

PUF VENTURES INC.

**Condensed Interim Consolidated Financial Statements
Six Months Ended June 30, 2018**

(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, 2018 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.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited – prepared by management)

	Notes	June 30, 2018	December 31, 2017
ASSETS			
Current assets			
Cash		\$ 3,199,877	\$ 3,791,249
Receivables		366,142	342,054
Marketable securities	4	75,000	312,500
Prepays		80,438	109,162
		3,721,457	4,554,965
Investments	8,9,10,11	1,339,405	181,367
Property and equipment	7	861,186	1,100,249
Intangible asset	8	3,240,416	3,240,416
TOTAL ASSETS		\$ 9,162,464	\$ 9,076,997
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		\$ 1,164,374	\$ 871,757
Loans payable	13	388,246	639,571
TOTAL CURRENT LIABILITIES		1,552,620	1,511,328
SHAREHOLDERS' EQUITY			
Share capital	14	23,543,534	22,252,798
Subscriptions received		990,000	149,200
Reserves	14	3,720,128	1,665,620
Accumulated other comprehensive loss		(237,500)	(37,500)
Deficit		(21,193,694)	(17,384,754)
Attributable to shareholders		6,822,468	6,645,364
Non-controlling interest	8	787,376	920,305
TOTAL SHAREHOLDERS' EQUITY		7,609,844	7,565,669
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 9,162,464	\$ 9,076,997

Nature and continuance of operations (Note 1)

Subsequent events (Note 19)

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

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
EXPENSES				
Accounting and auditing	\$ 25,000	\$ 15,000	\$ 27,500	\$ 15,000
Consulting and management	666,375	117,225	1,162,399	290,563
Development	38,098	20,000	44,392	35,000
Investor communications	123,730	16,625	217,284	30,209
Legal	16,340	877	35,225	6,607
Office and sundry	41,510	39,443	72,931	57,283
Regulatory and transfer agent fees	62,425	21,188	109,288	31,173
Share-based compensation	-	-	2,054,508	215,332
Travel and business development	39,601	11,624	80,841	30,110
Net loss for the period	(1,013,079)	(241,982)	(3,804,368)	(711,277)
Unrealized (loss) on marketable securities	(131,250)	-	(237,500)	-
Comprehensive loss for the period	\$ (1,144,329)	\$ (241,082)	\$ (4,041,868)	\$ (711,277)
Net loss attributable to:				
Shareholders of PUF Ventures Inc.	\$ (972,286)	\$ (241,982)	\$ (3,671,439)	\$ (711,277)
Non-controlling interests	(40,793)	-	(132,929)	-
	\$ (1,013,079)	\$ (241,982)	\$ (3,804,368)	\$ (711,277)
Comprehensive loss attributable to:				
Shareholders of PUF Ventures Inc.	\$ (1,103,536)	\$ (241,982)	\$ (3,908,939)	\$ (711,277)
Non-controlling interests	(40,793)	-	(132,929)	-
	\$ (1,144,329)	\$ (241,982)	\$ (4,041,868)	\$ (711,277)
Net loss per share – basic and diluted	\$ (0.02)	\$ (0.01)	\$ (0.07)	\$ (0.02)
Weighted average number of common shares outstanding	58,543,137	42,483,790	58,035,426	38,307,243

PUF VENTURES INC.

Condensed Interim Consolidated Statement of Changes in Equity

(Expressed in Canadian Dollars)

(Unaudited – prepared by management)

