environmental regulation in the jurisdiction in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Corporation's operations.

Government approvals and permits are currently, and may in the future, be required in connection with the Corporation's operations. To the extent such approvals are required and not obtained, the Corporation may be curtailed or prohibited from its proposed production of medical cannabis or from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Corporation may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing the production of medical cannabis, or more stringent implementation thereof, could have a material adverse impact on the Corporation and cause increases in expenses, capital expenditures or production costs or reduction in levels of production or require abandonment or delays in development.

Licensing Requirements under the ACMPR

The market for cannabis (including medical marijuana) in Canada is regulated by ACMPR, the Narcotic Control Regulations, and other applicable law. Health Canada is the primary regulator of the industry as a whole. The ACMPR aims to treat cannabis like any other narcotic used for medical purposes by creating conditions for a new commercial industry that is responsible for its production and distribution.

The ACMPR will subject the Corporation to stringent ongoing compliance and reporting requirements. Failure to comply with the requirements of its License or any failure to maintain the License could have a material adverse impact on the business, financial condition and operating results of the Corporation. Furthermore, the License will have an expiry date of approximately one year from the date the License was granted. Upon expiration of the License, the Corporation will be required to submit an application for renewal to Health Canada containing information prescribed under the ACMPR and any such renewal cannot be assured.

Licensed Producers are required to demonstrate compliance with regulatory requirements, such as quality control standards, record-keeping of all activities as well as inventories of marijuana, and physical security measures to protect against potential diversion. Licensed Producers are also required to employ qualified quality assurance personnel who ultimately approve the quality of the product prior to making it available for sale. This approval process includes testing (and validation of testing) for microbial and chemical contaminants to ensure that they are within established tolerance limits for herbal medicines for human consumption as required under the Food and Drugs Act, and determining the percentage by weight of the two active ingredients of marijuana, delta-9-Tetrahydrocannabinol and cannabidiol.

Factors related to the Facility which may Prevent Realization of Business Objectives

As of the date of this Listing Statement, the Facility has been completed. Any adverse changes or developments affecting the Facility and commencement of production could have a material and adverse effect on the Corporation's business, financial condition and prospects. There is a risk that these changes or developments could adversely affect the Facility by a variety of factors, including some that are discussed elsewhere in these risk factors and the following:

(a) delays in obtaining, or conditions imposed by, regulatory approvals;

(b) plant design errors;

(c) environmental pollution;

(d) non-performance by third party contractors;

(e) increases in materials or labour costs;

(f) construction performance falling below expected levels of output or efficiency;

(g) breakdown, aging or failure of equipment or processes;

(h) contractor or operator errors;

(i) labour disputes, disruptions or declines in productivity;

(j) inability to attract sufficient numbers of qualified workers;

(k) disruption in the supply of energy and utilities; or

(l) major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

It is also possible that the costs of commencing production may be significantly greater than anticipated by the Corporation's management, and may be greater than funds available to the Corporation, in which circumstance the Corporation may curtail, or extend the timeframes for completing its business plans. This could have an adverse effect on the financial results of the Corporation.

Limited Operating History

While Potanicals was incorporated and began carrying on business in 2014, it is yet to generate any revenue. The Corporation is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Corporation will be successful in achieving a return on Shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

History of Losses

The Corporation has incurred losses in recent periods. The Corporation may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Corporation expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Corporation’s revenues do not increase to offset these expected increases in costs and operating expenses, the Corporation will not be profitable.

Volatile Stock Price

The stock price of the Corporation is expected to be highly volatile and will be drastically affected by governmental and regulatory regimes and community support for the medical cannabis industry. The Corporation cannot predict the results of its operations expected to take place in the future. The results of these activities will inevitably affect the Corporation's decisions related to future operations and will likely trigger major changes in the trading price of the Corporation Shares.

Risks Inherent in an Agricultural Business

The Corporation's business may, in the future, involve the growing of medical cannabis, an agricultural product. Such business will be subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although all such growing of the Corporation is expected to be completed indoors under climate controlled conditions, there can be no assurance that natural elements will not have a material adverse effect on any such future production.

Energy Costs

The Corporation's medical cannabis growing operations will consume considerable energy, which will make the Corporation vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may, in the future, adversely impact the business of the Corporation and its ability to operate profitably.

Reliance on Management

Another risk associated with the production and sale of medical cannabis is the loss of important staff members. The Corporation is currently in good standing with all high level employees and believes that with well managed practices it will remain in good standing. The success of the Corporation will be dependent upon the ability, expertise, judgment, discretion and good faith of its senior management and key personnel. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Corporation's business, operating results or financial condition.

Insurance and Uninsured Risks

The Corporation's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labour disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although the Corporation maintains and intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Corporation may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Corporation is not generally available on acceptable terms. The Corporation might also become subject to liability for pollution or other hazards which may not be insured against or which the Corporation may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Corporation to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

The Corporation will be an Entrant Engaging in a New Industry

The medical cannabis industry is fairly new. There can be no assurance that an active and liquid market for Common Shares will develop and Shareholders may find it difficult to resell their shares. Accordingly, no assurance can be given that the Corporation will be successful in the long term.

Dependence on Suppliers and Skilled Labour

The ability of the Corporation to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Corporation will be successful in maintaining its required supply of skilled labour, equipment, parts and components. This could have an adverse effect on the financial results of the Corporation.

Difficulty to Forecast

The Corporation must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the medical cannabis industry in Canada. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Corporation.

Management of Growth

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Corporation to deal with this growth may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Internal Controls

Effective internal controls are necessary for the Corporation to provide reliable financial reports and to help prevent fraud. Although the Corporation will undertake a number of procedures and will implement a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on the Corporation under Canadian securities law, the Corporation cannot be certain that such measures will ensure that the Corporation will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Corporation's results of operations or cause it to fail to meet its reporting obligations. If the Corporation or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Corporation's consolidated financial statements and materially adversely affect the trading price of the Corporation Shares.

Liquidity

The Corporation cannot predict at what prices the Common Shares will trade, and there can be no assurance that an active trading market in the Common Shares will develop or be sustained. Final approval of the CSE has not yet been obtained. There is a significant liquidity risk associated with an investment in the Common Shares.

Dilution

The Corporation may issue equity securities to finance its activities, including future acquisitions. If the Corporation was to issue Common Shares, existing holders of such Common Shares may experience dilution in their holdings. Moreover, when the Corporation's intention to issue additional equity securities becomes publicly known, the Corporation's share price may be adversely affected.

Litigation

The Corporation may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Corporation becomes involved be determined against the Corporation such a decision could adversely affect the Corporation's ability to continue operating and the market price for Common Shares and could use significant resources. Even if the Corporation is involved in litigation and wins, litigation can redirect significant company resources.

Risks Related to the Medical Cannabis Industry

Cannabis is Not an Approved Drug or Medicine

Cannabis is not an approved drug or medicine in Canada. The Government of Canada does not endorse the use of cannabis, but the courts have required reasonable access to a legal source of cannabis when authorized by a healthcare practitioner.

Federal Court Case and the Introduction of the ACMPR

The Corporation's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis but also including laws and regulations relating to health and safety, privacy, the conduct of operations and the protection of the environment. While to the knowledge of the Corporation's management, the Corporation is currently in compliance with all such laws, changes to such laws, regulations and guidelines due to matters beyond the control of the Corporation may cause adverse effects to the Corporation's operations and the financial condition of the Corporation.

On March 21, 2014 the Federal Court of Canada issued an interim order affecting the repeal of the MMAR and the application of certain portions of the MMPR which are inconsistent with the MMAR in response to a motion brought by four individuals in the Allard case. Prior to the trial, the Federal Court of Canada ordered injunctive relief (the "**Injunction**") in favour of certain individuals licensed to use medical cannabis pursuant to the MMAR. As a result, (i) individuals who held a license to possess cannabis under the MMAR on March 21, 2014 can continue to possess cannabis in accordance with the terms of that license, except that the maximum quantity of dried cannabis authorized for possession will be the lessor of that which is specified by their license or 150 grams; and (ii) individuals who held a valid license to produce cannabis under the MMAR as of September 30, 2013, or were issued one thereafter may continue to produce medical cannabis in accordance with the terms of that license. Individuals covered by the injunction who wish to change the terms of their license, such as a change in address or designated producer, will be able to do so by registering with Health Canada under the new regulations, the ACMPR.

On June 11, 2015 the Supreme Court of Canada, in a case titled R v Smith, held that the restriction on the use of non-dried forms of cannabis for medical cannabis users violates the right to liberty and security of individuals in a manner that is arbitrary and not in keeping with the principles of fundamental justice. As a result, the Supreme Court of Canada declared Sections 4(1) and 5(2) of the Act, which prohibit the possession and trafficking of nondried forms of cannabis, are of no force and effect to the extent that they prohibit a person with medical authorization from possessing cannabis other than dried cannabis. This ruling means medical cannabis patients authorized to possess and use medical cannabis are not limited to using dried forms of cannabis and may consume cannabis other than dried cannabis for medical purposes. On July 8, 2015 Health Canada issued certain exemptions under the Act, permitting Licensed Producers to produce and sell cannabis oil and fresh cannabis buds and leaves, in addition to dried cannabis (this did not permit Licensed Producers to sell plant material that can be used to propagate cannabis).

The Federal Court's decision on the Allard case was delivered on February 24, 2016. In the decision, the Federal Court declared the MMPR invalid as it unconstitutionally violated patients Charter protected rights to liberty and security. However, the Court suspended the operation of the declaration of invalidity for six months to permit Canada to enact a Charter-compliant regime. The government choose not to appeal the decision to the Federal Court of Appeal. On August 24, 2016, the ACMPR replaced the MMPR. The ACMPR is Canada's response to the Federal Court of Canada's February 2016 decision in Allard.

Overall, the ACMPR contain four parts:

- Part 1 is similar to the framework under the MMPR. It sets out a framework for commercial production by Licensed Producers responsible for the production and distribution of quality-controlled fresh or dried marijuana or cannabis oil or starting materials (i.e., marijuana seeds and plants) in secure and sanitary conditions.

- Part 2 is similar to the former MMAR regime. It sets out provisions for individuals to produce a limited amount of cannabis for their own medical purposes or to designate someone to produce it for them.

- Parts 3 and 4 include:

    - Transitional provisions, which mainly relate to the continuation of MMPR activities by:

        - Licensed Producers;

        - Consequential amendments to other regulations that referenced the MMPR (i.e., Narcotic Control Regulations, New Classes of Practitioners Regulations) to update definitions and broaden the scope of products beyond dried marijuana; and

- Provisions repealing the MMPR and setting out the coming into force of the ACMPR on August 24, 2016.

As of August 24, 2016, Health Canada commenced accepting applications from individuals who wish to register to produce a limited amount of cannabis for their own medical purposes or to designate someone to produce cannabis for them. Individuals who were previously authorized to possess and produce cannabis under the MMAR remain authorized to do so by virtue of a Federal Court injunction order.

Under the ACMPR, Health Canada will continue to accept and process applications to become a Licensed Producer that were submitted under the former MMPR. Further, all Licenses and security clearances granted under the MMPR will continue under the ACMPR, which means that Licensed Producers can continue to register and supply clients with cannabis for medical purposes. New applicants can continue to apply for Licenses to produce under the ACMPR.

The risks to the business of the Corporation represented by this or similar actions are that they might lead to court rulings or legislative changes that allow those with existing licenses to possess and/or grow medical cannabis, perhaps allow others to opt out of the regulated supply system implemented through the ACMPR by growing their own medical cannabis, or potentially even legitimize illegal areas surrounding cannabis dispensaries. This could significantly reduce the addressable market for the Corporation's products and could materially and adversely affect the business, financial condition and results of operations for the Corporation.

While the impact of any of such changes are uncertain and are highly dependent on which specific laws, regulations or guidelines are changed and on the outcome of any such court actions, it is not expected that any such changes would have an effect on the Corporation's operations that is materially different than the effect on similar-sized companies in the same business as the Corporation.

In addition, the industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the Corporation's control and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Corporation's earnings and could make future capital investments or the Corporation's operations uneconomic.

Legislative or Regulatory Reform

The Corporation's operations will be subject to a variety of laws, regulations, guidelines and policies relating to the manufacture, import, export, management, packaging/labeling, advertising, sale, transportation, storage and disposal of medical cannabis but also including laws and regulations relating to drugs, controlled substances, health and safety, the conduct of operations and the protection of the environment. Due to matters beyond the control of the Corporation, these laws, regulations, guidelines and policies may cause adverse effects to its operations.

The commercial medical cannabis industry is a new industry and the Corporation anticipates that such regulations will be subject to change as the Federal Government monitors Licensed Producers.

Competition

On October 19, 2015, the Liberal Party of Canada (the "**Party**") obtained a majority government in Canada. The Party has committed to the legalization of recreational cannabis in Canada, though no model for this regulatory change has been publicly disclosed or timeline for implementation put forward. This regulatory change may not be implemented at all. The introduction of a recreational model for cannabis production and distribution may impact the medical cannabis market. The impact of this potential development may be negative for the Corporation and could result in increased levels of competition in its existing medical market and/or the entry of new competitors in the overall cannabis market in which the Corporation operates.

There is potential that the Corporation will face intense competition from other companies, some of which can be expected to have more financial resources, industry, manufacturing and marketing experience than the Corporation. Additionally, there is potential that the industry will undergo consolidation, creating larger companies that may have increased geographic scope and other economies of scale. Increased competition by larger, better-financed competitors with geographic or other structural advantages could materially and adversely affect the business, financial condition and results of operations of the Corporation.

The government has only issued to date a limited number of Licenses, under the MMPR/ACMPR, to produce and sell medical cannabis. There are, however, several hundred applicants for Licenses, including Potanicals. The number of Licenses granted could have an impact on the operations of the Corporation. Because of the early stage of the industry in which the Corporation operates, the Corporation would expect to face additional competition from new entrants. If the number of users of medical cannabis in Canada increases, the demand for products will increase and the Corporation expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To be competitive, the Corporation will require a continued level of investment in research and development, marketing, sales and client support. The Corporation may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Corporation.

