# WINDFIRE CAPITAL CORP.
# CONDENSED INTERIM FINANCIAL STATEMENTS

## FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015

**(Expressed in Canadian Dollars – Unaudited)**

# NOTICE TO READER

(Expressed in Canadian Dollars – Unaudited)

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed 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 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 standards established by the Chartered Professional Accountants of Canada for a review of condensed interim financial statements by an entity's auditor.

## WINDFIRE CAPITAL CORP.

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars – Unaudited)

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| | **$** | $ |
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash | **94,558** | 60,635 |
| Receivables | **2,159** | 7,635 |
| Prepaid expenses and deposits (Note 3) | **145,450** | 3,825 |
| Deferred costs (Note 3) | **45,017** | - |
| | **287,184** | 72,095 |
| Equipment | **98** | 126 |
| | **287,282** | 72,221 |
| **LIABILITIES** | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities (Notes 4) | **144,485** | 248,147 |
| Loan payable (Note 5) | **50,000** | 50,000 |
| | **194,485** | 298,147 |
| **SHAREHOLDERS' EQUITY (DEFICIT)** | | |
| Share capital (Note 6) | **2,795,473** | 2,419,785 |
| Reserves (Note 6) | **263,328** | 291,432 |
| Accumulated deficit | **(2,966,004)** | (2,937,143) |
| | **92,797** | (225,926) |
| | **287,282** | 72,221 |

Nature and Continuance of Operations (Note 1)

**These condensed interim financial statements are authorized for issuance by the Board of Directors on November 30, 2015.**

**On Behalf of the Board of Directors:**

Director (*Clive Massey*)

Director (*Alexander Helmel*)

See accompanying notes to the condensed interim financial statements.

# WINDFIRE CAPITAL CORP.

CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE LOSS

(Expressed in Canadian Dollars – Unaudited)

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **$** | $ | **$** | $ |
| **ADMINISTRATIVE EXPENSES** | | | | |
| Business investigation costs | **-** | - | **-** | 9,319 |
| Consulting fees | **-** | 18,500 | **-** | 59,250 |
| Financing fees | - | 33,375 | - | 33,375 |
| Interest and bank charges | **1,109** | 508 | **2,658** | 1,039 |
| Investor relations and marketing | **460** | 3,632 | **1,20** | 17,499 |
| Management fees (Note 7) | **-** | 48,000 | **51,524** | 144,000 |
| Office | **1,233** | 4,304 | **3,028** | 15,001 |
| Professional fees | **4,220** | 64,971 | **14,051** | 99,530 |
| Rent (Note 7) | **1,500** | 11,837 | **6,132** | 38,893 |
| Share-based compensation (Notes 6 and 7) | **-** | - | **32,742** | 170,140 |
| Travel and related | **1,167** | 2,482 | **1,209** | 37,423 |
| Trust and filing fees | **7,557** | 2,783 | **22,725** | 18,626 |
| | **(17,246)** | (190,392) | **(135,269)** | (644,095) |
| **OTHER ITEM** | | | | |
| Gain on settlement of debt (Note 6) | **-** | **-** | **45,562** | - |
| **NET AND COMPREHENSIVE LOSS FOR THE PERIOD** | **(17,246)** | (190,392) | **(89,707)** | (644,095) |
| **BASIC AND DILUTED NET LOSS PER SHARE** | **(0.00)** | (0.02) | **(0.01)** | (0.08) |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING** | **11,069,775** | 8,511,785 | **9,816,608** | 8,103,553 |

See accompanying notes to the condensed interim financial statements.

