**LIGHTNING VENTURES INC.**

**(FORMERLY HIGHMARK MARKETING INC.)**

**UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the three and nine month periods ended December 31, 2016 and 2015**

**Unaudited – Prepared by Management**

**Expressed in Canadian Dollars**

## NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 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 consolidated interim financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**LIGHTNING VENTURES INC.**
**(FORMERLY HIGHMARK MARKETING INC.)**
Condensed Consolidated Interim Statements of Financial Position
As at December 31, 2016 and March 31, 2016
(Unaudited) (Expressed in Canadian dollars)

| | Notes | December 31, 2016 | March 31, 2016 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash | | $ 44,059 | $ 14 |
| Other receivable | | 11,000 | 11,000 |
| Note receivable | | 1,880 | - |
| GST receivable | | 18,880 | 6,306 |
| Prepaid expenses | | 15,040 | 15,040 |
| | | **90,859** | **32,360** |
| **Long-term Assets** | | | |
| Property, plant and equipment | 5,7 | 779,952 | - |
| **Total Assets** | | **$ 870,811** | **$ 32,360** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Bank indebtedness | | $ 54,807 | $ - |
| Accounts payable and accrued liabilities | 8 | 796,817 | 153,794 |
| Due to related parties | 10 | 182,140 | 44,690 |
| Notes payable | 11 | 229,646 | - |
| | | **1,263,410** | **198,484** |
| **Long-term Liabilities** | | | |
| Notes payable | 11 | 536,159 | - |
| **Total Liabilities** | | **1,799,569** | **198,484** |
| **Shareholders' Deficiency** | | | |
| Share capital | 12 | 1,873,394 | 590,901 |
| Share-based payments reserve | 12 | 343,765 | 264,363 |
| Deficit | | (3,145,917) | (1,021,388) |
| **Total Deficiency** | | **(928,758)** | **(166,124)** |
| **Total Liabilities and Shareholders' Deficiency** | | **$ 870,811** | **$ 32,360** |

Nature and Continuance of Operations (Note 1)
Subsequent Events (Note 16)

**Approved and authorized by the Board on March 1, 2017**

| | |
|---|---|
| "Marc Branson" | "Donald Rainwater" |
| Marc Branson, Director | Donald Rainwater, Director |

*The accompanying notes are an intergral part of these condensed consolidated interim financial statements.*

**LIGHTNING VENTURES INC.**
**(FORMERLY HIGHMARK MARKETING INC.)**
Condensed Consolidated Interim Statements of Operation and Comprehensive Loss
For the three and nine month periods ended December 31, 2016 and 2015
(Unaudited) (Expressed in Canadian dollars)

| | Notes | Three months period ended December 31, 2016 | Three months period ended December 31, 2015 | Nine months period ended December 31, 2016 | Nine months period ended December 31, 2015 |
|---|---|---|---|---|---|
| **Revenues** | 13 | $ 135,960 | $ - | $ 377,755 | $ - |
| **Cost of Sales** | | 54,068 | - | 86,760 | - |
| **Gross Profit** | | 81,892 | - | 290,995 | - |
| **Expenses** | | | | | |
| Investor relations and promotion | | - | - | - | 3,950 |
| Interest expense | | 5,033 | - | 5,033 | - |
| Office | | 5,793 | 199 | 56,586 | 4,150 |
| Consulting fees | | 30,000 | 17,857 | 335,238 | 42,619 |
| Filing fees | | 10,130 | 1,702 | 11,745 | 6,034 |
| Professional fees | | 141 | 7,500 | 17,646 | 41,559 |
| Share-based compensation | 12 | - | 22,431 | - | 22,431 |
| Transaction costs | 5 | - | - | 1,749,554 | - |
| Travel and entertainment | | 1,530 | - | 3,129 | - |
| Salaries and wages | | 177,063 | - | 330,418 | - |
| Foreign exchange loss | | 13,013 | - | 14,105 | - |
| | | (242,703) | (49,689) | (2,523,454) | (120,743) |
| Other items | | | | | |
| Gain on debt settlement | | - | - | 107,930 | - |
| | | - | - | 107,930 | - |
| Net loss and comprehensive loss for the period | | (160,811) | (49,689) | (2,124,529) | (120,743) |
| **Loss per share - basic and diluted** | | **$ (0.00)** | **$ (0.00)** | **$ (0.02)** | **$ (0.00)** |
| **Weighted average number of common shares outstanding** | | **103,886,928** | **65,830,428** | **93,341,568** | **65,195,173** |

*The accompanying notes are an intergral part of these condensed consolidated interim financial statements.*

**LIGHTNING VENTURES INC.**
**(FORMERLY HIGHMARK MARKETING INC.)**
Condensed Consolidated Interim Statements of Shareholders' Deficiency
For the nine month periods ended December 31, 2016 and 2015
(Unaudited) (Expressed in Canadian dollars)

| | Share Capital | | | | |
|---|---|---|---|---|---|
| | Number of shares | Amount | Reserves | Deficit | **Total** |
| **Balance at March 31, 2015** | **64,863,428** | **$ 1,056,500** | **$ 214,343** | **$ (1,218,524)** | **$ 52,319** |
| Shares issued for private placement | 552,000 | 27,600 | - | - | 27,600 |
| Shares issued on settlement of debt | 415,000 | 20,750 | - | - | 20,750 |
| Share issuance costs | - | (2,760) | - | - | (2,760) |
| Share-based compensation | - | - | 22,431 | - | 22,431 |
| Comprehensive loss for the period | - | - | - | (120,743) | (120,743) |
| **Balance at December 31, 2015** | **65,830,428** | **$ 1,102,090** | **$ 236,774** | **$ (1,339,267)** | **$ (403)** |
| **Balance at March 31, 2016** | **58,490,428** | **$ 590,901** | **$ 264,363** | **$ (1,021,388)** | **$ (166,124)** |
| Shares issued on settlement of debt | 5,396,500 | 82,493 | 79,402 | - | 161,895 |
| Shares issued for acquisition of subsidiary | 40,000,000 | 1,200,000 | - | - | 1,200,000 |
| Comprehensive loss for the period | - | - | - | (2,124,529) | (2,124,529) |
| **Balance at December 31, 2016** | **103,886,928** | **$ 1,873,394** | **$ 343,765** | **$ (3,145,917)** | **$ (928,758)** |

