PUF VENTURES INC.

Consolidated Financial Statements

Year Ended December 31, 2016

(Expressed in Canadian Dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of PUF Ventures Inc.

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

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PUF Ventures Inc. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about PUF Ventures Inc's ability to continue as a going concern.

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
May 3, 2017

PUF VENTURES INC.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Notes	December 31, 2016	December 31, 2015
ASSETS			
Current assets			
Cash		$ 496,746	$ 123,264
GST receivable		20,753	13,165
Inventory – finished goods		-	23,396
Investment held for sale	4	-	4,000
Loan to related parties	12	-	11,895
Prepaids		62,500	202,378
		579,999	378,098
Loans receivable	5	477,514	332,710
Exploration and evaluation assets	6	154,300	16,000
Investment	7	512,389	718,147
Property	8	-	1,494,720
Intellectual property	9	-	609,439
TOTAL ASSETS		**$ 1,724,202**	**$ 3,549,114**
LIABILITIES			
Current liabilities			
Trade payables		$ 264,029	$ 53,089
Accrued liabilities		20,000	20,000
Mortgage payable	10	-	1,507,391
TOTAL CURRENT LIABILITIES		**284,029**	**1,580,480**
SHAREHOLDERS' EQUITY			
Share capital	11	15,551,901	14,254,178
Reserves	11	1,405,956	1,639,320
Deficit		(15,517,684)	(13,924,864)
TOTAL SHAREHOLDERS' EQUITY		**1,440,173**	**1,968,634**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 1,724,202**	**$ 3,549,114**

Nature and continuance of operations (Note 1)
Subsequent events (Note 17)

PUF VENTURES INC.
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	Notes	Years ended December 31, 2016	December 31, 2015
Sales		$ 138,850	$ 9,008
Cost of goods sold		(137,232)	(10,970)
		1,618	(1,962)
Rental income		-	3,101
		1,618	1,139
Expenses			
Accounting and auditing	12	25,460	44,153
Bad debts	5	-	23,723
Consulting and management	12	524,272	476,290
Development costs	9	210,000	-
Depreciation and amortization	9	186,889	158,267
Insurance		6,201	15,551
Investor communications		47,712	7,686
Legal		43,320	47,155
Office and sundry	12	45,465	113,007
Regulatory and transfer agent fees		36,577	18,341
Share-based compensation	11, 12	249,164	318,437
Travel and business development		7,790	22,782
		(1,382,850)	(1,245,392)
Other items			
Share of equity accounted investment loss	7	(205,758)	-
Gain on settlement of mortgage		12,671	-
Gain on equity investment	7	-	170,147
Foreign exchange gain		-	15,675
Impairment of property	8	-	(200,754)
Loss on shares for debt settlement		(87,857)	-
Gain on sale of investment	4	30,000	-
Forgiveness of debt		-	15,239
Write-off of intellectual property	9	(422,550)	-
Write-off of exploration and evaluation assets	6	-	(194,454)
Unrealized loss on investment held for sale	4	-	(8,000)
Reversal of flow-through share premium	11	13,000	-
		(660,494)	(202,147)
Comprehensive loss for the year		**$ (2,041,726)**	**$ (1,446,400)**
Net loss per share – basic and diluted		**$ (0.07)**	**$ (0.11)**
Weighted average number of shares outstanding		**28,828,822**	**13,723,174**

PUF VENTURES INC.
Consolidated Statement of Changes in Equity
(Expressed in Canadian Dollars)

	Share capital					
	Number of shares	Amount	Share-based payment reserves	Warrant reserve	Deficit	Total
Balance at December 31, 2014	**7,788,394**	**$ 11,972,428**	**$ 581,853**	**$ 620,244**	**$ (12,663,909)**	**$ 510,616**
Comprehensive loss:						
Net and comprehensive loss	-	-	-	-	(1,446,400)	(1,446,400)
Shares issued for investment (Notes 7 and 11)	1,587,500	428,000	-	-	-	428,000
Shares issued for acquisition (Notes 9 and 11)	1,750,000	630,000	-	-	-	630,000
Units issued as finder's fee for acquisition (Notes 9 and 11)	175,000	63,000		57,184		120,184
Shares issued for cash (Note 11)	7,166,000	1,340,220	-	92,980	-	1,433,200
Share issuance costs - cash (Note 11)	-	(55,403)	-	-	-	(55,403)
Share issuance costs - agent warrants (Note 11)	-	(154,067)	-	154,067	-	-
Warrants exercised (Note 11)	100,000	30,000	-	-	-	30,000
Fair value of stock options cancelled/expired	-	-	(127,663)	-	127,663	-
Warrants expired (Note 11)	-	-	-	(57,782)	57,782	-
Share-based compensation (Note 11)	-	-	318,437	-	-	318,437
Balance at December 31, 2015	**18,566,894**	**14,254,178**	**772,627**	**866,693**	**(13,924,864)**	**1,968,634**
Comprehensive loss:						
Net and comprehensive loss for the year	-	-	-	-	(2,041,726)	(2,041,726)
Shares issued for debt (Note 11)	3,845,260	317,621	-	-	-	317,621
Shares issued for exploration and evaluation asset (Notes 6 and 11)	2,000,000	130,000	-	-	-	130,000
Shares issued for cash (Note 11)	5,867,000	577,100	-	-	-	577,100
Share issuance costs - cash (Note 11)	-	(14,700)	-	-	-	(14,700)
Share issuance costs - agent warrants (Note 11)	-	(16,893)	-	16,893	-	-
Warrants exercised (Note 11)	1,275,400	157,080	-	-	-	157,080
Options exercised (Note 11)	550,000	110,000	-	-	-	110,000
Fair value of stock options exercised/cancelled/expired (Note 11)	-	50,515	(499,421)	-	448,906	-
Share-based compensation (Note 11)	-	-	249,164	-	-	249,164
Flow-through share premium (Note 11)	-	(13,000)	-	-	-	(13,000)
Balance at December 31, 2016	**32,104,555**	**$ 15,551,901**	**$ 522,370**	**$ 883,586**	**$ (15,517,684)**	**$ 1,440,173**

