

LEO RESOURCES INC.
Condensed Consolidated Interim
Financial Statements
For the Three and Six Months Ended
January 31, 2018
(Expressed in Canadian Dollars)
(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated 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 consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these 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.

Leo Resources Inc.

Condensed Consolidated Interim Statements of Financial Position (Expressed in Canadian Dollars) (Unaudited)

| As at | January 31, 2018 | July 31, 2017 |
|--|---------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 3,378,080 | \$ 4,641,327 |
| Account receivable (note 8) | 60,615 | 52,880 |
| Prepaid expenses (note 10) | 434,875 | 1,192,040 |
| Total current assets | 3,873,570 | 5,886,247 |
| Non-current assets | | |
| Investment in Green Life Clinics Inc. (note 12) | 3,225,000 | 3,225,000 |
| Due from Green Life Clinics Inc. (note 12) | 1,454,250 | 976,250 |
| Due from Medical Cannabis Resource Centre Inc. (note 12) | 222,267 | 35,000 |
| Due from related party (note 13) | 50,000 | 50,000 |
| Total non-current assets | 4,951,517 | 4,286,250 |
| Total assets | \$ 8,825,087 | \$ 10,172,497 |
| EQUITY AND LIABILITIES | | |
| Current liabilities | | |
| Amounts payable and other liabilities (notes 11 and 13) | \$ 74,111 | \$ 397,286 |
| Due to related company (note 13) | 3,406 | 3,406 |
| Total current liabilities | 77,517 | 400,692 |
| Shareholders' equity | | |
| Share capital (note 14) | 7,878,425 | 7,878,425 |
| Subscription receivable (note 14) | - | (7,000) |
| Reserves (note 14) | 4,633,873 | 4,633,873 |
| Accumulated deficit | (3,764,728) | (2,733,493) |
| Total shareholders' equity | 8,747,570 | 9,771,805 |
| Total liabilities and shareholders' equity | \$ 8,825,087 | \$ 10,172,497 |

Nature of operations (note 1)

Going concern (note 2)

Approved on behalf of the Board of Directors:

"Usama Chaudhry" (signed) Director
Usama Chaudhry, Director

"Ken Tollstam" (signed) Director
Ken Tollstam, Director

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

Leo Resources Inc.**Condensed Consolidated Interim Statements of Loss and Comprehensive Loss****(Expressed in Canadian Dollars)****(Unaudited)**

| | Three months ended | | Six months ended | |
|---|--------------------|-------------|------------------|-------------|
| | January 31, | | January 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| Operating Expenses | | | | |
| Bank charges | \$ 2,344 | \$ 39 | \$ 4,351 | \$ 67 |
| Consulting fees | 394,598 | - | 813,359 | - |
| Filing and listing fees | 5,221 | 1,620 | 6,638 | 3,120 |
| Legal and professional fees (note 13) | 55,953 | 43,208 | 78,132 | 46,208 |
| Office and general expenses | 38,402 | - | 115,407 | 1,325 |
| Transfer agent fees (note 13) | 4,811 | - | 13,348 | 650 |
| Net loss and comprehensive loss | \$ (501,329) | \$ (44,867) | \$ (1,031,235) | \$ (51,370) |
| Basic and diluted net loss per share (note 15) | \$ (0.02) | \$ (0.04) | \$ (0.03) | \$ (0.05) |
| Weighted average number of common shares outstanding - basic and diluted | 30,838,916 | 1,049,416 | 30,838,916 | 1,049,416 |

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

Leo Resources Inc.**Condensed Consolidated Interim Statements of Cash Flows****(Expressed in Canadian Dollars)****(Unaudited)**

| For the Six Months Ended January 31, | 2018 | | 2017 | |
|--|-------------|--------------------|-------------|-----------------|
| Operating activities | | | | |
| Net loss for the period | \$ | (1,031,235) | \$ | (51,370) |
| Changes in non-cash working capital items: | | | | |
| Prepaid expenses | | 757,165 | | - |
| Government HST recoverable | | (7,735) | | 1,884 |
| Amounts payable and other liabilities | | (326,581) | | 65,052 |
| Net cash provided by (used in) operating activities | | (608,386) | | 15,566 |
| Financing activities | | | | |
| Subscription received | | 7,000 | | - |
| Due to related company | | (665,267) | | (678) |
| Due to related party | | 3,406 | | (12,599) |
| Net cash used in financing activities | | (654,861) | | (13,277) |
| Net change in cash | | (1,263,247) | | 2,289 |
| Cash, beginning of period | | 4,641,327 | | - |
| Cash, end of period | \$ | 3,378,080 | \$ | 2,289 |

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

Leo Resources Inc.