*The accompanying notes are an intergral part of these condensed consolidated interim financial statements.*

**LIGHTNING VENTURES INC.**
**(FORMERLY HIGHMARK MARKETING INC.)**
Condensed Consolidated Interim Statements of Cash Flow
For the nine month periods ended December 31, 2016 and 2015
(Unaudited) (Expressed in Canadian dollars)

| | Note | | Nine months period ended December 31, 2016 | | Nine months period ended December 31, 2015 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Net loss for the period | | $ | (2,124,529) | $ | (120,743) |
| Items not affecting cash: | | | | | |
| Gain on debt settlement | | | (107,930) | | - |
| Transaction costs | | | 1,749,554 | | - |
| Foreign exchange loss | | | 14,105 | | - |
| Share-based compensation | | | - | | 22,431 |
| Changes in non-cash working capital items: | | | | | |
| Note receivable | | | (1,880) | | - |
| Bank indebtedness | | | 41,373 | | - |
| Accounts payable and accrued liabilities | | | 385,550 | | 23,043 |
| Due to related parties | | | 137,450 | | 27,600 |
| Due to employees | | | (20,436) | | - |
| Prepaid expenses | | | - | | (15,040) |
| GST receivable | | | (12,574) | | 17,068 |
| **Net cash flows provided by (used in) operating activities** | | | **60,683** | | **(45,641)** |
| **Financing activities** | | | | | |
| Shares issued | | | - | | 48,350 |
| Share issuance costs | | | - | | (2,760) |
| Proceeds from loans | | | (16,638) | | - |
| **Net cash flows provided by (used in) financing activities** | | | **(16,638)** | | **45,590** |
| Change in cash | | | 44,045 | | (51) |
| Cash, beginning of period | | | 14 | | 31 |
| **Cash (bank indebtedness), end of period** | | **$** | **44,059** | **$** | **(20)** |

*The accompanying notes are an intergral part of these condensed consolidated interim financial statements.*

## 1. Description of Business and Nature of Operations

Lightning Ventures Inc. (formerly Highmark Marketing Inc.) (the "Company") was incorporated under the laws of British Columbia on April 2, 2014. Its registered and records office is located at Suite 700 - 838 West Hastings Street, Vancouver, British Columbia V6C 0A6. In 2016 the Company was a nutraceutical company which is focused on bringing the health benefits of natural and herbal remedies to the market.

These condensed consolidated interim 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. As at December 31, 2016, the Company has $377,755 revenue generated from operations, and has a working capital deficit of $1,172,551 (March 31, 2016 - $166,124) and an accumulated deficit of $3,145,917 (March 31, 2016 - $1,021,388). The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Lightning Ventures Inc. ("Lightning" or the "Company"), formerly known as Highmark Marketing Inc., was incorporated on March 19, 2014. On April 4, 2014, the Company entered into an Arrangement Agreement ("the Arrangement Agreement) with Gorilla Minerals Corp. ("Gorilla") and Highmark International, whereby shareholders of Highmark International became the shareholders of Lightning through a reverse merger, and Highmark International became the Company's wholly owned subsidiary. Gorilla is a reporting issuer in the provinces of Alberta and British Columbia.

The parties agreed to reorganize their business by way of a Plan of Arrangement which was carried out under the provisions of the Business Corporations Act (British Columbia). Pursuant to the Arrangement Agreement, which was completed on May 29, 2014, the following transactions took place:

i. Highmark International acquired all of the 10,000 issued and outstanding common shares of the Company from Gorilla (the "Purchase Shares") for $10,000;

ii. The Company and Highmark International exchanged securities on a 1:1 basis, such that all issued and outstanding common shares of Highmark International were exchanged by their holders for the same number of shares of the Company;

iii. Gorilla and the Company exchanged securities, as follows: Gorilla issued 4 common shares to the Company and the Company issued 4,000 common shares to Gorilla (collectively, the "Exchange Shares"); and

iv. The Purchase Shares and the Exchange Shares were cancelled.

Following closing of the Arrangement on May 29, 2014, the Company became a reporting issuer in Alberta and British Columbia. The Company then applied to have its common shares listed for trade on the Canadian Securities Exchange (the "**CSE**"). On May 18, 2014, the Company's common shares commenced trading on the CSE under the symbol "HMK". The Company's common shares commenced trading on September 2, 2014, under the symbol 1HM on the Frankfurt Stock Exchange.

**1. Description of Business and Nature of Operations (continued)**

On October 15, 2014, the Company closed a definitive asset purchase agreement with Intelliserve Software Inc. to acquire MobiWeed (an on-line website) and related assets (Note 6).

On October 16, 2014, the Company entered into an arrangement agreement with Highmark Technologies Corp. and MJ Bioscience Corp., and has approved a private placement offering.

The arrangement agreement is dated October 16, 2014, and includes a statutory plan of arrangement with the Company's two wholly owned subsidiaries, MJ Bioscience and Highmark Technologies. The Company proposed to reorganize its business by completing a spinoff of certain assets by distributing all the shares in MJ Bioscience and Highmark Technologies to its shareholders as a return of paid in capital.