Unfavourable Publicity or Consumer Perception

Management of the Corporation believes the medical cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical cannabis produced. Consumer perception of the Corporation's proposed products may be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Corporation's proposed products and the business, results of operations, financial condition and cash flows of the Corporation. The Corporation's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Corporation, the demand for the Corporation's proposed products, and the business, results of operations, financial condition and cash flows of the Corporation.

Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical cannabis in general, or the Corporation's proposed products specifically, or associating the consumption of medical cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Product Liability

If the Corporation receives a License as a distributor of products designed to be ingested by humans, the Corporation faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the sale of the Corporation's products would involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Corporation's products alone or in combination with other medications or substances could occur. The Corporation may be subject to various product liability claims, including, among others, that the Corporation's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Corporation could result in increased costs, could adversely affect the Corporation's reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and financial condition of the Corporation. There can be no assurances that the Corporation will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Corporation's potential products.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Corporation's products are recalled due to an alleged product defect or for any other reason, the Corporation could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Corporation may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Corporation has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Corporation's significant brands were subject to recall, the image of that brand and the Corporation could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Corporation's products and could have a material adverse effect on the results of operations and financial condition of the Corporation. Additionally, product recalls may lead to increased scrutiny of the Corporation's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

18. PROMOTERS

18.1 – 18.3 <u>Promoter Consideration</u>

Neither the Corporation nor Potanicals is a party to any written or oral agreement or understanding to provide any promotional or investor relations services for the Corporation.

19. LEGAL PROCEEDINGS

19.1 Legal Proceedings

To the knowledge of the management of the Corporation, there are no legal proceedings material to the Corporation to which the Corporation is a party or of which any of its property is the subject matter, which, if adversely determined, would be expected to have a material adverse effect on the Corporation.

19.2 Regulatory Actions

The Corporation is not subject to:

(a) any penalties or sanctions imposed by any court authority relating to provincial and territorial securities legislation or by a securities regulatory authority within the three years prior to the date of this Listing Statement;

(b) other penalties or sanctions imposed by a court or regulatory body against the Corporation necessary to contain full, true and plain disclosure of all material facts relating to the Common Shares.

The Corporation has not entered into any settlement agreement before a court relating to provincial and territorial securities legislation or with a securities regulatory authority within the three years prior to the date of this Listing Statement.

20. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

For the purpose of this Listing Statement, an "**Informed Person**" of the Corporation means: (a) a director or executive officer of the Corporation; (b) a director or executive officer of a person or corporation that is itself an Informed Person or subsidiary of the Corporation; (c) any person or corporation who beneficially owns, directly or indirectly, voting securities of the Corporation or who exercises control or direction over voting securities of the Corporation or a combination of both, carrying more than 10% of the voting rights attached to all outstanding voting securities of the Corporation; and (d) the Corporation, if it has purchased, redeemed or otherwise acquired any of its own securities, for so long as it holds any of its securities.

To the knowledge of the Corporation, except as set forth below, no Informed Person of the Corporation, and no Associate or Affiliate of any such person, at any time, has or had any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any transaction that has materially affected the Corporation, in any proposed transaction that could materially affect the Corporation.

The Board of Directors has unanimously determined that the Transaction is in the best interests of the Corporation and the Shareholders. The Transaction requires Shareholder approval, which was obtained by way of written consent from holders of a majority of the issued and outstanding Common Shares on September 19, 2017.

21. AUDITORS, TRANSFER AGENTS AND REGISTRARS

21.1 Auditors

The auditor of the Corporation is MNP LLP, at its office located at Suite 2000 – 330 5th Avenue SW, Calgary, Alberta T2P 0L4.

21.2 <u>Transfer Agent and Registrar</u>

The transfer agent and registrar of the Corporation is TSX Trust, 200 University Avenue, Suite 300, Toronto, Ontario M5H 4H1.

22. MATERIAL CONTRACTS

During the two years prior to the date of this Listing Statement, the Corporation and Potanicals have entered into the following material contracts, other than contracts entered into in the ordinary course of business:

(a) the Share Exchange Agreement (see Section 2.4 – *The Transaction*);

(b) the Escrow Agreement (see Section 11 – *Escrowed Securities*);

(c) the Contract of Purchase and Sale (see Section 3.1 – *General Development of the Business – Potanicals – The Facility*);

(d) the Lease Agreement (see Section 3.1 – *General Development of the Business – Potanicals – The Facility*); and

(e) the CanGenX Agreement (see Section 4.1 *Narrative Description of the Corporation's Business –Production and Sales*).

22.2 <u>Special Agreements</u>

This section is not applicable to the Corporation.

23. INTEREST OF EXPERTS

No person or corporation whose profession or business gives authority to a statement made by the person or corporation and who is named as having prepared or certified a part of this Listing Statement or as having prepared or certified a report or valuation described or included in this Listing Statement holds any beneficial interest, direct or indirect, in any securities or property of the Corporation or of an Associate or Affiliate of the Corporation and no such person is expected to be elected, appointed or employed as a director, senior officer or employee of the Corporation or of an Associate or Affiliate of the Corporation and no such person is a promoter of the Corporation or an Associate or Affiliate of the Corporation. MNP LLP is independent of the Corporation in accordance with the rules of professional conduct of the Institute of Chartered Accountants of Alberta.

24. OTHER MATERIAL FACTS

Other than as set out elsewhere in this Listing Statement, there are no other material facts about the Corporation and its securities which are necessary in order for this Listing Statement to contain full, true and plain disclosure of all material facts relating to the Corporation and its respective securities.

25. FINANCIAL STATEMENTS

25.1 <u>Financial Statements of the Corporation</u>

Schedule B contains the audited financial statements of the Corporation for the years ended December 31, 2016 and 2015, and the unaudited interim statements for the Corporation for the interim period ended for June 30, 2017 and 2016.

25.2 (a)-(b) Financial Statements of Potanicals

Potanicals Annual Information

The following table sets forth selected financial information for Potanicals for the six months ended June 30, 2017 and the years ended December 31, 2016 and 2015. Such information is derived from the audited financial statements of Potanicals for the years ended December 31, 2016 and 2015 and the unaudited financial statements for the six months ended June 30, 2017, and should be read in conjunction with such financial statements. See Schedule D – *Financial Statements of Potanicals*.

	Six Months Ended June 30, 2017 (Unaudited) ($)	**Year Ended December 31, 2016 (Audited) ($)**	**Year Ended December 31, 2015 (Audited) ($)**
Revenue..	-	-	-
Net income (loss)...	(502,934)	(1,179,562)	(682,102)
Basic and diluted income (loss) per common share	(0.02)	(0.10)	(0.07)
Total assets	3,154,014	3,521,239	2,850,675
Total long-term liabilities	-	-	-
Cash dividends per common share.........................	-	-	-

Pro Forma Consolidated Financial Information

The following table sets out certain financial information as at June 30, 2017 after giving effect to the Transaction as if it had been completed on that date. Such information is derived from and should be read in conjunction with the pro forma financial statements and the notes thereto attached hereto as Schedule A – *Pro Forma Financial Statements*.

	Corporation As at June 30, 2017 (Unaudited) ($)	**Potanicals As at June 30, 2017 (Unaudited) ($)**	**Pro Forma Adjustments (Unaudited) ($)**	**Corporation Pro Forma (Unaudited) ($)**
Current assets	270,097	76,474	4,970,036	5,316,607
Deposits	-	225,000	(225,000)	-
Property and equipment	-	2,852,540	825,000-	3,677,540
Total Assets	**270,097**	**3,154,014**	**5,270,036**	**8,994,147**
Current liabilities	38,624	188,306	30,000	256,930
Long-term liabilities	-	-	-	-
Total Liabilities	38,624	188,306	30,000	256,930
Shareholders' Equity (Deficit)	231,473	2,965,708	5,540,036	8,737,217

CERTIFICATE OF THE ISSUER

Pursuant to a resolution duly passed by its Board of Directors, Benchmark Botanics Inc., hereby applies for the listing of the above mentioned securities on the Exchange. The foregoing contains full, true and plain disclosure of all material information relating to Benchmark Botanics Inc. It contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in light of the circumstances in which it was made.

Dated British Columbia this 2nd day of November, 2017.

"Ping (Johnson) Zhang" (signed)
Chief Executive Officer

"*Richard Lee*" (signed)
Chief Financial Officer

"*Haifeng Liu*" (signed)
Director

Schedule A
Pro Forma Financial Statements

(See attached)

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

KAIYUE INTERNATIONAL INC.

JUNE 30, 2017

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

KAIYUE INTERNATIONAL INC.

Pro Forma Consolidated Statement of Financial Position

June 30, 2017

(Expressed in Canadian Dollars)

(Unaudited)

	Kaiyue International Inc. June 30, 2017 $ (Unaudited)	Potanical Green Growers Inc. June 30, 2017 $ (Unaudited)	Note 4	Pro Forma Adjustments $	Pro Forma Consolidated Kaiyue International Inc. June 30, 2017 $ (Unaudited)
Current Assets					
Cash and cash equivalents	267,436	45,944	(a)	300,036	5,283,416
			(b)	5,270,000	
			(f)	(600,000)	
GST receivables	2,048	10,180		–	12,228
Prepaid expenses	613	20,350		–	20,963
	270,097	76,474		4,970,036	5,316,607
Deposits	–	225,000	(f)	(225,000)	-
Property and equipment	–	2,852,540	(f)	825,000	3,677,540
	270,097	3,154,014		5,570,036	8,994,147
Current Liabilities					
Trade payable and accrued liabilities	10,774	188,306	(e)	30,000	229,080
Due to related parties	27,850	-		–	27,850
	38,624	188,306		30,000	256,930
Shareholders' Equity					
Share capital	2,175,070	7,282,232	(a)	300,036	14,852,268
			(b)	5,270,000	
			(d)	(2,175,070)	
			(e)	2,000,000	
Subscriptions received	–	30		–	30
Contributed surplus	26,495	–	(d)	(26,495)	61,200
			(e)	61,200	
Deficit	(1,970,092)	(4,316,554)	(d)	2,201,565	(6,176,281)
			(e)	(2,061,200)	
			(e)	(30,000)	
	231,473	2,965,708		5,540,036	8,737,217
	270,097	3,154,014		5,570,036	8,994,147

See the accompanying notes to the pro forma consolidated statement of financial position

1. Basis of presentation

The unaudited pro forma consolidated statement of financial position of Kaiyue International Inc. ("Kaiyue" or the "Company") as at June 30, 2017 has been prepared by management after giving effect to the proposed transaction among Kaiyue, Potanical Green Growers Inc. ("Potanical") and the shareholders of Potanical. The unaudited pro forma consolidated statement of financial position is the effect of combining the unaudited statement of financial position of Potanical as at June 30, 2017 and the audited statement of financial position of Kaiyue as at June 30, 2017 after giving effect to the transaction outlined in the Share Exchange Agreement dated September 14, 2017 among the parties (Note 3).

It is management's opinion that the pro forma consolidated statement of financial position includes all adjustments necessary for the fair presentation, in all material respects, of the transactions described in Notes 3 and 4 in accordance with International Financial Reporting Standards ("IFRS") applied on a basis consistent with Potanical's accounting policies. The pro forma consolidated statement of financial position is intended to reflect the financial position of the Company had the proposed transactions been effected on the date indicated, however is not necessarily indicative of the financial position which would have resulted if the transactions had actually occurred on June 30, 2017.

The unaudited pro forma consolidated statement of financial position should be read in conjunction with the historical financial statements and notes thereto of Potanical and Kaiyue. Unless where otherwise noted, the pro forma consolidated statement of financial position and accompanying notes are presented in Canadian dollars.

2. Significant accounting policies

The unaudited pro forma consolidated statement of financial position has been compiled using the significant accounting policies as set out in the unaudited financial statements of Potanical as at June 30, 2017. The significant accounting policies of Kaiyue conform in all material respects to those of Potanical.

3. Business acquisition

Kaiyue and Potanical and the shareholders of Potanical have entered into a Share Exchange Agreement whereby Kaiyue will acquire from the Potanical shareholders all of the common shares of Potanical which are issued and outstanding, including the intended private placement to issue 5,855,556 common shares (Note 4 (b)), in consideration for the issuance of 124,186,752 post consolidated common shares of Kaiyue (the "Acquisition").

Since Kaiye's activities, prior to the Acquisition, are limited to the management of cash resources, the maintenance of its listing, and the pursuit of a business, the Acquisition will constitute a reverse takeover ("RTO") in substance and for accounting purposes the Acquisition is considered to be outside the scope of IFRS 3 *Business Combinations*. Since the Acquisition will constitute a RTO, other than a business combination, of Kaiyue's net assets and its TSX Venture Exchange listing by Potanical, it will be accounted for in accordance with IFRS 2 Share-based Payment whereby Potanical is deemed to have issued shares in exchange for acquiring the net assets of Kaiyue together with its listing status, at the fair value of the consideration deemed to be given up by Potancial.

The combination between Kaiyue and Potanical is subject to, amongst other things, regulatory, board and shareholder approvals.

(Expressed in Canadian Dollars)

4. Pro forma assumptions and adjustments

The pro forma consolidated statement of financial position includes the effects of the following pro forma assumptions and adjustments as if they had occurred at June 30, 2017:

(a) Subsequent to June 30, 2017, Potanical issued 960,000 common shares for gross proceeds of $300,036.

(b) Potancial will complete a private placement to issue 5,855,556 common shares of Potancial at $0.90 per share for gross proceeds of $5,270,000.

(c) Subsequent to the completion of Potancial's private placement and prior to the closing of the Acquisition, Kaiyue will consolidate all its issued and outstanding common shares to not more that 10,000,109 post-consolidation shares, basing on a consolidation ratio of 2.1174 pre-consolidation common share to 1 post-consolidation common share.

(d) As a result of the RTO, the consolidated shareholders' equity only reflects the new share structure of Kaiyue together with actual share capital of Potancial. On completion of the Acquisition, the former shareholders of Kaiyue and Potancial will own 7.5% and 92.5% respectively of the combined entity. At June 30, 2017, Kaiyue has 10,000,109 post-consolidation common shares and 94,456 post-consolidation stock options issued / granted and outstanding. Potanical is deemed to have issued 10,000,109 Potancial common shares and granted 94,456 stock options to acquire Kaiyue.