# WINDFIRE CAPITAL CORP.

CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

(Expressed in Canadian Dollars – Unaudited)

| | Common shares | | Reserves | | Share subscriptions received | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|---|
| | Number | Amount | Stock options | Total | | | |
| | | $ | $ | $ | $ | $ | $ |
| **Balance, December 31, 2013** | 6,980,452 | 2,182,235 | 233,688 | 233,688 | - | (2,272,362) | 143,561 |
| Shares issued for cash | 1,466,667 | 220,000 | - | - | - | - | 220,000 |
| Share issuance costs | - | (1,850) | - | - | - | - | (1,850) |
| Share subscriptions received | - | - | - | - | 45,000 | - | 45,000 |
| Exercise of warrants | 64,667 | 19,400 | - | - | - | - | 19,400 |
| Share based compensation | - | - | 170,140 | 170,140 | - | - | 170,140 |
| Comprehensive loss for the period | - | - | - | - | - | (644,095) | (644,095) |
| **Balance, September 30, 2014** | 8,511,785 | 2,419,785 | 403,828 | 403,828 | 45,000 | (2,916,457) | (47,844) |
| Share subscriptions refunded | - | - | - | - | (45,000) | - | (45,000) |
| Stock options cancelled | - | - | (112,396) | (112,396) | - | 112,396 | - |
| Comprehensive loss for the period | - | - | - | - | - | (133,082) | (133,082) |
| **Balance, December 31, 2014** | 8,511,785 | 2,419,785 | 291,432 | 291,432 | - | (2,937,143) | (225,926) |
| Shares issued for cash | 1,980,000 | 275,000 | - | - | - | - | 275,000 |
| Shares issued for settlement of debt | 506,250 | 55,688 | - | - | - | - | 55,688 |
| Exercise of warrants | 150,001 | 45,000 | - | - | - | - | 45,000 |
| Stock options cancelled | - | - | (60,846) | (60,846) | - | 60,846 | - |
| Share based compensation | - | - | 32,742 | 32,742 | - | - | 32,742 |
| Comprehensive loss for the period | - | - | - | - | - | (89,707) | (89,707) |
| **Balance, September 30, 2015** | **11,148,036** | **2,795,473** | **263,328** | **263,328** | **-** | **(2,966,004)** | **92,797** |

See accompanying notes to the condensed interim financial statements.

**WINDFIRE CAPITAL CORP.**
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars – Unaudited)

| | For the nine months ended September 30, | |
|---|---|---|
| | **2015** | 2014 |
| | **$** | $ |
| **OPERATING ACTIVITIES** | | |
| Loss for the period | **(89,707)** | (644,095) |
| Adjustments for non-cash items: | | |
| Accrued interest income | **-** | 37 |
| Depreciation | **28** | 40 |
| Share-based compensation | **32,742** | 170,140 |
| Gain on settlement of debt | **(45,562)** | - |
| | **(102,499)** | (473,878) |
| Changes in non-cash operating working capital items: | | |
| Receivables | **5,476** | 8,048 |
| Prepaid expenses | **(7,875)** | (23,912) |
| Accounts payable and accrued liabilities | **(2,412)** | 94,532 |
| | **(107,310)** | (395,210) |
| **INVESTING ACTIVITIES** | | |
| Deposit | **(133,750)** | - |
| Deferred costs | **(45,017)** | - |
| Reclamation bond | **-** | (15,000) |
| | **(178,767)** | (15,000) |
| **FINANCING ACTIVITIES** | | |
| Shares issued for cash | **275,000** | 220,000 |
| Share issuance costs | **-** | (1,850) |
| Share subscriptions received | **-** | 45,000 |
| Exercise of warrants | **45,000** | 19,400 |
| Loan received | **-** | 50,000 |
| | **320,000** | 332,550 |
| **NET CHANGE IN CASH** | **33,923** | (55,780) |
| **Cash, beginning of period** | **60,635** | 137,970 |
| **Cash, end of period** | **94,558** | 82,190 |
| **Non-cash transactions:** | | |
| Shares issued for settlement for debt | **55,688** | - |
| Reallocation of reserves on cancellation of options | **49,504** | - |

See accompanying notes to the condensed interim financial statements.