On January 20, 2015, the Company announced that the statutory plan of arrangement entered into on October 16, 2014 with Highmark Technologies Corp. (“Highmark Technologies”) and MJ Bioscience Corp. (“MJ Bioscience”) (the “Arrangement”) received approval from the Company shareholders on January 15, 2015 and approval from the Supreme Court of British Columbia on January 19, 2015, in accordance with Part 9 of the *Business Corporations Act* (British Columbia). The Company closed the Arrangement on January 29, 2015.

Upon the closing of the Arrangement, the Company will reorganize its business by completing a spin-off of certain assets by distributing all the shares in MJ Bioscience and Highmark Technologies to its shareholders as a return of paid in capital. MJ Bioscience will receive all of the Company’s cannabis research assets, while Highmark Technologies will received the Company’s Mobiweed platform.

On February 19, 2015, the Company closed the share exchange agreement with BCBud Producers Inc. and Blue Moon Advertising Inc. and completed the acquisition of BCBud. Highmark, BCBud and Blue Moon entered into the share exchange agreement on August 5, 2014, whereby the Company agreed to acquire 100 per cent of the authorized share capital of BCBud from its shareholder, Blue Moon.

On August 12, 2015, the Company announced that it has entered into a non-binding letter of intent (“LOI”) with Mr. Donald Rainwater setting out the proposed terms for a joint venture between the parties. The joint venture will target acquiring, marketing, and facilitating the use of water rights within the Jiminez District of Mexico for use by energy companies in the exploitation of Oil and Gas within the region. Monetary payments will be made by the Company to Mr. Rainwater to enter into a joint venture agreement, with the payment terms to be negotiated prior to entering into the joint venture. No shares of the Company will be issued under the joint venture.

On September 1, 2015, the Company announced that it has entered into a non-binding letter of intent (“LOI”) with Blue Moon Advertising Inc. (“Blue Moon”) for the sale of BCBud Producers Inc. (“BCBud”) in which the Company will cancel 9,000,000 previously issued shares to Blue Moon, and maintain a 10% interest in BCBud and its Marihuana for Medical Purposes Regulations (“MMPR”) application.

## 1. Description of Business and Nature of Operations (continued)

On September 3, 2015, the Company has entered into a non-binding letter of intent with Lightning Industries Inc. to acquire 100% of Lightning's authorized share capital. Lightning is wholly owned by Domenari Capital LLC.

The agreement to acquire Lightning contains the following key terms:

- Highmark will issue 40,000,000 common shares to Domenari for the acquisition of Lightning;
- Highmark will issue a bonus of 2,000,000 common shares to Domenari if Lightning records $3,000,000 in revenues in a single calendar year;
- Highmark will issue a second bonus 2,000,000 common shares to Domenari if Lightning records $6,000,000 in revenues in a single calendar year;
- Upon closing, Highmark will designate the board of directors to be Marc Branson, Donald Rainwater, Marc Branson and Tim Isaacs and the officers to be Mr. Rainwater (chief executive officer), Mr. Branson (president), and the chief financial officer will be jointly appointed;
- The purchase shares will be subject to a stock restriction agreement.

On October 13, 2015, the Company announced that further to the letter of intent announced on September 1, 2015, it has entered into a share purchase agreement with Blue Moon Advertising Inc. ("**Blue Moon**") and BCBud Producers Inc. ("**BCBud**") pursuant to which the Company will cancel 9,000,000 previously issued shares to Blue Moon as consideration for the sale of 90% of Highmark's interest in BCBud to Blue Moon. The Company will receive a pre-emptive right to maintain its 10% interest in BCBud during any future distribution of BCBud securities. On October 20, 2015, the Company has closed the share purchase agreement with Blue Moon Advertising Inc. and BCBud Produces Inc.

On October 29, 2015, the Company announced that it has finalized non-binding terms which will form the basis of its joint venture for the development of water rights announced on August 12, 2015. The joint venture is seeking to provide water and related services to oil and gas companies at drilling facilities in the Jiminez District in Mexico. The proposed business is to sell water directly to oil and gas companies for use as in fracking fluid, and provide further ancillary services, including water delivery, on site storage, cleaning, disposal, and further transportation. Activity in this venture had not begun as of December 31, 2016.

The Company has agreed to a non-binding term sheet with Tadham S.A. de C.V., an entity which has access to water resources in the Jiminez District. Tadham has secured the right to 1,000,000 gallons of water per day from regional aquafer systems and recently entered into a letter of intent for the provision of an additional 800,000 gallons per day. Tadham has agreed to provide the Company distribution rights to its water resources for fracking purposes. In return, the Company will market and develop a business of water supply and ancillary water cycle services associated with oil and gas extraction. The Company will receive full water distribution rights in exchange for providing Tadham 40% of any profits generated under the water distribution business. Activity in this venture had not begun as of December 31, 2016.

(Unaudited) (Expressed in Canadian dollars)

## 1. Description of Business and Nature of Operations (continued)

On December 16, 2015, the Company announced that its joint venture partner Tadham Services has launched a website and has begun the process of marketing its services.

On February 1, 2016, the Company entered into a definitive share exchange agreement (**"Agreement"**) with Lightning Industries Inc. (**"Lightning"**) to acquire 100% of Lightning's authorized share Capital. Lightning is wholly owned by Domenari Capital, LLC (**"Domenari"**).

**Key terms of the agreement**

The agreement to acquire Lightning contains the following key terms:

- The Company will issue 40,000,000 common shares to Domenari for the acquisition of Lightning.

- The Company will issue a bonus of 2,000,000 common shares to Domenari if Lightning records a profit for a single fiscal year, in either the first or second full fiscal year starting January 1, 2015.

