

PUF VENTURES INC.

Management's Discussion and Analysis

For the Year Ended December 31, 2016

(Unaudited – prepared by management)

(Expressed in Canadian Dollars)

PUF VENTURES INC.
Management's Discussion and Analysis
(Expressed in Canadian Dollars)

For the Year Ended December 31, 2016

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of the operating results and financial condition of PUF Ventures Inc. ("PUF" or the "Company") for the year ended December 31, 2016 should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2016, which are prepared in accordance with International Financial Reporting Standards ("IFRS").

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures, and internal controls and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, are complete and reliable. The Company's Board of Directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The Board of Director's Audit Committee meets with management quarterly to review the financial statements and the MD&A and to discuss other financial, operating, and internal control matters. The reader is encouraged to review the Company's statutory filing on www.sedar.com.

This MD&A is prepared as at May 3, 2017. All dollar figures stated herein are expressed in Canadian dollars unless otherwise indicated.

Readers should use the information contained in this report in conjunction with all other disclosure documents including those filed on SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD LOOKING STATEMENTS

This MD&A contains certain statements that constitute forward-looking statements (within the meaning of the Canadian securities legislation and the U.S. Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties. Forward-looking statements are frequently, but not always, identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved. The forward-looking statements may include statements regarding exploration results and budgets, mineral resource estimates, work programs, capital expenditures, timelines, strategic plans, market price of commodities or other statements that are not statements of fact. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company may differ materially from those reflected in forward-looking statements due to a variety of risks, uncertainties, and other factors. For the reasons set forth above, investors should not place undue reliance on forward-looking statements. Important factors that could cause actual results to differ materially from the Company's expectations include uncertainties involved in disputes and litigation, fluctuations in commodity prices and currency exchange rates; uncertainties relating to interpretation of drill results and the geology, continuity and grade of deposits; uncertainty of estimates of capital and operating costs, recovery rates, production estimates and economic return; the need for cooperation of government agencies and native groups in the exploration and development of properties and the issuance of required permits; the need to obtain additional financing to develop properties and uncertainty as to the availability and terms of future financing; the possibility of delay in exploration or development programs or in construction projects and uncertainty in meeting anticipated program milestones; uncertainty regarding the potential acquisition of AAA Heidelberg Inc.; uncertainty regarding obtaining a Marihuana for Medical Purposes Regulations license from Health Canada; uncertainty regarding changes in laws, regulations, and guidelines issued by Health Canada and the State of Washington; uncertainty regarding the risks inherent in an agricultural business such as insects and plant diseases; product liability; fluctuations in prices; uncertainty of the sales of e-cigarettes; fluctuations in energy costs; and uncertainty as to timely availability of licenses, permits, and other government approvals and other risks and uncertainties disclosed in other information released by the Company from time to time and filed with the appropriate regulatory agencies.

It is the Company's policy that all forward-looking statements are based on the Company's beliefs and assumptions, which are based on information available at the time these assumptions are made. The forward looking statements contained herein are as of November 30, 2015 and are subject to change after this date, and the Company assumes no obligation to publicly update or revise the statements to reflect new events or

PUF VENTURES INC.

Management's Discussion and Analysis (Expressed in Canadian Dollars)

For the Year Ended December 31, 2016

circumstances, except as may be required pursuant to applicable laws. Although management believes that the expectations represented by such forward-looking information or statements are reasonable, there is significant risk that the forward-looking information or statements may not be achieved, and the underlying assumptions thereto will not prove to be accurate. Forward-looking information or statements in this MD&A include, but are not limited to, information or statements concerning our expectations for satisfactory drill results and satisfactory resolution of the Company's contingent liability and the Company's investment in AAA Heidelberg Inc. and VapeTronix Inc.

Actual results or events could differ materially from the plans, intentions, and expectations expressed or implied in any forward-looking information or statements, including the underlying assumptions thereto, as a result of numerous risks, uncertainties, and other factors such as those described above and in "Risks and Uncertainties" below. The Company has no policy for updating forward looking information beyond the procedures required under applicable securities laws.

DESCRIPTION OF THE BUSINESS

PUF Ventures Inc. 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 PUF 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". All share capital figures reflect the share consolidation.

On July 16, 2015, the Company qualified to trade on the OTC Marketplace under the symbol "CHLMF" and has been made eligible for book-entry delivery and depository services of the Depository Trust Company to facilitate electronic settlement of transfers of its common shares in the United States. This electronic method of clearing securities speeds up the receipt of stock and cash and therefore accelerates the settlement process for investors.

During the nine months ended September 30, 2016, the Company completed a 4 for 1 share consolidation. All references to number of shares and per share amounts have been retroactively restated to reflect this consolidation.

The Company also trades on the Frankfurt Stock Exchange under the symbol HR2P.

The Company is classified as an exploration stage company with respect to its exploration and evaluation assets. Based on the information available to date, the Company has not yet determined whether its exploration and evaluation assets contain economically recoverable reserves. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the confirmation of economically recoverable reserves, the ability of the Company and their joint venture partners to obtain the necessary financing to successfully complete their development, and upon future profitable production or disposition thereof. Although the Company has taken steps to verify title to exploration and evaluation assets in which it has an interest, in accordance with industry norms for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

On March 26, 2014, the Company acquired a 16.5% interest in AAA Heidelberg Inc., a private company located in Ontario, for cash of \$120,000. The Company signed a Letter of Intent ("LOI") with the principals of AAA Heidelberg Inc. 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 Marihuana for Medical Purposes Regulations ("MMPR") license and by issuing up to 18,350,000 common shares of the Company subject to Canadian Securities Exchange escrow policies. The Share Exchange Agreement was finalized effective January 26, 2015. On February 24, 2015, the first tranche of 4,350,000 common shares representing an additional 19.79% interest was completed. On October 30, 2015, the second tranche of 2,000,000 common shares representing an additional 9.1% interest was completed. The Company now has a 45.39% ownership interest in AAA Heidelberg Inc.