(Expressed in Canadian Dollars)

	Year ended December 31, 2016	December 31, 2015
Operating activities		
Net loss for the year	$ (2,041,726)	$ (1,446,400)
Adjustments for:		
Depreciation and amortization	186,889	158,267
Bad debt	-	23,723
Foreign exchange	-	(448)
Gain on debt forgiven	-	(15,239)
Share of equity accounted investment losses	205,758	-
Gain on conversion of investment to equity	-	(170,147)
Impairment of exploration and evaluation	-	194,454
Impairment of property	-	200,754
Loss on investment	-	8,000
Share-based compensation	249,164	318,437
Non cash fees and interest accrued	210,000	72,671
Gain on settlement of mortgage	(12,671)	-
Gain on sale of investment	(30,000)	-
Write-off of intangible assets	422,550	-
Loss on settlement of shares for debt	87,857	-
Reversal of flow-through share premium	(13,000)	-
Changes in non-cash working capital items:		
GST receivable	(7,588)	(8,866)
Prepaids	139,878	(163,819)
Inventory	23,396	(23,396)
Accounts payable and accruals	127,795	(29,930)
Net cash flows used in operating activities	(451,698)	(881,939)
Financing activities		
Mortgage, net	-	1,494,720
Related parties loans	-	(84,255)
Proceeds on issuance of common shares, net	829,480	1,288,935
Net cash flows provided by financing activities	829,480	2,699,400
Investing activities		
Proceeds from sale of investment	50,000	-
Expenditures on mineral properties	(24,300)	-
Loans receivable	(30,000)	(112,710)
Purchase of land and building	-	(1,689,134)
Return of reclamation bond	-	18,000
Net cash flows used in investing activities	(4,300)	(1,783,844)
Change in cash	373,482	33,617
Cash, beginning	123,264	89,647
Cash, ending	**$ 496,746**	**$ 123,264**

Non-cash transactions (Note 13)

1. NATURE AND CONTINUANCE OF OPERATIONS

PUF Ventures Inc. (the "Company") was incorporated on June 24, 2004 pursuant to the Business Corporations Act (British Columbia). On February 9, 2011, the name of the Company was changed from New High Ridge Resources Inc. to Newton Gold Corp., on November 7, 2013 to Chlormet Technologies, Inc., and on November 13, 2015 to PUF Ventures Inc. Until June 18, 2014, the Company was listed on the TSX Venture Exchange under the symbol "CMT". Effective June 19, 2014 the Company is listed on the Canadian Securities Exchange ("CSE" or the "Exchange") under the symbol "PUF".

On March 26, 2014, the Company acquired a 16.5% interest in AAA Heidelberg Inc. ("AAA-H"), a private company located in Ontario, for cash of $120,000. The Company signed a Letter of Intent ("LOI") with the principals of AAA-H whereby the Company was granted the exclusive option to acquire the balance of the 83.5% interest subject to certain conditions including the grant of a Marijuana for Medical Purposes Regulations ("MMPR") license and by issuing up to 4,587,500 common shares of the Company subject to CSE escrow policies. The Share Exchange Agreement was finalized effective January 26, 2015. On February 24, 2015, the first tranche of 1,087,500 common shares representing an additional 19.79% interest was completed. On October 30, 2015, the second tranche of 500,000 common shares representing an additional 9.1% interest was completed. The Company now has a 45.39% ownership interest in AAA-H (Note 7).

On May 12, 2015, the Company acquired 100% of VapeTronix Inc. ("VapeTronix"). VapeTronix is a Canadian vaporizer and electronic cigarette company registered in the Province of Ontario. VapeTronix owns the exclusive rights to the "1313" electronic cigarette brand, a medicinal marijuana mobile application technology, and several research and development projects.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. Further discussion of liquidity risk has been disclosed in Note 15.

At December 31, 2016, the Company has a working capital of $295,970 (2015 – deficiency of $1,202,382), and an accumulated deficit of $15,517,684 (2015 - $13,924,864).

The Company generates minimal cash flow from operations and therefore relies upon the issuance of securities for financing. The Company intends to continue relying upon the issuance of securities to finance its operations to the extent such instruments are issuable under terms acceptable to the Company. While the Company has been successful in raising funds in the past, it is uncertain whether it will be able to raise sufficient funds in the future. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. If the Company is unable to secure additional financing, repay liabilities as they come due, negotiate suitable joint venture agreements, and/or continue as a going concern, then material adjustments would be required to the carrying value of assets and liabilities and the statement of financial position classifications used. These consolidated financial statements do not include any adjustments relating to the recovery of assets and classification of assets and liabilities that may arise should the Company be unable to continue as a going concern.