(e) Since the share consideration to be allocated to the former shareholders of Kaiyue on closing the RTO is considered within the scope of IFRS 2, and the Company cannot identify specifically some or all of the goods or service received in return for the allocation of the shares, the value in excess of the net identifiable assets or obligations of Kaiyue acquired on closing is to be expensed in the consolidated statement of comprehensive income as listing costs.

The share-based compensation of $2,061,200 included in the listing costs comprises the fair value of the 10,000,109 shares and 94,456 stock option of Potanical that were deemed to have been issued / granted, and retained by the former shareholders of Kaiyue.

The fair value of all the consideration given up and charged to listing costs comprises:

Deemed issuance of 10,000,109 Potancial shares to former shareholders of Kaiyue	$ 2,000,000
Fair value of 94,456 stock options of Kaiyue outstanding	61,200
Other cash costs	30,000
Total consideration given up	2,091,200
Cash and other current assets	270,097
Liabilities	(38,624)
Net assets	231,473
Listing costs	$ 1,859,727

(f) The Company entered into a contract of purchase and sale agreement (the "Agreement") on November 8, 2016 to purchase a real property located in Peachland, B.C. for a purchase price of $825,000. The Company had paid $225,000 deposit by issuance of 450,000 common shares of the Company in 2016. The Company agreed to pay the remaining balance of $600,000 upon the completion of the public listing of the Company with a concurring financing.

(Expressed in Canadian Dollars)

5. Pro forma share capital

After giving effect to the pro forma assumptions in Notes 3 and 4, the issued and fully paid share capital of the Company would be as follows:

	Common Shares	
	Number	Amount $
Pre-consolidation balance, Kaiyue, June 30, 2017	21,174,230	2,175,070
Pre-consolidation balance, Potancial, June 30, 2017	–	7,282,232
Potanical shares issued subsequent to June 30, 2017	–	300,036
Issuance of 5,855,556 Potancial common shares	–	5,270,000
Consolidation of shares at a ratio of 2.1174	(11,174,121)	–
Adjustment of Kaiyue’s share capital	–	(2,175,070)
Issued on RTO with Kaiyue as listing expenses (Note 3 and 4 (e))	124,186,752	2,000,000
Pro forma balance, June 30, 2017	134,186,861	14,852,268

6. Pro forma statutory income tax rate

The pro forma effective statutory income tax rate of the combined companies will be 27%. The Company was incorporated under the Business Corporations Act of Alberta. Potanical was incorporated under the Business Corporation Act of British Columbia.

Schedule B
Financial Statements of the Corporation

(See attached)

KAIYUE INTERNATIONAL INC.

Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2016 and 2015

Kaiyue International Inc.

Financial Statements
For the Year Ended December 31, 2016

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Management’s responsibility for financial reporting

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board of Directors is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

April 18, 2017

(signed)	(signed)
“Hilda Sung”	*“Alex Ku”*
Director	Director

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kaiyue International Inc.:

We have audited the financial statements of Kaiyue International Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with IFRS.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which discloses matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Kaiyue International Inc.'s ability to continue as a going concern.

MNP LLP

Vancouver, British Columbia
April 18, 2017

Chartered Professional Accountants

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

	Notes	December 31, 2016 $	December 31, 2015 $
Assets			
Current Assets			
Cash		87,660	316,093
GST receivables		1,277	6,805
Prepaid expenses		4,288	4,083
Total Assets		**93,225**	**326,981**
Liabilities and Equity			
Current Liabilities			
Trade payables and accrued liabilities		1,382	10,330
Due to related parties	7	19,950	15,164
		21,332	**25,494**
Equity			
Share capital	11	1,881,741	1,881,741
Contributed surplus		25,952	23,806
Deficit		(1,835,800)	(1,604,060)
		71,893	**301,487**
Total Liabilities and Equity		**93,225**	**326,981**

Approved on behalf of the Board of Directors:

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

The accompanying notes form an integral part of these financial statements

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

	Notes	For the years ended December 31, 2016 $	2015 $
Expenses			
Consulting fees	7	90,000	90,000
Director fees	7	8,800	9,338
Filing fees		6,879	5,200
Insurance		7,146	6,778
Office expenses		17,645	23,758
Professional fees		13,744	27,237
Rent		66,000	66,000
Salaries and wages		5,256	14,231
Share-based payment		2,146	4,383
Travel expense		14,125	22,834
		231,741	269,759
Other income			
Impairment of exploration and evaluation assets	6	-	251,000
Interest income		(1)	(3)
Net loss and comprehensive loss for the year		**231,740**	**520,756**
(Loss) per ordinary share:			
Basic and Diluted		$ (0.02)	$ (0.03)
Weighted average number of ordinary shares outstanding:			
Basic and diluted	12	15,274,230	15,209,572

The accompanying notes form an integral part of these financial statements

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

	Shares	Share capital $	Contributed Surplus $	Deficit $	Total $
Balance at December 31, 2014	15,174,230	1,880,741	19,423	(1,083,304)	816,860
Share issued for mining option	100,000	1,000	-	-	1,000
Share-based payment	-	-	4,383	-	4,383
Net loss for the year	-	-	-	(520,756)	(520,756)
Balance at December 31, 2015	15,274,230	1,881,741	23,806	(1,604,060)	301,487
Share-based payment	-	-	2,146	-	2,146
Net loss for the year	-	-	-	(231,740)	(231,740)
Balance at December 31, 2016	15,274,230	1,881,741	25,952	(1,835,800)	71,893

The accompanying notes form an integral part of these financial statements

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

		For the years ended December 31,	
	Notes	**2016 $**	**2015 $**
Operating activities			
Net loss for the year		(231,740)	(520,756)
Item not involving cash			
Impairment of exploration and evaluation assets		-	251,000
Share-based payment		2,146	4,383
Changes in non-cash working capital balances:			
GST receivables		5,528	(3,262)
Prepaid expenses		(205)	(964)
Trade payables and accrued liabilities		(8,948)	6,235
Net cash used in operating activities		**(233,219)**	**(263,364)**
Financing activity			
Due to related parties	7	4,786	(4,291)
Net cash from (used in) financing activity		**4,786**	**(4,291)**
Net decrease in cash and cash equivalents during the year		**(228,433)**	**(267,655)**
Cash and cash equivalents at beginning of year		**316,093**	**583,748**
Cash and cash equivalents at end of year		**87,660**	**316,093**

The accompanying notes form an integral part of these financial statements

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 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 year will allow the Company to meet its current ongoing obligations and future contractual commitments for at least the next twelve months. As at December 31, 2016, the Company had working capital of $71,893 (December 31, 2015 - $301,487). The Company did not generate revenue nor cash flows from its operations to date and has a cumulated deficit of $1,835,800 (December 31, 2015 - $1,604,060). 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. BASIS OF PREPARATION

The financial statements of Kaiyue for the years ending December 31, 2016 and 2015 are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee. These financial statements were approved and authorized for issue by the Board of Directors on April 18, 2017.

The financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss and available for sale, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The 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 year 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 year end exchange rates are recognized in profit and loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Cash

The Company considers all highly liquid investments with an original maturity of three months or less at the time of issuance to be cash equivalents. As of December 31, 2016 and 2015, the Company did not have any cash equivalents.

(b) Exploration and evaluation assets and expenditures

The Company's exploration and evaluation assets are intangible assets relating to mineral rights acquired and exploration and valuation expenditure capitalized in respect of projects that are at the exploration/pre-development stage.

Exploration and evaluation expenditure related to an area of interest where the Company has tenure are capitalized on initial recognition at cost. Exploration and evaluation assets are subsequently stated at cost less any accumulated impairment losses and are not amortized.

These assets are transferred to mine development assets in property, plant and equipment upon the commencement of mine development.

Exploration and evaluation expenditure in the relevant area of interest comprises costs which are directly attributable to:

- Acquisition:
- Surveying, geological, geochemical and geophysical;
- Exploratory drilling;
- Land maintenance;
- Sampling; and
- Assessing technical feasibility and commercial viability.

Exploration and evaluation expenditure also includes the costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects. Capitalized costs, including general and administrative costs, are only allocated to the extent that those costs can be related directly to operation activities in the relevant area of interest. Proceeds received from government assistances in a property will be credited against the carrying value of the property, with any excess included in operations for the period.

The carrying amount of the exploration and evaluation assets is reviewed whenever events or changes in circumstances indicate the recoverable value may be less than the carrying amount. Recoverable value determinations are based on management's estimates of discounted future net cash flows expected to be recovered from specific assets or groups of assets through use or future disposition. An impairment loss is recognized in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

(c) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

(d) Share-based payments

Equity-settled share-based payments for employees including directors and officers are measured at fair value at the date of grant and recorded over the vesting period as share-based compensation expense in the financial statements. The fair value determined by using the Black-Scholes option pricing model at the grant date of the equity-settled share-based payments is expensed based on graded vesting factoring in any forfeitures. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. Any consideration paid by directors, officers, employees and consultants on exercise of equity-settled share-based payments is credited to share capital.

Compensation expense on stock options granted to non-employees is measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the fair value of the goods or services received cannot be measured reliably, the value is measured by reference to the fair value of the equity instruments granted by use of a Black-Scholes option pricing model.

In order to determine the fair value using the Black-Scholes option pricing model, the expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

(e) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(f) Loss per share

Loss per share is based on the loss attributable to equity holders of the Company for the period divided by the weighted average number of common shares outstanding during the year. The diluted net loss per share is based on the weighted average number of common shares outstanding during the year plus the effects of dilutive share equivalents. Diluted loss per share is equal to the basic loss per share as there were no dilutive securities as at December 31, 2016 and 2015.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(g) Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: fair value through profit or loss (FVTPL), loans and receivables, and available-for-sale (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 FVTPL are initially recognized at fair value with changes in fair value recorded through income. Cash are classified as FVTPL.

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.

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 loss and classified as a component of equity. There was no available-for-sale financial asset as of December 31, 2016 and 2015.

Financial liabilities

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

Financial liabilities at FVTPL comprise derivative or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Borrowings and other financial liabilities are classified as current or non-current based on their maturity date. There was no financial liability at FVTPL as of December 31, 2016 and 2015.

Other financial liabilities are financial liabilities not designated as FVTPL and recognized at amortized cost. Trades payable and accrued liabilities and due to related parties are classified as other financial liabilities.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at the end of each reporting period. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(h) Change in accounting policies

The Company adopted the following accounting policies effective January 1, 2016:

Amendments to IAS 1, Presentation of Financial Statements ("IAS 1")

On December 18, 2014, the IASB issued amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The changes clarify that materiality considerations apply to all parts of the financial statements and the aggregation and disaggregation of line items within the financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. The adoption of this IFRS did not impact the Company's financial statements.

4. 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.

5. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the 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.

(Expressed in Canadian dollars)

5. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS - CONTINUED

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:

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 judgements 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).

6. 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

(Expressed in Canadian dollars)

6. 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 Qiongzhong 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

(Expressed in Canadian dollars)

6. 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 - December 31, 2016 and 2015	$	-	$	-	$	-

7. RELATED PARTIES TRANSACTION

Amounts due from (to) related parties

	December 31, 2016	**December 31, 2015**
	$	**$**
Amounts owing to CFO of the Company (a)	2,625	2,625
Amounts owing to a director of the Company (b)	825	6,214
Zhongyi Financial Investment Consultants (Shenzhen) Ltd. (c)	16,500	5,500
	19,950	14,339

(a) Balance is related to payable to current CFO of her consulting service.
(b) 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. For the year ended December 31, 2016, there was $66,000 rental expense under the agreement (December 31, 2015 – $66,000).

The amount owing to CFO, 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 years ended December 31, 2016 and 2015.

(Expressed in Canadian dollars)

7. RELATED PARTIES TRANSACTION - CONTINUED

The remuneration of directors and officers comprising key management personnel during the years ended December 31, 2016 and 2015 was as follows:

	December 31, 2016	December 31, 2015
	$	$
Consulting fees incurred to officers	90,000	90,000
Director fees	8,800	9,338
Share-based payments	2,146	4,383

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.

8. 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 December 31, 2016, the Company’s capital structure consists of share capital of $1,881,741 (December 31, 2015 - $1,881,741). For the year ending December 31, 2016, the Company had a deficit of $1,835,800 (December 31, 2015 - $1,604,060).

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.

9. 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, 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:

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 is based on level 1 inputs of the fair value hierarchy.

(Expressed in Canadian dollars)

9. FINANCIAL INSTRUMENTS - CONTINUED

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.

10. INCOME TAXES

The following table reconciles the expected income taxes expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the statements of operations for the years ended December 31, 2016 and 2015:

	Years ended December 31,	
	2016	**2015**
	$	**$**
Income (loss) before income taxes	(231,740)	(520,756)
Statutory tax rate	27.00%	27.00%
Expected income tax (recovery)	(62,570)	(140,604)
Non-deductible items	1,772	70,,831
Change in deferred tax asset not recognized	60,798	69,773
Total income taxes (recovery)	-	-

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes. The unrecognized deductible temporary differences at December 31, 2016 and 2015 are as follows:

	2016	**2015**
	$	**$**
Exploration and evaluation assets	251,000	251,000
Non-capital loss	1,548,977	1,323,800
Total unrecognized deductible temporary differences	**1,799,977**	**1,574,800**

(Expressed in Canadian dollars)

10. INCOME TAXES - CONTINUED

As at December 31, 2016, the Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards of approximately $1,548,977 (2015: $1,323,800) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Expiry	
2029	$ 17,193
2030	120,791
2031	239,675
2032	214,738
2033	158,830
2034	311,809
2035	260,764
2036	225,177
Total	$1,548,977

11. 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. Share capital outstanding at December 31, 2016 was 15,274,230 common shares (2015 – 15,274,230)

Escrow shares

As at December 31, 2016 and 2015, the Company has nil of its shares held in escrow.

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.

(Expressed in Canadian dollars)

11.SHARE CAPITAL - CONTINUED

(a) Directors' and officers' options

As at December 31, 2016, 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, December 31, 2016 and 2015	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 year ended December 31, 2016, the Company recognized share-based payment of $2,146 related to these options (2015 - $4,383).