	Share capital		Subscriptions received	Share-based payment reserves	Warrant reserve	Non-controlling interest	Deficit	AOCI	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 14)	7,656,500	1,914,125	-	-	-	-	-	-	1,914,125
Share issuance costs - cash (Note 14)	-	(79,642)	-	-	-	-	-	-	(79,642)
Share issuance costs - agent warrants (Note 14)	-	(85,780)	-	-	85,780	-	-	-	-
Shares issued for AAA-H	500,003	200,000	-	-	-	-	-	-	200,000
Warrants exercised (Note 14)	2,732,400	478,080	-	-	-	-	-	-	478,080
Options exercised (Note 14)	537,500	143,000	-	-	-	-	-	-	143,000
Fair value of stock options exercised/cancelled/expired (Note 14)	-	-	-	-	-	-	-	-	-
Share-based compensation (Note 14)	-	-	-	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
Balance at December 31, 2017	55,210,578	\$22,252,798	\$ 149,200	\$ 809,657	\$ 855,963	\$ 920,305	\$ (17,384,754)	\$(37,500)	\$ 7,565,669
Comprehensive loss:									
Net and comprehensive loss for the period	-	-	-	-	-	-	(3,808,940)	(200,000)	(4,008,940)
Subscriptions received (Note 14)	-	-	840,800	-	-	-	-	-	840,800
Non-controlling interest on consolidation of AAA-H (Note 14)	-	-	-	-	-	(132,929)	-	-	(132,929)
Options exercised (Note 14)	780,000	300,700	-	-	-	-	-	-	300,700
Warrants exercised (Note 14)	2,930,930	990,036	-	-	-	-	-	-	990,036
Share-based compensation (Note 14)	-	-	-	2,054,508	-	-	-	-	2,054,508
Balance at June 30, 2018	58,921,508	\$23,543,534	\$ 990,000	\$ 2,864,165	\$ 855,963	\$ 787,376	\$ (21,193,694)	\$(237,500)	\$ 7,609,844

See accompanying notes to the condensed interim consolidated financial statements

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

	Six months ended	
	June 30, 2018	June 30, 2017
Operating activities		
Net loss for the period	\$ (3,804,368)	\$ (711,277)
Adjustments for:		
Amortization	159,377	-
Share-based compensation	2,054,508	215,332
Changes in non-cash working capital items:		
Receivables	(24,088)	(397,230)
Prepays	28,724	(87,875)
Accounts payable and accruals	292,617	(23,000)
Net cash flows used in operating activities	(1,293,230)	(1,004,050)
Financing activities		
Loans payable	(243,740)	-
Subscriptions received	840,800	-
Proceeds on issuance of common shares, net	1,290,736	2,455,562
Net cash flows provided by financing activities	1,887,796	2,455,562
Investing activities		
Expenditures on equipment	(27,900)	-
Expenditures on mineral properties	-	(54,543)
Investment in Houweling Nurseries	(1,000,000)	-
Investment in Solaris	(158,038)	-
Net cash flows used in investing activities	(1,185,938)	(54,543)
Change in cash	(591,372)	1,396,969
Cash, beginning	3,791,249	496,746
Cash, ending	\$ 3,199,877	\$ 1,893,715

Non-cash transactions (Note 16)

1. NATURE AND CONTINUANCE OF OPERATIONS

PUF Ventures Inc. (the “Company”) was incorporated on June 24, 2004 pursuant to the Business Corporations Act (British Columbia). On February 9, 2011, the name of the Company was changed from New High Ridge Resources Inc. to Newton Gold Corp., on November 7, 2013 to Chlormet Technologies, Inc., and on November 13, 2015 to PUF Ventures Inc. Until June 18, 2014, the Company was listed on the TSX Venture Exchange under the symbol “CMT”. Effective June 19, 2014 the Company is listed on the Canadian Securities Exchange (“CSE” or the “Exchange”) under the symbol “PUF”. During the year ended December 31, 2016, the Company completed a share consolidation on a 4 for 1 basis. All share capital numbers have been restated to reflect the share consolidation. The Company's corporate office is located at Suite 804, 750 Pender Street, Vancouver, British Columbia V6C 2T7.

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 18. At June 30, 2018, the Company has a working capital of \$2,300,087 (December 31, 2017 –\$3,043,637), and an accumulated deficit of \$21,193,694 (December 31, 2017 - \$17,384,754).

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.

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.