## 1. NATURE AND CONTINUANCE OF OPERATIONS

### Nature of operations

Windfire Capital Corp. (the "Company") was incorporated under the Business Corporations Act (Alberta) on December 10, 2007. The Company began trading on April 18, 2011 as a Tier 2 Mining Issuer. The Company's previous business was to acquire, explore, and develop interests in mining projects; however, during the 2014 fiscal year, the Company evaluated new opportunities in the agricultural sector, specifically related to the medical marijuana industry. The common shares of the Company were halted pending receipt by the TSX-V Exchange of certain required materials from the Company and until the Company could either engage a sponsor or obtain a sponsorship exemption in connection with its planned change of business. In July 2015, the Company entered into an LOI with an arm's length party to acquire a majority interest in an off-shore petroleum exploration license located in Namibia. Upon completion of this transaction, the Company would then be a Tier 2 Oil and Gas Issuer (Note 3).

In March 2015, the Company did not meet the continued listing requirements of a Tier 2 Mining Issuer. Therefore, as part of the resumption to trading, the Company's listing had been transferred to NEX and currently trades under the symbol, "WIF.H".

The head office, principal address and records office of the Company are located at Suite 2000, 1177 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2K3. The Company's registered address is Suite 730, 1015 4th Street SW, Calgary, AB, T2R 1J4.

### Going concern

These condensed interim financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at September 30, 2015, the Company had working capital of $92,699 (December 31, 2014 – working capital deficit of $226,052) and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with current cash on hand, proceeds from exercise of options and warrants, and further private placements.

The condensed interim financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

These condensed interim financial statements, including comparatives, have been prepared in accordance with International Accounts Standards ("IAS") 34, "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

This condensed interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Company for the year ended December 31, 2014.

These condensed interim financial statements were authorized by the Board of Directors on November 30, 2015.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of preparation

The condensed interim financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars unless otherwise noted.

### Use of estimates and judgments

The preparation of the Company's condensed interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

<u>Significant accounting judgments</u>

Significant accounting judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements include, but are not limited to, the following:

i) Determination of categories of financial assets and financial liabilities; and
ii) Assessment of the going concern assumption.

<u>Critical accounting estimates</u>

Key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year include, but are not limited to, the following:

i) Deferred income taxes – The Company is periodically required to estimate the tax basis of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period that the changes occur. Each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will not be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives.

ii) Share-based compensation – The fair value of share-based payments is determined using a Black-Scholes Option pricing model. Such option pricing models require the input of subjective assumptions including the expected price volatility, option life, dividend yield, risk-free rate and estimated forfeitures at initial grant.

### Accounting pronouncements not yet adopted

IFRS 9 – Financial Instruments: Classification and Measurement applies to classification and measurement of financial assets and liabilities as defined in IAS 39. It is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect any effect on the Company's financial statements.

(Expressed in Canadian Dollars – Unaudited)

## 3. PROPOSED TRANSACTION

In July 2015, the Company signed a letter of intent ("LOI") with DMiner Asset Management Inc. ("DMiner") to acquire a majority interest in an off-shore petroleum exploration license with a drill ready oil and gas discovery prospect in the Orange Basin of Namibia. Pursuant to the LOI, the Company would acquire 91.5% of the issued and outstanding shares of Riviera Mina Ltd. ("Riviera"), a company incorporated under the laws of the Republic of the Bahamas (collectively, the "Acquisition"). Riviera owns an indirect 76.5% interest in Petroleum Exploration License No. 0079 in relation to Block 2815 and 2915 for off-shore Namibia (the "License") with the remaining interest held by Namibia's national oil company, Namcor, and local Namibian partners.

In accordance with the LOI, the consideration for the Acquisition is as follows:

- The Company shall pay a fully refundable deposit of US$100,000 (paid $133,750 which is included in prepaid expenses and deposits) to DMiner upon approval by the TSX-V;
- The Company shall issue up to 8,000,000 of its common shares to DMiner;
- The Company shall issue a secured convertible debenture in the principal amount of US$1,900,000 to DMiner (the "Debenture");
    - The Debenture will be convertible into shares of the Company at the option of the holder, at a conversion price of $1.00 per share, for a period of two years
- The Company shall issue an additional 10,000,000 common shares in exchange for the securities to be issued by Riviera in the Financing.

