FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2017

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _______________ to _______________

Commission File Number: 000-28107

GILLA INC.

(Exact Name of Registrant as Specified in its Charter)

Nevada	**88-0335710**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

475 Fentress Blvd., Unit L, Daytona Beach, Florida	**32114**
(Address of Principal Executive Offices)	(Zip Code)

(416) 843-2881
Registrant's telephone number, including area code

Not Applicable
(Former name, Former Address and Former Fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☑ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☑ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☑ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The Registrant had 134,038,981 shares of common stock ("Common Shares" or "Common Stock"), $0.0002 par value per share, issued and outstanding as of August 11, 2017.

GILLA, INC.

INDEX TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

		Page
PART I - Financial Information		
Item 1.	Interim Financial Statements (Unaudited)	3
	Condensed Consolidated Interim Balance Sheets as at June 30, 2017 (Unaudited) and December 31, 2016 (Audited)	3
	Unaudited Condensed Consolidated Interim Statements of Operations and Comprehensive Loss for the Three and Six Months Ended June 30, 2017 and June 30, 2016	4
	Unaudited Condensed Consolidated Interim Statement of Changes in Stockholders' Deficiency for the Six Months Ended June 30, 2017	5
	Unaudited Condensed Consolidated Interim Statements of Cash Flows for the Six Months Ended June 30, 2017 and June 30, 2016	6
	Notes to Unaudited Condensed Consolidated Interim Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	31
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	41
Item 4.	Disclosure Controls and Procedures	41
PART II - Other Information		
Item 1.	Legal Proceedings	42
Item 1A.	Risk Factors	42
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 3.	Defaults Upon Senior Securities	43
Item 4.	Mine Safety Disclosures	43
Item 5.	Other Information	43
Item 6.	Exhibits	43
SIGNATURES		44

Gilla Inc.
Condensed Consolidated Interim Balance Sheets
(Amounts expressed in US Dollars)

	As at June 30, 2017 (unaudited)	As at December 31, 2016 (audited)
ASSETS		
Current assets		
Cash and cash equivalents	$ 314,028	$ 184,754
Trade receivables (net of allowance for doubtful accounts $161,340 (December 31, 2016: $nil))	167,921	80,409
Inventory (note 6)	555,773	545,135
Other current assets (note 5)	454,189	462,708
Total current assets	1,491,911	1,273,006
Long term assets		
Property and equipment (note 7)	86,780	93,068
Website development (note 8)	6,083	7,083
Intangibles (note 9)	138,000	160,300
Goodwill (note 10)	889,497	889,497
Total long term assets	1,120,360	1,149,948
Total assets	$ 2,612,271	$ 2,422,954
LIABILITIES		
Current liabilities		
Accounts payable	$ 1,592,726	$ 1,740,071
Accrued liabilities (note 11)	368,563	404,633
Accrued interest - related parties (note 20)	370,060	263,790
Customer deposits	39,322	56,834
Loans from shareholders (note 11)	683,102	502,288
Due to related parties (note 20)	930,595	1,478,883
Promissory notes (note 14)	835,317	801,067
Amounts owing on acquisition (note 4)	55,000	55,000
Term loan (note 13)	1,095,919	1,144,337
Total current liabilities	5,970,604	6,446,903
Long term liabilities		
Promissory notes (note 14)	30,000	-
Loans from shareholders (note 11)	485,300	497,351
Due to related parties (note 20)	1,060,687	1,085,906
Convertible debentures (note 15)	131,696	83,704
Total long term liabilities	1,707,683	1,666,961
Total liabilities	7,678,287	8,113,864
Going concern (note 2)		
Related party transactions (note 20)		
Commitments and contingencies (note 22)		
Subsequent events (note 25)		
STOCKHOLDERS' DEFICIENCY		
Common stock: $0.0002 par value, 300,000,000 common shares authorized; 131,038,981 and 100,753,638 common shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively (note 16)	$ 26,210	$ 20,151
Additional paid-in capital	11,428,870	7,047,979
Common shares to be issued (note 19)	83,000	146,550
Accumulated deficit	(16,782,133)	(13,250,894)

Accumulated other comprehensive income	178,037	345,304
Total stockholders' deficiency	(5,066,016)	(5,690,910)
Total liabilities and stockholders' deficiency	$ 2,612,271	$ 2,422,954