2. BASIS OF PREPARATION (continued)

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 subsidiaries:

2017/2018	Ownership Interest	Jurisdiction
AAA Heidelberg Inc.	45% – 54%	Canada
Natures Hemp Corp.	100%	Canada
Pure Grow Medicinals S.A.S	100%	Columbia

2016	Ownership Interest	Jurisdiction
1313 Wear Ltd.	100%	Canada
PacCan Real Estate Holdings Corporation	100%	USA
Cannvas Medtech Inc. (formerly VapeTronix, Inc.)	100%	Canada

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

c) Presentation and functional currency

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

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

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

d) Significant accounting judgments and estimates

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

2. BASIS OF PREPARATION (continued)

d) Significant accounting judgments and estimates (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year: value of assets available for sale; 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 cannabis assets and its exploration and evaluation assets. This includes estimating the fair value of intangible assets held relating to the cannabis venture. For 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES

a) Financial instruments

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

Financial assets

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

Fair value through profit or loss:

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

Loans and receivables:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

Held-to-maturity investments:

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

Available-for-sale:

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

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

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

Financial liabilities

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

Fair value through profit or loss:

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

Other financial liabilities:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

b) Equity accounted investments

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

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

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

c) Cash

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

d) Exploration and evaluation assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

e) Property and equipment

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

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

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

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

Furniture and equipment - 20% declining balance
Computer equipment - 30% declining balance
Building - 6% declining balance

f) Intellectual Property and intangibles

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

Intellectual property is amortized over 4 years, on the straight-line method. Intangibles are reviewed for impairment at each financial position reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Impairment

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

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period.

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

h) Foreign currency translation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Share capital

Common shares:

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

Non-monetary consideration:

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

j) Sales revenue

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

k) Share-based payment transactions

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Income taxes

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

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

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

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement.

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

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

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

m) Rehabilitation provision

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises and the amount can be reliably estimated. Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method.

The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses. The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Loss per share

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

o) Segment reporting

The Company operates in three 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; and (iii) the sale of e-cigarettes.

p) 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.

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.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, which covers principles for reporting on the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The core principle of the new standard is that when an entity transfers goods or services to customers, it should recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in

exchange for those goods or services. The standard also provides a model for the recognition and measurement of gains or losses from the sale of non-financial assets.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The standard permits the use of either full or modified retrospective application. This new accounting guidance will also result in enhanced disclosures about revenue. The Company has determined that the adoption of this new standard will have no impact on its consolidated financial statements.

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. AVAILABLE FOR SALE INVESTMENT

During the year ended December 31, 2016, the Company sold 1,000,000 shares it held in a public company for gross proceeds of \$50,000 and realized a gain of \$30,000.

During the year ended December 31, 2017, the Company received 625,000 common shares of Volt Energy Inc on the sale of the Company's Lac Saint Simon Lithium project. The shares were initially valued at \$350,000. As at December 31, 2017, the shares had a fair value of \$312,500 and the Company recognized an unrealized loss of \$37,500, and as at June 30, 2018, the shares had a fair value of \$75,000 and the Company recognized an unrealized loss of \$237,500 (Note 6).

5. LOANS RECEIVABLE

On November 3, 2014, the Company provided AAA Heidelberg Inc. ("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. Throughout 2015 the Company made payments towards principal and interest on this mortgage. 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 mortgage. In addition, during the year ended December 31, 2016, the Company also advanced \$30,000 in cash to cover certain expenditures of AAA-H. During the year ended December 31, 2017 the Company advanced a further \$693,961 towards expenses of AAA-H. At December 31, 2017, the total amount of the loan receivable from AAA-H is \$1,115,475 (2016: \$477,514). 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 with a fair value of \$1,115,475 (Note 8).

6. EXPLORATION AND EVALUATION ASSETS

Lac Saint Simon, Quebec

During the year ended December 31, 2016, 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 consisting of \$15,000 of camp costs and \$9,300 of geological consulting.

During the year ended December 31, 2017, the Company incurred additional field costs of \$54,543 on the property. The Company sold its interest in the property to Volt Energy Inc. for 625,000 common shares of Volt Energy Inc. valued at \$350,000 and recognized a gain on disposition of \$141,158 (Note 4).