- The Company will issue a second bonus of 2,000,000 common shares to Domenari if Lightning records $3,000,000 in revenues in the first, second or third full fiscal year immediately following the effective date.

- Upon closing, the Company will designate the board of directors to be Marc Branson, Donald Rainwater and David Taylor, and the officers to be Donald Rainwater (president and chief executive officer), Marc Branson (vice-president of corporate development) and a chief financial officer who will be jointly nominated at a later date.

The purchase shares will be subject to a stock restriction agreement which will contain the following vesting schedule.

| Vesting date | Proportion of vested shares |
|---|---|
| On the closing date of the agreement (effective date) | 10 per cent of the purchase shares |
| Six months after the effective date | 15 per cent of the purchase shares |
| 12 months after the effective date | 15 per cent of the purchase shares |
| 18 months after the effective date | 15 per cent of the purchase shares |
| 24 months after the effective date | 15 per cent of the purchase shares |
| 30 months after the effective date | 15 per cent of the purchase shares |
| 36 months after the effective date | the remainder of the purchase shares |

The Company has been pursuing a number of new business opportunities as part of a strategic process to enhance shareholder value, including advanced discussion with companies within the natural resource, technology, and manufacturing sectors. The Company closed this arrangement on June 1, 2016, as described in Note 12, share capital.

These condensed consolidated interim financial statements were authorized for issue in accordance with a resolution of its Directors on March 1, 2017.

## 2. Basis of Preparation

### Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of International Financial Reporting Interpretations Committee ("IFRIC"). Therefore, these condensed consolidated interim financial statements comply with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

### Basis of measurement

These condensed consolidated interim financial statements are stated in Canadian dollars, which is also the functional currency of the Company, and were prepared on a going concern basis, under the historical cost convention, except as otherwise specified.

### Basis of consolidation

These condensed consolidated interim financial statements incorporate the financial statements of the Company and its wholly-owned subsidiaries, Highmark International Marketing Inc. and Lightning Industries, Inc. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company transactions and balances have been eliminated upon consolidation.

| | Percentage owned* | |
|---|---|---|
| | **December 31, 2016** | **March 31, 2016** |
| Highmark International Marketing Inc. | 100% | 100% |
| Lightning Industries, Inc. | 100% | NA% |

*Percentage of voting power is proportion to ownership.

### Significant estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the fair value measurements for financial instruments and the recoverability and measurement of deferred tax assets.

### Significant judgments

The preparation of consolidated financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgment in applying the Company's consolidated financial statements is the classification of financial instruments and the going concern assumption.

## 3. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below.

### Cash

Cash consists of the proceeds generated on the issuance of shares, which is being held in financial institutions.

### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received or receivables, net of direct issue costs.

### Non-derivative financial instruments

The Company determines the classification of its non-derivative financial instruments at initial recognition. Non-derivative financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

i) Financial instruments at fair value through profit or loss

Financial assets or financial liabilities are classified as fair value through profit or loss (“FVTPL”) when the financial asset or liability is either held for trading or it is designated as such by management on initial recognition. Financial assets or financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized immediately in the statement of comprehensive income. The net gain or loss recognized in the statement of comprehensive income incorporates any dividend or interest earned. The Company has no classifications in this category.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment. The Company has classified cash as loans and receivables.

iii) Other financial liabilities

Other financial liabilities are non-derivative liabilities recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost each period. The Company has classified trade and other payables and due to shareholder as other financial liabilities.

## 3. Summary of Significant Accounting Policies (continued)

### Revenue recognition

The Company recognizes the revenues from the sale of products upon shipment and subject to assurance of collection, which is when the Company can measure the amount of revenue reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, the risks and rewards of ownership of the goods have been transferred to the buyer and the Company no longer retains control over the goods sold.

Payments received from customers in advance of meeting all of the recognition criteria are recorded as deferred revenue and subsequently recognized as these criteria are met.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant 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. Depreciation is calculated using the straight line method.

### Income taxes

Tax expense comprises of current and deferred tax. Tax is recognized in the statement of comprehensive loss except to the extend it relates to items recognized in other comprehensive loss or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### Basic and diluted per share calculation

The Company presents basic and diluted loss per share data for its common shares. Basic per share amounts are calculated by dividing loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted per share amounts are calculated using the "if converted method" and are determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential agent options.

(Unaudited) (Expressed in Canadian dollars)

## 4. Future Changes in Accounting Policies

The following new standards and interpretations are not yet effective and have not been applied in preparing these financial statements. The Company is currently evaluating the potential impacts of these new standards and does not anticipate any material changes to the financial statements upon adoption of these new and revised accounting pronouncements.

IFRS 9 - Financial Instruments (effective January 1, 2015) introduces new requirements for the classification and measurement of financial assets, and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options available 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.

## 5. Lightning Acquisition and Transaction Costs

On February 1, 2016, the Company entered into a share purchase agreement with Domenari Capital, LLC, pursuant to which the Company has acquired all of the issued and outstanding common shares of Lightning Industries Inc., representing a 100% interest in exchange for issuance of up to 40,000,000 common shares of the Company based on certain key terms (Note 1).

The table below summarizes the consideration exchanged for control and the determination of transaction costs.

| | | |
|---|---|---|
| **Consideration paid** | | |
| 40,000,000 common shares | $ | 1,200,000 |
| **Less: Fair value of identifiable net assets** | | |
| Cash | | (13,098) |
| Amounts receivable | | (19,925) |
| Property, plant and equipment | | 760,434 |
| Trade and other payables | | (514,103) |
| Notes payable | | (762,863) |
| | | (549,555) |
| Transaction costs | $ | (1,749,555) |

## 6. Intellectual Property

During the year ended March 31, 2015, the Company’s wholly owned subsidiary, Highmark International, entered into an asset purchase agreement with RMDC Holdings Corp. (“RMDC”).