Furthermore, pursuant to the LOI, the parties agree to deal exclusively with each other until the earlier of September 30, 2015 (later amended to December 31, 2015), entry into a definitive agreement or termination of the LOI. In connection with the Acquisition, Riviera intends to complete a private placement for proceeds up to $5,000,000 at $0.50 per subscription receipt (or other security) (the "Financing"). The subscription receipts issued by Riviera shall be acquired by the Company in connection with the Acquisition for an equivalent amount of the Company shares.

The Acquisition will constitute a reverse takeover ("RTO") under the policies of the TSX-V. Completion of the Acquisition remains subject to, among other things, satisfactory due diligence by the parties, entry into a definitive agreement, approval of the TSX-V and shareholders of the Company, completion of the Financing, approval of the applicable regulatory bodies in Namibia (if necessary), and other conditions which are customary for transactions of this nature. Upon completion of this Acquisition, the Company would be a Tier 2 Oil and Gas Issuer (Note 1).

As at September 30, 2015, the Company incurred deferred costs of $45,017 related to various due diligence fees associated with the proposed transaction.

## 4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| | **$** | $ |
| Trade payables | **136,193** | 234,147 |
| Accrued liabilities | **8,292** | 14,000 |
| | **144,485** | 248,147 |

## 5. LOAN PAYABLE

As at September 30, 2015, the Company had a loan payable of $50,000 (December 31, 2014 - $50,000) which is unsecured and non-interest bearing. The loan is due seven days from the Company receiving regulatory approval of the next private placement.

## 6. SHARE CAPITAL AND RESERVES

### Authorized share capital

Unlimited number of Class "A" common shares with no par value

### Issued shares

On April 10, 2015, the Company consolidated its common shares on a basis of one new share for three old shares. All current and comparative references in these condensed interim financial statements to the number of common shares, weighted average number of common shares, loss per share, stock options and warrants have been restated to give effect to this share consolidation, unless otherwise indicated.

*During the nine months ended September 30, 2015*

a) In April 2015, the Company closed a non-brokered private placement of 1,100,000 shares at a price of $0.05 per share for gross proceeds of $55,000.

b) In April 2015, the Company entered into shares-for-debt agreements with officers, directors and consultants of the Company to settle total outstanding debt of $101,250. Pursuant to the agreements, the Company issued 506,250 common shares at a price of $0.11 per common shares for a total value of 55,688 which resulted in the balance of $45,562 being recorded as a gain on the settlement of debt.

c) In June 2015, the Company closed a non-brokered private placement of 880,000 shares at a price of $0.25 per share for gross proceeds of $220,000.

d) 150,001 warrants were exercised at $0.30 per unit for proceeds of $45,000.

*During the year ended December 31, 2014*

a) In March 2014, the Company completed a non-brokered private placement whereby 1,466,667 shares at a price of $0.15 per share were issued for net proceeds of $218,150, net of share issuance costs of $1,850.

b) 64,667 warrants were exercised at $0.30 per unit for proceeds of $19,400.

### Basic and diluted loss per share

The calculation of basic and diluted loss per share for the nine months ended September 30, 2015 was based on the loss attributable to common shareholders of $89,707 (September 30, 2014 - $644,095) and the weighted average number of common shares outstanding of 9,816,608 (September 30, 2014 – 8,103,553).

As at September 30, 2015, 541,667 (September 30, 2014 – 750,000) stock options and nil (September 30, 2014 – 2,002,000) warrants were not included in the calculation of diluted loss per share as the effect would be anti-dilutive.

(Expressed in Canadian Dollars – Unaudited)

## 6. SHARE CAPITAL AND RESERVES (continued)

### Warrants

During the nine months ended September 30, 2015, 150,001 warrants were exercised at $0.30 per warrant for gross proceeds of $45,000.