The options outstanding at December 31, 2016 have an exercise price $0.13 (December 31, 2015 - $0.13) and a weighted average remaining contractual life of 1.40 years (December 31, 2015 - 2.40 years). There are 150,000 options exercisable at December 31, 2016 (December 31, 2015 - 100,000).

12. SUBSEQUENT EVENTS

Private Placement

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 April 12, 2017, the Company announced a non-brokered private placement financing of up to $50,000 (the "Private Placement") through the issuance of up to 1,000,000 common shares of the Company (each, a "Share"), at $0.05 per Share for proceeds of up to $50,000. All of the Shares issued pursuant to the Private Placement will be subject to a restricted period of four months and one day from the date of closing.

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

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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 June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended 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)

	Notes	For the six months ended June 30, 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

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 adopted 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:

(Expressed in Canadian dollars)

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

(Expressed in Canadian dollars)

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 Qiongzhong 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

(Expressed in Canadian dollars)

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.

(Expressed in Canadian dollars)

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:

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).

(Expressed in Canadian dollars)

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 Kaiyueat 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;

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.

Schedule C
MD&A of the Corporation

(See attached)

Kaiyue International Inc.
Management's Discussion and Analysis
Year Ended December 31, 2016

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited financial statements of Kaiyue International Inc. ("Kaiyue" or the "Company) for the years ended December 31, 2016 and 2015 and the notes thereto. The financial information in this MD&A is derived from the Company's audited financial statements as at and for the years ended December 31, 2016 and 2015 prepared in accordance with IFRS (International Financial Reporting Standards). These annual financial statements have been prepared by management and have been audited by the Company's external auditors. The effective date of this MD&A is April 20, 2017.

Forward-looking Statements

The statements made in this MD&A that are not historical facts contain forward-looking information that involves risks and uncertainties. All statements, other than statements of historical facts, which address the Company's expectations, should be considered forward-looking statements. Such statements made by the Company are based on current expectations, factors and assumptions and reflect our expectations as at the date of this MD&A. Readers are cautioned not to place undue reliance on these statements as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Therefore, the Company cannot provide any assurance that forward-looking statements will materialize. The Company assumes no obligations to update or revise any forward-looking statements, whether as a result of new information, future events or any other reason.

For a discussion of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see "Risks and Uncertainties".

Overview of the Company

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 Company is an exploration stage public company whose principal business activities are the acquisition and exploration of mineral properties. Prior to November 15, 2012, the Company was a Capital Pool Company ("CPC") as defined in the Policy 2.4 "Capital Pool Companies" of the Exchange. The Company's principal purpose as a CPC was to identify and evaluate assets, properties or businesses in order to complete a "Qualifying Transaction" as defined in the CPC policy. On July 25, 2012, the Company entered into a letter agreement (the "Letter Agreement") with BCGold Corp. ("BCGold") pursuant to which BCGold 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"). Pursuant to the Transaction, the Company received final acceptance of filing the Qualifying Transaction from the Exchange on November 15, 2012 and was no longer considered a Capital Pool Company then.

Toe Property – Yukon Territory

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 (unpaid and 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

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

Due to the current market situation, the Company has not completed all of its obligations under the original Letter Agreement, resulting in 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 Qiongzhong 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, and to 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

Pursuant to the Option Agreement, the Company issued 100,000 at $0.01 per share to Pui Kei Kwok On August 24, 2015. However, due to the current market situations, management has not completed all of its obligations due on March 10, 2016, resulting in 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. 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.

Expenditure related to the property can be summarized as follows:

		Toe Property		Shizipo and Jianlingcun projects		Total
Beginning balance - January 1, 2015	$	180,000	$	70,000	$	250,000
Issuance of shares				1,000		1,000
Write-down of property		(180,000)		(71,000)		(251,000)
Ending balance - December 31, 2016 and 2015	$	-	$	-	$	-

The Company is seeking for a new business opportunity which would be in the best interest and benefit to shareholders. Any such new business would be approved by independent shareholders through a special shareholder meeting.

Private Placement

On March 6, 2017, the Company was pleased to announce that it has closed the Private Placement previously announced on January 16, 2017, 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 April 12, 2017, the Company announced a non-brokered private placement financing of up to $50,000 (the "Private Placement") through the issuance of up to 1,000,000 common shares of the Company (each, a "Share"), at $0.05 per Share for proceeds of up to $50,000. All of the Shares issued pursuant to the Private Placement will be subject to a restricted period of four months and one day from the date of closing.

Proceeds of the Private Placement will be used for general working capital.

SELECTED ANNUAL FINANCIAL DATA

The following chart summarizes selected annual financial information:

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Balance Sheet:			
Total assets	93,225	326,981	840,410
Operation:			
Total revenue	-	-	-
Net loss	(231,740)	(520,756)	(330,571)
Basic and diluted loss per share	(0.02)	(0.03)	(0.02)

Results of Operations

For the year ended December 31, 2016, the Company incurred a loss of $231,740 compared with a loss of $520,756 for the year ended December 31, 2015. The decrease in loss was mainly due to the decreases in the impairment of exploration and evaluation assets of $251,000 which were incurred in the year of 2015, but were not incurred in the year of 2016. The decrease in loss was also due to the decrease in the office expenses of $17,645 (2015 - $23,758), professional fees of $13,744 (2015 - $27,237), salaries and wages of $5,256 (2015 - $14,231), and travel expense of $14,125 (2015 - $22,834). The basic and diluted loss per share was $0.02 for year ended December 31, 2016 compared with $0.03 for the year ended December 31, 2015.

Summary of Quarterly Results

The below table summarizes the results of the Company by quarter.

	Quarter Ended 31-Dec-16	Quarter Ended 30-Sep-16	Quarter Ended 30-Jun-16	Quarter Ended 31-Mar-16	Quarter Ended 31-Dec-15	Quarter Ended 30-Sep-15	Quarter Ended 30-Jun-15	Quarter Ended 31-Mar-15
Loss for the period ($)	48,619	53,780	64,451	64,890	133,048	244,670	72,807	70,231
Loss per Share - Basic & Diluted ($)	0.00	0.00	0.00	0.00	0.01	0.02	0.00	0.00

Liquidity and Capital Resources

Cash flows

The following table sets forth a summary of our statements of cash flows for the years ended December 31, 2016 and 2015:

		2016		2015
Net cash (used in) operating activities	$	(233,219)	$	(263,364)
Net cash (used in) generated from financing activity		4,786		(4,291)
Net (decrease) in cash	$	(228,433)	$	(267,655)

As at December 31, 2016, the Company had cash of $87,660. Management believes that the cash balance is sufficient to meet its working capital and contractual obligations at the present level for at least the next twelve months. 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.

The Company's working capital position at December 31, 2016 was $71,893 compared to $301,487 at December 31, 2015.

Current assets excluding cash at December 31, 2016 consisted of GST receivables of $1,277 compared to $6,805 at December 31, 2015 and prepaid expenses of $4,288 compared to $4,083 at December 31, 2015.

Current liabilities as at December 31, 2016 consisted of trade payables and accrued liabilities of $1,382 compared to $10,330 as at December 31, 2015. The Company has $19,950 due to related party compared to $15,164 as at December 31, 2015.

The Company had no operating income. The proceeds raised are expected to provide the Company with a minimum of funds to continue its operations and to explore and development its exploration and evaluation assets. It is anticipated and highly probable that the Company will have to seek additional financing in the near future to carry out mineral exploration and development as its main business.

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. Share capital outstanding at December 31, 2016 was 15,274,230 common shares (December 31, 2015 - 15,274,230). As at April 20, 2017, the Company had 15,274,230 common shares issued and outstanding.

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.

As at December 31, 2016, 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, December 31, 2016 and 2015	200,000	$0.13	May 24, 2018

As at April 20, 2017 and December 31, 2016, 150,000 options were exercisable.

Off-Balance Sheet Arrangements

As at December 31, 2016, the Company had no off-balance sheet arrangements.

Transactions with Related Parties

<u>Amounts due to related parties</u>

	December 31, 2016	December 31, 2015
	$	$
Amounts owing to CFO of the Company (a)	2,625	2,625
Amounts owing to a director of the Company (b)	825	6,214
Zhongyi Financial Investment Consultants (Shenzhen) Ltd. (c)	16,500	5,500
	19,950	14,339

a) Balance is related to payable to current CFO for her consulting service.

b) 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. For the year ended December 31, 2016, there was $66,000 rental expense under the agreement (December 31, 2015 - $66,000)

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

<u>Related party transactions</u>

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 years ended December 31, 2016 and 2015.

The remuneration of directors and officers comprising key management personnel during the years ended December 31, 2016 and 2015 was as follows:

	December 31, 2016	December 31, 2015
	$	$
Consulting fees incurred to officers	90,000	90,000
Director fees	8,800	9,338
Share-based payments	2,146	4,383

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.

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 approximate 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:

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 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.

Risks and Uncertainties

The Company is in initial stages of development and exploration and does not have a history of earnings, nor has it paid any dividends, and will not be in a position to generate earnings or pay dividends until it can generate profitable operations. It is possible the Company may never generate earnings or be in a position to pay dividends. The directors and officers of the Company will only devote part of their time and efforts to the affairs of the Company.

Critical Accounting Estimates

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:

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.

Changes in Accounting Policies

The Company adopted the following accounting policies effective January 1, 2016:

Amendments to IAS 1, Presentation of Financial Statements ("IAS 1")

On December 18, 2014, the IASB issued amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The changes clarify that materiality considerations apply to all parts of the financial statements and the aggregation and disaggregation of line items within the financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. The adoption of this IFRS did not impact the Company's financial statements.

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.

Other Information

Additional information related to the Company is available for viewing on SEDAR at www.sedar.com.

Kaiyue International Inc.
Management’s Discussion and Analysis
Year Ended December 31, 2015

This Management’s Discussion and Analysis (“MD&A”) should be read in conjunction with the audited financial statements of Kaiyue International Inc. (“Kaiyue” or the “Company) for the years ended December 31, 2015 and 2014 and the notes thereto. The financial information in this MD&A is derived from the Company’s audited financial statements as at and for the years ended December 31, 2015 and 2014 prepared in accordance with IFRS (International Financial Reporting Standards). These annual financial statements have been prepared by management and have been audited by the Company’s external auditors. The effective date of this MD&A is April 28, 2016.

Forward-looking Statements

The statements made in this MD&A that are not historical facts contain forward-looking information that involves risks and uncertainties. All statements, other than statements of historical facts, which address the Company’s expectations, should be considered forward-looking statements. Such statements made by the Company are based on current expectations, factors and assumptions and reflect our expectations as at the date of this MD&A. Readers are cautioned not to place undue reliance on these statements as the Company’s actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company’s business, or if the Company’s estimates or assumptions prove inaccurate. Therefore, the Company cannot provide any assurance that forward-looking statements will materialize. The Company assumes no obligations to update or revise any forward-looking statements, whether as a result of new information, future events or any other reason.

For a discussion of material factors that could cause the Company’s actual results to differ materially from the forward-looking statements in this MD&A, please see “Risks and Uncertainties”.

Overview of the Company

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 Company is an exploration stage public company whose principal business activities are the acquisition and exploration of mineral properties. Prior to November 15, 2012, the Company was a Capital Pool Company ("CPC") as defined in the Policy 2.4 "Capital Pool Companies" of the Exchange. The Company’s principal purpose as a CPC was to identify and evaluate assets, properties or businesses in order to complete a "Qualifying Transaction" as defined in the CPC policy. On July 25, 2012, the Company entered into a letter agreement (the “Letter Agreement”) with BCGold Corp. (“BCGold”) pursuant to which BCGold 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”). Pursuant to the Transaction, the Company received final acceptance of filing the Qualifying Transaction from the Exchange on November 15, 2012 and was no longer considered a Capital Pool Company then.

Toe Property – Yukon Territory

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 (unpaid and issued)	50,000	-	100,000
on or before from November 12, 2014 (unpaid, un-incurred and unissued)	100,000	400,000	200,000
on or before from November 12, 2015 (unpaid, un-incurred)	255,000	650,000	-
on or before from November 12, 2016		650,000	-
	$ 255,000	$ 1,900,000	400,000

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

Due to the current market situation, the Company has not completed all of its obligations under the original Letter Agreement due on November 12, 2013, 2014 and 2015 as of December 31, 2015, resulting the Company being in default of the option agreement. Accordingly, the Company has recognized an impairment in the amount of $180,000 as of December 31, 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 Qiongzhong county and Jianlingcun project in Din'an county, both located in the Hainan province in People's Republic of China. By way of consideration, the Company will make cash payments totaling $110,000 and will issue 500,000 shares to the Vendor at a deemed price of $0.055 per share.

On April 25, 2014, TSX Venture Exchange has accepted for filing the Option agreement dated March 10, 2014 between the Company and Rich Links Venture Limited (Pui Kei Kwok) (the "Vendor") and Xing Yuan Investment Mining Limited.

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, and to 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	10,000	50,000	100,000
To acquire an additional 10% interest in the Projects			
on or before March 10, 2017	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

Pursuant to the Option Agreement, the Company issued 100,000 at $0.01 per share to Pui Kei Kwok On August 24, 2015. However, due to the current market situations, management has not completed all of its obligations 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 as of December 31, 2015 on Shizipo project and Jianlingcun Project to reduce the carrying amount of interest 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.

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		(180,000)		(71,000)		(251,000)
Ending balance - December 31, 2015	$	-	$	-	$	-

The Company is seeking for a new business opportunity which would be in the best interest and benefit to shareholders. Any such new business would be approved by independent shareholders through a special shareholder meeting.