On November 3, 2014, the Company provided AAA-H with a \$160,000 loan. On February 20, 2015, the

PUF VENTURES INC.**Management's Discussion and Analysis
(Expressed in Canadian Dollars)**

For the Year Ended December 31, 2016

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. At March 31, 2016, the total amount of the loan is \$332,710 (December 31, 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 \$332,710 (Note 7). 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 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). During the period ended September 30, 2016, the Company issued a total of 1,890,880 common shares of the Company at a deemed value of \$0.05 per common share representing a full year of interest-only payments totaling \$94,544 and 405,180 common shares as finder's fees valued at \$26,337, pursuant to the securing of a new private mortgage group that replaced the Company's existing lender. 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 \$453,591.

The Company has not finalized the transaction with AAA Heidelberg Inc. The Company does not know, nor can it predict the timeframe for AAA Heidelberg Inc. to complete the application process and receive a response from Health Canada; accordingly, there is no certainty that AAA Heidelberg Inc. will be granted a license under MMPR, or that a transaction will be completed.

On November 26, 2014, the Company formed a subsidiary in Washington State in order to acquire rental property. On June 1, 2015, the Company completed the transaction on its target property of a 9.7 acre parcel of land and associated buildings in Whatcom County, Washington. The purchase price for the property was US\$1,200,000. Upon the closing of the property, a promissory note dated June 1, 2015 was signed to secure a mortgage on the property in the principal amount of US\$1,080,000 with interest at 5% per annum. Interest only payments are required monthly. The principal amount of the mortgage is due May 31, 2017.

On July 16, 2015, the Company's US subsidiary, PacCan Industries LLC converted its name and status to PacCan Real Estate Holdings Corporation.

During the period ended March 31, 2016, the Company sold the property at an amount equal to the outstanding mortgage.

The Company has done significant due diligence into its business plan for the rental property in Washington State; however, there may be unforeseen aspects to the business plan or changes to laws in Washington State that could materially affect the Company's business.

On May 12, 2015, the Company announced the closing of the acquisition of 100% of VapeTronix Inc. VapeTronix, Inc. is a Canadian vaporizer and electronic cigarette company registered under the *Canada Business Corporations Act* located in Toronto, Ontario. VapeTronix, Inc. 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 7,000,000 common shares of the Company of which 1,500,000 common shares will be released subject to certain performance milestones being met. Finders' fees of 700,000 units were issued on closing.

Highlights of the VapeTronix, Inc. business are:

- 1313's flavoured e-cigarettes are currently being sold in Ontario with Canada-wide expansion planned;

PUF VENTURES INC.

Management's Discussion and Analysis (Expressed in Canadian Dollars)

For the Year Ended December 31, 2016

- 1313's nicotine e-cigarettes are ready for a planned roll-out into the US market;
- additional product lines are planned to add additional revenue opportunities;
- a medical marijuana mobile application is under development to track a variety of metrics for patients and physicians such as cannabis usage data, the efficacy of certain strains, and side effects; and
- the VapeTronix, Inc. marketing and development team will work with the Company on leveraging various synergies between its medical marijuana mobile application and vaporizer technology with the anticipated MMPR license to be issued to AAA Heidelberg Inc.

1313 (visit their website at www.1313cigs.com) is an emerging player in the burgeoning e-cigarette market. 1313 e-cigarettes (or "e-cig") are disposable electronic cigarettes that contain between 500 and 650 "puffs" and are packaged for convenience. A single 1313 e-cigarette is the equivalent of two and a half packs of traditional cigarettes. VapeTronix, Inc. has assembled a strong portfolio of unique flavours that have been tested and approved for commercial production. Initial commercial roll-out of 1313 e-cigarettes has begun in Ontario. Select convenience stores and nightclub establishments in the Greater Toronto Area are already selling the nicotine-free 1313 e-cig products with watermelon, vanilla, peach, and green apple flavours. VapeTronix, Inc. plans to continue sales expansion of 1313 e-cigs to major urban centres across Canada in 2015 and beyond. A unique line of "e-shisha" flavours that are aimed at appealing to the North American and Middle Eastern hobbyist hookah smoker are also in a test phase. 1313 has begun test trials in US markets for its nicotine products and plans to further pursue this market opportunity.

On September 1, 2015, the Company announced a new product line of 1313 nicotine-free e-cigarettes, with the newest produce being "1313 Energy". It is infused with taurine and contains a flavour profile similar to that of popular energy drinks currently on the market.

On September 24, 2015, the Company entered into an exclusive worldwide licensing agreement with Canadian R&B recording artist, Massari, for a unique line of branded electronic Shisha devices. In conjunction with Massari and his management team, the Company is creating a branded disposable shisha e-cigarette that will be introduced in Canada first with a roll-out into international markets.

On October 3, 2015, the Company announced that it is introducing a premium e-liquid/e-juice product suite to its 1313 brand of e-cigarettes. The initial skews will consist of two unique and exclusive flavour profiles designated for the US market: caramel tobacco; and 1313 Energy with nicotine. The Company has entered into a production agreement with a boutique purveyor in California for the manufacture of these specialty vape liquids.