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

Gilla Inc.
Unaudited Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
(Amounts expressed in US Dollars)

	For the Three Months Ended June 30, 2017	For the Three Months Ended June 30, 2016	For the Six Months Ended June 30, 2017	For the Six Months Ended June 30, 2016
Sales revenue	$ 1,266,026	$ 911,595	$ 2,509,565	$ 2,268,528
Cost of goods sold	493,987	345,036	1,040,720	1,205,982
Gross profit	772,039	566,559	1,468,845	1,062,546
Operating expenses:				
Administrative	1,146,710	1,751,612	2,144,060	2,798,638
Consulting fees - related parties (note 20)	124,245	111,415	243,704	219,644
Depreciation	10,045	15,015	19,701	28,510
Amortization (notes 8 and 9)	11,650	43,500	23,300	55,000
Bad debt expense (recovery)	-	(1,198)	161,340	(1,198)
Stock option expense (note 18)	1,213,605	-	1,213,605	-
Impairment of goodwill (note 4b)	-	208,376	-	208,376
Loss (gain) on settlements	23,840	(245,625)	23,840	(245,625)
Total operating expenses	2,530,095	1,883,095	3,829,550	3,063,345
Loss from operations	(1,758,056)	(1,316,536)	(2,360,705)	(2,000,799)
Other expenses:				
Foreign exchange	(64,839)	(11,609)	(59,894)	(89,092)
Amortization of debt discount (note 15)	(589,703)	(14,148)	(660,992)	(36,286)
Interest expense, net	(220,371)	(149,932)	(449,648)	(271,916)
Total other expenses	(874,913)	(175,689)	(1,170,534)	(397,294)
Net loss before income taxes	(2,632,969)	(1,492,225)	(3,531,239)	(2,398,093)
Income taxes	-	-	-	-
Net loss	$ (2,632,969)	$ (1,492,225)	$ (3,531,239)	$ (2,398,093)
Loss per weighted average number of shares outstanding (basic and diluted)	$ (0.022)	$ (0.015)	$ (0.031)	$ (0.024)
Weighted average number of shares outstanding (basic and diluted)	118,942,199	99,881,520	113,244,746	99,721,221
Comprehensive loss:				
Net loss	$ (2,632,969)	$ (1,492,225)	$ (3,531,239)	$ (2,398,093)
Foreign exchange translation adjustment	(99,985)	712	(167,267)	(123,586)
Comprehensive loss	$ (2,732,954)	$ (1,491,513)	$ (3,698,506)	$ (2,521,679)

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

Gilla Inc.
Unaudited Condensed Consolidated Interim Statement of Changes in Stockholders' Deficiency
(Amounts expressed in US Dollars)

	Common Stock		Additional Paid-In	Shares To Be	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Issued	Deficit	Income	Deficiency
Balance, December 31, 2016	100,753,638	$ 20,151	$ 7,047,979	$ 146,550	$ (13,250,894)	$ 345,304	$ (5,690,910)
Private placement units issued for cash, net of issuance costs	18,483,818	3,697	1,754,975	-	-	-	1,758,672
Private placement units issued for settlement of amounts owing to related parties (note 20(c))	1,998,950	400	199,495	-	-	-	199,895
Private placement units issued for settlement of amounts owing to a shareholder (note 11(i))	226,920	45	22,647	-	-	-	22,692
Common shares issued for settlement of amounts owing to a shareholder	320,022	65	49,935	(50,000)	-	-	-
Common shares issued for settlement of consulting fees owing to unrelated parties	510,382	103	73,447	(73,550)	-	-	-
Common shares issued for settlement of amounts owing to a director of the Company (note 20(a))	300,000	60	32,940	-	-	-	33,000
Common shares issued for settlement of amounts owing as charitable contributions to an unrelated party (note 22(d))	300,000	60	35,940	-	-	-	36,000
Common shares issued as employment income to an unrelated party	50,000	10	5,990	-	-	-	6,000
Common shares issued for settlement of fees owing to former directors of the Company (note 20(a))	871,000	174	121,766	-	-	-	121,940