Condensed Consolidated Interim Statements of Changes in Equity (Deficiency)
(Expressed in Canadian Dollars)
(Unaudited)

| | Common Share Capital | | Preferred Share Capital | | Share-based payments | Reserves | | Subscriptions receivable | | Total |
|----------------------------------|----------------------|---------------------|-------------------------|-------------------|----------------------|---------------------|---------------------|--------------------------|-----------------------|---------------------|
| | Number of shares | Amount | Number of shares | Amount | | Warrants | Contributed surplus | Amount | Deficit | |
| Balance, July 31, 2016 | 1,049,416 | \$ 403,001 | 100,000 | \$ 100,000 | \$ 11,235 | \$ 80,000 | \$ 15,065 | \$ - | \$ (590,997) | \$ 18,304 |
| Cancelled options | - | - | - | - | (11,235) | - | 11,235 | - | - | - |
| Net loss for the period | - | - | - | - | - | - | - | - | (51,370) | (51,370) |
| Balance, January 31, 2017 | 1,049,416 | \$ 403,001 | 100,000 | \$ 100,000 | \$ - | \$ 80,000 | \$ 26,300 | \$ - | \$ (642,367) | \$ (33,066) |
| Balance July 31, 2017 | 30,838,916 | \$ 7,778,425 | 20,000 | \$ 100,000 | \$ - | \$ 4,607,573 | \$ 26,300 | \$ (7,000) | \$ (2,733,493) | \$ 9,771,805 |
| Subscription received | - | - | - | - | - | - | - | 7,000 | - | 7,000 |
| Net loss for the period | - | - | - | - | - | - | - | - | (1,031,235) | (1,031,235) |
| Balance, January 31, 2018 | 30,838,916 | \$ 7,778,425 | 20,000 | \$ 100,000 | \$ - | \$ 4,607,573 | \$ 26,300 | \$ - | \$ (3,764,728) | \$ 8,747,570 |

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

Leo Resources Inc.

Notes to Condensed Consolidated Interim Financial Statements For the Three and Six Months Ended January 31, 2018 (Expressed in Canadian Dollars) (Unaudited)

1. Nature of Operations

Leo Resources Inc. ("Leo" or "Company") was incorporated on March 18, 2013 in the Province of British Columbia. The Company is engaged in the business of acquisition and exploration of mining properties in Canada. Prior to January 31, 2016, Leo was 19.96% owned by GreenBank Capital Inc. ("GreenBank") and 16.76% owned by Winston Resources Inc. ("Winston"), both Canadian public companies. GreenBank and Winston declared share dividends on January 29, 2016 to distribute all of their shareholding interest of Leo to their shareholders. GreenBank and Winston no longer have any shareholder interest in the Company. The Company's common shares trade on the Canadian Securities Exchange ("CSE"). The head office of the Company is located at 1100 West Hasting Streets, Suite 800, Vancouver, BC, Canada.

On May 3, 2017, the Company completed a one for five share consolidation of its common shares. All outstanding shares, options and warrants and the amounts reported in these financial statements have been adjusted to reflect this consolidation unless otherwise indicated.

On May 29, 2017, the Company completed a definitive agreement with Green Life Clinics Inc. ("GLC") (note 12). Pending approval with the CSE, the Company plans on entering the cannabis industry.

2. Going Concern Assumption

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern under International Financial Reporting Standards ("IFRS"). The use of these principles under IFRS assumes that the Company will continue in operation for the foreseeable future and will be able to realize assets and discharge its liabilities in the normal course of operations.

The Company has no proven history of profitability, which casts doubt as to whether the Company will be able to continue as a going concern should it not be able to obtain the necessary financing to fund working capital and capital expenditures. The ability of the Company to arrange such financing in the future depends in part upon the prevailing capital market conditions as well as the business performance of the Company. If additional financing is raised by the issuance of shares from the treasury of the Company existing shareholders may have their interest diluted. If adequate financing is not available, the Company may be required to relinquish rights to certain of its interests or terminate its operations.

As at January 31, 2018, the Company has yet to generate revenues from operations and had a deficit of \$3,764,728 (July 31, 2017 - \$2,733,493). The Company is actively seeking additional sources of financing. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern that these uncertainties are material and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore to realize its assets and discharge its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying condensed consolidated interim financial statements. These adjustments could be material.