The Company's corporate office is located at Suite 804, 750 Pender Street, Vancouver, British Columbia V6C 2T7.

During the year ended December 31, 2016, the Company completed a share consolidation on a 4 for 1 basis. All share capital numbers have been restated to reflect the share consolidation.

2. BASIS OF PREPARATION

a) Basis of preparation

The consolidated financial statements of the Company comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

b) Basis of consolidation

A subsidiary is an entity the Company controls when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. These consolidated financial statements include the accounts of the Company and its Canadian and US subsidiaries:

	Ownership Interest	Jurisdiction	Nature of Operations
1313 Wear Ltd.	100%	Canada	Holds 1313 trademark
PacCan Real Estate Holdings Corporation	100%	Washington, USA	Rental property
VapeTronix, Inc	100%	Canada	E-Cigarette sales

Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

c) Presentation and functional currency

The functional currency of the parent company, is the Canadian dollar, which is also the presentation currency of the consolidated financial statements. The functional currency of the Company's Canadian and US subsidiaries is also the Canadian dollar.

Transactions in foreign currencies are initially recorded in the functional currency by applying exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the closing rate (the exchange rate at the reporting date).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognized in the profit or loss.

d) Significant accounting judgments and estimates

The preparation of these financial statements using accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The preparation of these financial statements also requires management to exercise judgment in the process of applying the accounting policies.

2. BASIS OF PREPARATION (continued)

d) Significant accounting judgments and estimates (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year: impairment of non-financial assets; and share-based compensation.

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for its exploration and evaluation assets. Once technical feasibility and commercial viability of a property can be demonstrated, it is reclassified from exploration and evaluation assets and subject to different accounting treatment. As at December 31, 2016 and 2015, management had determined that no reclassification of exploration and evaluation assets was required.

The allocation of the purchase price and subsequent costs between land and building required judgment. The allocation was determined using the latest property tax assessment.

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the annual financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Financial instruments

Financial assets and financial liabilities are recognized on the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument. The Company does not have any derivative financial instruments.

i) Financial assets

The Company classifies its financial assets into categories at initial recognition, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

(a) Fair value through profit or loss

This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value, with changes in fair value recognized in profit or loss. Investments in marketable securities are classified as fair value through profit or loss.

(b) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. The Company has classified cash, advances to related parties and loans receivable as loans and receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

i) Financial assets (continued)

(c) Held-to-maturity investments

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss. The Company has not classified any financial assets as held-to-maturity investments.

(d) Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in other comprehensive income or loss ("OCI"). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from OCI and recognized in profit or loss.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

ii) Financial liabilities

The Company classifies its financial liabilities into one of two categories depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

(a) Fair value through profit or loss

This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value, with changes in fair value recognized in the statement of comprehensive loss. The Company has not classified any financial liabilities as fair value through profit and loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

ii) Financial liabilities (continued)

(b) Other financial liabilities

This category includes all other financial liabilities which are recognized at amortized cost using the effective interest rate method. The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial instrument, or, where appropriate, a shorter period. The Company has classified accounts payable, and mortgage payable as other financial liabilities.

b) Equity accounted investments

Equity accounted investments are those entities in which the Company has significant influence, but does not have control over the financial and operating policies of the investees. Significant influence is presumed to exist when the Company holds between 20 percent and 50 percent of the voting power of another entity. Joint arrangement entities are those over which the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. Joint ventures are joint arrangements, whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for by the equity method, whereby the original cost of the investment is adjusted for the Company's share of earnings or losses less dividends since significant influence was acquired. When net accumulated losses from an equity accounted investment exceed its carrying amount, the investment balance is reduced to $nil and additional losses are not provided for unless the Company is committed to provide other financial support to the investee. The Company resumes accounting for its portion of income (loss) of the investment when the entity subsequently reports net income and the Company's share of that net income exceeds the share of net losses not recognized during the period the equity method was suspended.

Profits or losses resulting from transactions between the Company and its associates are eliminated to the extent of the interest in the associate. The Company determines at each reporting date whether there is objective evidence that the investments in associates are impaired. The financial statements of associates are prepared for the same reporting period as the Company. Where necessary adjustments are made to bring the accounting policies of associates in line with those of the Company.

c) Cash

Cash in the statement of financial position are comprised of cash at banks and on hand, and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Exploration and evaluation assets

The Company is in the exploration stage with respect to its investment in mineral properties; accordingly, it follows the practice of capitalizing all costs, once it has the legal right to explore, relating to the acquisition of, exploration for, and development of mineral properties, and crediting all proceeds received against the cost of the related properties. Such costs include, but are not limited to geological, geophysical studies, exploratory drilling, and sampling.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves.

The aggregate costs related to abandoned mineral properties are charged to net income (loss) at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to an exploration and evaluation asset is subsequently reversed if new exploration results or actual or potential proceeds on sale or farm-out of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes a gain on sale of exploration and evaluation assets when the proceeds received or receivable are in excess of the carrying amount. This gain is recognized in profit or loss for the period.

e) Property and equipment

Property and equipment is carried at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of comprehensive loss.

Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Property and equipment (continued)

Equipment is depreciated annually at the following rates using the declining-balance method when the asset becomes available for use, and in the year of acquisition, only one-half of normal rates are used.

f) Intellectual Property

Intellectual property is measured at cost less accumulated amortization and accumulated impairment losses. The cost of intellectual property consists of the purchase price, and any costs directly attributable to bringing the asset into use. Subsequent expenditures on intellectual property are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit and loss as incurred.