SELECTED ANNUAL FINANCIAL DATA

The following chart summarizes selected annual financial information:

	Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Balance Sheet:			
Total assets	326,981	840,410	1,140,513
Operation:			
Total revenue	-	-	-
Net loss	(520,756)	(330,571)	(160,336)
Basic and diluted loss per share	(0.03)	(0.02)	(0.01)

Results of Operations

For the year ended December 31, 2015, the Company incurred a loss of $520,756 compared with a loss of $330,571 for the year ended December 31, 2014. The increase in loss was mainly due to the increases in the impairment of exploration and evaluation assets of $251,000 (2014 - $Nil) and the rent of $66,000 (2014 - $16,500), offset by the decrease in the consulting fees of $90,000 (2014 - $147,663), director fees of $9,338 (2014 - $16,628), professional fees of $27,237 (2014 - $34,703), share-based payment of $4,383 (2014 - $10,489), and travel expense of $22,834 (2014 - $51,560). The basic and diluted loss per share was $0.03 for year ended December 31, 2015 compared with $0.02 for the year ended December 31, 2014.

The $57,663 decrease in consulting fees was due to a $55,413 consulting fee paid to a third party consultant in 2014 for their services provided for the acquisition of option interests of Hainan Projects, which was not incurred in the same time of year 2015.

In September 2014, the Company entered into an office rental agreement with Zhongyi for $5,500 per month, effectively from October 1, 2014. The $49,500 increase in rental expenses was due to 12 months rental expenses of $66,000 were incurred under the agreement (December 31, 2014 – $16,500).

Summary of Quarterly Results

The below table summarizes the results of the Company by quarter.

	Quarter Ended 31-Dec-15	Quarter Ended 30-Sep-15	Quarter Ended 30-Jun-15	Quarter Ended 31-Mar-15	Quarter Ended 31-Dec-14	Quarter Ended 30-Sep-14	Quarter Ended 30-Jun-14	Quarter Ended 31-Mar-14
Loss for the period ($)	133,048	244,670	72,807	70,231	75,736	86,035	112,200	56,600
Loss per Share - Basic & Diluted ($)	0.01	0.02	0.00	0.00	0.00	0.01	0.01	0.00

Fourth Quarter

For the fourth quarter ended December 31, 2015, the Company incurred a loss of $133,048 compared with loss of $75,736 for the period ended December 31, 2014. The basic and diluted loss per share was $0.01 for the quarter ended December 31, 2015 compared with $0.00 for the quarter ended December 31, 2014.

The increase in loss of $57,312 for the fourth quarter ended December 31, 2015 was mainly due to the increases in the impairment of exploration and evaluation assets of $71,000, and decrease in the share-based payment of $2,029 and decrease in travel expenses of $4,969.

Liquidity and Capital Resources

Cash flows

The following table sets forth a summary of our statements of cash flows for the years ended December 31, 2015 and 2014:

		2015		2014
Net cash (used in) operating activities	$	(263,364)	$	(306,316)
Net cash (used in) generated from financing activity		(4,291)		2,955
Net cash (used in) investing activity		-		(70,000)
Net (decrease) in cash	$	(267,655)	$	(373,361)

As at December 31, 2015, the Company had cash of $316,093. Management believes that the cash balance is sufficient to meet its working capital and contractual obligations at the present level for at least the next twelve months. 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.

The Company’s working capital position at December 31, 2015 was $301,487 compared to $566,860 at December 31, 2014.

Current assets excluding cash at December 31, 2015 consisted of GST receivables of $6,805 compared to $3,543 at December 31, 2014 and prepaid expenses of $4,083 compared to $3,119 at December 31, 2014.

Current liabilities as at December 31, 2015 consisted of trade payables and accrued liabilities of $10,330 compared to $4,095 as at December 31, 2014. The Company has $15,164 due to related party compared to $19,455 as at December 31, 2014.

The Company had no operating income. The proceeds raised are expected to provide the Company with a minimum of funds to continue its operations and to explore and development its exploration and evaluation assets. It is anticipated and highly probable that the Company will have to seek additional financing in the near future to carry out mineral exploration and development as its main business.

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. Share capital outstanding at December 31, 2015 was 15,274,230 common shares (December 31, 2014 - 15,174,230). As at April 28, 2016, the Company had 15,174,230 common shares issued and outstanding.

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.

As at December 31, 2015, 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, 2012	150,000	$0.10	August 6, 2015
Granted on May 24, 2013	250,000	$0.13	May 24, 2018
Outstanding, December 31, 2014 and 2013	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, December 31, 2015	200,000	$0.13	May 24, 2018

As at April 28, 2016, 100,000 options were exercisable.

Off-Balance Sheet Arrangements

As at December 31, 2015, the Company had no off-balance sheet arrangements.

Transactions with Related Parties

Amounts due to related parties

	December 31, 2015	December 31, 2014
	$	$
Amounts owing to CFO of the Company (a)	2,625	2,955
Amounts owing to CEO of the Company (b)	6,214	-
Amounts owing to Director of the Company (c)	825	-
Zhongyi Financial Investment Consultants (Shenzhen) Ltd. (d)	5,500	16,500
	15,164	19,455

a) Balance consists of consulting fees and expenses reimbursement due to the current CEO.
b) Balance is related to payable to current CFO for her consulting service.
c) Balance is related to payable to current Director for his directorship service.
d) 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. For the year ended December 31, 2015, three was $66,000 rental expense incurred under the agreement (December 31, 2014 – $16,500). The balance owing to Zhongyi has been included in accounts payable and accrued liabilities in the consolidated statements of financial position.

The amount owing to CEO, CFO, 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 years ended December 31, 2015 and 2014.

The remuneration of directors and officers comprising key management personnel during the years ended December 31, 2015 and 2014 was as follows:

	December 31, 2015	December 31, 2014
	$	$
Consulting fees incurred to officers	90,000	92,250
Director fees	9,338	16,628
Share-based payments	4,383	10,489

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.

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 approximate 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:

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.

Risks and Uncertainties

The Company is in initial stages of development and exploration and does not have a history of earnings, nor has it paid any dividends, and will not be in a position to generate earnings or pay dividends until it can generate profitable operations. It is possible the Company may never generate earnings or be in a position to pay dividends. The directors and officers of the Company will only devote part of their time and efforts to the affairs of the Company.

Critical Accounting Estimates

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:

Deferred taxes

Provisions for deferred taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

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.

Changes in Accounting Policies

The accounting policies applied in preparation of these interim financial statements are consistent with those applied and disclosed in the Company's financial statements for the year ended December 31, 2014. In addition, the Company adopted the following accounting policies effective January 1, 2015:

- Amendments to IFRS 13 Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction, between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. The amendments to IFRS 13, issued in December 2013, clarify that the portfolio exception applies to all contracts within the scope of IFRS 9 Financial instruments or IAS 39 Financial instruments: Recognition and measurement, regardless of whether they meet the definitions of financial assets or financial liabilities in IAS 32 Financial instruments: Presentation. The amendments are effective for annual periods beginning on or after July 1, 2014. The adoption of this IFRS did not impact the Company's financial statements.

- Amendments to IAS 24 Related Party Disclosures

The amendments to IAS 24, issued in December 2013, clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014. The adoption of this IFRS did not impact the Company's financial statements.

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.

On May 6, 2014 the IASB issued Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11). The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The impact of adoption of the amendment has not yet been determined.

On July 24, 2014 the IASB issued the complete IFRS 9. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The impact of adoption of the amendment has not yet been determined.

In December 2014, the IASB amended IAS 1, "Presentation of Financial Statements", providing guidance on the application of judgment in the preparation of financial statements and disclosures. The amendments are effective for annual periods beginning on or after December 1, 2016 with early adoption permitted, but the Company does not intend to do so at this time.

Other Information

Additional information related to the Company is available for viewing on SEDAR at www.sedar.com.

Kaiyue International Inc.
Management's Discussion and Analysis
Six Months Ended June 30, 2017

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed interim financial statements of Kaiyue International Inc. ("Kaiyue" or the "Company) for the three and six months ended June 30, 2017 and the audited financial statements for the year ended December 31, 2016 and the notes thereto. The financial information in this MD&A is derived from the Company's condensed interim financial statements for the six months ended June 30, 2017 and audited financial statements as at and for the years ended December 31, 2016 prepared in accordance with IFRS (International Financial Reporting Standards). These condensed interim financial statements have been prepared by management and have been audited by the Company's external auditors. The effective date of this MD&A is August 16, 2017.

Forward-looking Statements

The statements made in this MD&A that are not historical facts contain forward-looking information that involves risks and uncertainties. All statements, other than statements of historical facts, which address the Company's expectations, should be considered forward-looking statements. Such statements made by the Company are based on current expectations, factors and assumptions and reflect our expectations as at the date of this MD&A. Readers are cautioned not to place undue reliance on these statements as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Therefore, the Company cannot provide any assurance that forward-looking statements will materialize. The Company assumes no obligations to update or revise any forward-looking statements, whether as a result of new information, future events or any other reason.

For a discussion of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see "Risks and Uncertainties".

Overview of the Company

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 Company is an exploration stage public company whose principal business activities are the acquisition and exploration of mineral properties. Prior to November 15, 2012, the Company was a Capital Pool Company ("CPC") as defined in the Policy 2.4 "Capital Pool Companies" of the Exchange. The Company's principal purpose as a CPC was to identify and evaluate assets, properties or businesses in order to complete a "Qualifying Transaction" as defined in the CPC policy. On July 25, 2012, the Company entered into a letter agreement (the "Letter Agreement") with BCGold Corp. ("BCGold") pursuant to which BCGold 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"). Pursuant to the Transaction, the Company received final acceptance of filing the Qualifying Transaction from the Exchange on November 15, 2012 and was no longer considered a Capital Pool Company then.

Toe Property – Yukon Territory

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 (unpaid and 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

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

Due to the current market situation, the Company has not completed all of its obligations under the original Letter Agreement, resulting in 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 Qiongzhong 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, and to 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

Pursuant to the Option Agreement, the Company issued 100,000 at $0.01 per share to Pui Kei Kwok On August 24, 2015. However, due to the current market situations, management has not completed all of its obligations due on March 10, 2016, resulting in 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. 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.

Expenditure related to the property can be summarized as follows:

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

The Company is seeking for a new business opportunity which would be in the best interest and benefit to shareholders. Any such new business would be approved by independent shareholders through a special shareholder meeting.

Corporate Updates

Private Placement

On March 6, 2017, the Company announcd that it has closed the Private Placement previously announced on January 16, 2017, 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.

Proceeds of the Private Placement will be used for general working capital.

Signing of a Letter of Intent

On August 3, 2017, the Company was pleased to announce 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 Kaiyueat 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;

- 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.

The securities to be issued in connection with the Transaction have not been and will not be registered under the United States *Securities Act of 1933*, as amended (the "**U.S. Securities Act**") or any state securities laws and may not be offered or sold within the United States or to U.S. Persons (as defined in Regulation S promulgated under the U.S. Securities Act) unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration is available.

Results of Operations

For the three months ended June 30, 2017, the Company incurred a loss of $67,049 compared with a loss of $64,451 for the period ended June 30, 2016. The increase of $2,598 in loss was mainly due to the increases in filing fees of $4,121 (2016 - $nil) and professional fees of $13,789 (2016 - $10,200) which were related to the cost incurred for the private placement.

For the six months ended June 30, 2017, the Company incurred a loss of $134,293 compared with a loss of $129,341 for the period ended June 30, 2016. The increase of $4,952 in loss was mainly due to the increases in filing fees of $9,321 (2016 - $5,200), professional fees of $13,789 (2016 - $10,200), offset by the decrease in salary and wages of $nil (2016 - $6,455). The basic and diluted loss per share was $0.00 for the period ended June 30, 2017 compared with $0.00 for the period ended June 30, 2016.

Summary of Quarterly Results

The below table summarizes the results of the Company by quarter.

	Quarter Ended 30-Jun-17	Quarter Ended 31-Mar-17	Quarter Ended 31-Dec-16	Quarter Ended 30-Sep-16	Quarter Ended 30-Jun-16	Quarter Ended 31-Mar-16	Quarter Ended 31-Dec-15	Quarter Ended 30-Sep-15
Loss for the period ($)	67,049	67,244	48,619	53,780	64,451	64,890	133,048	244,670
Loss per Share - Basic & Diluted ($)	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.02

Liquidity and Capital Resources

Cash flows

The following table sets forth a summary of our statements of cash flows for the six months ended June 30, 2017 and 2016:

	2017	2016
Net cash (used in) operating activities	$ (121,453)	$ (116,745)
Net cash generated from financing activity	301,229	86
Net cash (used in) investing activity	-	-
Net increase (decrease) in cash	$ 179,776	$ (116,659)

As at June 30, 2017, the Company had cash of $267,436. Management believes that the cash balance is sufficient to meet its working capital and contractual obligations at the present level for at least the next twelve months. 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.

The Company's working capital position at June 30, 2017 was $231,473 compared to $71,893 at December 31, 2016.

Current assets excluding cash at June 30, 2017 consisted of GST receivables of $2,048 compared to $1,277 at December 31, 2016 and prepaid expenses of $613 compared to $4,288 at December 31, 2016.

Current liabilities as at June 30, 2017 consisted of trade payables and accrued liabilities of $10,774 compared to $1,382 as at December 31, 2016. The Company has $27,850 due to related party compared to $19,950 as at December 31, 2016.

The Company had no operating income. The proceeds raised are expected to provide the Company with a minimum of funds to continue its operations and to explore and development its exploration and evaluation assets. It is anticipated and highly probable that the Company will have to seek additional financing in the near future to carry out mineral exploration and development as its main business.

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)

As at August 16, 2017, the Company had 21,174,230 common shares issued and outstanding.

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.

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

As at August 16, 2017 and June 30, 2017, 200,000 options were exercisable.

Off-Balance Sheet Arrangements

As at June 30, 2017, the Company had no off-balance sheet arrangements.

Transactions with Related Parties

Amounts due 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, 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.

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

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 Hilda Sung. Hilda Sung 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.

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 approximate 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:

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 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.

Risks and Uncertainties

The Company is in initial stages of development and exploration and does not have a history of earnings, nor has it paid any dividends, and will not be in a position to generate earnings or pay dividends until it can generate profitable operations. It is possible the Company may never generate earnings or be in a position to pay dividends. The directors and officers of the Company will only devote part of their time and efforts to the affairs of the Company.

Critical Accounting Estimates

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:

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.

Changes in Accounting Policies

The accounting policies applied in preparation of these interim financial statements are consistent with those applied and disclosed in the Company's financial statements for the year ended December 31, 2016.