In addition to the 1313 e-cig brand, VapeTronix, Inc. has incubated a development stage medicinal marijuana mobile application tracking technology that synchronizes a vaporizer device to a smart phone and will be aimed at the Canadian medical marijuana user. The medical marijuana mobile application called WeedBeacon, will track a variety of metrics for patients and physicians such as cannabis usage data, the efficacy of certain strains, side effects, as well as several other features. The VapeTronix, Inc. team will work in conjunction with PUF and AAA Heidelberg Inc. to implement additional features in the technology, prior to releasing a commercial version to the public.

The development of the medicinal marijuana mobile application has many potential synergies with AAA Heidelberg Inc. This application will assist AAA Heidelberg Inc. with its Doctor Outreach Program (see the news release dated June 23, 2014) that plans on creating relationships with the doctors and clinics in southern Ontario that are pro medical marijuana in advance of the issuance of a MMPR license.

VapeTronix Inc. has a history of net losses, may incur significant net losses in the future, and may not achieve or maintain profitability.

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

EXPLORATION AND EVALUATION PROPERTIES

PUF VENTURES INC.
Management's Discussion and Analysis
(Expressed in Canadian Dollars)

For the Year Ended December 31, 2016

Lac Saint Simon, Quebec

The Company has 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.

The Company is currently negotiating the sale of the Lac Saint Simon property and will provide an update on this matter shortly.

Chuchi Property, British Columbia

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

In December 2008, the Company wrote down the recorded cost of the property to \$Nil. As at September 30, 2015, mineral property interests represent accumulated costs incurred on the property since January 1, 2009.

On March 17, 2014, the Company announced that it received the decision in the arbitration hearings between the Company and the vendors of the Chuchi property, located in northern British Columbia. The arbitration stemmed from the Company's allowing a number of claims to lapse in 2007 and subsequently acquiring certain claims covering a portion of the area of the lapsed claims at a later date from a third party. The arbitrator in the case has ruled in favour of the Company's claim that the 3% net smelter royalty that was attached to the original claims (that were dropped) does not apply to the disputed ground. As such, the vendors of the property own a 3% NSR on only the five core claims to the property, which cover only 1,695.94 hectares of the total 5,365.24 hectares that constitute the Chuchi property. In addition, the vendors' claim for damages for breach of contract by reason of the forfeiture of mineral claims acquired under the agreement was dismissed, and the vendors must immediately remove the notice to third party that they had previously filed with the Mining Recorder's Office on the records of the mineral claims. The Company must pay the vendors a total of \$40,351 (representing the 2012 and 2013 advance royalty payments plus prejudgment interest) which was paid on June 27, 2014, and the Company is also required to continue to pay to the vendors an advance royalty payment in the amount of \$20,000 per year on or before October 25 in each subsequent year that the Company holds any interest in the five core mineral claims.

On November 19, 2014, the Company announced that it received confirmation from Kiska Metals Corporation ("Kiska"), a public company listed on the TSX Venture Exchange, of their intent to enter into a Definitive Agreement for an option of the Company's Chuchi property. The Definitive Agreement was finalized on January 15, 2015. To earn a 100% interest in the Chuchi property, Kiska will be required to deliver to the Company 1,000,000 common shares (or the equivalent cash value at Kiska's election) as follows:

- 200,000 common shares on signing the Option Agreement (received);
- 200,000 common shares on the first anniversary of the Option Agreement;
- 250,000 common shares on the fourth anniversary of the Option Agreement; and
- 350,000 common shares on the seventh anniversary of the Option Agreement.

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.

The Option Agreement will provide that the Company is to receive a percentage of any payments received by Kiska pursuant to any option or earn-in agreements entered into by Kiska in respect of the property (but not including any Kiska operator fees) during the time the option is exercised and on or before the third anniversary date of the exercise of the option as follows:

- 30% of the payments received by Kiska in year 1 of any future agreement;
- 20% of the payments received by Kiska in year 2 of any future agreement; and
- 10% of the payments received by Kiska in year 3 of any future agreement.

PUF VENTURES INC.
Management's Discussion and Analysis
(Expressed in Canadian Dollars)

For the Year Ended December 31, 2016

During the year ended December 31, 2016, Kiska accelerated the option agreement and issued the Company 800,000 Kiska shares to receive a 100% interest in Chuchi. As a result, the Company has recorded an impairment of \$194,454 during the year ended December 31, 2015.

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. During the six months ended June 30, 2016, the Company received an additional 800,000 shares of Kiska (Notes 6). During the year ended December, 2016, the Company sold 1,000,000 shares of Kiska for gross proceeds of \$50,000.

INVESTMENT

On March 26, 2014, the Company acquired a 16.5% interest in AAA Heidelberg Inc., a private company located in Ontario, for \$120,000. The Company has now executed a Share Exchange Agreement with the principals of AAA Heidelberg Inc. whereby the Company can acquire the remaining 83.5% interest subject to certain conditions including the grant of a Marihuana for Medical Purposes Regulations ("MMPR") license by issuing up to 18,350,000 common shares of the Company subject to voluntary escrow provisions. The common shares will be issued in stages.

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. At March 31, 2016, the total amount of the loan is \$332,710 (December 31, 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 \$332,710 (Note 7). During the period ended September 30, 2016, the Company issued a total of 1,890,880 common shares of the Company at a deemed value of \$0.05 per common share representing a full year of interest-only payments totaling \$94,544 and 405,180 common shares as finder's fees valued at \$26,337, pursuant to the securing of a new private mortgage group that replaced the Company's existing lender. 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 \$453,591.