Intellectual property is amortized over 4 years, on the straight line method.

g) Impairment

At each financial position reporting date, the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. 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. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized in profit or loss for the period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the closing rate (the exchange rate at the reporting date).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognized in the profit or loss.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign currency gains and losses are reported on a net basis and included in profit or loss.

i) Share capital

i) Common shares

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

ii) Flow-through shares

The Company will from time to time issue flow-through common shares to finance its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax benefit of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into: i) share capital, equal to the market value of the shares; ii) a flow-through share premium liability, equal to the estimated premium, if any, investors pay for the flow-through feature; and iii) reserve for warrants, equal to the remaining proceeds received.

When qualifying expenses are incurred, the Company recognizes a deferred tax liability and deferred tax expense for the value of the tax benefit renounced to the shareholders. The Company derecognizes the liability on the flow-through share premium, as other income.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian exploration expenses (as defined in the Income Tax Act). The portion of the proceeds received but not yet expended at the end of the Company’s period is disclosed separately as unspent commitment/other liability (liability on flow-through share premium).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Share capital (continued)

iii) Non-monetary consideration

Where share capital is issued, or received, as non-monetary consideration and the fair value of the asset received or given up is not readily determinable, the fair market value of the shares is used to record the transaction. The fair market value of the shares is based on the trading price of those shares on the appropriate stock exchange on the date of the agreement to issue or receive shares as determined by the board of directors.

j) Sales revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Sales revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involved with the goods, and the amount of revenue can be measured reliably. The transfer of risks and rewards occurs when the product is received by the customer.

k) Rental income

Rental income from property is recognized as revenue on a straight-line basis over the term of the lease.

l) Share-based payment transactions

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Where the share options are awarded to employees, the fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes Option Pricing Model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Where share options are granted to non-employees, fair value is measured at grant date at the fair value of the goods or services received in profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

All share-based payments are reflected in reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or loss or directly in equity, in which case it is recognized in other comprehensive income or loss or equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for unused tax loss carry forwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

n) Rehabilitation provision

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises and the amount can be reliably estimated. Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses. The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Loss per share

The Company presents basic and diluted loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

p) Segment reporting

The Company operates in four reportable segments: (i) the acquisition, exploration, and development of exploration and evaluation assets; (ii) the medical marijuana industry through the purchase of an interest in a private Ontario company that is in the process of applying for a MMPR license; (iii) the sale of e-cigarettes; and (iv) ownership of rental property in the State of Washington.

q) New accounting standards and interpretations not yet adopted

The following accounting pronouncement has been released but has not yet been adopted by the Company:

i) IFRS 9 Financial Instruments

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 *Financial Instruments* (IFRS 9) as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is tentatively effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. 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. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

4. INVESTMENT HELD FOR SALE

On January 15, 2015, the Company finalized an agreement with Kiska Metals Corporation ("Kiska") for the option of the Company's Chuchi property. At December 31, 2015, the Company held 200,000 common shares of Kiska which had a fair value of $4,000 and an original cost of $12,000. During the year ended December 31, 2016, the Company received an additional 800,000 shares of Kiska (Notes 6). During the year ended December 31, 2016, the Company sold 1,000,000 shares of Kiska for gross proceeds of $50,000 and realized a gain of $30,000.

5. LOANS RECEIVABLE

On November 3, 2014, the Company provided a loan in the amount of US$17,000 ($19,722) to the manager of the Company's US subsidiary. The loan stated that it would be repaid in full within 30 days of written request. On April 9, 2015, a written demand for the loan receivable was made to the borrower with repayment to occur within 30 days from the date of demand. During the year ended December 31, 2015, the loan was not repaid and the Company consequently recorded a bad debt of $23,723.

On November 3, 2014, the Company provided AAA-H with a $160,000 loan. On February 20, 2015, the Company guaranteed a first mortgage to a third party in the amount of $400,000 on behalf of AAA-H that was due on July 7, 2015. On August 6, 2015, the Company agreed to pay the third party $4,000 in interest plus a bonus of $1,600 for a two month extension of the mortgage on behalf of AAA-H. The third party had the option to extend the mortgage for another year. Upon doing so, the Company paid the third party $100,000 to reduce the principal balance of the mortgage by $64,000 and pre-pay the interest on the mortgage for a one year period along with a bonus of $60,000. This loan is secured by all the assets of AAA-H and subordinate only to a first mortgage to the third party in the amount of $400,000. During the year ended December 31, 2016, the Company issued a total of 1,890,880 units of the Company with a fair value of $0.05 per unit representing a full year of interest totaling $94,544 as well as 405,180 units with a fair value of $20,259 as a finder's fee for securing another mortgagor. During the year ended December 31, 2016, the Company also advanced $30,000 in cash to cover certain expenditures of AAA-H. At December 31, 2016, the total amount of the loan receivable from AAA-H is $477,514 (2015: $332,710). The loan will be repaid upon the final closing of the transaction as outlined in the Share Exchange Agreement dated January 26, 2015 by a cancellation of shares of the Company otherwise issuable with a fair value of $477,514 (Note 7).