Common shares issued on conversion of convertible debentures to unrelated parties (note 15)	3,220,000	644	321,356	-	-	-	322,000
Common shares issued on conversion of convertible debentures to related parties (note 15)	2,910,000	582	290,418	-	-	-	291,000
Common shares issued on settlement of interest owing on convertible debentures to unrelated parties (note 15)	285,822	57	28,525	-	-	-	28,582
Common shares issued on settlement of interest owing on convertible debentures to related parties (note 15)	308,429	62	30,781	-	-	-	30,843
Private placement units issued for settlement of financing fees related to an amendment of the term loan (note 13)	500,000	100	49,900	-	-	-	50,000
Private placement units to be issued to an unrelated party (note 19)	-	-	-	60,000	-	-	60,000
Issuance of stock options (note 21)	-	-	1,213,605	-	-	-	1,213,605
Warrants issued as stock based compensation (note 18)	-	-	74,171	-	-	-	74,171
Warrants issued with convertible debentures (note 17)	-	-	43,737	-	-	-	43,737
Embedded conversion feature of convertible debentures (note 15)	-	-	31,263	-	-	-	31,263
Foreign currency translation gain	-	-	-	-	-	(167,267)	(167,267)
Net loss	-	-	-	-	(3,531,239)	-	(3,531,239)
Balance, June 30, 2017	**131,038,981**	**$ 26,210**	**$ 11,428,870**	**$ 83,000**	**$ (16,782,133)**	**$ 178,037**	**$ (5,066,016)**

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

Gilla Inc.
Unaudited Condensed Consolidated Interim Statements of Cash Flows
(Amounts Expressed in US Dollars)

	For the Six Months Ended June 30, 2017	For the Six Months Ended June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (3,531,239)	$ (2,398,093)
Items not requiring an outlay of cash		
Depreciation	19,701	28,510
Amortization	23,300	55,000
Stock based compensation	80,171	355,803
Amortization of debt discount	660,992	36,286
Stock option expense	1,213,605	-
Interest accrued on related party fee deferrals	47,307	-
Loss (gain) on settlement of debt	23,840	(245,625)
Interest accrued on term loan	86,673	-
Loss on settlement of accounts receivable	-	-
Interest on amounts owing on acquisition	-	9,583
Bad debt expense (recovery)	161,340	(1,198)
Interest on promissory notes	-	23,246
Impairment of goodwill	-	208,376
Changes in operating assets and liabilities		
Trade receivable	(246,355)	(390,111)
Other current assets	71,905	156,007
Inventory	26,857	(198,863)
Accounts payable	(122,648)	945,590
Accrued liabilities	13,930	42,464
Customer deposits	(19,680)	(287,930)
Amounts owing on acquisition	-	(45,000)
Due to related parties	133,673	329,130
Accrued interest-related parties	106,270	57,748
Net cash used in operating activities	(1,250,358)	(1,319,077)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposal (addition) of capital assets	(11,673)	(60,290)
Net cash used in investing activities	(11,673)	(60,290)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from promisorry notes	80,000	-
Repayments to promisorry notes	(13,000)	-
Proceeds from term loan	-	435,353
Repayments to term loan	(171,976)	(6,875)
Shareholder loan repayments	(3,512)	-
Shareholder loans received	150,380	518,714
Proceeds from related parties	78,569	236,462
Repayments to related parties	(451,784)	(133,031)
Proceeds from sale of convertible debentures	-	351,500
Repayment of convertible debentures	-	(25,000)
Proceeds from share subscriptions	60,000	-
Proceeds from issuance of common shares	1,758,672	-
Net cash provided by financing activities	1,487,349	1,377,123
Effect of exchange rate changes on cash	(96,044)	(11,751)
Net increase (decrease) in cash	129,274	(13,995)

Cash at beginning of period		184,754		81,696
Cash at end of period	$	$314,028	$	67,701
Supplemental Schedule of Cash Flow Information:				
Cash paid for interest	$	$101,511	$	59,479
Cash paid for income taxes	$	-	$	-
Non cash financing activities:				
Convertible debentures issued for settlement of related party fees	$	-	$	20,000
Convertible debentures issued for settlement of accounts payable	$	-	$	10,000
Convertible debentures issued for settlement of related party and shareholder loans	$	75,000	$	35,000
Common shares issued for settlement of accounts payable	$	36,000	$	-
Common shares issued in settlement of related party fees	$	154,940	$	-
Common shares issued in settlement of related party and shareholder loans	$	222,587	$	-
Common shares issued in settlement of deferred related party fees	$	-	$	48,000

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

Gilla Inc.
Notes to Unaudited Condensed Consolidated Interim Financial Statements
(Amounts expressed in US Dollars)

1. NATURE OF OPERATIONS

Gilla Inc. ("Gilla", the "Company" or the "Registrant") was incorporated under the laws of the state of Nevada on March 28, 1995 under the name of Truco, Inc.