On February 24, 2015, the first tranche of 4,350,000 common shares representing an additional 19.79% interest was completed bringing the total investment to 36.29%.

On October 30, 2015, the second tranche of 2,000,000 common shares representing an additional 9.1% interest was completed upon AAA Heidelberg Inc. being notified by Health Canada that it successfully progressed through the Security Clearance Stage and has entered the Review Stage. The Company now has a 45.39% ownership interest in AAA Heidelberg Inc.

AAA Heidelberg Inc. currently owns a secure 8,800 square foot commercial building and land located in London, Ontario. Since December 2013, AAA Heidelberg Inc. has had an application pending with Health Canada for a new MMPR license for the production of up to 1,320 pounds of marijuana in the first year.

As of April 1, 2014, new producers will be required to be licensed by Health Canada and to conform to strict new regulations. On April 2, 2014, the Company received its final copy of an independent economic analysis on the

PUF VENTURES INC.

Management's Discussion and Analysis (Expressed in Canadian Dollars)

For the Year Ended December 31, 2016

Company's entry into Canada's emerging medical marijuana industry. The report states "the new regulations suggest that the medical marijuana industry will be put on the same footing as the pharmaceutical manufacturing sector. The regulations are quite onerous in terms of production distribution and security standards. Health Canada will only issue licenses to producer/distributors that they deem capable of meeting these detailed regulatory standards. That suggests that Canada will very rapidly evolve from a market of thousands of informal producers to one of a much smaller number of sophisticated producers."

On May 15, 2014, the Company announced that Betty Quon was hired as AAA Heidelberg Inc.'s General Manager for its London, Ontario facility. Ms. Quon will be responsible for all aspects of AAA Heidelberg Inc.'s ongoing permit application with Health Canada in order to streamline the permitting process. Ms. Quon's skill set will enhance AAA Heidelberg Inc.'s ability to both attract the talent and build a team that can execute their business strategy.

On June 12, 2014, the Company announced that David Hyde and Associates were retained by AAA Heidelberg Inc. to assist in completing all of the security protocols required by Health Canada in order to be granted a license under MMPR. David Hyde and Associates are uniquely qualified to assist AAA Heidelberg Inc. as they have worked with other licensed producers that have already received a license under MMPR.

On June 23, 2014, the Company announced that AAA Heidelberg Inc. has initiated its Doctor Outreach Program to identify and create relationships with the doctors and clinics in southern Ontario that are pro medical marijuana, in advance of the issuance of a MMPR license.

In conjunction with the Doctor Outreach Program, AAA Heidelberg Inc. has hired David Bard as its Director of Business Development. Mr. Bard will utilize his considerable experience in the pharmaceutical and medical device industry. This experience has given him unique relationships with doctors and clinics in southern Ontario to which he can ultimately market AAA Heidelberg Inc. and the various strains of medical marijuana that AAA Heidelberg Inc. plans to grow.

On September 24, 2014, the Company announced that AAA Heidelberg Inc. has been notified by Health Canada that it has passed the Enhanced Screening stage and is currently in the Security Stage. In this stage, the principals of AAA Heidelberg Inc. are being subject to detailed background checks. Upon passing the Security Stage, AAA Heidelberg Inc. anticipates a review and then a pre-license inspection.

To this end, completion of the build-out of the facility continues. The facility will feature automated systems for temperature, light, humidity, carbon dioxide, and special ventilation for bacteria control. The entire facility has been planned to meet the highest level of pharmaceutical standards.

As announced on November 12, 2014, the last major remaining interrelated components of the build-out were completed, being the HVAC and Surna Water Chilled Climate Control equipment. Remaining work includes the installation and commissioning of the climate control interfaces and computer systems.

The Company does not know nor can it predict the timeframe for AAA Heidelberg Inc. to complete the application process and receive a response from Health Canada; accordingly, there is no certainty that AAA Heidelberg Inc. will be granted a license under MMPR, or that the transaction will be completed.

Should AAA Heidelberg Inc. be granted a license, the Company intends to complete the transaction by issuing the remaining shares of the Company to the shareholders of AAA Heidelberg. The completion of the transaction will be considered a Change of Business and at that time the Company will make a filing with the Canadian Securities Exchange, create a disclosure statement, and convene a special meeting to seek shareholder approval.

The following risk factors should be carefully considered in evaluating the Company, its potential acquisition of AAA Heidelberg Inc., and the resulting Company post transaction. The risks presented below may not be all of the risks that the Company post transaction and AAA Heidelberg Inc. may face. It is believed that these are the factors that could cause actual results to be different from expected and historical results. The market in which AAA Heidelberg Inc. currently competes is very competitive and changes rapidly. Sometimes new risks emerge

PUF VENTURES INC.
Management's Discussion and Analysis
(Expressed in Canadian Dollars)

For the Year Ended December 31, 2016

and management may not be able to predict all of them, or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements.

Reliance on license

AAA Heidelberg Inc.'s ability to grow, store, and sell medical marijuana in Canada is dependent on obtaining a license under the MMPR from Health Canada. Failure to comply with the requirements of the license or any failure to maintain this license would have a material adverse impact on the business, financial condition, and operating results of AAA Heidelberg Inc. and the Company post transaction.