6. EXPLORATION AND EVALUATION ASSETS

a) Chuchi Property, British Columbia

The Company owned a 100% interest in certain mineral claims located in the Omineca Mining Division of British Columbia, referred to as the Chuchi Property.

On January 15, 2015, the Company entered into an option agreement with Kiska, a public company listed on the TSX Venture Exchange. To earn a 100% interest in the Chuchi property, Kiska was to deliver to the Company 1,000,000 common shares over a seven year period. Until such time as the earn-in is completed, the Company will remain as the underlying owner of the property; however, Kiska will incur all ongoing costs of the exploration and annual maintenance of the property, including payment of the advance royalty payment of $20,000 per year paid on or before October 25 of each year. Kiska paid the advance royalty payment due October 25, 2014.

During the year ended December 31, 2016, Kiska accelerated the option agreement and issued to the Company 800,000 common shares to acquire a 100% in the property. The Company had written the property down to its net realizable value of $16,000 as at December 31, 2015, being the fair value of the shares acquired. As a result, a write-down of $194,454 was recorded during the year ended December 31, 2015.

b) Newton Property, British Columbia

The Company held a 20% participating interest in certain mineral claims located in the Clinton Mining Division of British Columbia, referred to as the Newton Property. Due to the uncertainty of the project, the Company fully impaired this property.

6. EXPLORATION AND EVALUATION ASSETS (continued)

c) Lac Saint Simon, Quebec

The Company acquired a 100% interest in certain mineral claims located in Quebec, Canada, known as the Lac Saint Simon Lithium through the issuance of 2,000,000 common shares of the Company valued at $0.065 per share for total value of $130,000. During the year ended December 31, 2016, the Company incurred expenditures of $24,300 on the property including $15,000 of camp costs, $9,300 of geological consulting.

7. INVESTMENT

On March 26, 2014, the Company acquired a 16.5% interest in AAA-H for $120,000. The Company executed a Share Exchange Agreement effective January 26, 2015 with the principals of AAA-H whereby the Company can acquire the remaining 83.5% interest subject to certain conditions including the grant of a “MMPR” license by issuing up to 4,587,500 common shares of the Company subject to CSE escrow policies. The common shares will be issued in stages. On February 24, 2015, the first tranche of 1,087,500 common shares with a fair value of $348,000 representing an additional 19.79% interest was completed. On February 24, 2015, the Company commenced equity accounting the investment in AAA-H. As a result the Company fair valued its equity accounted investment in AAA-H and recorded a gain of $170,147 in the statement of comprehensive loss representing the difference between the cost and the fair value of the investment. On October 30, 2015, the second tranche of 500,000 common shares, with a fair value of $80,000 representing an additional 9.1% interest was completed. The Company now has a 45.39% ownership interest in AAA-H. The Company’s share of AAA-H’s loss for the year totaled $205,758 (2015 - $nil).

On February 20, 2015, the Company guaranteed a first mortgage to a third party in the amount of $400,000 on behalf of AAA-H (Note 5).

8. PROPERTY

The property (“Property”) was located in Washington State, USA. During the year ended December 31, 2016, the Company sold this Property at an amount equal to the outstanding mortgage. Accordingly an impairment charge of $200,754 was recorded during the year ended December 31, 2015.

9. INTELLECTUAL PROPERTY

On May 12, 2015, the Company acquired 100% of VapeTronix. VapeTronix is a Canadian vaporizer and electronic cigarette company registered in the Province of Ontario. VapeTronix, owns the exclusive rights to the “1313” electronic cigarette brand, a medicinal marijuana mobile application technology, and several research and development projects. The purchase price for the VapeTronix shares was an aggregate of 1,750,000 common shares of the Company. Finders’ units consisting of 175,000 common shares and 175,000 warrants were issued on closing.

(Expressed in Canadian Dollars)

9. INTELLECTUAL PROPERTY (continued)

Total consideration transferred	$ 750,184
Fair value of identifiable net assets	(21,841)
Intellectual property	728,343
Amortization for the year ended December 31, 2015	(136,564)
Intellectual property	591,779
Trademark	17,660
	609,439
Amortization for the year ended December 31, 2016	(186,885)
Net book value, December 31, 2016	422,550
Impairment	(422,550)
	$ -

At December 31, 2016, the Company determined that the intellectual property and trademark were impaired and wrote off the balance of $422,550 to operations.

During the year ended December 31, 2016, the Company commenced the development on new vaporizer technology. The Company incurred development costs of $210,000 during the year.

10. MORTGAGE PAYABLE

Upon acquisition of the Property , a promissory note was signed dated June 1, 2015 to secure a mortgage on the Property in the principal amount of US $1,080,000 (CDN $1,494,720) with interest at 5% per annum (Note 8). Interest only payments are required monthly. The principal amount of the mortgage was due May 31, 2017. As at December 31, 2015, the Company was in default of the mortgage and included in mortgage payable is $12,671 of accrued interest for November to December 31, 2015.

During the year ended December 31, 2016, the Company sold the Property at an amount equal to the outstanding mortgage.

11. SHARE CAPITAL

a) Common shares

Authorized:

Unlimited number of common shares without par value.

Issued:

On February 24, 2015, the Company issued 1,087,500 common shares with a fair value of $348,000 pursuant to the Share Exchange Agreement dated January 26, 2015 to acquire AAA-H (Note 7).