The current business of the Company consists of the manufacturing, marketing and distribution of generic and premium branded E-liquid ("E-liquid"), which is the liquid used in vaporizers, electronic cigarettes ("E-cigarettes"), and other vaping hardware and accessories. E-liquid is heated by an atomizer to deliver the sensation of smoking and sometimes even mimic traditional smoking implements, such as cigarettes or cigars, in their use and/or appearance, without burning tobacco. The Company provides consumers with choice and quality across various categories and price points to deliver the most efficient and effective vaping solutions for nicotine and related products. Gilla's proprietary product portfolio includes the following brands: Coil Glaze™, Siren, The Drip Factory, Craft Vapes™, Craft Clouds, Surf Sauce, Vinto Vape, VaporLiq, Vape Warriors, Vapor's Dozen, Miss Pennysworth's Elixirs, Enriched Vapor and Crown E-liquid™.

2. GOING CONCERN

These unaudited condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in these unaudited condensed consolidated interim financial statements, at June 30, 2017, the Company has an accumulated deficit of $16,782,133 and a working capital deficiency of $4,478,693 as well as negative cash flows from operating activities of $1,250,358 for the six month period ended June 30, 2017. These conditions represent material uncertainty that cast significant doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon achieving a profitable level of operations or on the ability of the Company to obtain necessary financing to fund ongoing operations. Management believes that the Company will not be able to continue as a going concern for the next twelve months without additional financing or increased revenues.

To meet these objectives, the Company continues to seek other sources of financing in order to support existing operations and expand the range and scope of its business. However, there are no assurances that any such financing can be obtained on acceptable terms and in a timely manner, if at all. Failure to obtain the necessary working capital would have a material adverse effect on the business prospects and, depending upon the shortfall, the Company may have to curtail or cease its operations.

These unaudited condensed consolidated interim financial statements do not include any adjustments to the recorded assets or liabilities that might be necessary should the Company have to curtail operations or be unable to continue in existence.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for a full year. These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as filed with the U.S. Securities and Exchange Commission.

The accounting policies of the Company are in accordance with accounting principles generally accepted in the United States of America. Outlined below are those policies considered particularly significant:

(a) Basis of Consolidation

These unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiaries; Gilla Operations, LLC; E Vapor Labs Inc. ("E Vapor Labs"); E-Liq World, LLC; Charlie's Club, Inc.; Gilla Enterprises Inc. and its wholly owned subsidiaries Gilla Europe Kft. and Gilla Operations Europe s.r.o.; Gilla Operations Worldwide Limited ("Gilla Worldwide"); Gilla Franchises, LLC and its wholly owned subsidiary Legion of Vape, LLC; and Snoke Distribution Canada Ltd. and its wholly owned subsidiary Snoke Distribution USA, LLC. All inter-company accounts and transactions have been eliminated in preparing these unaudited condensed consolidated interim financial statements.

(b) Advertising Costs

In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 720, *Other Expenses* ("ASC 720"), the Company expenses the production costs of advertising the first time the advertising takes place. The Company expenses all advertising costs as incurred. During the three and six month periods ended June 30, 2017, the Company expensed $39,313 and $91,847, respectively, (June 30, 2016: $113,442 and $158,552) as corporate promotions. These amounts have been recorded as an administrative expense.

(c) Recently Adopted Accounting Pronouncements

In November 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"). ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet statement of financial position. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. Adoption of ASU 2015-17 did not have an impact on the Company's coondensed consolidated interim financial statements.

On March 30, 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). This update requires that all excess tax benefits and tax deficiencies arising from share-based payment awards should be recognized as income tax expense or benefit on the income statement. The amendment also states that excess tax benefits should be classified along with other income tax cash flows as an operating activity. In addition, an entity can make an entity-wide accounting policy election to either estimate the number of awards expected to vest or account for forfeitures as they occur. The provisions of this update are effective for annual and interim periods beginning after December 15, 2016. Adoption of ASU 2016-09 did not have an impact on the Company's condensed consolidated interim financial statements.