Regulatory risks

The activities of AAA Heidelberg Inc. are subject to regulation by governmental authorities, particularly Health Canada. Achievement of AAA Heidelberg Inc.'s business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. AAA Heidelberg Inc. cannot predict the time required to secure all appropriate regulatory approvals for its products, the extent of testing and documentation that may be required by governmental authorities, or the effect of the process by the actions of its shareholders. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of AAA Heidelberg Inc. and the Company post transaction.

Change in laws, regulations, and guidelines

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

On March 21, 2014 the Federal Court of Canada issued an order affecting the repeal of the Marihuana Medical Access Regulations ("MMAR") and the application of certain portions of the MMPR which are inconsistent with the MMAR in response to a motion brought by four individuals. This order and its anticipated effects on AAA Heidelberg Inc. are unknown. It is unclear how the Government of Canada will react to this order or how the Federal Court of Canada might ultimately decide the case to which the order relates. The risks to the business of AAA Heidelberg Inc. represented by this or similar actions are that they might lead to court rulings or legislative changes that allow those with existing licenses to possess and/or grow medical marijuana and perhaps others to opt out of the regulated supply system implemented through the MMPR, in which AAA Heidelberg Inc. is a licensed producer. This could significantly reduce the addressable market for AAA Heidelberg Inc.'s products and could materially and adversely affect the business, financial condition, and results of operations of AAA Heidelberg Inc. and the Company post transaction.

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

Limited operating history

AAA Heidelberg Inc., while incorporated in 2010, began carrying on business in 2013 and has yet to generate revenue from the sale of products. AAA Heidelberg Inc. is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that AAA Heidelberg Inc. will be successful in achieving a return on shareholders' investment and likelihood of success must be considered in light of the early stage of operations.

PUF VENTURES INC.
Management's Discussion and Analysis
(Expressed in Canadian Dollars)

For the Year Ended December 31, 2016

Reliance on a single facility

To date, AAA Heidelberg Inc.'s activities and resources have been primarily focused on its facility in London, Ontario and AAA Heidelberg Inc. will continue to be focused on this facility for the foreseeable future. Adverse changes or developments affecting the facility could have a material and adverse effect on AAA Heidelberg Inc.'s business, financial condition, and prospects.

Reliance on management

The success of AAA Heidelberg Inc. is dependent upon the ability, expertise, judgment, discretion, and good faith of its management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on AAA Heidelberg Inc.'s business, operating results, or financial condition.

Factors which may prevent realization of growth targets

AAA Heidelberg Inc. is currently in the early development stage. AAA Heidelberg Inc.'s growth strategy contemplates outfitting the facility with additional production resources. There is a risk that these additional resources will not be achieved on time, on budget, or at all, as they are can be adversely affected by a variety of factors, including the following:

- delays in obtaining, or conditions imposed by, regulatory approvals;
- plant design errors;
- environmental pollution;
- non-performance by third party contractors;
- increases in materials or labour costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labour disputes, disruptions or declines in productivity;
- inability to attract sufficient numbers of qualified workers;
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

As a result, there is a risk that AAA Heidelberg Inc. may not have product or sufficient product available for shipment to meet the anticipated demand or to meet future demand when it arises.

AAA Heidelberg Inc. has a history of net losses, may incur significant net losses in the future, and may not achieve or maintain profitability.

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

Additional financing

The building and operation of AAA Heidelberg Inc.'s facilities and business are capital intensive. In order to execute the anticipated growth strategy, AAA Heidelberg Inc. will require some additional equity and/or debt financing to support on-going operations, to undertake capital expenditures, and/or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available

PUF VENTURES INC.**Management's Discussion and Analysis
(Expressed in Canadian Dollars)**

For the Year Ended December 31, 2016

to AAA Heidelberg Inc. or the Company when needed or on terms which are acceptable. AAA Heidelberg Inc.'s inability to raise financing to support on-going operations or to fund capital expenditures or acquisitions could limit AAA Heidelberg Inc.'s growth and may have a material adverse effect upon future profitability. AAA Heidelberg Inc. and the Company may require additional financing to fund its operations to the point where it is generating positive cash flows.

Competition

There is potential that AAA Heidelberg Inc. and the Company post transaction will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than AAA Heidelberg Inc. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition, and results of operations of AAA Heidelberg Inc. and the Company post transaction.

Because of the early stage of the industry in which AAA Heidelberg Inc. operates, AAA Heidelberg Inc. expects to face additional competition from new entrants. If the number of users of medical marijuana in Canada increases, the demand for products will increase and AAA Heidelberg Inc. expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, AAA Heidelberg Inc. will require a continued high level of investment in research and development, marketing, sales, and client support. AAA Heidelberg Inc. and the Company post transaction may not have sufficient resources to maintain research and development, marketing, sales, and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition, and results of operations of AAA Heidelberg Inc. and the Company post transaction.

Risks inherent in an agricultural business

AAA Heidelberg Inc.'s business involves the growing of medical marijuana, an agricultural product. As such, the business is subject to the risks inherent in the agricultural business such as insects, plant diseases, and similar agricultural risks. Although AAA Heidelberg Inc. will grow its products indoors under climate controlled conditions and will carefully monitor the growing conditions with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

Vulnerability to rising energy costs

AAA Heidelberg Inc.'s medical marijuana growing operations consume considerable energy, making AAA Heidelberg Inc. and the Company post transaction vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of AAA Heidelberg Inc. and its ability to operate profitably.