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.

Other Information

Additional information related to the Company is available for viewing on SEDAR at www.sedar.com.

Schedule D
Financial Statements of Potanicals

(See attached)

Potanicals Green Growers Inc.

Financial Statements

Six Months Ended June 30, 2017 and 2016 (Unaudited)

Years Ended December 31, 2016 and 2015 (Audited)

MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

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INDEPENDENT AUDITORS' REPORT

To the Directors of:
Potanicals Green Growers Inc.

We have audited the accompanying financial statements of Potanicals Green Growers Inc, which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive loss, changes in equity, and cash flows for the years then ended, and the related notes comprising a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Potanicals Green Growers Inc. as at December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Potanicals Green Growers Inc. to continue as a going concern.

Manning Elliott LLP

Chartered Professional Accountants
Vancouver, British Columbia
October 23, 2017

Potanicals Green Growers Inc.
Statements of Financial Position
(Expressed in Canadian Dollars)

	Note	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)	December 31, 2015 (Audited)
		$	$	$
Current Assets				
Cash		45,944	397,119	-
Amounts receivable		10,180	39,873	17,278
Prepaid expenses		20,350	34,525	20,763
		76,474	471,517	38,041
Deposits	3 and 10(b)	225,000	375,000	150,000
Properties and equipment	4	2,852,540	2,674,722	2,662,634
		3,154,014	3,521,239	2,850,675
Current Liabilities				
Bank indebtedness		-	-	2,416
Accounts payable and accrued liabilities	5	188,306	52,677	347,624
Due to a shareholder	5	-	-	80,000
		188,306	52,677	430,040
Equity				
Share capital	6	7,282,232	7,282,232	2,904,743
Subscriptions received (receivable)	6	30	(50)	2,149,950
Deficit		(4,316,554)	(3,813,620)	(2,634,058)
		2,965,708	3,468,562	2,420,635
		3,154,014	3,521,239	2,850,675

COMMITMENTS (Note 10)
SUBSEQUENT EVENTS (Note 11)

Approved on behalf of the Board:

"Cliff Stowell"
Director

"Doug Turner"
Director

Potanicals Green Growers Inc.

Statements of Comprehensive Loss

(Expressed in Canadian Dollars)

	Note	6 Months Ended June 30, 2017 (Unaudited)	6 Months Ended June 30, 2016 (Unaudited)	Year Ended December 31, 2016 (Audited)	Year Ended December 31, 2015 (Audited)
		$	$	$	$
Expenses					
Consulting fees	5	269,783	117,625	354,365	292,000
Depreciation		485	-	1,213	674
Equipment rental		1,324	-	800	9,673
Insurance		6,356	6,029	12,603	12,917
Management fees		-	14,332	14,332	134,369
Office and general		8,986	4,158	2,792	20,755
Professional fees		36,404	840	8,990	21,723
Property taxes		20,900	-	15,525	-
Rent	5	27,583	30,083	74,027	58,130
Repair and Maintenance		7,283	793	4,012	5,523
Salaries and benefits	5	55,968	7,173	11,696	50,261
Share-based compensation	6(b)vi	-	-	400,000	-
Utilities		14,494	8,714	20,292	33,594
Travel and entertainment		53,368	-	66,915	42,483
Operating loss		(502,934)	(189,747)	(987,562)	(682,102)
Other Item					
Loss on debt settlement	6(b)iii	-	-	(192,000)	-
Net loss and comprehensive loss		(502,934)	(189,747)	(1,179,562)	(682,102)
Loss per common share – basic and diluted		($0.02)	($0.02)	($0.10)	($0.07)
Weighted average number of common shares outstanding		20,781,500	10,420,000	12,273,864	10,420,000

Potanicals Green Growers Inc.

Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Number of Common Shares	Share Capital	Share Subscriptions Received	Deficit	Total
		$	$	$	$
Balance, December 31, 2014 (Audited)	10,420,000	2,904,743	125,844	(1,951,956)	1,078,631
Share subscriptions received	-	-	2,024,106	-	2,024,106
Comprehensive loss for the year	-	-	-	(682,102)	(682,102)
Balance, December 31, 2015 (Audited)	10,420,000	2,904,743	2,149,950	(2,634,058)	2,420,635
Shares issued for cash, net	7,970,000	3,217,500	(2,150,000)	-	1,067,500
Shares issued for services	1,173,500	550,989	-	-	550,989
Shares issued for land purchase	450,000	225,000	-	-	225,000
Shares issued for debt settlement	768,000	384,000	-	-	384,000
Comprehensive loss for the year	-	-	-	(1,179,562)	(1,179,562)
Balance, December 31, 2016 (Audited)	20,781,500	7,282,232	(50)	(3,813,620)	3,468,562
Share subscriptions received	-	-	80	-	80
Comprehensive loss for the period	-	-	-	(502,934)	(502,934)
Balance, June 30, 2017 (Unaudited)	20,781,500	7,282,232	30	(4,316,554)	2,965,708

Potanicals Green Growers Inc.
Statements of Cash Flows
For the 6 months ended June 30, 2017 (Unaudited)
For the years ended December 31, 2016 and 2015 (Audited)
(Expressed in Canadian Dollars)

	6 Months Ended June 30, 2017 (Unaudited)	Year Ended December 31, 2016 (Audited)	Year Ended December 31, 2015 (Audited)
	$	$	$
OPERATING ACTIVITIES			
Net loss for the year	(502,934)	(1,179,562)	(682,102)
Items not involving cash:			
Depreciation	485	1,213	674
Loss on debt settlement	-	192,000	-
Consulting fees	-	150,989	36,000
Share-based compensation	-	400,000	-
	(502,449)	(315,360)	(645,428)
Changes in non-cash working capital balances:			
Amounts receivable	29,693	(22,595)	28,899
Prepaid expenses	14,175	(13,762)	69,466
Accounts payable and accrued liabilities	167,912	(114,997)	106,099
	(290,669)	(466,714)	(440,964)
INVESTING ACTIVITY			
Acquisition of property and equipment	(60,586)	(193,251)	(1,606,047)
	(60,586)	(193,251)	(1,606,047)
FINANCING ACTIVITIES			
Advances from a related party	-	-	48,000
Repayment of advances to a related party	-	(8,000)	(40,000)
Subscriptions received	80	-	2,024,156
Proceeds from share issuance, net of share issuance costs	-	1,067,500	-
	80	1,059,500	2,032,156
Increase (decrease) in cash	(351,175)	399,535	(14,855)
Cash (bank indebtedness), beginning	397,119	(2,416)	12,439
Cash (bank indebtedness), ending	45,944	397,119	(2,416)
Supplemental disclosure of cash flow information:			
Cash paid for interest	-	-	-
Cash paid for income taxes	-	-	-
Non-cash transactions:			
Share-based compensation	-	400,000	-
Shares issued for land deposit	-	225,000	-
Shares issued for debt settlement	-	384,000	-
Shares issued for services	-	150,989	-

1. NATURE OF OPERATIONS

Potanicals Green Growers Inc. ("Potanicals" or the “Company”) was incorporated on February 7, 2014 in British Columbia, Canada under the provisions of the British Columbia Business Corporation Act.

The principal address of the Company is 4715 Paradise Valley Drive, Peachland, BC V0H 1X3. The Company's head office and mailing address is 2639 Viking Way Unit 240, Richmond, BC V6V 3B7.

Potanicals is currently exploring opportunities for its business of producing and distributing medical marijuana pursuant to the Access to Cannabis for Medical Purposes Regulations ("ACMPR"). To date, the Company has not generated any revenue to cover expenditures and has not received its license from Health Canada.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, and accordingly, do not purport to give effect to adjustments which may be required should the Company be unable to achieve the objectives above as a going concern. The net realizable value of the Company’s assets may be materially less than the amounts recorded in these financial statements should the Company be unable to realize its assets and discharge its liabilities in the normal course of business. For the 6 months ended June 30, 2017, the Company incurred a net loss of $502,394 (years ended December 31, 2016 - $1,179,562, December 31, 2015 - $682,102) and an accumulated deficit of $4,316,554 (December 31, 2016 - $3,813,620, December 31, 2015 - $2,634,058) which have been funded by shareholders. The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs. All of these factors raise significant doubt about the Company’s ability to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee.

The financial statements were authorized for issue by the Board of Directors on October 23, 2017.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial instruments carried at fair value where changes are recorded through profit or loss.

c) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which affect the application of accounting policies and the reported amounts of assets, liabilities 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 estimate is revised and in any future periods affected. Significant estimates include:

- the determination of the useful lives of equipment;
- the recognition and valuation of impairment of assets;
- income tax and estimates about timing, likelihood and reversal of temporary differences between accounting and tax basis of the assets and liabilities.

Critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements include the following:

- the evaluation of the Company’s ability to continue as going concern (see Note 1).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Cash equivalents

Cash equivalents include other deposits that are readily convertible into cash.

e) Share issuance costs

Professional, consulting and regulatory fees as well as other costs directly attributable to financing transactions are reported as deferred financing costs until the transactions are completed, if the completion of the transaction is considered probable. Share issue costs are charged to share capital when the related shares are issued. Costs relating to financing transactions that are not completed, or for which successful completion is considered unlikely, are charged to operations.

f) Impairment

At each reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated to determine the extent of the impairment, if any. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the assets.

An impairment loss is recognized in operations if the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

g) Property and equipment

Property and equipment are stated at cost net of accumulated depreciation and accumulated impairment losses, if any. Cost includes the acquisition price, any direct costs to bring the asset into productive use at its intended location, the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Major inspection cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Depreciation is computed on a straight-line basis based on nature and useful lives of the assets, except in the year of acquisition, when half of the rate is used. The significant classes of plant and equipment and their estimated useful lives are as follows:

Leasehold improvements	20 years
Production and other equipment	5 -10 years
Computer equipment	3 years
Furniture and fixtures	5 years

h) Financial instruments

The Company does not have any derivative financial assets and derivative financial liabilities.

Non-derivative financial assets

Non-derivative financial assets are initially recognized at fair value and are classified into one of four categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables or available-for-sale financial assets.

i) Financial assets at fair value through profit or loss

Financial asset are classified as fair value through profit or loss ("FVTPL") if they are held for trading or are designated as such upon initial recognition. Financial assets at fair value through profit or loss are measured at fair value, and changes are recognized in operations. Upon initial recognition transaction costs are recognized in operations as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial instruments (continued)

ii) Held-to-maturity financial assets

Financial assets are classified as held-to-maturity if the Company has the positive intent and ability to hold them to maturity. These financial assets are recognized initially at fair value together with directly attributable costs, and are subsequently measured at amortized cost using the effective interest method less any impairment losses. Any sale or reclassification of a more than significant amount of these assets not close to their maturity would result in the reclassification of all held-to-maturity financial assets as available-for-sale, and would prevent the Company classifying investment securities as held-to-maturity for the current and following two financial years.

iii) Loans and receivables

These assets are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are recognized initially at fair value plus any directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method less any impairment losses.

iv) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and any changes, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity. When an available-for-sale financial asset is derecognized, the cumulative gain or loss in other comprehensive income is reclassified through operations.

Non-derivative financial liabilities

Non-derivative financial liabilities are initially recognized at fair value and are classified into one of two categories: financial liabilities at fair value through profit or loss or other financial liabilities.

v) Financial liabilities at fair value through profit or loss

These financial liabilities are acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are measured at fair value, and changes therein are recognized in operations.

vi) Other financial liabilities

These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs, and are subsequently measured at amortized cost using effective interest method.

i) Share-based payments

The Company accounts for share-based payments awards granted to employees and consultants using the fair value method. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest, using the Black-Scholes option pricing model. The amount recognized as expense is adjusted to reflect the number of share options expected to vest at each reporting period.

j) Income taxes

Income tax expense comprises current and deferred tax and is recognized in operations except to the extent that it relates to business combinations, or items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Income taxes (continued)

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for temporary differences in assets and liabilities arising in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, transactions relating to investments in jointly controlled entities to the extent that they will not reverse in the foreseeable future, and transactions arising on the initial recognition of goodwill. Deferred income tax is recognized at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred income tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

k) Loss per share

Basic loss per share is computed by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. The Company applies the treasury stock method in calculating diluted earnings per share. Diluted earnings per share excludes all dilutive potential common shares if their effect is anti-dilutive.

l) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

m) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The functional currency of the Company is the Canadian dollar. The financial statements are presented in Canadian dollars, which is the Company's presentation currency.

n) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

o) New standards and interpretations not yet adopted

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB that are mandatory for future accounting periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) New standards and interpretations not yet adopted (continued)

Standard effective for annual periods beginning on or after January 1, 2018

IFRS 9 *Financial Instruments* - This is a finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39. The standard contains requirements in the following areas:

- **Classification and measurement**. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment**. IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting**. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition**. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Standard effective for annual periods beginning on or after January 1, 2019

IFRS 16 *Leases* - IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*.

The extent of the impact of adoption of these above standards on the financial statements of the Company has not yet been determined.

3. DEPOSITS

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)	December 31, 2015 (Audited)
	$	$	$
Prepaid financing fees (a)	-	50,000	50,000
Deposit for equipment (b)	-	100,000	100,000
Deposit for purchase of land (c)	225,000	225,000	-
	225,000	375,000	150,000

On November 8, 2016, the Company entered into a contract to purchase a property. During the year ended December 31, 2016, the Company issued 450,000 common shares at a fair value of $225,000 for payment as deposit on the property (See Note 10(b)).