7. PROPERTY AND EQUIPMENT

Property and equipment is held by AAA-H. The building is currently not available for use and has therefore not been amortized. The opening balances have been shown as of the date of transition to the consolidation method of accounting.

	Furniture & Equipment	Building	Computers	Total
Cost:				
At May 7, 2017	\$ 28,055	\$ 952,988	\$ 8,423	\$ 989,466
Additions	-	131,530	-	131,530
December 31, 2017	28,055	1,084,518	8,423	1,120,996
Additions (Disposal)	27,900	(107,585)	-	(80,585)
June 30, 2018	55,955	976,933	8,423	1,041,311
Amortization:				
At May 7, 2017	(11,896)	-	(4,914)	(16,810)
Charge for the year	(2,885)	-	(1,053)	(3,938)
At December 31, 2017	(14,781)	-	(5,967)	(20,748)
Charge for the period	(1,236)	(157,690)	(451)	(159,377)
June 30, 2018	(16,017)	(157,690)	(6,418)	(180,125)
Net book value:				
December 31, 2017	\$ 13,274	\$ 1,084,518	\$ 2,456	\$ 1,100,249
June 30, 2018	\$ 39,938	\$ 819,243	\$ 2,005	\$ 861,186

8. INVESTMENT IN AAA-H

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 Marijuana for Medical Purposes Regulations (“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 its investment in AAA-H. 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. On May 8, 2017, the third tranche of 500,000 common shares, with a fair value of \$200,001 representing an additional 9.1% interest was completed. The Company now has a 54.49% ownership interest in AAA-H and as of that date has commenced consolidating AAA-H as it holds a controlling interest in AAA-H. Under equity accounting, the Company’s share of AAA-H’s loss for the year prior to consolidation totaled \$103,825 (2016 - \$205,758). Upon acquisition of more than 50% interest, the Company commenced consolidation of AAA-H. As a result of the transition to the consolidation method, the Company recorded a non-controlling interest of \$1,000,226.

Prior to obtaining control, the Company recorded its investment in AAA-H to fair value, resulting in a gain of \$589,025.

Fair value of shares issued to acquire controlling interest in AAA-H	\$ 200,001
<hr/>	
Implied value of AAA-H	\$ 2,197,815
<hr/>	
Allocated to	
Cash	2,186
Prepays	5,000
Property, plant and equipment	972,656
Accounts payable and other liabilities	(2,022,443)
<hr/>	
Net liabilities	(1,042,601)
<hr/>	
Allocated to intangible asset	\$ 3,240,416

The non-controlling interest of 45.51% in AAA-H is held by other minority shareholders.

Non-controlling interest, December 31, 2016	\$ -
Fair value of non-controlling interest on transition to consolidation method of accounting	1,000,226
Non-controlling interest in loss of AAA-H to December 31, 2017	(79,921)
<hr/>	
Non-controlling interest in loss of AAA-H to June 30, 2018	(92,136)
<hr/>	
Allocated to intangible asset	\$ 828,169

INVESTMENT IN SOLARIS

By an agreement dated July 12, 2017, as modified by agreements dated October 16, 2017 and October 30, 2017, the Company acquired a 35% interest in a newly formed Australian company, Solaris Nutraceuticals Pty Ltd. (“Solaris”). To acquire its interest, the Company paid \$257,795 (US\$200,000) to Solaris. The investment is accounted for as an equity interest. Under equity accounting, the Company’s share of Solaris’ loss for the year totaled \$76,428.

9. INVESTMENT IN CANNVAS

On May 12, 2015, the Company acquired 100% of Cannvas MedTech Inc. (“Cannvas”, formerly VapeTronix Inc.). Cannvas is a Canadian vaporizer and electronic cigarette company registered in the Province of Ontario. Cannvas 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 Cannvas shares was an aggregate of 1,750,000 common shares of the Company. Finders’ units consisting of 175,000 common shares and 175,000 warrants were issued on closing. The entire value of the transaction was allocated to intellectual property on acquisition (Note 12).