3. Statement of Compliance and Basis of Presentation

(a) Statement of Compliance

The policies applied in these condensed consolidated interim financial statements are based on IFRS as issued by the International Accounting Standards Board ("IASB"), in particular IAS 34, Interim Reporting, and interpretations issued by the Interpretation Financial Reporting Interpretations Committees ("IFRIC") as of March 28, 2018, the date the board of directors approved the condensed consolidated interim financial statements.

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Notes to Condensed Consolidated Interim Financial Statements
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3. Statement of Compliance and Basis of Presentation (continued)

(b) Basis of Presentation

These condensed consolidated interim financial statements have been prepared on a going concern basis, under the historical cost convention, except for certain financial instruments which may be measured at fair value in subsequent periods, and have been prepared using the accrual basis of accounting except for cash flow information.

(c) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly own subsidiary 1125076 B.C. Ltd.. Control is achieved when the Company has the power to govern the financial operating policies of an entity so as to obtain benefits from its activities. The subsidiary is consolidated from the date on which control is transferred to the Company until the date on which control ceases. An inter-company transactions, balances, income and expense are eliminated upon consolidation.

4. Significant Accounting Policies

These condense consolidated interim financial statements have been prepared by management in accordance with IFRS and IFRIC. Outlined below are those policies considered particularly significant:

Related party disclosures

Parties are considered to be related if one party has the ability to directly or indirectly 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.

Income taxes

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

Deferred income taxes are provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

- Deferred income tax liabilities are recognized for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- Taxable temporary differences associated with investments in associates and interests in joint ventures, where the timing in the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized.

Leo Resources Inc.

Notes to Condensed Consolidated Interim Financial Statements

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(Expressed in Canadian Dollars)

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4. Significant Accounting Policies (continued)

Income taxes (continued)

The carrying amount of deferred income tax assets is reviewed at each reporting date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is expected to be realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position. Deferred income taxes relating to items recognized directly in equity are recognized in equity and not in the statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Impairment of non-financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that these assets suffer any impairment in value, except for E&E which is first assessed against the indicators of IFRS 6. If any such IFRS 6 indication exists, the recoverable amount of the asset (or CGU) is estimated in order to determine the extent, if any, of the impairment loss.

If the recoverable amount of an asset is estimated to be less than its carrying amount, its carrying amount is reduced to its recoverable amount with a corresponding impairment loss recognized in the statement of comprehensive income in the period of impairment.

If an impairment loss reverses in a subsequent period then the carrying amount of the asset is increased to its revised value to the extent that the increased carrying amount does not exceed its original carrying amount as would be determined under IFRS 6.

Exploration and evaluations assets (“E&E”)

E&E assets consist of exploration and mining concessions, options and contracts. Acquisition costs, lease costs and exploration costs are capitalized and deferred until such time as the asset is moved to a mining asset (if meets the economic and feasible stage) or the properties are disposed of either through sale, abandonment or impairment.

E&E costs consist of such items as:

- Acquisition of exploration properties;
- Gathering exploration data through topographical and geological studies;
- Exploratory drilling, trenching and sampling;
- Determining the volume and grade of the resource;
- Test work on geology, metallurgy, mining, geotechnical and environmental; and

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4. Significant Accounting Policies (continued)

Exploration and evaluations assets (“E&E”) (continued)

E&E shall be assessed for impairment when one or more of the following facts and circumstances indicate that a specific CGU should be tested for impairment:

- The period for which the entity has the right to explore in the specific area has expired during the financial statement period or will expire in the near future and is not expected to be renewed.
- Substantive expenditures on further exploration for, and evaluation of, mineral resources in the specific area is neither budgeted nor planned.
- Exploration for and evaluation of mineral resources in the specific area has not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or sale.

The Company estimates the recoverable amount of each CGU, on the basis of areas of interest. Management groups mineral claims that are contiguous and specific to an area that encompasses the same prospective minerals, into one area of interest and assigns a name to this mineral property.

Recoverable amount is the higher of fair value less disposal costs and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'. E&E are also tested for impairment before the assets are transferred to development properties.

Functional currency

The Company's presentation and functional currency is the Canadian dollar.

Equity settled transactions

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted. Stock-based compensation to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share based payment reserve.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled and vested, ending on the date on which the relevant employees become fully entitled to the award (“the vesting period or date”). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share based compensation reserve.