Pursuant to the Asset Purchase Agreement with RMDC, Highmark International acquired, for a total price of $10,000, the following:

(1) a license agreement to distribute Vitapect™ products in North America and beyond;
(2) ownership of domain names:www.vitapect.ca, www.vitapect.org and www.vitapect.co.uk;
(3) online traffic from www.vitapect.com;
(4) a corporate website;

(Unaudited) (Expressed in Canadian dollars)

## 6. Intellectual Property (continued)

(5) prepaid expenses; and
(6) Vitapect™ inventory.

A director of the Company and Highmark International, David Taylor, is a principal shareholder of RMDC, therefore, these payments constitute transactions with a related party. As at March 31, 2015, the amount of $10,000 has been paid. As of March 31, 2016, the $10,000 asset has been written-off as no cash-flows are expected from the asset.

The Company's wholly owned subsidiary, Highmark International, acquired, as a part of the asset purchase agreement, inventory of Vitapect™ product with a fair market value of $3,316. During the year ended March 31, 2015, the inventory has expired and has been wholly written off.

On October 15, 2014, the Company closed the acquisition of MobiWeed. Pursuant to the asset purchase agreement, the Company paid $35,000 and issued 250,000 common shares, with a deemed total value of $120,000 to Intelliserve for the acquisition of MobiWeed. Intelliserve is also eligible for a performance bonus of 250,000 common shares if the MobiWeed website lists 1,000 dispensaries and has at least 20,000 individually requested pages from the website. In 2015, the related assets were transferred as part of the MJ Biosciences spin out as described in Note 1.

## 7. Property, Plant and Equipment

| | As at December 31, 2016 | | | March 31, 2016 |
|---|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | **Net Book Value** | **Net Book Value** |
| Buildings | $ 1,940,007 | $ (1,428,595) | $ 511,412 | $ - |
| Land | 268,540 | - | 268,540 | - |
| **Total** | **$ 2,208,547** | **$ (1,428,595)** | **$ 779,952** | **$ -** |

## 8. Accounts Payable and Accrued Liabilities

| | **December 31, 2016** | **March 31, 2016** |
|---|---|---|
| Accounts payable | $ 97,168 | $ 153,794 |
| Credit card payable | 78,799 | - |
| Payroll liabilities | 394,624 | - |
| Tax payable | 226,226 | - |
| | **$ 796,817** | **$ 153,794** |

## 9. Subsidiaries

The Company owns 100% of Highmark International Marketing Inc. There was no activity in the Company during 2016.

On June 1, 2016**,** the Company has closed the share exchange agreement entered into on February 1, 2016 with Lightning Industries, Inc. and Domenari Capital LLC (the "**Agreement**"), whereby the Company acquired all of the issued and outstanding common shares of Lightning Industries Inc., representing a 100% interest (Note 1).

(Unaudited) (Expressed in Canadian dollars)

## 10. Related Party Transactions

Related party transactions are in the normal course of business and amounts due to related parties are unsecured, non-interest bearing and without specific terms of repayment.

Key management comprises of directors and executive officers. The Company did not pay post-employment benefits and long-term benefits to key management. The following compensation was paid to key management:

| | Nine months ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|
| Consulting fees | $ - | $ 50,453 |
| | **$ -** | **$ 50,453** |

For the nine months period ended December 31, 2016, the Company paid $Nil (2015 - $25,524) for consulting services to GSS, a company with a common director.

For the nine months period ended December 31, 2016, the Company paid $Nil (2015 - $11,429) for consulting services to RMDC, a director of the Company is a significant shareholder.

For the nine months period ended December 31, 2016, the Company paid $Nil (2015 - $13,500) for consulting services to Bridgemark, a company with a common director.

The Company has identified certain directors and certain senior officers as its key management personnel. The compensation costs for key management personal for the nine month period ended December 31, 2016 and 2015 are as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Share-based compensation | $ - | $ 13,320 |
| | **$ -** | **$ 13,320** |

As at December 31, 2016, 2016, $260,939 (March 31, 2016 - $44,690) is included in accounts payable and accrued liabilities and due to related parties owing to those officers and directors for fees and expense reimbursements.

As at December 31, 2016, $275,754 (March 31, 2016 - $Nil) is included in notes payable received from related parties, the notes are unsecured and bear interest (Note 11).

## 11. Notes Payable

a) During the nine months ended December 31, 2016, the Company has short-term notes payable outstanding with an aggregate amount of $229,646 (March 31, 2016 - $Nil), of which $58,019 (March 31, 2016 - $Nil) was received from related parties. The notes are unsecured, non-interest bearing and matured on December 31, 2016.

b) During the nine months ended December 31, 2016, the Company has long-term notes payable outstanding from related parties with an aggregate amount of $217,734 (March 31, 2016 - $Nil). The notes bear interest at a rate of 4% per annum, unsecured and matured on December 31, 2016.

(Unaudited) (Expressed in Canadian dollars)

**11. Notes Payable (continued)**

c) During the nine months ended December 31, 2016, the Company entered into a mortgage agreement with American State Bank with an aggregate amount of $318,425 (March 31, 2016 - $Nil), bears interest at a rate of 9% per annum and matures on June 1, 2025.

**12. Share Capital**

**Authorized**

Unlimited number of common shares without par value.