11. SHARE CAPITAL (continued)

a) Common shares (continued)

On May 1, 2015, the Company issued 4,841,500 units at a price of $0.20 per unit for gross proceeds of $968,300. Each unit consists of one common share and one transferable share purchase warrant of the Company. Each warrant is exercisable to purchase one additional common share of the Company until May 1, 2018 at $0.30 per share. The warrants have an acceleration clause such that, if after the required hold period, the shares in the Company trade above $0.60 for 10 consecutive trading days, the Company will notify the warrant holders that they have 30 days to exercise the warrants. The full issue price was allocated to the common shares. Finders' fees were paid in the amount of $55,403 along with the issuance of 420,000 agent warrants. Each agent warrant is exercisable to purchase one common share of the Company until May 1, 2018 at $0.30 per share. The agent warrants have an acceleration clause such that, if after the required hold period, the shares in the Company trade above $0.60 for 10 consecutive trading days, the Company will notify the warrant holders that they have 30 days to exercise the agent warrants. These agent warrants have a fair value, calculated using the Black-Scholes Option Pricing Model, of $154,067 or $0.36 per warrant, assuming an expected life of three years, a risk-free interest rate of 0.72%, an expected dividend rate of 0.00%, and an expected annual volatility of 195%.

On May 12, 2015, the Company issued 1,750,000 common shares with a fair value of $630,000 to acquire VapeTronix. In addition, the Company issued 175,000 common shares with a fair value of $63,000 as finder's fees for the VapeTronix acquisition and 175,000 warrants with a fair value of $57,184 (Note 9).

On October 22, 2015, the Company issued 500,000 common shares, with a fair value of $80,000 pursuant to the Share Exchange Agreement dated January 26, 2015 to acquire AAA-H (Note 7).

On October 29, 2015, the Company closed a private placement for 2,324,500 units at a price of $0.20 per unit for gross proceeds of $464,900. Each unit consists of one common share and one transferable share purchase warrant of the Company. Each warrant is exercisable to purchase one additional common share of the Company until October 30, 2018 at $0.30 per share. The warrants have an acceleration clause such that, if after the required hold period, the shares in the Company trade above $0.60 for 10 consecutive trading days, the Company will notify the warrant holders that they have 30 days to exercise the warrants. A value of $92,980 was allocated to the warrants based on the Company's accounting policy. No finders' fees were paid in conjunction with this private placement.

During the year ended December 31, 2015, the Company issued 100,000 shares for proceeds of $30,000 on the exercise of warrants.

On January 22, 2016, the Company issued 250,000 common shares to settle $30,000 of accounts payable.

On May 16, 2016, the Company issued 125,000 common shares to settle $26,250 of accounts payable resulting in a gain of $16,250.

On August 3, 2016, the Company issued 2,000,000 common shares at a price of $0.065 per share to acquire the Lac Saint Simon mineral property

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (continued)

a) Common shares (continued)

On August 17, 2016, the Company issued 4,062,000 units at a price of $0.05 per unit for gross proceeds of $203,100. Each unit consists of one common share and one transferable share purchase warrant of the Company. Each warrant is exercisable to purchase one additional common share of the Company until August 17, 2018 at $0.10 per share. The full issue price was allocated to the common shares. Finders' fees were paid in the amount of $7,020 along with the issuance of 202,800 agent warrants. Each agent warrant is exercisable to purchase one common share of the Company until August 17, 2018 at $0.10 per share. These agent warrants have a fair value, calculated using the Black-Scholes Option Pricing Model, of $7,719, assuming an expected life of two years, a risk-free interest rate of 1.5%, an expected dividend rate of 0.00%, and an expected annual volatility of 192%.

On August 19, 2016, the Company issued 3,470,260 common shares at a price of $0.08 to settle debt of $173,514, resulting in a loss of $104,107.

On November 4, 2016, the Company issued 260,000 flow-through common shares at a price of $0.25 per share for gross proceeds of $65,000 and 1,545,000 units at a price of $0.20 per unit for gross proceeds of $309,000. Each unit consists of one common share and one transferable share purchase warrant of the Company. Each warrant is exercisable to purchase one additional common share of the Company until November 4, 2018 at $0.25 per share. The full issue price was allocated to the common shares. The Company recorded $13,000 as a flow-through share premium which was reversed in the statement of comprehensive loss upon the Company incurring the required exploration expenditures Finders' fees were paid in the amount of $7,680 along with the issuance of 62,700 agent warrants. Each agent warrant is exercisable to purchase one common share of the Company until November 4, 2018 at $0.25 per share. These agent warrants have a fair value, calculated using the Black-Scholes Option Pricing Model, of $9,174, assuming an expected life of two years, a risk-free interest rate of 1.5%, an expected dividend rate of 0.00%, and an expected annual volatility of 152%.