When the share-based payment arrangement has been cancelled or the terms have expired the fair value assigned to the share-based payment arrangement is transferred to contributed surplus.

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4. Significant Accounting Policies (continued)

Share capital

Financial instruments issued by the Company are treated as equity only to the extent that they do not meet the definition of a financial liability. The Company's common shares are classified as equity instruments. Incremental costs directly attributable to the issue of new shares are recognized in equity as a reduction from the gross proceeds received from the issued shares.

Financial instruments

Fair value through profit or loss (FVTPL)

Financial assets that are held with the intention of generating profits in the near term are classified as held for trading within FVTPL. In addition, any other financial assets can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized as gain or loss in the statement of loss and comprehensive loss during the period.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such by management or not classified in any of the other categories. Available-for-sale financial assets are measured at fair value with changes recognized in other comprehensive loss. Upon sale or impairment, the accumulated fair value adjustments recognized in other comprehensive income are recorded in the statements of loss and comprehensive loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method ("EIR"), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of loss and comprehensive loss. The losses arising from impairment are recognized in the statement of loss and comprehensive loss. The Company has classified government HST recoverable and due from related companies as loans and receivable.

Other financial liabilities

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost. The effective interest rate (or amortized cost method) is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

Financial instruments recorded at fair value

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's cash is considered Level 1 in the hierarchy.

Leo Resources Inc.

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4. Significant Accounting Policies (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

Loss Per Share

Loss per share is calculated based on the weighted average number of common shares issued and outstanding during the period. In the years when the Company reports a net loss, the effect of potential issuances of common shares are anti-dilutive, therefore, basic and fully diluted loss per common share is the same. The diluted loss per share reflects the potential dilution of common share equivalents, such as the conversion of outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. The treasury stock method is used for the assumed proceeds upon exercise of the options and warrants.

Future Accounting Policies

At the date of authorization of these financial statements, the IASB has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting period.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 and will replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. This standard also requires an expected loss impairment method to be used, replacing the incurred loss model.

In October 2010, the IASB added requirements for financial liabilities to IFRS 9. These requirements were largely carried forward from the existing requirements in IAS 39, however, fair value changes due to credit risk for liabilities designated at fair value through profit and loss are to be recorded in other comprehensive income.

In November 2013, the IASB amended IFRS 9 to include a new general hedge accounting model.

In July 2014, the IASB issued the final version IFRS 9 that supersedes the requirements of earlier versions of the standard. The new standard will replace both IAS 39 and IFRIC 9 - Reassessment of Embedded Derivatives. The standard will retain the classification and measurements requirements and new hedge accounting model introduced by the previous versions while introducing a single forward-looking expected credit loss impairment model. The final version of this new standard is effective for annual periods beginning on or after January 1, 2018. The Company is still in the process of assessing the impact of this pronouncement.

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4. Significant Accounting Policies (continued)

Various other accounting pronouncements (such as IFRS 15, IFRS 16, and the various annual improvements) that have no material impact to the Company are not included above. The Company has not early adopted these standards.

5. Critical Accounting Estimates and Judgments

The preparation of these consolidated financial statements in accordance with IFRS requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses.

Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Actual outcomes may differ from these estimates.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income/loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Critical judgments in applying accounting policies

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

(a) Impairment of exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation expenditure and impairment of the capitalized expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the profit or loss in the year the new information becomes available.

(b) Title to mineral property interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

(c) Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

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5. Critical Accounting Estimates and Judgments (continued)

Critical judgments in applying accounting policies (continued)

(d) Going concern risk assessment

The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon its ability to fund its existing acquisition and exploration commitments on its exploration and evaluation assets when they come due, which would cease to exist if the Company decides to terminate its commitments, and to cover its operating costs. The Company may be able to generate working capital to fund its operations by the sale of its exploration and evaluation assets or raising additional capital through equity markets. However, there is no assurance it will be able to raise funds in the future. These financial statements do not give effect to any adjustments required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in material adjustments to the financial statements.

(a) Share based compensation

The Company records all share-based compensation using the fair value method. The Company uses the Black-Scholes option pricing model to determine the fair value of share-based compensation. This estimate also requires determining the most appropriate inputs to the valuation model. The main factor affecting the estimates of the fair value of stock options is the stock price, expected volatility used and the expected duration of the instrument. The Company currently estimates the expected volatility of its common shares based on comparable information derived from the trading history of guideline public companies which are in a similar situation to the Company taking into consideration the expected life of the options.