**Issued common shares**

| | Number of Shares | Amount ($) |
|---|---|---|
| **Balance, March 31, 2015** | **64,863,428** | **1,056,500** |
| Paid-up capital adjustment | - | (100) |
| Shares issued | 2,627,000 | 79,761 |
| Cancellation of shares for acquisition of asset | (9,000,000) | (540,000) |
| Share issue costs | - | (5,260) |
| **Balance, March 31, 2016** | **58,490,428** | **590,901** |
| Shares issued on settlement of debt | 5,396,500 | 82,493 |
| Shares issued for acquisition of subsidiary | 40,000,000 | 1,200,000 |
| **Balance, December 31, 2016** | **103,886,928** | **1,873,394** |

a) On March 19, 2014, the Company issued 2,000,000 common shares at a price of $0.005 per common share for total proceeds of $10,000.

b) On March 31, 2014, the Company issued 7,425,000 common shares at a price of $0.02 per share for total proceeds of $148,500.

c) On April 2, 2014 the Company issued 1,000,000 common shares at a price of $0.05 per share for total proceeds of $50,000.

d) On April 16, 2014, the Company issued 1,600,000 common shares at a price of $0.10 per common share for total proceeds of $160,000.

e) On May 29, 2014, the Company and Highmark International exchanged securities on a 1:1 basis, such that all issued and outstanding common shares of Highmark International were exchanged by their holders for the same number of shares of the Company.

f) On July 7, 2014, the Company completed the first tranche of a non-brokered private placement by issuing 999,607 units at a price of 35 cents per unit for gross proceeds of $349,862. Each unit consists of one common share and one full share purchase warrant.

g) On August 5, 2014, the Company issued 30,000 common shares at a price of $0.33 per share as a deposit for a pending acquisition. The acquisition did not proceed and total value of $9,900 was expensed.

h) On August 9, 2014, the Company issued 300,000 common shares at a price of $0.45 per share for consulting services.

(Unaudited) (Expressed in Canadian dollars)

## 12. Share Capital (continued)

### Issued common shares (continued)

i) On October 15, 2014, the Company closed the acquisition of MobiWeed. Pursuant to the asset purchase agreement, the Issuer paid $35,000 and issued 250,000 common shares Intelliserve for the acquisition of MobiWeed. Intelliserve is also eligible for a performance bonus of 250,000 common shares if the MobiWeed website lists 1,000 dispensaries and has at least 20,000 individually requested pages from the website.

j) On November 13, 2014, the Company entered into an addendum to the share exchange agreement with BCBud Producers Inc. and Blue Moon Advertising Inc. Pursuant to the addendum, the Company issued 250,000 common shares to Blue Moon Advertising Inc. on November 18, 2014 prior to closing the share exchange agreement. The total consideration for the acquisition remains the same: the Issuer will issue a total of 2,500,000 common shares to Blue Moon.

k) On December 1, 2014, the Company completed a four-for-one forward split utilizing the “push out method” with a record date of December 1, 2014 (the “Record Date”). Shareholders of record as of the close of business on the Record Date hold four common shares for every one common share held on the Record Date. The additional common shares were issued to shareholders on December 4, 2014. The Issuer had 13,868,607 issued and outstanding common shares prior to the forward split and upon completion of the forward split had 55,474,428 issued and outstanding common shares.

l) On December 30, 2014, the Company completed the first tranche of a non-brokered private placement by issuing 589,000 units at a price of $0.085 per unit for gross proceeds of $50,065. Each unit consists of one common share and one full share purchase warrant. Each warrant is exercisable into one common share for a period of 36 months from the date of issuance at a price of $0.15 per share. The Issuer paid an aggregate finder’s fee of $5,006.50 and issued an aggregate of 58,900 warrants to finders.

m) On January 12, 2015, the Company entered into a debt conversion agreement with Richard Penn, the debt conversion agreement provides that of the total amount owed to Richard Penn, $47,500 be converted to 500,000 common shares of the Company at a deemed price per share of $0.095.

n) On February 19, 2015, the Company closed the share exchange agreement with BCBud Producers Inc. and Blue Moon Advertising Inc. and completed the acquisition of BCBud. The Company, BCBud and Blue Moon entered into the share exchange agreement on August 5, 2014, whereby the Company agreed to acquire 100 per cent of the authorized share capital of BCBud from its shareholder, Blue Moon. Upon closing the Share Exchange Agreement, the Company issued an additional 9,000,000 common shares to Blue Moon. The common shares will be held in escrow and will be released as follows:

| Release Date | Number of Shares Released |
|---|---|
| On receipt by the Company of a Ready to Build letter from Health Canada confirming that the Company has approval from Health Canada to build a facility pursuant to the Marihuana for Medical Purposes Regulations (the “**MMRT**”) | 1,000,000 common shares (the **“Ready to Build Shares”**) |
| On receipt by the Company of a license to produce marijuana pursuant to the MMRT | 8,000,000 common shares (the **“License Shares”**) |

**12. Share Capital (continued)**

**Issued common shares (continued)**

The acquisition of BCBud Producers Inc. was determined to be the acquisition of assets and expertise related to the approval of Health Canada for a facility pursuant to the Marihuana for Medical Purposes Regulations, which is still in the development stage. Accordingly, the acquisition costs were expensed. An expense of $650,000 in shares was expensed during the year ended March 31, 2015. During the year ended March 31, 2016, the Company cancelled 9,000,000 of the common shares for the acquisition of assets and recovered $540,000 for asset investigation costs.

o) On September 28, 2015, the Company announced the closing of the first tranche of its previously announced non-brokered private placement (the “Private Placement”) for total gross proceeds of $48,350.

The Company issued 552,000 units at a price of $0.05 per share in connection with the Private Placement, with each unit comprising one common share and one purchase warrant. Each purchase warrant is exercisable for one common share at a price of $0.06 for a period of twelve months from the grant date. The Company also issued 415,000 common shares at a deemed price of $0.05 per share in connection with the settlement of outstanding debts with various creditors.