On September 7, 2017, the Company entered into a Plan of Arrangement (“Arrangement”) with Cannvas whereby the Company will distribute 100% of Cannvas’ shares to the Company’s shareholders on a pro rata basis. The Company’s shareholders will be entitled to receive one share of Cannvas in exchange for every seven Company shares held as at the record date.

Following completion of the Arrangement, (i) Cannvas will hold certain assets transferred to it by the Company, (ii) Cannvas will become a reporting issuer in the Provinces of British Columbia, Alberta and Ontario, and intends to apply for and meet the listing requirements on a Canadian Stock Exchange, (iii) each of the Company’s shareholder will continue to be shareholders of the Company, and (iv) all of the Company’s shareholders as at the record date will become shareholders of Cannvas.

On October 20, 2017, Cannvas completed a private placement and the Company’s interest in Cannvas was diluted to 32%. As a result, the Company ceased to consolidate Cannvas, realizing a gain of \$543,675, and commenced equity accounting. The Company determined the fair value of the initial equity investment to be \$nil, and as a result has not recognized any further equity interest in the losses of Cannvas to December 31, 2017.

On January 16, 2018, Cannvas and the Company completed the Arrangement and Cannvas issued 7,034,281 common shares to the shareholders of PUF Ventures Inc.

On January 11, 2018, Cannvas cancelled 7,000,000 common shares previously held by the Company, and on January 16, 2018, the Company distributed its investment in Cannvas to its shareholders.

10. INVESTMENT IN NATURES HEMP

By an agreement dated October 11, 2017, the Company acquired a 100% interest in a newly formed private company, Natures Hemp Corp. (“Natures Hemp”) from the CEO and director of the Company. To acquire its interest, the Company issued 1,200,000 common shares with a fair value of \$600,000 to the shareholders of Natures Hemp and realized a cost of acquisition of \$544,282. The acquisition of Natures Hemp is to assist the Company in expanding into the hemp food industry and produce CBD from hemp strains. Natures Hemp will be applying for a Hemp Cultivation license.

Fair value of shares issued to acquire Natures Hemp	\$ 600,000
Allocated to	
Cash	(44,899)
Receivable	(10,818)
<u>Acquisition costs expensed</u>	<u>\$ 544,283</u>

10. INVESTMENT IN NATURES HEMP (continued)

On April 4, 2018 the Company announced that it plans to spin out its wholly owned subsidiary Natures Hemp Corp. ("Natures Hemp") by way of a plan of arrangement (the "Plan of Arrangement"). Pursuant to the proposed Plan of Arrangement, the shareholders of the Company are expected to receive shares in Natures Hemp. The Company plans to finalize the Plan of Arrangement and announce full details within the next few months. The Plan of Arrangement will have to be approved by the shareholders of the Company and the Supreme Court of British Columbia. Natures Hemp currently is a private issuer and will be raising additional capital to fund its operations. Following completion of the Arrangement, (i) Natures Hemp will hold the Assets transferred to it by PUF, (ii) Natures Hemp will become a reporting issuer in the Provinces of British Columbia, Alberta and Ontario, intends to apply for listing on the Canadian Securities Exchange (the "Exchange"), and must meet the listing requirements of the Exchange. (iii) each PUF shareholder will continue to be a PUF shareholder, (iv) all the PUF shareholders will have become shareholders of Natures Hemp, and (v) PUF will retain its working capital for its assets, and remain listed on the Canadian Securities Exchange and will continue to trade under the trading symbol, PUF, as a consumer products – biotechnology/pharmaceuticals company.

During the quarter ended June 30, 2018, the Company subsidiary Natures Hemp received \$990,000 on subscription of special warrants.

11. INVESTMENT IN PROPAGATION SERVICES CANADA INC.

On June 29, 2018 the Company announced the formation of Propagation Services Canada Inc. ("PSC") through a partnership with Casey Houweling. By outsourcing propagation services licensed producers of cannabis can significantly increase revenue while reducing the risk association to cloning cannabis plants.