(b) Valuation of receivables and payables

The amounts due to/from parent company and company under common control have no stated terms of repayment or interest rate attached to it. Management must make judgments about the valuation and recoverability of receivables. Events and circumstances arising during the year, or that are foreseeable at year-end, are reflected in the valuation of these receivables in the statement of financial position and reflect management's best estimate of the fair value of these financial instruments.

6. Financial Risk Management

Financial Risk Management Objectives and Policies

The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management, with the Board of Directors oversight, manages financial risks. Where material, these risks will be reviewed and monitored by the Board of Directors. The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

Financial Risks

The Company's main financial risk exposure and its financial risk management policies are as follows:

Credit risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The credit risk is limited to the carrying value amount carried on the statement of financial position. The Company's assets most susceptible to credit risk is its cash, which is held at a Canadian chartered bank in a non-interest bearing account, and government GST/HST recoverable, which is due from the Canadian government and due from related companies and related party. The credit risks related to cash and government GST/HST receivable were low and the credit risks related to due from related companies and related party are high due to potential of non-payments.

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6. Financial Risk Management (continued)

Financial Risks (continued)

Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity needs by carefully monitoring cash outflows due in day-to-day business. Liquidity needs are monitored in various time bands, including 30-day, 180-day and 360-day lookout periods. As at January 31, 2018, the Company had \$3,378,080 in cash.

The carrying values of the Company's financial instruments carried at amortized cost approximate fair values due to their short duration.

The Company has designated its cash at FVTPL. The government HST recoverable is classified as loans and receivables whereby they are initially recognized at fair value and then subsequently carried at amortized cost. Accounts payables and accrued liabilities, due to related parties and due to related companies are classified as other financial liabilities whereby they are initially recognized at fair value and then measured at amortized cost.

The carrying values, which approximate fair values, of the Company's financial instruments are as follows:

| As at | | January 31, 2018 | | July 31, 2017 |
|--|----|------------------|----|---------------|
| Financial Assets | | | | |
| <i>Fair value through profit or loss</i> | | | | |
| Cash | \$ | 3,378,080 | \$ | 4,641,327 |
| Loans and Receivables | | | | |
| Due from Green Life Clinics Inc. | \$ | 1,454,250 | \$ | 976,250 |
| Due from Medicinal Cannabis Resources Centre | \$ | 222,267 | \$ | 35,000 |
| Due from related party | \$ | 50,000 | \$ | 50,000 |
| Investment in Green Life Clinics Inc. | \$ | 3,225,000 | \$ | 3,225,000 |
| Financial Liabilities | | | | |
| <i>Other financial liabilities</i> | | | | |
| Amounts payable and other liabilities | \$ | 74,111 | \$ | 397,286 |
| Due to related party and company | \$ | 3,406 | \$ | 3,406 |

7. Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of E&E and to ensure it continues as a going concern. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's managements to sustain future development of the business.

The Company defines its capital as its shareholders' equity. As at January 31, 2018, the Company's capital resources amounted to a capital of \$8,747,570 (July 31, 2017 - \$9,771,805).

The Company's capital management objectives, policies and processes have been directed towards the cannabis industry during the six months ended January 31, 2018. The Company is not subject to any externally imposed capital requirement. There were no changes in the Company's approach to capital management during the period.

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8. Accounts Receivable

| As at | January 31, 2018 | | July 31, 2017 | |
|----------------------------|------------------|--------|---------------|--------|
| Government GST recoverable | \$ | 60,615 | \$ | 52,880 |

9. Exploration and Evaluation Assets

| | Riverbank (Ontario property) (100% interest) | |
|--|--|----------|
| Balance, July 31, 2016 | \$ | 44,795 |
| Write-off of exploration and evaluation assets | | (44,795) |
| Balance, July 31, 2017 and January 31, 2018 | \$ | - |

Riverbank

On March 20, 2013, the Company entered into a Purchase Agreement (the "Agreement") with its then Parent Company Zara Resources Inc. ("Zara"). Under the terms of the Agreement, Leo agreed to purchase from Zara, all of Zara's rights, interests, obligations and benefits of the Riverbank property ("Riverbank") for \$358,000. The Riverbank property consists of 8 unpatented mining claims comprising 87 claim units. The claims are subject to a pre-existing 2% NSR payable to Melkior Resources Inc.

On August 2, 2013 the Zara Plan was approved by the Supreme Court of British Columbia and the purchase by Leo of Riverbank and the spin off to Zara shareholders was completed. Accordingly Leo is no longer a subsidiary of Zara and the Riverbank property is no longer owned by Zara.