In connection with the Private Placement, the Company paid a finder’s fee of $2,670 cash and issued 55,200 finder’s warrants. Each finder’s warrant is exercisable into one common share of the Company at $0.06 per share for a period of one year from the closing date of the Private Placement.

p) On March 7, 2016, the Company announced the closing of the first tranche of a private placement of 700,000 units at a price of $0.05 per unit for gross proceeds of $35,000. Each unit consists of one common share and one full share purchase warrant. Each warrant is exercisable into one common share for a period of 36 months from the date of issuance at a price of $0.075 per share. The common shares and warrants comprising the units will be subject to a four month and one day hold period in accordance with the policies of the Canadian Securities Exchange (the “CSE”) and applicable securities regulation.

In connection with the Private Placement, the Company paid a cash commission of $2,500 to a finder equal to 10% of the gross proceeds raised, and issued 50,000 finder’s warrants that entitles the holder thereof to purchase 50,000 common shares that is equal to 10% of the number of units issued under the Private Placement for a period of 36 months from issuance at an exercise price of $0.075 per common share.

q) On May 5, 2016, the Company entered into a series of debt conversion agreements with creditors in order to settle $117,325 in outstanding debt through the issuance of 2,346,500 Company units at a deemed price of $0.05 per unit. The closing of the debt conversion occurred on May 6, 2016.

(Unaudited) (Expressed in Canadian dollars)

## 12. Share Capital (continued)

### Issued common shares (continued)

Each unit issued under the debt conversion consists of one common share and one purchase warrant. Each purchase warrant entitles the holder thereof to acquire one common share for a period of 36 months from the date of issue at an exercise price of $0.075 per common share.

r) On June 1, 2016**,** the Company has closed the share exchange agreement entered into on February 1, 2016 with Lightning Industries, Inc. and Domenari Capital LLC (the "**Agreement**"), whereby the Company acquired Lightning Industries.

In connection with the share exchange agreement, the Company issued 40,000,000 common shares to Domenari Capital, LLC, in exchange for 100% of the shares in Lightning. Further details of the Acquisition can be found in the Company's press release dated February 1, 2016 (Note 1).

s) In July 2016, the Company entered into a series of debt conversion agreements with creditors in order to settle $152,500 in outstanding debt through the issuance of 3,050,000 Company units at a deemed price of $0.05 per unit. The closing of the debt conversion occurred on July 19, 2016.

Each unit issued under the debt conversion consists of one common share and one purchase warrant. Each purchase warrant entitles the holder thereof to acquire one common share for a period of 36 months from the date of issue at an exercise price of $0.075 per common share.

### Basic and diluted earnings per share

The calculation of basic and diluted earnings per share for the nine months period ended December 31, 2016 was based on the loss attributable to common shareholders of $2,124,529 and the weighted average number of common shares outstanding of 93,341,568.

### Options

The Company may award share options from time to time, exercisable into common shares on terms determined by the directors at the time of each award.

The changes in options during the nine months period ended December 31, 2016 are as follows:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| **Balance, March 31, 2014** | **-** | **$ -** |
| Options issued | 3,800,000 | $ 0.0670 |
| Options cancelled | (200,000) | $ 0.1325 |
| Options exercised | (56,000) | $ 0.0250 |
| **Balance, March 31, 2015** | **3,544,000** | **$ 0.0639** |
| Options expired | (2,000,000) | $ 0.0940 |
| Options granted | 1,000,000 | $ 0.0500 |
| Options exercised | (960,000) | $ 0.0300 |
| **Balance, March 31, 2016** | **1,584,000** | **$ 0.0408** |
| Options expired | (500,000) | $ 0.0500 |
| **Balance, December 31, 2016** | **1,084,000** | **$ 0.0365** |

(Unaudited) (Expressed in Canadian dollars)

## 12. Share Capital (continued)

### Options (continued)

The following table summarizes the options outstanding at December 31, 2016:

| Number of options | Exercise price | Expiry date |
|---|---|---|
| 584,000 | $0.0250 | May 1, 2019 |
| 500,000 | $0.0500 | December 14, 2020 |
| **1,084,000** | **$0.0365** | |

The remaining contractual life of the outstanding options at December 31, 2016 is 3.08 years.

During the year ended March 31, 2016, the Company granted 500,000 stock options in connection with the investor relations agreement entered into on December 14, 2015, with R&R Consulting. Terms of the options are they may be exercised for a period of 12 months from the grant date, unless the agreement is terminated by either party at an earlier date, at an exercise price of $0.05 per common share.

During the year ended March 31, 2016, the Company, also granted 500,000 stock options to its chief executive officer and director, Marc Branson. Terms of the options are they may be exercised for a period of 60 months from the grant date, unless the stock option agreement is terminated by either party at an earlier date, at an exercise price of $0.05 per common share.

During the year ended March 31, 2016, there were 960,000 stock options exercised.

During the nine months period ended December 31, 2016, the Company recognized share-based compensation expense of $Nil (2015 - $22,431) related to options granted.

These options entitle the holder thereof the right to acquire one common share for each option held. The fair value of each option is estimated on the grant date using the Black-Scholes option valuation model assuming no expected dividends. The range of assumptions used in calculating fair value is as follows.

| | December 31, 2015 |
|---|---|
| Risk free interest rate | 1.07% - 1.64% |
| Expected life (in years) | 1.00 - 5.00 |
| Expected volatility | 130.01 - 295.68 |
| Expected dividend yield | 0% |

### Warrants

On July 9, 2014, the Company completed the first tranche of a non-brokered private placement by issuing 999,607 pre-split units at a price of $0.35 per unit for gross proceeds of $349,862. Each unit consists of one common share and one full share purchase warrant. Each warrant is non-transferable and is exercisable into one common share for a period of 12 months from the date of issuance at a price of $0.60 per share. An additional 91,675 warrants have been issued as finders' warrants.