12. INTELLECTUAL PROPERTY

Balance, December 31, 2015	
Intellectual property	\$ 591,779
Trademark	17,660
	609,439
Amortization for the year ended December 31, 2016	(186,885)
Impairment	(422,550)
Net book value. December 31, 2016 and 2017	\$ -

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

13. LOAN AND MORTGAGE PAYABLE

On October 30, 2017, the Company entered into a loan agreement evidenced by a promissory note with MYM Nutraceuticals Inc. for US\$100,000 (\$129,950). The loan bears interest at 10% per annum commencing December 1, 2017, is unsecured and due on demand.

At December 31, 2017, AAA-H owed a total of \$509,621 in loans payable. These loans are unsecured, due on demand, and non-interest bearing. Included in this amount is \$52,500 owing to a director of AAA-H (Note 14).

During the year ended December 31, 2016, the Company sold a property it held at the time for an amount equal to the outstanding mortgage.

14. SHARE CAPITAL

a) Common shares

Authorized:

Unlimited number of common shares without par value.

Issued:

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

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

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

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.

14. SHARE CAPITAL (continued)

On March 10, 2017, the Company issued 7,656,500 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. 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 299,370 finders' warrants. These warrants have a fair value, calculated using the Black-Scholes Option Pricing Model, of \$71,862, assuming an expected life of one year, a risk-free interest rate of 0.84%, an expected dividend rate of 0.00%, and an expected annual volatility of 209%.

During the year ended December 31, 2017, the Company issued 12,267,020 shares on the exercise of warrants for proceeds of \$3,240,170, and 1,482,500 shares on the exercise of stock options for proceeds of \$378,425.

During the year ended December 31, 2017, the Company issued 500,003 common shares valued at \$200,001 for the acquisition of 9.1% of AA-H (Note 8).

During the year ended December 31, 2017, the Company issued 1,200,000 common shares valued at \$600,000 on the acquisition of Natures Hemp (Note 11).

During the quarter ended June 30, 2018, 2,930,930 warrants was exercised for a proceed of \$990,036.

During the quarter ended June 30, 2018, the Company subsidiary Natures Hemp received \$990,000 on subscription of special warrants.

b) Warrants outstanding

	Number of warrants	Weighted average exercise price	
Balance at December 31, 2016	11,927,400		0.220
Warrants exercised	(12,267,020)		0.260
Warrants issued	7,955,870		0.400
At December 31, 2017	7,616,250	\$	0.360
Warrants exercised	(2,930,930)		0.338
Warrants issued	-		-
At June 30, 2018	4,685,320	\$	0.370

Expiry Date	Remaining life (years)	Number of warrants	Exercise price
August 17, 2018	0.13	168,520	0.075
November 4, 2018	0.35	505,160	0.250
March 10, 2019	0.68	4,011,640	0.400
Balance at June 30, 2018		4,685,320	\$ 0.370

The weighted average remaining life of the warrants outstanding is 0.62 years (December 31, 2017– 1.01 years)

14. SHARE CAPITAL (continued)

c) Stock options outstanding

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

Grant Date	Expiry date	Number of options	Exercise price
March 12, 2014	March 11, 2019	87,500	\$ 0.640
September 22, 2016	September 22, 2018	300,000	0.340
January 24, 2017	January 24, 2019	450,000	0.265
September 6, 2017	September 6, 2019	1,400,000	0.465
March 29, 2018	March 29, 2020	3,325,000	0.840
Balance at June 30, 2018		5,562,500	\$ 0.66

	Number of options	Weighted average exercise price
Balance at December 31, 2016	2,233,750	0.345
Options cancelled and expired	(608,750)	0.37
Options exercised	(1,482,500)	0.26
Options granted	2,875,000	0.40
At December 31, 2017	3,017,500	0.400
Options cancelled and expired		
Options exercised	(780,000)	0.39
Options granted	3,325,000	0.84
At June 30, 2018	5,562,500	0.66

The weighted average remaining life of the options outstanding is 1.41 years (December 31, 2017 – 1.40 years)

On January 24, 2017, the Company granted 975,000 stock options to certain consultants of the Company to acquire 975,000 shares 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 \$215,302 assuming an expected life of 1.5 years, a risk-free interest rate of 0.78%, an expected dividend rate of 0.00%, and an expected annual volatility of 208%.