During the year ended December 31, 2016, the Company issued 1,275,400 shares on the exercise of warrants for proceeds of $157,080 and 550,000 shares on the exercise of stock options for proceeds of $110,000.

b) Warrants outstanding

	Number of warrants		Weighted average exercise price
Balance at December 31, 2014	1,011,500	$	1.708
Warrants expired	(911,500)		1.864
Warrants exercised	(100,000)		0.300
Warrants issued	7,341,000		0.300
At December 31, 2015	7,341 000		0.300
Warrants exercised	(1,275,400)		0.123
Warrants issued	5,872,500		0.123
At December 31, 2016	11,938,100	$	0.220

Expiry Date	Remaining life (years)	Number of warrants		Exercise price
May 1, 2018	1.33	4,991,500	$	0.300
August 17, 2018	1.61	3,262,400		0.075
October 30, 2018	1.79	2,076,500		0.300
November 4, 2018	1.83	1,607,700		0.250
Balance at December 31, 2016		11,938,100	$	0.220

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (continued)

c) Stock options outstanding

On August 14, 2015, the Company's 2015 Stock Option Plan was approved. Under this plan, the Company may grant options to directors, officers, employees, and consultants, provided that the maximum number of options that are outstanding at any time shall not exceed 20% of the issued and outstanding common shares of the Company. The exercise price of each option is based on the market price of the Company's common stock at the date of grant less applicable discount. The options may be granted for a maximum of ten years and vesting is determined by the Board of Directors.

Grant Date	Expiry date	Number of options	Exercise price
March 12, 2014	March 11, 2019	87,500	$ 0.640
April 7, 2015	April 6, 2017	446,250	0.340
June 1, 2015	June 1, 2017	300,000	0.400
September 22, 2016	September 22, 2022	1,400,000	0.235
Balance at December 31, 2016		2,233,750	0.345

	Number of options	Weighted average exercise price
Balance at December 31, 2014	765,000	$ 0.920
Options cancelled	(182,500)	3.640
Options granted	1,258,750	0.32
At December 31, 2015	1,841,250	0.496
Options cancelled and expired	(707,500)	0.20
Options exercised	(550,000)	0.20
Options granted	1,650,000	0.21
At December 31, 2016	2,233,750	$ 0.345

On April 7, 2015, the Company granted 446,250 stock options to certain consultants of the Company to acquire 446,250 shares of the Company at an exercise price of $0.34 per share for a period of two years that expire on April 6, 2017. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of $132,071 or $0.28 per option, assuming an expected life of two years, a risk-free interest rate of 0.50%, an expected dividend rate of 0.00%, and an expected annual volatility of 271%.

On June 1, 2015, the Company granted 450,000 stock options to certain consultants of the Company to acquire 450,000 shares of the Company at an exercise price of $0.40 per share for a period of two years that expire on June 1, 2017. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of $146,714 or $0.28 per option, assuming an expected life of two years, a risk-free interest rate of 0.56%, an expected dividend rate of 0.00%, and an expected annual volatility of 257%.

On September 9, 2015, the Company granted 187,500 stock options to certain consultants of the Company to acquire 187,500 shares of the Company at an exercise price of $0.20 per share for a period of one year that expire on September 9, 2016. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of $18,253 or $0.08 per option, assuming an expected life of one year, a risk-free interest rate of 0.47%, an expected dividend rate of 0.00%, and an expected annual volatility of 153%.

11. SHARE CAPITAL (continued)

c) Stock options outstanding (continued)

On October 2, 2015, the Company granted 125,000 stock options to certain consultants of the Company to acquire 125,000 shares of the Company at an exercise price of $0.20 per share for a period of five years that expire on October 2, 2020. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of $18,461 or $0.16 per option, assuming an expected life of five years, a risk-free interest rate of 0.70%, an expected dividend rate of 0.00%, and an expected annual volatility of 162%.

On October 10, 2015, the Company granted 50,000 stock options to certain consultants of the Company to acquire 50,000 shares of the Company at an exercise price of $0.20 per share for a period of one year that expire on October 10, 2016. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of $2,938 or $0.04 per option, assuming an expected life of one year, a risk-free interest rate of 0.53%, an expected dividend rate of 0.00%, and an expected annual volatility of 137%.

On January 22, 2016, the Company granted 250,000 stock options to certain consultants of the Company to acquire 250,000 shares of the Company at an exercise price of $0.20 per share for a period of one year that expire on January 22, 2016. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $16,940 assuming an expected life of one year, a risk-free interest rate of 1.5%, an expected dividend rate of 0.00%, and an expected annual volatility of 128%.

On January 22, 2016, the Company granted 1,400,000 stock options to certain consultants of the Company to acquire 1,400,000 shares of the Company at an exercise price of $0.235 per share for a period of five years that expire on January 22, 2021. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $232,224 assuming an expected life of five years, a risk-free interest rate of 1.5%, an expected dividend rate of 0.00%, and an expected annual volatility of 147%.

All stock options vested on the date of grant.

d) Share-Based Payments Reserve

The share-based payment reserve represents employee entitlements to share-based awards that have been charge to the loss and other comprehensive loss in the periods during which the entitlements were accrued and have not yet been exercised. When the stock options are exercised, the corresponding amount will be transferred to share capital. If the options expired unexercised, the amount recorded is transferred to deficit.

e) Warrants Reserve

The warrants reserve records fair value of the warrants issued until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital. If the warrants expire unexercised, the amount recorded is transferred to deficit.