In October 2016, the FASB issued ASU No. 2016-17, *Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control* ("ASU 2016-17"). The new guidance changed how a reporting entity that is a single decision maker for a variable interest entity ("VIE") will consider its indirect interests in that VIE when determining whether the reporting entity is the primary beneficiary and should consolidate the VIE. Under previous U.S. GAAP, a single decision maker in a VIE is required to consider an indirect interest held by a related party under common control in its entirety. Under ASU 2016-17, the single decision maker will consider the indirect interest on a proportionate basis. Adoption of ASU 2016-17 did not have an impact on the Company's condensed consolidated interim financial statements.

(d) Recent Accounting Pronouncements

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and other than the below, does not expect the future adoption of any such pronouncements to have a significant impact on its results of operations, financial condition or cash flow.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), requiring an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 will supersede nearly all existing revenue recognition guidance under U.S. GAAP when it becomes effective. ASU 2014-09 as amended by ASU No. 2015-14, ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12 and ASU No. 2016-20, is effective for interim and annual periods beginning after December 15, 2017 and is applied on either a modified retrospective or full retrospective basis. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize all leases with terms in excess of one year on their balance sheet as a right-of-use asset and a lease liability at the commencement date. The new standard also simplifies the accounting for sale and leaseback transactions. The amendments in this update are effective for annual periods beginning after December 15, 2018, and interim periods therein and must be adopted using a modified retrospective method for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* (“ASU 2016-10”). ASU 2016-10 clarifies the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The provisions of this update are effective for annual and interim periods beginning after December 15, 2017, with early application permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606)*: *Narrow-Scope Improvements and Practical Expedients* (“ASU 2016-12”). The core principal of ASU 2016-12 is the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The provisions of this update are effective for annual and interim periods beginning after December 15, 2017, with early application permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which requires financial assets measured at amortized cost be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis. The measurement of expected losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This guidance is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)* (“ASU 2016-15”), which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. Among other clarifications, the guidance requires that cash proceeds received from the settlement of corporate-owned life insurance (COLI) policies be classified as cash inflows from investing activities and that cash payments for premiums on COLI policies may be classified as cash outflows for investing activities, operating activities or a combination of both. The guidance is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Retrospective application is required. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* ("ASU 2016-16"). ASU 2016-16 prohibits the recognition of current and deferred income taxes for an intra-entity transfer until the asset has been sold to an outside party. The amendment in ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”). The new guidance eliminates the requirement to calculate the implied fair value of goodwill (Step 2 of the current two-step goodwill impairment test under ASC 350). Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value (Step 1 of the current two-step goodwill impairment test). ASU 2017-04 is effective prospectively for reporting periods beginning after December 15, 2019, with early adoption permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting* (“ASU 2017-09”). ASU 2017-09 clarifies which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The standard is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

4. AMOUNTS OWING ON ACQUISITIONS

(a) On July 1, 2015, the Company acquired all of the issued and outstanding shares of E Vapor Labs, a Florida based E-liquid manufacturer. The Company acquired E Vapor Labs in order to procure an E-liquid manufacturing platform allowing the Company to secure large private label contracts as well as manufacture its own brands going forward.

In consideration for the acquisition, the Company paid to the vendors, $225,000 in cash on closing and issued $900,000 in unsecured promissory notes on closing (collectively, the "Unsecured Promissory Notes"). The Unsecured Promissory Notes were issued in three equal tranches of $300,000 due four (4), nine (9) and eighteen (18) months respectfully from closing (individually, "Promissory Notes A", "Promissory Notes B", and "Promissory Notes C", respectively). The Unsecured Promissory Notes are all unsecured, non-interest bearing, and on the maturity date, at the option of the vendors, up to one-third of each tranche of the Unsecured Promissory Notes can be repaid in Common Shares, calculated using the 5 day weighted average closing market price prior to the maturity of the Unsecured Promissory Notes. The Unsecured Promissory Notes, are all and each subject to adjustments as outlined in the share purchase agreement (the "SPA"), dated June 25, 2015.