On September 6, 2017, the Company granted 1,900,000 stock options to certain consultants of the Company to acquire 1,900,000 shares of the Company at an exercise price of \$0.465 per share for a period of two years that expire on September 6, 2019. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of \$664,791 assuming an expected life of 1.5 years, a risk-free interest rate of 1.44%, an expected dividend rate of 0.00%, and an expected annual volatility of 188%.

All stock options vested on the date of grant. Included in stock-based compensation expense for the year is \$54,066 relating to stock options granted by Canvas prior to transition to equity method of accounting.

14. SHARE CAPITAL (continued)

c) Stock options outstanding (continued)

On March 29, 2018, the Company granted 3,325,000 stock options to officers and consultants of the company with an exercise price of \$0.84 per option expiring March 29, 2020. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of \$2,054,508 assuming an expected life of 2.0 years, a risk-free interest rate of 1.77%, an expected dividend rate of 0.00%, and an expected annual volatility of 156%.

During the quarter ended June 30, 2018, 780,000 options were exercised for gross proceeds of \$300,700.

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.

15. 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 June 30, 2018 and the year ended December 31, 2017:

Six months ended June 30, 2018		
	Fees	Share-based compensation
Cherry Consulting Ltd	\$ 18,600	\$ -
Elben Capital Inc.	59,000	617,898
FourOneSix Inc.	125,000	308,949
Clairewood Partners / David Parry	22,000	617,898
	\$ 224,600	\$ 1,544,745
Year ended December 31, 2017		
	Fees	Share-based compensation
Christopher Hornung	\$ 7,500	\$ -
Cherry Consulting Ltd	34,704	27,741
Elben Capital Inc.	134,190	36,862
FourOneSix Inc.	80,000	9,881
Clairewood Partners / David Parry	31,000	452,988
Jerry Habuda	7,500	-
Shawn Moniz	-	9,881
Joseph Perino	7,500	-
	\$ 302,394	\$ 537,353

Amounts due to and due from related parties are unsecured, non-interest bearing and due on demand. At June 30, 2018, \$ 54,088 (December 31, 2017 - \$87,400) is owing to related parties for unpaid fees, of which \$1,588 is included in accounts payable and accrued liabilities and \$52,500 is included in loans payable. Refer also to Note 11.

16. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing activities along with other cash flow information during the years ended June 30, 2018 and December 31, 2017 are as follows:

	June 30, 2018	December 31, 2017
Fair value of agent warrants issued for share costs	-	\$ 71,862
Fair value of transfer on exercise of stock options	-	172,610
Shares issued for acquisitions and investments	-	800,001
Shares received on sale of mineral property	-	250,000

17. SEGMENTED INFORMATION

During the year ended December 31, 2016, the Company operated in three 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; and (iii) the sale of e-cigarettes. During the year ended December 31, 2017 and quarter ended June 30, 2018, the Company operated in one reportable segment: the medical marijuana industry through AAA-H.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value of financial instruments

The carrying values of cash, receivables, loans receivable, accounts payable, and loans 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:

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 exposed 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 June 30, 2018 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.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

b) Financial risk management (continued)

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 does not have significant items in other currencies.

The Company has not entered into any foreign currency contracts to mitigate foreign currency risk.

(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 positive stock market conditions, AAA H. receiving a MMPR license from Health Canada, and the experience of management. The Company is not subject to any external covenants on its capital.

19. SUBSEQUENT EVENTS AFTER REPORTING PERIOD

a) Subsequent to quarter ended, 100,000 warrants were exercised for a gross proceed of \$7,500.