## 12. Share Capital (continued)

### Warrants (continued)

On December 30, 2014 the Company completed the first tranche of a non-brokered private placement by issuing 589,000 units at a price of $0.085 per unit for gross proceeds of $50,065. Each unit consists of one common share and one full share purchase warrant. Each warrant is exercisable into one common share for a period of 36 months from the date of issuance at a price of $0.15 per share. The Issuer paid an aggregate finder's fee of $5,006.50 and issued an aggregate of 58,900 warrants to finders.

On September 28, 2015 the Company completed the first tranche of a non-brokered private placement for total gross proceeds of $48,350. The Company issued 552,000 units at a price of $0.05 per share in connection with the Private Placement, with each unit comprising one common share and one purchase warrant. Each purchase warrant is exercisable for one common share at a price of $0.06 for a period of twelve months from the grant date.

In connection with the private placement, the Company paid a finder's fee of $2,670 cash and issued 55,200 finder's warrants. Each finder's warrant is exercisable into one common share of the Company at $0.06 per share for a period of one year from the closing date of the Private Placement.

On March 7, 2016, the Company completed the first tranche of a private placement of 700,000 units at a price of $0.05 per unit for gross proceeds of $35,000. Each unit consists of one common share and one full share purchase warrant. Each warrant is exercisable into one common share for a period of 36 months from the date of issuance at a price of $0.075 per share. The common shares and warrants comprising the units will be subject to a four month and one day hold period in accordance with the policies of the Canadian Securities Exchange (the "CSE") and applicable securities regulation.

In connection with the private placement, the Company paid a cash commission of $2,500 to a finder equal to 10% of the gross proceeds raised, and issued 50,000 finder's warrants that entitles the holder thereof to purchase 50,000 common shares that is equal to 10% of the number of units issued under the Private Placement for a period of 36 months from issuance at an exercise price of $0.075 per common share.

On May 5, 2016, the Company entered into a series of debt conversion agreements with creditors in order to settle $117,325 in outstanding debt through the issuance of 2,346,500 Company units at a deemed price of $0.05 per unit (the "debt conversion"). The closing of the debt conversion occurred on May 6, 2016.

Each unit issued under the debt conversion consists of one common share and one purchase warrant. Each purchase warrant entitles the holder thereof to acquire one common share for a period of 36 months from the date of issue at an exercise price of $0.075 per common share.

In July 2016, the Company entered into a series of debt conversion agreements with creditors in order to settle $152,500 in outstanding debt through the issuance of 3,050,000 Company units at a deemed price of $0.05 per unit. The closing of the debt conversion occurred on July 19, 2016.

Each unit issued under the debt conversion consists of one common share and one purchase warrant. Each purchase warrant entitles the holder thereof to acquire one common share for a period of 36 months from the date of issue at an exercise price of $0.075 per common share.

(Unaudited) (Expressed in Canadian dollars)

## 12. Share Capital (continued)

### Warrants (continued)

The changes in warrants for the nine months period ended December 31, 2016 are as follows:

| | Number of Warrants |
|---|---|
| **Balance, March 31, 2015** | **5,013,028** |
| Warrants expired | (4,365,128) |
| Warrants issued | 1,357,200 |
| **Balance, March 31, 2016** | **2,005,100** |
| Warrants expired | (607,200) |
| Warrants issued | 5,396,500 |
| **Balance, December 31, 2016** | **6,794,400** |

The following table summarizes the warrants outstanding at December 31, 2016:

| Number of warrants | Exercise price | Expiry date |
|---|---|---|
| 647,900 | $0.15 | December 30, 2017 |
| 750,000 | $0.08 | March 7, 2019 |
| 2,346,500 | $0.08 | May 5, 2019 |
| 3,050,000 | $0.08 | July 18, 2019 |
| **6,794,400** | **$0.08** | |

The remaining contractual life for the outstanding warrants at December 31, 2016 is 2.29 years.

## 13. Revenue

Revenue for the nine months period ended December 31, 2016 of $377,755 (2015 - $Nil) was derived from product sales.

## 14. Capital Management

The Company's capital consists of shareholders' equity. The Company's objective for managing capital is to maintain sufficient capital to maintain and sustain future development of the business.

The Company sets the amount of capital in relation to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and risk characteristics of the underlying assets.

## 15. Financial Instruments

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.

The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Cash is carried at a level 1 fair value measurement. Trade and other payables and due to shareholder are measured using level 3 measurements. The carrying amount of trade and other payables and due to shareholder approximates their fair value due to the short-term maturities of these items.

The Company manages risk through establishing policies that provide management oversight related to the risks of operations, including ensuring that risks are identified and assessed and appropriate policies are in place and effective. Financial instruments present a number of specific risks. Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, market risk is currency risk. Other risks associated with financial instruments include liquidity risk.

### Liquidity risk

Liquidity risk is the risk that the Company may not have sufficient liquid assets to meet its commitments associated with financial liabilities. The Corporation retains sufficient cash and cash equivalents to maintain liquidity. As at December 31, 2016, the Company is funded through share issuances and remains available to satisfy all current obligations. Trade and other payables are due within one year.

## 15. Financial Instruments (continued)

### Currency risk

Currency risk is the risk that the value of financial assets denominated in currencies, other than the functional currency of the Company, will fluctuate due to changes in foreign currency exchange rates.

All financial instruments are denominated in Canadian dollars, the functional currency of the Company. Therefore, the Company is not significantly exposed to currency risk.

### Market risk

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's notes payable have a fixed rate of interest and thus does not expose the Company to interest rate risk.

## 16. Subsequent Events

No subsequent events.