During the year ended July 31, 2017, the Riverbank property with carrying value of \$44,795 was written off and the amount was recorded in the statement of profit or loss and other comprehensive loss for the year.

10. Prepaid Expenses

The prepaid expenses of \$434,875 (July 31, 2017 - \$1,192,040) comprise of prepaid consulting fees. During the year ended July 31, 2017, the Company entered into a number of consulting agreements with various parties. The consulting services consist of working with the Company to develop and implement a cohesive broad awareness strategy to further the Company's objectives. The terms of the agreements require that the consulting services are performed over a period of 12 months and payment is made in full on the date the agreement is signed by both parties and is in effect. The fees will be expensed straight-line over the term of the agreements.

11. Amounts Payable and Other Liabilities

| As at | January 31, 2018 | | July 31, 2017 | |
|---------------------------|------------------|--------|---------------|---------|
| Amounts payable (note 13) | \$ | 65,286 | \$ | 388,461 |
| Other liabilities | | 8,825 | | 8,825 |
| | \$ | 74,111 | \$ | 397,286 |

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12. Amalgamation Agreement

On May 8, 2017, the Company entered into an amalgamation agreement under which it will acquire GLC pursuant to a three-corner amalgamation pursuant to which GLC will amalgamate with 1125076 B.C. Ltd., a wholly owned subsidiary of the Company, and the shareholders of GLC will receive one common share of the Company for each GLC share held, resulting in the aggregate issuance of 25 million of the Company's shares pursuant to the amalgamation. Holders of the Class B shares in the capital of GLC will also receive a cash payment of \$0.125 per share for aggregate consideration of \$2,000,000.

Pursuant to the agreement, on July 6, 2017, the Company advanced \$3,225,000 to GLC. This payment is to be utilized by GLC to repay shareholder loans incurred in relation to the GLC's acquisition of MCRCI Medicinal Cannabis Resources Inc. ("MCRCI") and to be incurred to complete the acquisition of Patient Access Pavilions Ltd. This payment was financed from the proceeds raised from the Company's completed non-brokered financing (note 14). Further, the Company advanced \$35,000 to MCRCI for working capital. According to the agreement, there are no terms for repayments of these amounts and will be considered a loss if the amalgamation is not completed. Additionally, the Company paid in total \$1,641,517 consulting fees on behalf of GLC and MCRCI.

The amalgamation is subject to a number of conditions precedent, including, among other things, receipt of all applicable approval from CSE. Unless all of such conditions are satisfied or waived, to the extent they are capable of waiver, the amalgamation will not proceed. There is no assurance that the conditions will be satisfied or waived on a timely basis or at all.

As at March 28, 2018, this amalgamation has not yet completed.

13. Related Party Transactions and Disclosures

Related party transactions were in the normal course of operations.

As at January 31, 2018, the amount due to related company of \$3,406 (July 31, 2017 - \$3,406) is comprised of due to a company with a former common director. The amount is unsecured, non-interest bearing and due on demand.

The amount due from related party at January 31, 2018 of \$50,000 (July 31, 2017 - \$50,000) is due from a former director. This amount is unsecured, non-interest bearing and due on demand.

During the three and six months ended January 31, 2018, the Company incurred transfer agent fees of \$Nil (2017 - \$650) to a company owned by a former director for the provision of share transfer services.

During the three and six months ended January 31, 2018, the Company incurred, consulting fees of \$Nil and \$3,750, respectively (2017 - \$Nil), accounting fees of \$3,100 and \$11,500, respectively (2017 - \$Nil) and office expense of \$Nil and \$3,157, respectively (2017 - \$Nil) to a company owned by a director of the Company and office expense of \$4,203 and \$4,692, respectively (2017 - \$Nil) to directors of the Company. At January 31, 2018, the Company has a balance of \$8,685 owing to a company owned by a director of the Company and the amounts are included in accounts payable and other liabilities.

14. Share Capital

(i) The Company's authorized share capital consists of:

- an unlimited number of common shares with no par value; and
- an unlimited number of Series A preferred shares – non-voting, non-retractable, non-redeemable without dividend, no par value

Leo Resources Inc.