(Expressed in Canadian Dollars)

4. PROPERTIES AND EQUIPMENT

	Leasehold Improvements	Production and Other Equipment	Computer Equipment	Furniture and Fixtures	Total
	$	$	$	$	$
Cost					
Balance, December 31, 2014 (Audited)	994,183	75,000	-	-	1,069,183
Additions	708,336	802,950	76,102	6,737	1,594,125
Balance, December 31, 2015 (Audited)	1,702,519	877,950	76,102	6,737	2,663,308
Additions	13,299	-	-	-	13,299
Balance, December 31, 2016 (Audited)	1,715,818	877,950	76,102	6,737	2,676,607
Additions	78,305	100,000	-	-	178,305
Balance, June 30, 2017 (Unaudited)	1,794,123	977,950	76,102	6,737	2,854,912
Accumulated Depreciation					
Balance, December 31, 2014 (Audited)	-	-	-	-	-
Charge for the year	-	-	-	674	674
Balance, December 31, 2015 (Audited)	-	-	-	674	674
Charge for the year	-	-	-	1,213	1,213
Balance, December 31, 2016 (Audited)	-	-	-	1,887	1,887
Charge for the period	-	-	-	485	485
Balance, June 30, 2017 (Unaudited)	-	-	-	2,372	2,372
Net book value					
December 31, 2015 (Audited)	1,702,519	877,950	76,102	6,063	2,662,634
December 31, 2016 (Audited)	1,715,818	877,950	76,102	4,850	2,674,722
June 30, 2017 (Unaudited)	1,794,123	977,950	76,102	4,365	2,852,540

As at June 30, 2017, the Company’s leasehold improvements, production and other equipment and computer equipment are still under construction and are still not available for use. As a result no depreciation has been recorded.

(Expressed in Canadian Dollars)

5. RELATED PARTY BALANCES AND TRANSACTIONS

a) As at June 30, 2017 and December 31, 2016, the Company had amounts due to shareholder of $nil (2015 - $80,000).

b) Included in accounts payable and accrued liabilities was $1,000 (December 31, 2016 - $10,644, December 31, 2015 - $nil) due to a shareholder and a director.

c) During the year ended December 31, 2016, the Company issued 432,000 common shares at fair value of $216,000 as payment of amounts due to a company controlled by a shareholder of the Company. (Note 6(iii)).

d) During the year ended December 31, 2016, the Company entered into a purchase contract with a director of the Company for purchase of land (Note 10(b)).

The above balances are non-interest bearing, unsecured and have no fixed terms of repayment.

The Company has identified its directors and senior officers as its key management personnel. No post-employment benefits, other long-term benefits or termination benefits were made during the years ended December 31, 2016 and 2015. Short-term key management compensation consists of the following:

	6 Months Ended June 30, 2016 (Unaudited)	6 Months Ended June 30, 2016 (Unaudited)	Year Ended December 31, 2016 (Audited)	Year Ended December 31, 2015 (Audited)
Transactions		$	$	$
Salaries	35,082	5,049	7,770	34,299
Consulting fees	52,110	42,000	114,000	99,000
Rent	21,000	23,500	45,500	41,000

(Expressed in Canadian Dollars)

6. SHARE CAPITAL

a) Authorized share capital

At June 30, 2017, the authorized share capital of the Company was comprised of an unlimited number of Class A, Class B, Class C and Class D common shares at par value. The Company is also authorized unlimited number of Class E and Class F preferred shares at par value of $0.01 and $10 respectively.

b) Issue of common shares

There were no common shares issued during the 6 months ended June 30, 2017.

During the year ended December 31, 2016 the Company issued the following common shares:

i. The Company issued 7,970,000 common shares for total proceeds of $3,217,500, of which $2,150,000 was received in 2015.

ii. On October 16, 2016, the Company issued 373,500 common shares at a fair value of $150,989 to 2 consultants as payment for consulting services received.

iii. On October 25, 2016, the Company issued 432,000 common shares for payment of $108,000 due to a company controlled by a shareholder and 336,000 common shares for payment of $84,000 due to an employee. The shares had a fair value of $384,000. The Company recorded a loss on settlement of debt of $192,000.

iv. On November 2, 2016, the Company issued 800,000 common shares to certain employees at a fair value of $400,000. The amount was recorded as share-based compensation.

v. On November 9, 2016, the Company issued 450,000 common shares at a fair value of $225,000 to a director of the Company as payment of a land deposit (Note 10(b)).

There were no common shares issued during the year ended December 31, 2015.

7. INCOME TAX

In assessing the realizability of deferred income tax assets, management considers whether it is probable that some portion of all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are expected to reverse. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred income tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

	6 Months Ended June 30, 2017 (Unaudited)	6 Months Ended June 30, 2016 (Unaudited)	Year Ended December 31, 2016 (Audited)	Year Ended December 31, 2015 (Audited)
	$	$	$	$
Canadian Statutory income tax rate	13%	13%	13%	13.5%
Income tax recovery at statutory rates	(65,381)	(24,667)	(128,383)	(92,084)
Non-deductible items and others	1,001	-	1,304	33
Income tax rate change and other	(91,210)	(24,667)	(127,079)	(85,607)
Change in unrecognized deferred tax assets	155,590	49,334	254,158	177,658
Income tax provision	-	-	-	-

(Expressed in Canadian Dollars)

7. INCOME TAX (continued)

Deferred income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of deferred tax assets (liabilities) are as follows:

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)	December 31, 2015 (Audited)
	$	$	$
Non-capital losses	723,569	567,230	312,291
Share issuance costs	810	1,560	2,340
Unrecognized deferred tax assets	(724,379)	(568,790)	(314,631)
Net deferred income tax assets	-	-	-

As at June 30, 2017, the Company had non-capital losses carried forward of approximately $2,679,900 (2016 - $2,181,700, 2015 - $1,201,200) which may be applied to reduce future years' taxable income, expiring as follows:

2034	$	516,300
2035		684,900
2036		980,500
2037		498,200
	$	2,679,900

8. FINANCIAL INSTRUMENTS

Fair values

The Company's financial instruments include cash, bank indebtedness, accounts payable and amounts due to a shareholder. The carrying amounts of these financial instruments are a reasonable estimate of their fair values because of their current nature.

The following table summarizes the carrying values of the Company's financial instruments:

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)	December 31, 2015 (Audited)
	$	$	$
Financial assets at fair value through profit or loss (i)	45,944	397,119	-
Other financial liabilities (ii)	188,306	52,677	430,040

(i) Cash
(ii) Bank indebtedness, accounts payable and amounts due to a shareholder

The Company classifies its fair value measurements in accordance with the three level fair value hierarchy as follows:

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 (i.e. as prices) or indirectly (i.e. derived from prices), and
Level 3 – Inputs that are not based on observable market date

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash				
June 30, 2017 (Unaudited)	45,944	-	-	45,944
December 31, 2016 (Audited)	397,119	-	-	397,119
December 31, 2015 (Audited)	-	-	-	-

8. FINANCIAL INSTRUMENTS (continued)

Interest Rate and Credit Risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. Management evaluates credit risk on an ongoing basis. The primary sources of credit risk for the Company arise from its financial assets consisting of cash and cash equivalents. The carrying value of these financial assets represents the Company's maximum exposure to credit risk. To minimize credit risk the Company only holds its cash with chartered Canadian financial institutions. As at June 30, 2017, December 31, 2016 and 2015, the Company has no financial assets that are past due or impaired due to credit risk defaults.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign currency exchange rates. The Company's functional currency is the Canadian dollar. All of the Company's financial instruments are denominated in Canadian dollars and all current operational activities occur within Canada. In management's opinion there is no significant foreign exchange risk to the Company.

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 objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company uses cash to settle its financial obligations as they fall due. The ability to do this relies on the Company collecting its accounts receivables in a timely manner and by maintaining sufficient cash on hand through equity financing and bank loans.

The following are the contractual maturities of financial liabilities:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 3 years
June 30, 2017 (Unaudited)					
Accounts payable	188,306	(188,306)	(188,306)	-	-
Total	188,306	(188,306)	(188,306)	-	-
December 31, 2016 (Audited)					
Accounts payable	52,677	(52,677)	(52,677)	-	-
Total	52,677	(52,677)	(52,677)	-	-
December 31, 2015 (Audited)					
Bank indebtedness	2,416	(2,416)	(2,416)	-	-
Accounts payable	347,624	(347,624)	(347,624)	-	-
Due to a shareholder	80,000	(80,000)	(80,000)	-	-
Total	430,040	(430,040)	(430,040)	-	-

9. CAPITAL DISCLOSURES

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders through expansion correspondingly to the level of risk.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, sell assets, reduce debt or increase its debt. The Company is not subject to any externally imposed capital requirements.

10. COMMITMENTS

(a) On March 24, 2014, the Company entered into an agreement with the President of the Company to lease the lands located at 4715 Paradise Valley Drive, Peachland, BC for $30,000 per annum until March 2019. The lease agreement includes three five-year Options for Renewal and a Right of First Refusal, such that the Company shall have first opportunity to buy the Lands when and if the landlord wishes to sell the Lands. The rent payable during each five year renewal term shall be an amount equal to the fair market rent for that portion of the Lands upon which the production facility is constructed.

Pursuant to the agreement, the Company agreed to pay salaries of $3,000 per month to each of the President, the spouse of the President and the founder of the Company.

(b) On November 8, 2016, the Company entered into a contract with a director of the Company to purchase a property located at 4550 Trepanier Road, Peachland BC (the "Property") with a purchase price of $825,000. A purchase deposit of $225,000 has been made by issuing 450,000 common shares of the Company on November 9, 2016. Second payment of $600,000 will be paid upon the completion of the public listing of the Company. Should the public listing of the Company not completed, the balance will be paid upon completion of a private financing.

The property is currently being rented by the Company for $1,000 per month.

(c) The Company entered into a lease agreement on May 25, 2014 with an arm's length party to use the premises at 240 – 2639 Viking Way Richmond BC V6V 3B7 as an office for the Company. The lease commenced on June 1, 2014 and will expire on May 31, 2017. The Company agreed to pay annual lease payments of $19,392.

(d) On September 1, 2014, the Company entered into a contract with a consultant to provide services in the amount of $3,000 per month.

(e) On December 12, 2016, the Company entered into a 2 year contract with Novus Merchant Partners regarding the going public transaction and financings. The Company will pay:

i) a total success fee equal to 5% of the Company's shares issued and outstanding immediately before the closing of the going-public transaction;
ii) stock options of the resulting public company equal to 2.5% of the value of the Company's exercisable options; and
iii) monthly advisory fees at:
    a. $25,000 monthly payable on completion of the going public transaction;
    b. $15,000 payable monthly after the completion of the going public transaction until the closing of the first subsequent financing of at least $5,000,000;
    c. $25,000 payable monthly after the closing of the first subsequent financing until the closing of additional subsequent financings of cumulative proceeds of $15,000,000; and
    d. $25,000 payable monthly from the closing of the additional subsequent financings to the 24th months after the going public transaction.

11. SUBSEQUENT EVENTS

a) Subsequent to June 30, 2017, the Company issued 960,000 common shares for gross proceeds of $300,036.

b) Subsequent to June 30, 2017, the Company terminated the contract with Novus Merchant Partners (Note 10 (e)).

c) On July 1, 2017, the Company entered into a lease agreement with a third party for leasing of office premises located at 105 – 6111 London Road, Richmond, BC V7E 3X3. The Company agreed to pay an annual rent of $27,000 until the lease expires on June 30, 2020.

d) On September 14, 2017, the shareholders of the Company (the “Selling Shareholders”) entered into a share exchange agreement with Kaiyue International Inc. (“Kaiyue”) whereby Kaiyue and the Company will complete a business combination. Kaiyue will exchange all of the issued and outstanding common shares of the Company on the basis of 4.5 post-consolidation shares for each issued and outstanding common shares of the Company, totalling 124,186,752 post-consolidation common shares of Kaiyue, to the Selling Shareholders. Kaiyue’s common shares are listed for trading on the TSX Venture Exchange.

Schedule E
MD&A of Potanicals

(See attached)

Potanicals Green Growers Inc.
Management's Discussion and Analysis
For the six months ended June 30, 2017 and 2016 and
For the years ended December 31, 2016 and 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

Potanicals Green Growers Inc. ("**Potanicals**" or the "**Company**") This MD&A of Potanicals for the six months ended June 30, 2017 and 2016 and for the years ended December 31, 2016 and 2015 are incorporated by reference and attached to this Listing Statement as Schedule "D". This MD&A should be read in conjunction with unaudited interim financial statements of Potanicals for the six months ended June 30, 2017 and 2016 and the audited annual financial statements of Potanicals for the years ended December 31, 2016 and 2015, together with the notes thereto, which are incorporated by reference and attached to this Listing Statement as Schedule "D". All amounts are in Canadian dollars unless otherwise indicated. The following information is prepared as at November 2, 2017.

FORWARD-LOOKING STATEMENTS

The statements made in this MD&A that are not historical facts contain forward-looking information that involves risks and uncertainties. All statements, other than statements of historical facts, which address Potanicals' expectations, should be considered forward-looking statements. Such statements made by Potanicals are based on current expectations, factors and assumptions and reflect our expectations as at the date of this MD&A. Readers are cautioned not to place undue reliance on these statements as Potanicals' actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect Potanicals' business, or if Potanicals' estimates or assumptions prove inaccurate. Therefore, Potanicals cannot provide any assurance that forward-looking statements will materialize. Potanicals assumes no obligations to update or revise any forward-looking statements, whether as a result of new information, future events or any other reason. For a discussion of material factors that could cause Potanicals' actual results to differ materially from the forward-looking statements in this MD&A, please see "Risk Factors" in the Listing Statement.

OVERVIEW

Potanicals' Business

Potanicals is currently exploring opportunities for its business of producing and distributing medical marijuana pursuant to the Access to Cannabis for Medical Purposes Regulations ("ACMPR"). Potanicals was incorporated on February 7, 2014 in British Columbia, Canada under the provisions of the British Columbia Business Corporation Act. The principal address of the Company is 4715 Paradise Valley Drive, Peachland, BC V0H 1X3. The Company's head office and mailing address is 240 – 2639 Viking Way Richmond BC V6V 3B7.

FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

SELECTED INFORMATION

The following table sets out selected financial information of Potanicals as at and for the periods indicated:

	Six months ended June 30, 2017 ($) (unaudited)
Revenue	-
Net loss	(502,934)
Net loss per share	(0.02)
Total assets	3,154,014
Long-term liabilities	-
Dividend per share	-

RESULTS OF OPERATIONS

The following is a summary of Potanicals' expenses for the periods indicated:

	Six Months Ended June 30, 2017 (Unaudited)	Six Months Ended June 30, 2016 (Unaudited)
	$	$
Expenses		
Consulting fees	269,783	117,625
Depreciation	485	-
Equipment rental	1,324	-
Insurance	6,356	6,029
Management fees	-	14,332
Office and general	8,986	4,158
Professional fees	36,404	840
Property taxes	20,900	-
Rent	27,583	30,083
Repair and Maintenance	7,283	793
Salaries and benefits	55,968	7,173
Utilities	14,494	8,714
Travel and entertainment	53,368	-

Revenue

The Company did not generate any revenue for the six months ended June 30, 2017 and 2016.

Expenses

General and administrative expenses

General and administrative expenses include consulting fees, salaries, employee benefits, rent and property taxes, professional fees, legal expenses and other general and administrative expense.

For the six months ended June 30, 2017 general and administrative expenses were $502,934, increased by $313,187 compared with the same period ending June 30, 2016.

For the six months ended June 30, 2017, the increase of $313,187 in general and administrative expenses was primarily due to $152,158 increase in consulting fees, $35,564 increase in professional fees, $48,795 increase in salaries and benefits, $20,900 increased in property taxes, and $53,368 increase in travel expenses.

Income Taxes

Potanicals did not pay any income taxes for the six months ended June 30, 2017 and 2016 as no taxable income was generated.

Net Loss

For the six months ended June 30, 2017, net loss was $502,934 compared to a net loss of $189,747 for the corresponding period of 2016. The increase of net loss was mainly caused by the increase in the general and administrative expenses as discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Cash totalled $45,944 as at June 30, 2017. The working capital was negative $111,832 as at June 30, 2017.

For the six months ended June 30, 2017, cash used in operating activities was $290,669. Cash used in operating activities consisted of loss from operations, increases in amounts receivable, prepaid expense, and accounts payable and accrued liabilities.

For the six months ended June 30, 2017, cash used in investing activities was $60,586. The cash used in investing activities mainly relates to cash expenditures related to the acquisition of property and equipment.

For the six months ended June 30, 2017, cash generated from financing activities was $80. The cash generated from financing activities mainly relates to the subscription received.

Property, plant and equipment, net of accumulated depreciation and amortization, as at June 30, 2017 was $2,852,540.

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

SELECTED ANNUAL INFORMATION

	Year ended December 31, 2016 ($) (unaudited)	Year ended December 31, 2015 ($) (unaudited)
Revenue	-	-
Net loss	(1,179,562)	(682,102)
Net loss per share	(0.10)	(0.07)
Total assets	3,521,239	2,850,675
Long-term liabilities	-	-
Dividend per share	-	-

RESULTS OF OPERATIONS

The following is a summary of Potanicals' expenses for the periods indicated:

	Year Ended December 31, 2016 (Audited)	Year Ended December 31, 2015 (Audited)
	$	$
Expenses		
Consulting fees	354,365	292,000
Depreciation	1,213	674
Equipment rental	800	9,673
Insurance	12,603	12,917
Management fees	14,332	134,369
Office and general	2,792	20,755
Professional fees	8,990	21,723
Property taxes	15,525	-
Rent	74,027	58,130
Repair and Maintenance	4,012	5,523
Salaries and benefits	11,696	50,261
Share-based compensation	400,000	-
Utilities	20,292	33,594
Travel and entertainment	66,915	42,483

Revenue

The Company did not generate any revenue for the year ended December 31, 2016 and 2015.

Expenses

General and administrative expenses

For the year ended December 31, 2016 general and administrative expenses were $987,562, increased by $305,460 compared with the same year ended December 31, 2015.

For the year ended December 31, 2016, the increase of $305,460 in general and administrative expenses was primarily due to $62,365 increase in consulting expenses and $400,000 increase in share-based compensation, $15,897 increased in rent, and $15,525 increased in property taxes, offset by $120,037 decrease in management fees, $17,963 decrease in office and general expenses, $12,733 decrease in professional fees, and $38,565 decrease in salaries and benefits.

Other item

For the year ended December 31, 2016, other item increased by $192,000 compared with $nil in 2015. The increase was due to loss on settlement of debt.

Income Taxes

Potanicals did not pay any income taxes for the year ended December 31, 2016 and 2015 as no taxable income was generated.

Net Loss

For the year ended December 31, 2016, net loss was $1,179,562 compared to a net loss of $682,102 for the corresponding period of 2015. The increase of net loss was mainly caused by the increase in the general and administrative expenses and other item as discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Cash total was $397,119 as at December 31, 2016, as compared to $nil as at December 31, 2015.

For the year ended December 31, 2016, cash used in the operating activities was $466,714 compared to cash used in operating activities of $440,964 for the year ended December 31, 2015. This increase reflects a decrease in accounts payable and the increase in expenses.

For the year ended December 31, 2016, cash used in the investing activities was $193,251 compared to cash used in the investing activities of $1,606,047 for the year ended December 31, 2015. Cash used in the investing activities during the year ended December 31, 2016 and 2015 mainly relates to the acquisition of property and equipment of $193,251 and 1,610,421 respectively.

For the year ended December 31, 2016, cash generated from the financing activities was $1,059,500 compared to cash generated from the financial activities of $2,032,156 for the year ended December 31, 2015. The decrease was a result of $1,067,500 in proceeds of the share issuance, net of share issuance costs during the year end December 31, 2016 compared to a $2,024,156 subscriptions received for the year ended December 31, 2015.

Property, plant and equipment, net of accumulated depreciation and amortization, as at December 31, 2016 was $2,674,722, an increase of $12,088 from $2,662,634 as at December 31, 2015. Increase in property, plant and equipment is mainly due to the addition of leasehold improvement, machinery and equipment as part of Potanicals' production facilities.

COMMITMENTS

(a) On March 24, 2014, the Company entered into an agreement with the President of the Company to lease the lands located at 4715 Paradise Valley Drive, Peachland, BC for $30,000 per annum until March 2019. The lease agreement includes three (3) five-year Options for Renewal and a Right of First Refusal, such that the Company shall have first opportunity to buy the Lands when and if the landlord wishes to sell the Lands. The rent payable during each five (5) year renewal term shall be an amount equal to the fair market rent for that portion of the Lands upon which the production facility is constructed.

Pursuant to the agreement, the Company agreed to pay salaries of $3,000 per month to each of the President, the spouse of the President and the founder of the Company.

(b) On November 8, 2016, the Company entered into a contract with a director of the Company to purchase a property located at 4550 Trepanier Road, Peachland BC (the "Property") with a purchase price of $825,000. A purchase deposit of $225,000 has been made by issuing 450,000 common shares of the Company on November 9, 2016. Second payment of $600,000 will be paid upon the completion of the public listing of the Company. Should the public listing of the Company not completed, the balance will be paid upon completion of a private financing.

The Company agreed to pay a monthly rent of $1,000 for the use of the property starting from the possession of the property on June 1, 2014.

(c) The Company entered into a lease agreement on May 25, 2014 with an arm's length party to use the premises at 240 – 2639 Viking Way Richmond BC V6V 3B7 as an office for the Company. The lease commenced on June 1, 2014 and will expire on May 31, 2017. The Company agreed to pay an annual lease payment of $19,392.

(d) On September 1, 2014, the Company entered into a contract with a consultant for providing services in the amount of $3,000 per month.

(e) On December 12, 2016, the Company entered into a 2 year contract with Novus Merchant Partners regarding the going public transaction, concurrent and financing. The Company will pay a total success fee equal to 5% of Potanicals' shares, an option package and monthly advisory fees. The monthly advisory fees will be based on the timing of the subsequent financing. The common shares for the success fee will be subject to escrow and released based on the successful and timing of subsequent financing.

OFF-BALANCE SHEET ARRANGEMENTS

Potanicals has not entered into any off balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

a) As at June 30, 2017 and December 31, 2016, the Company had loan payable of $nil (2015 - $80,000) from a shareholder.

b) Included in accounts payable was $1,000 (December 31, 2016 - $10,644, December 31, 2015 - $nil) due to a shareholder and a director.

c) During the year ended December 31, 2016, the Company issued 432,000 common shares at $0.50 per share for $216,000 as repayment of outstanding consulting fees to a company controlled by the President of the Company.

d) During the year ended December 31, 2016, the Company entered into a purchase contract with a director of the Company for purchase of land.

The above balances are non-interest bearing, unsecured and have no fixed terms of repayment.

The Company has identified its directors and senior officers as its key management personnel. No post-employment benefits, other long-term benefits or termination benefits were made during the years ended December 31, 2016 and 2015. Short-term key management compensation consists of the following:

	6 Months Ended June 30, 2016 (Unaudited)	6 Months Ended June 30, 2016 (Unaudited)	Year Ended December 31, 2016 (Audited)	Year Ended December 31, 2015 (Audited)
Transactions		$	$	$
Salaries	35,082	5,049	7,770	34,299
Consulting fees	52,110	42,000	114,000	99,000
Rent	21,000	23,500	45,500	41,000

RISKS AND UNCERTAINTIES

For Potanicals' risk factors, see also Section 17 *Risk Factors* of the Listing Statement to which this MD&A is attached.

Financial Instruments and Risks

Potanicals' financial instruments include cash, amounts receivable, and accounts payable and accrued liability. The carrying amounts of these financial instruments are a reasonable estimate of their fair values because of their current nature.

Potanicals is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management process. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting Potanicals' competitiveness and flexibility. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Interest Rate and Credit Risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. Management evaluates credit risk on an ongoing basis. The primary sources of credit risk for the Company arise from its financial assets consisting of cash and cash equivalents. The carrying value of these financial assets represents the Company's maximum exposure to credit risk. To minimize credit risk the Company only holds its cash with chartered Canadian financial institutions. As at June 30, 2017, December 31, 2016 and 2015, the Company has no financial assets that are past due or impaired due to credit risk defaults.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign currency exchange rates. The Company's functional currency is the Canadian dollar. All of the Company's financial instruments are denominated in Canadian dollars and all current operational activities occur within Canada. In management's opinion there is no significant foreign exchange risk to the Company.

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 objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company uses cash to settle its financial obligations as they fall due. The ability to do this relies on the Company collecting its accounts receivables in a timely manner and by maintaining sufficient cash on hand through equity financing and bank loans.

Outstanding Share Data

Potanicals has authorized an unlimited number of common voting shares without par value. The following table summarizes the maximum number of ordinary shares issued and allotted as at June 30, 2017, December 31, 2016 and 2015, and as of the date of this MD&A if all outstanding options and warrants were converted to shares:

	November 2, 2017	June 30, 2017	December 31, 2016	December 31, 2015
Issued and allotted shares	27,597,056	20,781,500	12,273,864	10,420,000
Stock options	-	-	-	-
Fully diluted shares	27,597,056	20,781,500	12,273,864	10,420,000

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which affect the application of accounting policies and the reported amounts of assets, liabilities 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 estimate is revised and in any future periods affected. Significant estimates include:

- of the useful lives of the determination equipment;
- the recognition and valuation of impairment of assets;
- income tax and estimates about timing, likelihood and reversal of temporary differences between accounting and tax basis of the assets and liabilities.

Critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements include the following:

- the evaluation of the Company's ability to continue as going concern.

CHANGE IN ACCOUNTING POLICIES

There are no changes in accounting policies adopted by Potanicals during the six months ended June 30, 2017, the year ended December 31, 2016 and 2015.

New standards and interpretations not yet adopted

Standard effective for annual periods beginning on or after January 1, 2018

IFRS 9 *Financial Instruments* - This is a finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39. The standard contains requirements in the following areas:

- **Classification and measurement**. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

- **Impairment**. IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.

- **Hedge accounting**. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

- **Derecognition**. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Standard effective for annual periods beginning on or after January 1, 2019

IFRS 16 *Leases* - IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*.

The extent of the impact of adoption of these above standards on the financial statements of the Company has not yet been determined.

Trends and Outlook

The medical marihuana industry has experienced significant changes in Canada with the introduction of the ACMPR and the impending impetus to legalize cannabis for recreational use. This has generated an increase in investment in the industry and an overhaul to the way potential clients will be able to obtain cannabis in Canada. Potanicals plans to continue monitoring industry trends.

SUBSEQUENT EVENTS

a) Subsequent to June 30, 2017, the Company issued 960,000 common shares for gross proceeds of $300,036.

b) Subsequent to June 30, 2017, the Company terminated the contract with Novus Merchant Partners (Note 10 (e)).

c) On July 1, 2017, the Company entered into a lease agreement with a third party for leasing of office premises located at 105 – 6111 London Road, Richmond, BC V7E 3X3. The Company agreed to pay an annual rent of $27,000 until the lease expires on June 30, 2020.

d) On September 14, 2017, Potanicals, its shareholders and Kaiyue International Inc. ("**Kaiyue**") entered into a share exchange agreement (the "**Share Exchange Agreement**") for the acquisition by the Kaiyue of all of the issued and outstanding shares of Potanicals in exchange for the issuance of 124,186,752 post-consolidation common shares to Potanicals' shareholders (the "**Transaction**") on the basis of four and a half (4.5) shares of Kaiyue for each issued and outstanding Potanicals share, in accordance with the terms and conditions of the Share Exchange Agreement. On closing, all current directors and officers of the Company will be replaced with directors and officers appointed by Potanicals. As a result of the Transaction, Potanicals will become a wholly-owned subsidiary of the Company..

   Prior to closing of the Transaction, Kaiyue will do the following:

   1. consolidate all of its issued and outstanding common shares on the basis of one (1) new common share for every two and one thousand one hundred and seventy-four (2.1174) issued and outstanding common shares;

   2. change its name to Benchmark Botanics Inc.; and
   3. continue its corporate jurisdiction from Alberta to British Columbia.

Prior to closing of the Transaction, Potanicals will complete a private placement of 5,855,556 shares of Potanicals at a price of $0.90 per share to raise gross proceeds of $5,270,000.

Kaiyue has applied to delist its common shares from the TSX Venture Exchange and list its common shares on the Canadian Securities Exchange, which will be subject to completion of all the foregoing transactions and satisfaction of other conditions of listing.

For more information, please see the Listing Statement to which this MD&A is attached as Schedule "D".