At December 31, 2015, the Company adjusted the Promissory Notes A for $116,683 which is the known difference in the working capital balance at closing of the acquisition from the amount specified in the SPA. Furthermore, a 12% discount rate has been used to calculate the present value of the Unsecured Promissory Notes based on the Company's estimate of cost of financing for comparable notes with similar term and risk profiles. Over the term of the respective Unsecured Promissory Notes, interest will be accrued at 12% per annum to accrete the Unsecured Promissory Notes to their respective principal amounts. During the six month periods ended June 30, 2017 and 2016, the Company recorded $nil and $16,078, respectively, in interest expense related to the accretion of the Unsecured Promissory Notes.

	Promissory Notes A	Promissory Notes B	Promissory Notes C	Total
Present value at December 31, 2015	**$ 203,573**	**$ 291,620**	**$ 267,857**	**$ 763,050**
Measurement period adjustment	(19,505)	-	-	(19,505)
Interest expense related to accretion	(751)	8,380	32,143	39,772
Present value at December 31, 2016	**183,317**	**300,000**	**300,000**	**783,317**
Present value at June 30, 2017	**$ 183,317**	**$ 300,000**	**$ 300,000**	**$ 783,317**

(b) On December 2, 2015, the Company acquired all of the assets of The Mad Alchemist, LLC ("TMA"), an E-liquid manufacturer, including the assets, rights and title to own and operate The Mad Alchemist™ and Replicant E-liquid brands (the "The Mad Alchemist Brands").

In consideration for the acquisition, the Company issued 819,672 Common Shares valued at $0.122 per share for a total value of $100,000; agreed to pay a total of $400,000 in deferred payments (the "Amounts Owing on Acquisition"), payable in ten (10) equal payments of $20,000 in cash and $20,000 in Common Shares every three (3) months following the closing date; and agreed to a quarterly earn-out based on the gross profit stream derived from product sales of The Mad Alchemist Brands. The earn-out commences on the closing date and pays up to a maximum of 25% of the gross profit stream. The number of Common Shares issuable will be calculated and priced using the 5 day weighted average closing market price prior to each issuance date. Furthermore, a 12% discount rate has been used to calculate the present value of the Amounts Owing on Acquisition. Over the term of the respective deferred payments, interest will be accrued at 12% per annum to accrete the payments to their respective principal amounts. During the six month periods ended June 30, 2017 and 2016, the Company recorded $nil and $9,582, respectively, in interest expense related to the accretion of the Amounts Owing on Acquisition.

On April 15, 2016, the Company entered into a settlement agreement (the "TMA Settlement Agreement") with TMA and the vendors of TMA (collectively, the "TMA Vendors"). Subject to the terms and conditions of the TMA Settlement Agreement, the parties settled: (i) any and all compensation and expenses owing by the Company to the TMA Vendors and (ii) the $400,000 of Amounts Owing on Acquisition payable by the Company to TMA Vendors pursuant to the TMA Asset Purchase Agreement in exchange for the Company paying to the TMA Vendors a total settlement consideration of $133,163 payable as $100,000 in cash and $33,163 in the Company's assets as a payment-in-kind. Of the $100,000 payable in cash under the TMA Settlement Agreement, $45,000 was paid upon execution of the settlement, $27,500 was payable thirty days following the signing of the settlement and the remaining $27,500 was payable at the later of (i) sixty days following the signing of the TMA Settlement Agreement, or (ii) the completion of the historical audit of TMA. As a result of the TMA Settlement Agreement, the Company has recorded a gain on settlement in the amount of $274,051. As at June 30, 2017, $55,000 (December 31, 2016: $55,000) remains payable to the TMA Vendors. In addition, the Company and the TMA Vendors mutually terminated all employment agreements between the Company and the TMA vendors, entered into on the date of closing of the acquisition by the Company, and all amounts were fully settled pursuant to the TMA Settlement Agreement. Due to the change in circumstances, during the year ended December 31, 2016, the Company tested goodwill and intangibles for impairment and as a result, the Company has fully impaired goodwill and intangible assets related to the acquired assets of TMA in the amount of $208,376 and $122,983, respectively, which formerly represented the value of brands, customer relationships, workforce and business acumen acquired.

5. OTHER CURRENT ASSETS

Other current assets consist of the following:

	June 30, 2017	December 31, 2016
Vendor deposits	**$ 21,421**	$ 13,256
Prepaid expenses	**235,385**	301,348
Trade currency	**45,000**	45,000
Other receivables	**152,383**	103,104
	$ 454,189	$ 462,708

Other receivables include VAT receivable, HST receivable and holdback amounts related to the Company's merchant services accounts.