Transportation disruptions

Due to the perishable and premium nature of AAA Heidelberg Inc.'s products, AAA Heidelberg Inc. will depend on fast and efficient courier services to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of AAA Heidelberg Inc. and the Company post transaction. Rising costs associated with the courier services used by AAA Heidelberg Inc. to ship its products may also adversely impact the business of AAA Heidelberg Inc. and its ability to operate profitably.

Unfavourable publicity or consumer perception

AAA Heidelberg Inc. believes the medical marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy, and quality of the medical marijuana produced. Consumer perception of AAA Heidelberg Inc.'s products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention, and other publicity regarding the consumption of medical marijuana products. There can be no assurance that future scientific research, findings, regulatory proceedings,

PUF VENTURES INC.**Management's Discussion and Analysis
(Expressed in Canadian Dollars)**

For the Year Ended December 31, 2016

litigation, media attention, or other research findings or publicity will be favourable to the medical marijuana market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for AAA Heidelberg Inc.'s products and the business, results of operations, financial condition and cash flows of AAA Heidelberg Inc. and the Company post transaction. AAA Heidelberg Inc.'s dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on AAA Heidelberg Inc. and the Company, the demand for AAA Heidelberg Inc.'s products, and the business, results of operations, financial condition and cash flows of AAA Heidelberg Inc. and the Company post transaction. Further, adverse publicity reports or other media attention regarding the safety, the efficacy, and quality of medical marijuana in general, or AAA Heidelberg Inc.'s products specifically, or associating the consumption of medical marijuana with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Product liability

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

Product recalls

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

PUF VENTURES INC.
Management's Discussion and Analysis
(Expressed in Canadian Dollars)

For the Year Ended December 31, 2016

Reliance on key inputs

AAA Heidelberg Inc.'s business is dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of AAA Heidelberg Inc. and the Company post transaction. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, AAA Heidelberg Inc. might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to AAA Heidelberg Inc. in the future. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of AAA Heidelberg Inc. and the Company post transaction.

Dependence on suppliers and skilled labour

The ability of AAA Heidelberg Inc. to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that AAA Heidelberg Inc. will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by AAA Heidelberg Inc.'s capital expenditure program may be significantly greater than anticipated by AAA Heidelberg Inc.'s management, and may be greater than funds available to AAA Heidelberg Inc., in which circumstance AAA Heidelberg Inc. may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the financial results of AAA Heidelberg Inc.

Difficulty to forecast

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

Operating risk and insurance coverage

AAA Heidelberg Inc. has insurance to protect its assets, operations, and employees. While AAA Heidelberg Inc. believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which AAA Heidelberg Inc. is exposed. In addition, no assurance can be given that such insurance will be adequate to cover AAA Heidelberg Inc.'s liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If AAA Heidelberg Inc. were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if AAA Heidelberg Inc. were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations, and financial condition could be materially adversely affected.

Exchange restrictions on business

As part of its conditional approval, the Exchange requires that as a condition to listing the Company deliver an undertaking confirming that, while listed on the Exchange, the Company post transaction will only conduct the business of production, acquisition, sale and distribution of medical marijuana in Canada as permitted under the Health Canada License. This undertaking could have an adverse effect on the Company post transaction's ability to export marijuana from Canada and on its ability to expand its business into other areas including the provision of non-medical marijuana in the event that the laws were to change to permit such sales and the Company post transaction is still listed on the Exchange and still subject to such undertaking at the time. This undertaking may prevent the Company post transaction from expanding into new areas of business when

PUF VENTURES INC.**Management's Discussion and Analysis
(Expressed in Canadian Dollars)**

For the Year Ended December 31, 2016

the Company post transaction's competitors have no such restrictions. All such restrictions could materially and adversely affect the growth, business, financial condition, and results of operations of the Company post transaction.

Management of growth

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

Conflicts of interest

Certain of the directors and officers of AAA Heidelberg Inc. and the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of AAA Heidelberg Inc. and the Company and as officers and directors of such other companies.

Litigation

AAA Heidelberg Inc. may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which AAA Heidelberg Inc. becomes involved be determined against AAA Heidelberg Inc. such a decision could adversely affect its ability to continue operating and the market price for the Company post transaction common shares and could use significant Company resources. Even if AAA Heidelberg Inc. is involved in litigation and wins, litigation can redirect significant company resources.

The market price of the Company's post transaction's common shares may be subject to wide price fluctuations.

The market price of the Company post transaction's common shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company post transaction and its subsidiaries, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company post transaction and its subsidiaries, general economic conditions, legislative changes, and other events and factors outside of the Company's post transaction control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, as well as general economic and political conditions which could adversely affect the market price of the Company's post transaction common shares.

Dividends

The Company pre or post transaction has no earnings or dividend record, and does not anticipate paying any dividends on the common shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

Environmental and employee health and safety regulations

AAA Heidelberg Inc.'s operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. AAA Heidelberg Inc. will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to AAA Heidelberg Inc.'s operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations, and

PUF VENTURES INC.
Management's Discussion and Analysis
(Expressed in Canadian Dollars)

For the Year Ended December 31, 2016

financial condition of AAA Heidelberg Inc. and the Company post transaction.

SUBSEQUENT EVENTS

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.