(Expressed in Canadian Dollars)

12. RELATED PARTY TRANSACTIONS

The Company has identified the directors and senior officers as key management personnel. The following table lists the compensation costs paid directly or to companies controlled by key management personnel for the years ended December 31, 2016 and 2015:

Year ended December 31, 2016

	Accounting	Consulting	Rent	Share-based Compensation
Christopher Hornung	$ -	$ -	$ -	$ 15,900
Paradigm Shift	-	17,675	-	-
Cherry Consulting Ltd	-	22,849	-	15,900
Elben Capital Inc.	-	83,000		
Derek Ivany	-	25,000	-	63,598
Foremost Management Services Inc.	-	-	5,500	-
Jerry Habuda	-	7,500	-	15,900
Joseph Perino	-	7,500	-	15,900
	$ -	163,524	$ 5,500	$ 127,196

Year ended December 31, 2015

	Accounting	Consulting	Rent	Share-based Compensation
Christopher Hornung	$ -	$ -	$ -	$ 20,377
Paradigm Shift	-	74,429	-	-
Derek Ivany	-	25,000	-	-
Foremost Management Services Inc.	-	74,625	17,250	40,754
T.S. Denis, Inc.	22,038	-	-	8,151
Yari Nieken	-	-	-	20,377
	$ 22,038	$ 174,054	$ 17,250	$ 89,659

Amounts due to and due from related parties are unsecured, non-interest bearing and due on demand.

13. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing activities along with other cash flow information during the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
Fair value of agent warrants issued for share costs	$ 16,893	$ 154,067
Fair value of stock options cancelled/expired	448,906	127,663
Fair value of transfer on exercise of stock options	50,515	-
Shares issued for acquisition	-	750,185
Shares received on mineral property	16,000	12,000
Shares issued for investment	-	428,000
Shares issued for mineral property	130,000	-
Mortgage settled with property	1,507,391	-
Shares issued for accounts payable	202,817	-
Shares issued on behalf of AAA-H	114,804	-
Interest paid	-	12,670

14. SEGMENTED INFORMATION

The Company operates in four reportable segments: (i) the acquisition, exploration, and development of exploration and evaluation assets; (ii) the medical marijuana industry through the purchase of an interest in a private Ontario company that is in the process of applying for a MMPR license; (iii) the sale of e–cigarettes and (iv) acquiring rental property in the State of Washington.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value of financial instruments

The carrying values of cash, loans to related parties, loans receivable, accounts payable, and mortgage payable approximate their carrying values due to the immediate or short-term nature of these instruments.

IFRS 7, Financial Instruments: Disclosures, establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – 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 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's cash is measured using level 1 inputs.

b) Financial risk management

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

i) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist primarily of cash. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada.

The loans receivable expose the Company to credit risk and the Company has limited this exposure by securing one of the loans with collateral; and the other loan is unsecured.

ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments and with property exploration and development. The Company manages liquidity risk by maintaining adequate cash balances.

The Company's expected source of cash flow in the upcoming year will be through equity financing. Cash on hand at December 31, 2016 and expected cash flows for the next 12 months are not sufficient to fund the Company's ongoing operational needs. The Company will need funding through equity or debt financing, entering into joint venture agreements, or a combination thereof.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

b) Financial risk management (continued)

iii) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

Interest rate risk consists of two components: to the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates. The Company is exposed to interest rate cash flow risk; and to the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Current financial assets and current financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity.

(b) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities are denominated in foreign currency.

The Company has not entered into any foreign currency contracts to mitigate foreign currency risk. The Company's sensitivity analysis suggests that a 5% change in the absolute rate of exchange for US dollars would not significantly affect its cash position at this time.

(c) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through a suitable debt and equity balance appropriate for an entity of the Company's size and status. The Company's overall strategy remains unchanged from last year.

The capital structure of the Company consists of equity attributable to common shareholders. The availability of new capital will depend on many factors including a positive mineral exploration environment, positive stock market conditions, AAA H. receiving a MMPR license from Health Canada, the sale of the Company's e-cigarettes, the Company's track record, and the experience of management. The Company is not subject to any external covenants on its capital.

(Expressed in Canadian Dollars)

16. INCOME TAXES

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	December 31, 2016	December 31, 2015
Net income (loss)	$ (2,041,725)	$ (1,446,400)
Statutory tax rate	26%	26%
Expected income tax recovery	(531,000)	(376,064)
Items not recognized for tax purposes	230,000	174,501
Temporary differences	41,000	(280,624)
Share issue costs	(4,000)	-
Change in valuation allowance	264,000	482,187
Deferred income tax recovery	$ -	$ -

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	December 31, 2016	December 31, 2015
Exploration and evaluation assets	$ 710,000	$ 748,000
Non-capital losses	2,214,000	1,897,000
Net capital losses available	387,000	387,000
Share issuance costs	70,000	108,000
Investment in AAA-H	(22,000)	(44,000)
	3,359,000	3,096,000
Valuation allowance	(3,359,000)	(3,096,000)
Net deferred tax asset	$ -	$ -

The Company has non-capital losses of approximately $8,514,000 that may be carried forward and applied against taxable income in future years. These losses, if not utilized, will expire through 2036. Exploration and evaluation assets, property and equipment and net capital losses have no expiry date. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize these benefits.

17. EVENTS AFTER REPORTING PERIOD

Subsequent to December 31, 2016 the Company:

a) completed a non-brokered private placement of 7,665,500 units at a price of $0.25 per unit for gross proceeds of $1,914.125. Each unit consists of one common share and one transferrable common share purchase warrant, with each warrant entitling the holder to acquire one additional common share of the Company at a price of $0.40 per common share for two years from the date of issuance. The Company paid a finders fee on a portion of the private placement.

b) granted 975,000 incentive stock options to purchase up to 975,000 common shares at an exercise price of $0.265 per share for a period of two years to officers, consultants and directors of the Company.

c) issued 149,750 common shares for proceeds of $45,325 on the exercise of warrants and options.