

PUF VENTURES INC.

**Condensed Interim Consolidated Financial Statements
Six Months Ended June 30, 2017**

(Expressed in Canadian Dollars)

(Unaudited – prepared by management)

Notice to Readers

Under National Instrument 51-102, Part 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of PUF Ventures Inc. for the six months ended June 30, 2017 have been prepared in accordance with International Accounting Standard 34 for Interim Financial Reporting under International Financial Reporting Standards. These condensed interim consolidated financial statements are the responsibility of the Company's management and have been approved by the Board of Directors. The Company's independent auditors have not performed an audit or review of these condensed interim consolidated financial statements.

PUF VENTURES INC.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited – prepared by management)

	Notes	June 30, 2017	December 31, 2016 (audited)
ASSETS			
Current assets			
Cash		\$ 1,893,715	\$ 496,746
GST receivable		60,693	20,753
Prepays		150,375	62,500
		2,104,783	579,999
Loans receivable	5	-	477,514
Exploration and evaluation assets	6	208,843	154,300
Investment	7	-	512,389
Property, plant & equipment	8	1,593,193	-
TOTAL ASSETS		\$ 3,906,819	\$ 1,724,202
LIABILITIES			
Current liabilities			
Trade payables		\$ 299,029	\$ 264,029
Accrued liabilities		8,000	20,000
TOTAL CURRENT LIABILITIES		307,029	284,029
SHAREHOLDERS' EQUITY			
Share capital	9	18,121,684	15,551,901
Reserves	9	1,707,068	1,405,956
Deficit		(16,228,961)	(15,517,684)
TOTAL SHAREHOLDERS' EQUITY		3,599,791	1,440,173
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 3,906,819	\$ 1,724,202

Nature and continuance of operations (Note 1)

PUF VENTURES INC.
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)
(Unaudited – prepared by management)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Sales	\$ -	\$ -	\$ -	\$ 138,850
Cost of sales	-	-	-	113,835
				25,015
Rental income	-	-	-	-
	-	-	-	25,015
EXPENSES				
Accounting and auditing	\$ 15,000	\$ 29,460	\$ 15,000	\$ 30,610
Advertising fees	16,625	-	30,209	-
Consulting and management	117,225	40,000	290,563	156,677
Development	20,000	-	35,000	-
Insurance	-	1,033	-	4,134
Legal	877	4,961	6,607	5,547
Office and sundry	39,443	2,481	57,283	10,765
Regulatory and transfer agent fees	21,188	1,500	31,173	3,000
Share-based compensation	-	-	215,332	2,634
Travel and business development	11,624	3,996	30,110	3,996
Loss before other items	(241,982)	(83,431)	(711,277)	(192,348)
OTHER ITEMS				
Foreign exchange gain	-	-	-	(10)
Other income	-	-	-	12,670
Realized gain on sale of investment	-	30,000	-	30,000
Unrealized gain (loss) on investment held for sale	-	(16,000)	-	(16,000)
	-	-	-	42,660
Loss and comprehensive loss for the period	\$ (241,982)	\$ (69,431)	\$ (711,277)	\$ (149,688)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.01)
Weighted average number of common shares outstanding	42,483,790	13,167,267	38,307,243	10,702,979

See accompanying notes to the consolidated financial statements

PUF VENTURES INC.

Consolidated Statement of Changes in Equity

(Expressed in Canadian Dollars)

(Unaudited – prepared by management)

	Share capital		Share-based payment reserves	Warrant reserve	Deficit	Total
	Number of shares	Amount				
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 period	-	-	-	-	(149,688)	(149,688)
Shares issued for debt (Note 9)	250,000	52,500	-	-	-	52,500
Share-based compensation (Note 9)	-	-	2,634	-	-	2,634
Balance at June 30, 2016	18,816,894	\$ 14,306,678	\$ 775,261	\$ 866,693	\$ (14,074,552)	\$ 1,874,080

	Share capital		Share-based payment reserves	Warrant reserve	Deficit	Total
	Number of shares	Amount				
Balance at December 31, 2016	32,104,555	\$ 15,551,901	\$ 522,370	\$ 883,586	\$ (15,517,684)	\$ 1,440,173
Comprehensive loss:						
Net and comprehensive loss for the period	-	-	-	-	(711,277)	(711,277)
Shares issued for cash (Note 9)	7,656,500	1,914,125	-	-	-	1,914,125
Share issuance costs - cash (Note 9)	-	(79,643)	-	-	-	(79,643)
Share issuance costs - agent warrants (Note 9)	-	(85,780)	-	85,780	-	-
Shares issued for AAA-H	500,003	200,000	-	-	-	200,000
Warrants exercised (Note 9)	2,732,400	478,080	-	-	-	478,080
Options exercised (Note 9)	537,500	143,000	-	-	-	143,000
Share-based compensation (Note 9)	-	-	215,332	-	-	215,332
Balance at June 30, 2017	43,530,958	\$ 18,121,684	\$ 737,702	\$ 969,366	\$ (16,228,961)	\$ 3,599,791

See accompanying notes to the consolidated financial statements

PUF VENTURES INC.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited – prepared by management)

	For the six months ended	
	June 30, 2017	June 30, 2016
Operating activities		
Net loss for the period	\$ (711,277)	\$ (149,688)
Adjustments for:		
Gain on debt forgiven	-	(12,670)
Share-based compensation	215,332	2,634
Unrealized loss on investment held for sale	-	(30,000)
Changes in non-cash working capital items:	(508,105)	131,175
Net cash flows used in operating activities	(1,004,050)	(58,549)
Financing activities		
Issuance of common shares	2,455,562	-
Net cash flows provided by financing activities	2,455,562	-
Investing activities		
Proceeds from sale of investment	-	50,000
Expenditures on exploration and evaluation assets	(54,543)	-
Net cash flows used in investing activities	(54,543)	50,000
Change in cash	1,396,969	(108,549)
Cash, beginning	496,746	123,264
Cash, ending	\$ 1,893,715	\$ 14,715

Non-cash transactions (Note 11)

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). 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 June 30, 2017, the Company has a working capital of \$1,797,754 (December 31, 2016 – \$295,970), and an accumulated deficit of \$16,228,961 (December 31, 2016 - \$15,517,684).