SELECTED ANNUAL INFORMATION

A summary of selected annual financial information for the last three fiscal years is as follows, as expressed in Canadian dollars:

	As at December 31, 2015	As at December 31, 2015	As at December 31, 2014
Total revenues	\$ 138,850	\$ 9,008	\$ Nil
Net loss	2,041,726	1,446,400	1,146,473
Net loss per share	0.07	0.03	0.05
Total assets	1,724,202	3,549,114	712,004
Total liabilities	284,029	1,580,480	201,388

SUMMARY OF QUARTERLY RESULTS

Quarter Ended	Revenue	Loss for the period	Loss per Share (Basic & Diluted)
March 31, 2015	\$ -	\$ (98,016)	\$ (0.00)
June 30, 2015	\$ -	\$ (532,814)	\$ (0.04)
September 30, 2015	\$ -	\$ (236,320)	\$ (0.04)
December 31, 2015	\$ -	\$ (579,250)	\$ (0.04)
March 31, 2016	\$ 138,850	\$ (80,257)	\$(0.00)
June 30, 2016	\$ -	\$ (69,431)	\$ (0.01)
September 30, 2016	\$ -	\$ (541,830)	\$ (0.02)
December 31, 2016	\$ -	\$ (1,349,808)	\$ (0.04)

PUF VENTURES INC.
Management's Discussion and Analysis
(Expressed in Canadian Dollars)

For the Year Ended December 31, 2016

RESULTS OF OPERATIONS

The Company's loss for the year ended December 31, 2016 was \$2,041,726 compared to a loss of \$1,446,400 for the year ended December 31, 2015. The significant changes in the current year was the write down of intangible assets by \$422,440 and the loss of equity investment of \$205,758. Development costs of \$210,000 were incurred on the development of a new vaporizer technology. Another increase in expenses during the current period was an increase in consulting and management fees from \$476,290 during the period ended December 31, 2015 to \$524,272 for the year ended December 31, 2016. The increase in consulting and management fees was a result of the Company hiring various consultants to assist the planning of the expansion of the marijuana business, the exploration business as well as assisting with other business and financing needs of the Company. These increases were offset by a reduction in office and sundry costs from \$112,768 to \$45,465 as the Company had previously consolidated its office costs.

LIQUIDITY

The Company's cash on hand increased to \$496,746 at December 31, 2016 from \$123,264 at December 31, 2015.

The Company had working capital of \$295,970 at December 31, 2016 compared to a working capital deficiency of \$1,202,382 at December 31, 2015. The decrease in the deficiency was a result of the Company transferring the land and building out in exchange for the assumption of the mortgage during the period ended March 31, 2016.

As of the date of this MD&A, the Company has sufficient working capital to meet its ongoing financial obligations for the coming year.

OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements to which the Company is committed.

COMMITMENTS

The Company had no commitments at December 31, 2016 or the date of this report.

CONTINGENT LIABILITY

On May 18, 2011, the Company received an order granted by a court in Lima, Peru indicating that the Company is responsible for a debt of US\$209,403 incurred by a former subsidiary of the Company. The Company did not receive notice of the Peruvian legal proceedings and is seeking advice concerning an application to set aside the order. The Company retained Peruvian legal counsel who advised that the Company is not responsible for this obligation.

The most recent contact from Peru indicates that the order has been dropped but the Company has not received formal notice of such release. No amounts have been recorded in the Company's books and records regarding this issue.

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

PUF VENTURES INC.
Management's Discussion and Analysis
(Expressed in Canadian Dollars)

For the 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.

CONFLICTS OF INTEREST

The Company's directors and officers may serve as directors or officers, or may be associated with other reporting companies, or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding on terms with respect to the transaction. If a conflict of interest arises, the Company will follow the provisions of the Business Corporations Act (BC) ("Corporations Act") dealing with conflict of interest. These provisions state that where a director has such a conflict, that director must, at a meeting of the Company's directors, disclose his or her interest and refrain from voting on the matter unless otherwise permitted by the Corporations Act. In accordance with the laws of the Province of British Columbia, the directors and officers of the Company are required to act honestly, in good faith, and in the best interest of the Company.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value of financial instruments

The carrying values of cash, amounts receivable, advances to related parties, loans receivable, accounts payable and accrued liabilities, and advances from related parties 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

PUF VENTURES INC.
Management's Discussion and Analysis
(Expressed in Canadian Dollars)

For the Year Ended December 31, 2016

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial risk management

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

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.

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, 2015 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.

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.

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. At June 30, 2016, the Company was not affected by interest rate risk.

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 is exposed to foreign currency risk with respect to its US subsidiary operations.

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 significantly affect its cash position at this time.

Capital risk management

PUF VENTURES INC.
Management's Discussion and Analysis
(Expressed in Canadian Dollars)

For the Year Ended December 31, 2016

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, comprised of issued capital, warrants, reserves, and deficit. The availability of new capital will depend on many factors including a positive mineral exploration environment, positive stock market conditions, AAA Heidelberg Inc. 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.

OTHER RISKS AND UNCERTAINTIES

The Company is an exploration stage company with respect to its mineral interests. Based on the information available to date, the Company has not yet determined whether its mineral interests contain economically recoverable reserves. The recoverability of the amounts shown for mineral interests is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their development, and upon future profitable production.

In conducting its business, the Company is subject to a number of other risks and uncertainties that could have a material adverse effect on the Company's business prospects or financial condition that could result in a delay or indefinite postponement in the development of the Company's mineral interests.