The Company's warrant transactions are summarized as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| | | $ |
| Balance, December 31, 2013 | 2,066,667 | 0.30 |
| Exercised | (64,667) | 0.30 |
| Balance, December 31, 2014 | 2,002,000 | 0.30 |
| Exercised | (150,001) | 0.30 |
| Expired | (1,851,999) | 0.30 |
| **Balance, September 30, 2015** | **-** | **-** |

### Stock options

The Company has an incentive stock option plan in place under which it is authorized to grant options to directors and employees to acquire up to 10% of the Company's issued and outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount. The options can be granted for a maximum term of 5 years and vesting periods are determined by the Board of Directors.

During the nine months ended September 30, 2015, the Company granted 150,000 incentive stock options to directors with an exercise price of $0.20 per option, exercisable for a five year period. In the comparative period ended September 30, 2014, the Company granted 333,333 incentive stock options to directors, officers and consultants of the Company with an exercise price of $0.405 per option, exercisable for a five year period.

The fair value of options granted during the periods was calculated in accordance with the fair value method of accounting and was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

| | **September 30, 2015** | September 30, 2014 |
|---|---|---|
| Share price | 0.25 | 0.54 |
| Risk free rate | 1.05% | 1.72% |
| Dividend yield | 0% | 0% |
| Annualized volatility* | 130% | 164% |
| Expected life | 5 years | 5 years |

**The expected annualized volatility is based on historical trading price volatility.*

(Expressed in Canadian Dollars – Unaudited)

## 6. SHARE CAPITAL AND RESERVES (continued)

### Stock options (continued)

The Company's stock option transactions are summarized as follows:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| | | $ |
| Balance, December 31, 2013 | 416,667 | 0.66 |
| Granted | 333,333 | 0.405 |
| Cancelled | (160,000) | 0.60 |
| Balance, December 31, 2014 | 590,000 | 0.54 |
| Granted | 150,000 | 0.20 |
| Cancelled | (198,333) | 0.45 |
| **Balance, September 30, 2015** | **541,667** | **0.48** |

The weighted average life of options outstanding at September 30, 2015 is 1.52 years.

The following table summarizes the options outstanding and exercisable at September 30, 2015.

| Options outstanding and exercisable | Exercise price | Expiry date |
|---|---|---|
| | $ | |
| 66,667 | 0.30 | April 5, 2016 |
| 45,000 | 0.66 | May 2, 2016 |
| 13,333 | 0.84 | June 15, 2016 |
| 66,667 | 1.35 | August 22, 2016 |
| 200,000 | 0.405 | March 21, 2019 |
| 150,000 | 0.20 | May 22, 2020 |
| 541,667 | | |

(Expressed in Canadian Dollars – Unaudited)

## 7. RELATED PARTY TRANSACTIONS

The Company defines key management as officers and directors of the Company.

During the nine months ended September 30, 2015, the Company entered into the following transactions with related parties, not disclosed elsewhere in these condensed interim financial statements:

i. Paid or incurred $2,500 (September 30, 2014 - $nil) in rent and $1,000 (September 30, 2014 - $nil) of administrative services included in office expense to a company with a common director with the Company.
ii. Invoiced $nil (September 30, 2014 - $13,500) relating to the recovery of rent to a company with common directors with the Company.
iii. Entered into shares for settlement of debt agreements with officers of the Company to extinguish total debt relating to unpaid consulting fees of $78,000 through the issuance of 390,000 common shares of the Company (valued at $42,900). As a result of this transaction, the Company recorded a gain on settlement of debt with shares of $35,100.

As at September 30, 2015, $nil (December 31, 2014 - $35,856) was included in accounts payable and accrued liabilities owing to officers or directors of the Company.

Summary of key management personnel compensation (includes officers and directors of the Company):

| | For the nine months ended September 30, | |
|---|---|---|
| | **2015** | 2014 |
| | **$** | $ |
| Management fees | **51,524** | 144,000 |
| Share-based compensation | **32,742** | 127,605 |
| | **84,266** | 271,605 |

On January 1, 2014, the Company entered into consulting agreements with the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company.