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.

2. BASIS OF PREPARATION

a) Basis of preparation

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“IAS34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”).

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

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 including 1313 Wear Ltd., a Canadian wholly owned subsidiary, PacCan Real Estate Holdings Corporation, a USA wholly owned subsidiary, Vapetronix, Inc. a Canadian Wholly owned subsidiary and AAA Heidleberg, a Canadian subsidiary owned XX% by the Company.

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.

2. BASIS OF PREPARATION (continued)

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.

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 June 30, 2017 and December 31, 2016, 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

New accounting standards and interpretations not yet adopted

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

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. During the six months ended June 30, 2017, the Company acquired control of AAA-H and the amount has been removed from consolidation.

6. EXPLORATION AND EVALUATION ASSETS

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. During the three months ended March 31, 2017, the Company incurred geological consulting of \$48,745.

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). During the six months ended June 30, 2016, the Company acquired an additional 9.1% interest in AAA-H for 500,000 common shares with a fair value of \$200,000. The Company is now being consolidated.

8. PROPERTY, PLANT & EQUIPMENT

During the six months ended June 30, 2017, the Company acquired control of AAA-H and continues to complete the construction on the land and building that form part of facility as part of the ACMPR application in London, Ontario. The Company will commence amortization on this asset once it has been put into production.

INTELLECTUAL PROPERTY

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. During the six months ended June 30, 2017, the Company incurred a further \$35,000 of development costs on this project.

9. SHARE CAPITAL

a) Common shares

Authorized:

Unlimited number of common shares without par value.

Issued:

PUF VENTURES INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)
(Unaudited – prepared by management)
Six months ended June 30, 2017

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.

9. SHARE CAPITAL (continued)

a) Common shares (continued)

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

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.

On March 10, 2017, the Company issued 7,656,500 units at a price of \$0.25 per unit, raising gross proceeds of \$1,914,125. Each unit consists of one common share and one transferrable common share purchase warrant. Each warrant is exercisable to purchase one additional common share of the Company until March 19, 2019 at \$0.40 per common share. Finders' fees were paid in the amount of \$79,643 cash along with the issuance of Finders' warrants of 299,370.

During the six months ended June 30, 2017, the Company issued 3,026,850 on the exercise of warrants for proceeds of \$478,080, and 537,500 shares on the exercise of stock options for proceeds of \$143,000.

During the six months ended June 30, 2017, the Company issued 500,003 common shares valued at \$200,000 on the acquisition of 9.1% of AA-H.

9. **SHARE CAPITAL** (continued)

b) **Warrants outstanding**

	Number of warrants	Weighted average exercise price
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
Warrants exercised	(2,732,400)	0.123
Warrants issued	7,955,870	0.123
At June 30, 2017	17,161,570	\$ 0.220

Expiry Date	Remaining life (years)	Number of warrants	Exercise price
May 1, 2018	0.83	3,567,750	\$ 0.300
August 17, 2018	1.11	2,430,450	0.075
October 30, 2018	1.29	1,595,000	0.300
November 4, 2018	1.33	1,612,500	0.250
March 10, 2019	1.23	7,955,870	0.40
Balance at June 30, 2017		17,161,570	\$ 0.220

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
September 22, 2016	September 22, 2022	950,000	0.235
January 24, 2017	January 24, 2019	975,000	0.265
Balance at June 30, 2017		2,012,500	0.314

	Number of options	Weighted average exercise price
Balance 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
Options cancelled and expired	(658,750)	0.375
Options exercised	(537,500)	0.25
Options granted	975,000	0.265
At June 30, 2017	2,012,500	\$ 0.314

9. SHARE CAPITAL (continued)

c) Stock options outstanding (continued)

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%.

On January 24, 2017, the Company granted 975,000 stock options to certain consultants of the Company to acquire 975,000 of the Company at an exercise price of \$0.265 per share for a period of two years that expire on January 24, 2019. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of \$215,332 assuming an expected life of two years, a risk-free interest rate of 1.65%, an expected dividend rate of 0.00%, and an expected annual volatility of 194.35%.

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.

10. 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 period ended March 31, 2017 and the year ended December 31, 2016:

Six months ended June 30, 2017

	Consulting
Cherry Consulting Ltd	\$ 8,450
Elben Capital Inc.	36,000
Jerry Habuda	7,500
Joseph Perino	7,500
	<u>\$ 59,450</u>

Year ended December 31, 2016

	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
	<u>163,524</u>	<u>\$ 5,500</u>	<u>\$ 127,196</u>

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

11. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing activities along with other cash flow information during as at June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017	December 31, 2016
Fair value of agent warrants issued for share costs	\$ 85,780	\$ -
Shares received on mineral property	-	16,000

12. 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.

13. 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 March 31, 2017 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.

13. 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.