Notes to Condensed Consolidated Interim Financial Statements For the Three and Six Months Ended January 31, 2018 (Expressed in Canadian Dollars) (Unaudited)

14. Share Capital (continued)

Share consolidation

On May 3, 2017, the Company consolidated its issued and outstanding share capital on the basis of one post-consolidation share for each five pre-consolidation common shares. No fractional shares were issued. Any fraction of a share were rounded down to the nearest whole number. All references to share capital, stock options and share purchase warrants presented in these consolidated financial statements and notes are on a post-consolidation basis.

Issuance of shares and warrants

On March 11, 2017, the Company closed a non-brokered private placement of 2,400,000 units for gross proceeds of \$600,000 at a price of \$0.25 per unit. Each unit consists of one common share of the Company and one common share purchase warrant. Each whole warrant is convertible into one common share at a price of \$0.325 per share and is exercisable for a period of two years from date of issuance. Using the relative fair value method, the fair value of warrants was determined to \$188,568 by the Black Scholes Option Pricing Model using the following assumptions: expected life – 2 years, average risk-free interest rate – 0.84%, expected dividend yield – 0%, and average expected stock price volatility – 201%.

On April 27, 2017, the Company closed a non-brokered private placement of 2,000,000 units for gross proceeds of \$1,000,000 at a price of \$0.50 per unit. Each unit consists of one common share of the Company and one common share purchase warrant. Each whole warrant is convertible into one common share at a price of \$0.60 per share and is exercisable for a period of one year. Using the relative fair value method, the fair value of warrants was determined to \$284,858 by the Black Scholes Option Pricing Model using the following assumptions: expected life – 1 year, average risk-free interest rate – 0.72%, expected dividend yield – 0%, and average expected stock price volatility – 254%.

On June 21, 2017, the Company closed the first tranche of a non-brokered private placement for 21,266,900 units for gross proceeds \$10,633,450 at a price of \$0.50 per unit. Each unit consists of one common share and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase an additional common share at the price of \$0.85 per share for a period of 12 months. In the event that company's share prices closes at a price of \$1.40 per share for a period of 10 consecutive trading dates, the Company will have the option to provide notice to the warrant holders in writing or through press release to accelerate the term of the warrants to a period of 30 days following such notice. Using the relative fair value method, the fair value of warrants was determined to \$3,166,071 by the Black Scholes Option Pricing Model using the following assumptions: expected life – 1 year, average risk-free interest rate – 1.27%, expected dividend yield – 0%, and average expected stock price volatility – 264%.

In connection with the private placement, the Company paid finders' fees of \$555,848 and issued 443,695 common share purchase warrants entitling the finder to purchase one additional common share of the Company, having the same terms as the warrants issued in the financing. The fair value of warrants was determined to \$470,302 by the Black Scholes Option Pricing Model using the following assumptions: expected life – 1 year, average risk-free interest rate – 1.27%, expected dividend yield – 0%, and average expected stock price volatility – 264%.

On July 24, 2017, the Company closed the final tranche of the non-brokered private placement for 3,397,600 units for gross proceeds \$1,698,800 at a price of \$0.50 per unit. In connection with the first initial tranche, the Company has raised in total gross proceeds of \$12,332,250, equivalent to 24,664,500 units, for this financing. Using the relative fair value method, the fair value of warrants was determined to \$501,615 by the Black Scholes Option Pricing Model using the following assumptions: expected life – 1 year, average risk-free interest rate – 1.26%, expected dividend yield – 0%, and average expected stock price volatility – 265%. Each unit consists of one common share and one-half of one common share purchase warrant. Each full warrant will entitle the holder to purchase an additional common share at the price of \$0.85 per share for a period of 12 months from the closing of the transaction. In the event that company's share prices closes at a price of \$1.40 per share for a period of 10 consecutive trading dates, the company will have the option to provide notice to the warrant holders in writing or through press release to accelerate the term of the warrants to a period of 30 days following such notice.

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14. Share Capital (continued)

Issuance of shares and warrants (continued)

In connection with the private placement, the company paid finders' fees of \$10,990 and issued 25,032 common share purchase warrants entitling the finder to purchase one additional common share of the Company, having the same terms as the warrants issued in the financing. The fair value of warrants was determined to \$22,864 by the Black Scholes Option Pricing Model using the following assumptions: expected life – 1 year, average risk-free interest rate – 1.26%, expected dividend yield – 0%, and average expected stock price volatility – 265%.

During the year ended July 31, 2017, the Company paid fees of \$1,329,790 to various parties and \$330,750 to related parties in relation to the private placements that took place during the year.