- The CEO shall be paid $10,000 per month (plus GST). Upon a change of control of the Company, the Company shall pay the CEO an amount equal to twelve months of service. The consulting agreement is for a duration of five years and shall automatically be extended by an additional five years.
- The CFO shall be paid $6,000 per month (plus GST). Upon a change of control of the Company, the Company shall pay the CFO an amount equal to twelve months of service. The consulting agreement is for a duration of five years and shall automatically be extended by an additional five years.

As at March 31, 2015, the CEO and CFO voluntarily terminated their respective consulting agreements.

## 8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's receivables, accounts payable and accrued liabilities, and loan payable approximates their carrying values. The Company's other financial instrument, being cash, is measured at fair value using Level 1 inputs.

## 9. FINANCIAL RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

(a) 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. The Company's primary exposure to credit risk is on its cash held in bank accounts. The Company has deposited the cash with its bank from which management believes the risk of loss is low.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due. Liquidity risk is assessed at high as the Company does not have sufficient cash to settle its current liabilities.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

*Currency risk:*
The Company's operations and financing activities are conducted in Canadian dollars and, as a result, the Company is not subject to significant exposure to market risks from changes in foreign currency rates.

*Interest rate risk:*
The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(c) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to meet its exploration commitments. Therefore, the Company monitors the level of risk incurred in its expenditures relative to its capital structure.

The Company considers its capital structure to include shareholders' equity. The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the potential underlying assets. To maintain or adjust the capital structure, the Company may issue new equity if available on favourable terms and approved by the Exchange.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company's overall strategy remains unchanged from 2014.

The Company is not subject to any externally imposed capital requirements.

## 10. ABANDONED TRANSACTION

In May 2014, the Company entered into a non-binding letter of intent with Rosebud Productions Inc. ("Rosebud") regarding a proposed transaction whereby the Company shall purchase 100% of the issued and outstanding common shares of Rosebud for an aggregate purchase price of $5,000,000 (combination of cash and securities). The Company intends that this transaction will constitute a "Change of Business" transaction for the purposes of Policy 5.2 of the TSX Venture Exchange ("Exchange").

In July 2014 (and later amended), the Company and Rosebud entered into a definitive share exchange agreement (the "Agreement"). Under the terms of the amended agreement, the Company will:

i. Subject to Exchange acceptance, pay $250,000 cash (of which $15,000 had been advanced) to Rosebud on or before February 13, 2015 which will be used to acquire the outstanding indebtedness of Rosebud;
ii. Pay $750,000 cash to Rosebud upon confirmation that Health Canada has issued its "authorization to build" the leased facility ("Facility") under the Marijuana for Medical Purposes Regulations ("MMPR");
iii. Pay $1,000,000 cash upon issuance of a license to Rosebud by Health Canada recognizing Rosebud as a licensed producer of marijuana under MMPR; and
iv. Issue $1,000,000 worth of common shares of the Company, with the number of common shares to be issued based on the 30 day weighted average trading price of the Company's common shares immediately preceding the date which Health Canada issues a license to Rosebud under the MMPR. The common shares will be issued as to 50% on the date the license is issued from Health Canada and the balance on the one year anniversary date of the latest amended agreement.

On February 13, 2015, the Company and Rosebud mutually agreed not to extend the Agreement as a result of current market conditions in the medical marijuana space. The advance of $15,000 was written off as at December 31, 2014 as the advance was non-refundable.

In connection with the proposed transaction, the Company had entered into a letter of engagement with Wolverton Securities Ltd. (the "Agent") and planned to conduct a private placement to help fund the cash requirements of the Agreement whereby a portion of the offering would be structured as a brokered financing. Under the terms of the engagement, the Company paid the Agent a non-refundable corporate finance fee. The Company terminated the letter of engagement with the Agent and the non-refundable corporate finance fee of $31,360 was expensed to the statement of profit or loss during the year ended December 31, 2014.