Risks associated with exploration stage companies

Exploring for mineral resources involves a variety of operational, financial, and regulatory risks that are typical in the natural resource industry. The Company has not commenced commercial operations and has no proven history of performance, earnings, or success. There is no guarantee that the Company will ever be able to achieve profitable results or successfully execute its business plan. The Company's Common Shares must be considered speculative primarily due to the nature of the Company's business and early stage of development. The Company has no revenue or income from operations. The Company has limited capital resources and has to rely upon the sale of equity and/or debt securities for cash required for exploration and development purposes, for acquisitions, and to fund the administration of the Company. Since the Company does not expect to generate any revenues from operations in the near future, it must continue to rely upon the sale of its equity or debt securities to raise capital. There can be no assurance that financing, whether equity or debt, will be available to the Company in the amount required by the Company at any particular time or for any period, and that such financing can be obtained on terms satisfactory to the Company.

Exploration and development

At this time, the Company's primary mineral property is in the exploration stage and the Company does not have an operating history with respect to its exploration activities. Exploration and development of mineral resources involves a high degree of risk and few properties which are explored are ultimately developed into producing properties. The amounts attributed to the Company's interest in its properties as reflected in its financial statements represent acquisition and exploration expenses and should not be taken to represent realizable value. There is no assurance that the Company's exploration and development activities will result in any discoveries of commercial bodies of ore. The long term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs which may be affected by a number of factors such as unusual or unexpected geological formations, and other conditions.

Property title

Although the Company believes it has exercised commercially reasonable due diligence with respect to determining title to properties it owns, controls, or has the right to acquire by option, there is no guarantee that title to such properties will not be challenged or impugned. The Company's mineral interests may be subject to prior unrecorded agreements or transfers or native land claims, and title may be affected by undetected defects.

PUF VENTURES INC.**Management's Discussion and Analysis
(Expressed in Canadian Dollars)**

For the Year Ended December 31, 2016

There may be valid challenges to the title of the Company's mineral interests which, if successful, could impair development and operations. This situation may be exacerbated due to the large number of title transfers historically involved with some properties.

Licenses and permits

The Company will require licenses and permits from various governmental authorities regarding the Company's mineral interests. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development, and mining operations for its mineral interests. Failure to obtain and maintain such licenses and permits may adversely affect the Company's business as the Company would be unable to legally conduct its intended exploration and development work which may result in its losing its interest in the subject property.

Competition

The mining industry is intensely competitive and the Company must compete in all aspects of its operations with a substantial number of other corporations which have greater technical and financial resources. The Company may be unable to acquire additional attractive mining properties on terms it considers acceptable.

Operating hazards and risks

Fires, power outages, labour disputes, flooding explosions, cave-ins, landslides, and the inability to obtain suitable or adequate machinery, equipment, or labour are some of the risks involved in exploration programs. Unknowns with respect to geological structures and other conditions are involved. Existing and future environmental laws may cause additional expense and delays in the activities of the Company, and may render the Company's properties uneconomic. The Company has no liability insurance and the Company may become subject to liability for pollution, cave-ins, or hazards against which it cannot insure, or against which it may elect not to insure. The payment of such liabilities may have a material, adverse effect of the Company's financial position.

Profitability of operations

The Company does not have profitable operations at this time and it should be anticipated that it will operate at a loss until such time as production is achieved from its properties, if production is in fact ever achieved. Investors also cannot expect to receive any dividends on their investment in the foreseeable future.

Foreign currency risk

The Company's mineral properties are located in Canada; accordingly, future changes in exchange rates do not affect the viability of exploring and development these mineral properties at this time.

Market risks

Even if the Company's exploration programs are successful, factors beyond the control of the Company may affect the marketability of any mineral products discovered. Mineral prices have fluctuated widely in recent years.

The marketability and price of minerals which may be produced or acquired by the Company will be affected by numerous factors beyond the control of the Company. These factors include delivery uncertainties related to the proximity of its reserves to processing facilities, and extensive government regulation relating to price, taxes, royalties, allowable production land tenure, the import and export of minerals, and many other aspects of the mining business. Declines in mineral prices may have a negative effect of the Company.

Future financings to further exploration programs

If the Company's exploration programs are successful, additional funds will be required for further exploration and development to place a property into commercial production. The Company's available sources of funds are:

PUF VENTURES INC.
Management's Discussion and Analysis
(Expressed in Canadian Dollars)

For the Year Ended December 31, 2016

existing cash; the further sale of equity capital; and the offering by the Company of an interest in its properties to be earned by another party or parties carrying out further exploration or development thereof. There is no assurance such sources will continue to be available on favourable terms or at all. If available, future equity financings may result in dilution to current shareholders.

Going concern

The Company's 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 obtain the necessary financing to meet its on-going commitments and further its mineral exploration programs.

ADDITIONAL SHARE INFORMATION

As at December 31, 2016, the Company had 32,104,555 common shares outstanding. The Company also had 11,672,600 warrants with an exercise price of \$0.10 - \$0.30 and expiry date to November 4, 2018; 685,500 Agent Warrants with an exercise price of \$0.30 and an expiry date of May 1, 2018; 3,313,750 stock options with exercise prices ranging from \$0.05 to \$0.875 and expiring at various dates to September 22, 2022.

As at the date of this report, the Company had 39,919,805 common shares outstanding. The Company also had 19,201,100 warrants with an exercise price ranging from \$0.075 to \$0.30 and expiry date to August 2020; 685,500 Agent Warrants with an exercise price of \$0.30 and an expiry date of May 1, 2018; 4,276,000 stock options with exercise prices ranging from \$0.05 to \$0.875 and expiring at various dates to September 22, 2022.

ADDITIONAL INFORMATION

Additional information relating to the Company can be found on the SEDAR at www.sedar.com.