(ii) Stock Options

The Company has adopted a stock option plan (the "Plan"). Pursuant to the Plan, the Board of Directors may from time to time in its discretion, and in accordance with the Exchange Requirements, grant non-transferable options to purchase shares to directors, officers, founders, employees, persons engaged to provide investor relations activities and consultants of the Company.

The options granted under the Plan together with all of the Company's other previously established stock option plans or grants, shall not result at any time in

- the number of Common Shares reserved for issuance pursuant to Options granted to Insiders exceeding 10% of the outstanding Common Shares;
- the grant to Insiders within a 12-month period, of a number of Options exceeding 10% of the outstanding Common Shares;
- the grant to any once (1) optionee within a twelve month period, of a number of options exceeding 5% of the issues and outstanding Common Shares unless the Company obtains the requisite disinterested shareholder approval; and
- the grant to all persons engaged by the Corporation to provide investor relations activities, within any twelve-month period, of options reserving for issuance a number of Common Shares exceeding in the aggregate 2% of the Company's issued and outstanding Common Shares; other grant to any one consultant, in any twelve-month period, of Options reserving for issuance a number of Common Shares exceeding in the aggregate 2% of the Company's issued and outstanding Common Shares.

An optionee shall be entitled to exercise an Option granted to him/her at any time prior to the expiry of the option period and to vesting limitations imposed by the Board of directors at the time such Option is granted. Exercise prices shall be determined by the Board of Directors. The exercise price shall not be less than the closing price (the "market price") of the shares on the exchange immediately preceding the day on which the Board grants the options and provides such notice to the exchange.

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14. Share Capital (continued)

(ii) Stock Options (continued)

Stock option transactions for the periods presented are as follows:

| | Fair value | Number of stock options | Weighted average exercise price |
|--|------------------|-------------------------|---------------------------------|
| Balance, July 31, 2015 | \$ 16,835 | 100,000 | \$ 0.25 |
| Expired/forfeited | (5,600) | (40,000) | 0.25 |
| Balance, July 31, 2016 | \$ 11,235 | 60,000 | \$ 0.25 |
| Expired/forfeited | (11,235) | (60,000) | 0.25 |
| Balance, July 31, 2017 and January 31, 2018 | \$ - | - | \$ - |

During the year ended July 31, 2017, 60,000 stock options were cancelled. As a result, the fair value of \$11,235 was transferred from share-based payment reserves to contributed surplus.

There are no stock options outstanding as at January 31, 2018.

(iii) Warrants

The issued and outstanding warrants balance at January 31, 2018 is comprised as follows:

| | Number of warrants |
|--|--------------------|
| Balance, July 31, 2016 | 500,000 |
| Issued | 17,200,977 |
| Exercised | (725,000) |
| Balance, July 31, 2017 and January 31, 2018 | 16,975,977 |

The following table sets out the details of the warrants granted and outstanding as at January 31, 2018:

| Issue date | Fair value | Expiry date | Weighted average exercise price | Number of warrants |
|----------------|---------------------|----------------|---------------------------------|--------------------|
| March 11, 2017 | \$ 188,568 | March 11, 2019 | \$ 0.325 | 2,175,000 |
| April 27, 2017 | 284,858 | April 27, 2018 | 0.600 | 2,000,000 |
| June 21, 2017 | 3,636,373 | June 21, 2018 | 0.850 | 11,077,145 |
| July 24, 2017 | 524,479 | July 24, 2018 | 0.850 | 1,723,832 |
| | \$ 4,634,278 | | \$ 0.753 | 16,975,977 |

During the year ended July 31, 2017, 725,000 warrants were exercised for \$198,125. As a result, a fair value of \$106,705 was transferred from warrant reserve to share capital.

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14. Share Capital (continued)**(iv) Series A Preferred Shares Subscription**

During the year end July 31, 2014, the Company issued 20,000 Series A preferred shares.

(v) Reserves

The share-based payment reserve records the fair value of stock options granted for services until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. The warrant reserve records the fair value of warrant issued in private placements until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital. Contributed surplus records the fair value of stock options and warrant upon cancellation and forfeiture.

15. Net Loss Per Common Share

The calculation of basic and diluted loss per share for three and six months ended January 31, 2018 was based on the loss attributable to common shareholders of \$501,329 and \$1,031,235 (three and six months ended January 31, 2017 - \$44,867 and \$51,370) and the weighted average number of common shares outstanding of 30,838,916 (2017 - 1,049,416). All outstanding options were excluded from the calculation of diluted loss per share because their effect was anti-dilutive.

16. Subsequent Events

There were no subsequent events.