6. INVENTORY

Inventory consists of the following:

	June 30, 2017	December 31, 2016
Vaping hardware and accessories	**$ 29,284**	$ 105,496
E-liquid bottles - finished goods	**160,922**	181,392
E-liquid components	**109,454**	158,050
Bottles and packaging	**256,113**	100,197
	$ 555,773	$ 545,135

During the three month periods ended June 30, 2017 and 2016, the Company expensed $493,987 and $345,036 of inventory as cost of goods sold, respectively. During the six month periods ended June 30, 2017 and 2016, the Company expensed $1,040,720 and $1,205,982 of inventory as cost of goods sold, respectively. At June 30, 2017, the full amount of the Company's inventory serves as collateral for the Company's secured borrowings.

7. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	June 30, 2017			December 31, 2016
	Cost	**Accumulated Depreciation**	**Net**	Net
Furniture and equipment	**$ 65,610**	**$ 28,732**	**$ 36,878**	$ 45,917
Computer hardware	**20,899**	**8,565**	**12,334**	15,985
Manufacturing equipment	**64,529**	**26,961**	**37,568**	31,166
	$ 151,038	**$ 64,258**	**$ 86,780**	$ 93,068

Depreciation expense for the three month periods ended June 30, 2017 and 2016 amounted to $10,045 and $15,015, respectively. Depreciation expense for the six month periods ended June 30, 2017 and 2016 amounted to $19,701 and $28,510, respectively.

At June 30, 2017, the full amount of the Company's property and equipment serves as collateral for the Company's secured borrowings.

8. WEBSITE DEVELOPMENT

Website development consists of the following:

	June 30,			December 31, 2016
	Cost	Accumulated Amortization	Net	Net
VaporLiq Website	**$ 10,000**	**$ 3,917**	**$ 6,083**	7,083

Amortization expense on website development for the three month periods ended June 30, 2017 and 2016 amounted to $500 for each period. Amortization expense on website development for the six month periods ended June 30, 2017 and 2016 amounted to $1,000 for each period. The estimated amortization expense for the next 3 years ending December 31, 2017, 2018 and 2019 approximates $2,000 per year. For the year ending December 31, 2020, estimated amortization expense approximates $1,083.

9. INTANGIBLE ASSETS

Intangible assets consist of the following:

	June 30,			December 31, 2016
	Cost	Accumulated Amortization	Net	Net
Brands	**$ 50,000**	**$ 18,000**	**$ 32,000**	$ 37,000
Customer relationships	**173,000**	**67,000**	**106,000**	123,300
	$ 223,000	**$ 85,000**	**$ 138,000**	$ 160,300

Amortization expense on intangible assets for the three month periods ended June 30, 2017 and 2016 amounted to $11,150 and $43,000, respectively. Amortization expense on intangible assets for the six month periods ended June 30, 2017 and 2016 amounted to $22,300 and $54,000, respectively. The estimated amortization expense for the next 3 years ending December 31, 2017, 2018 and 2019 approximates $44,600 per year. For the year ending December 31, 2020, estimated amortization expense approximates $26,500.

10. GOODWILL

	June 30, 2017	December 31, 2016
Opening balance	**$ 889,497**	**$ 1,252,084**
Measurement period adjustment	**-**	(154,211)
Impairment	**-**	(208,376)
End of period	**$ 889,497**	**$ 889,497**

During the year ended December 31, 2016, the Company tested the goodwill for impairment. As a result, the Company fully impaired the goodwill related to the acquisition of the assets of TMA in the amount of $208,376 which formerly represented the value of workforce and business acumen acquired.

11. LOANS FROM SHAREHOLDERS

The Company has outstanding current loans from shareholders as follows:

	June 30, 2017	December 31, 2016
Non-interest bearing, unsecured, no specific terms of repayment(i)	**$ -**	$ 5,000
Bears interest of 1.5% per month on a cumulative basis, unsecured, no specific terms of repayment(ii)	**12,680**	23,223
Bears interest of 6% per annum on a cumulative basis, secured by the assets of the Company, matures on March 2, 2018(v)	**516,302**	474,065

Non-interest bearing, secured by the assets of the Company, matures on March 12, 2017 and currently in default[vi]	**154,120**	-
	$ 683,102	$ 502,288

The Company has outstanding long term loans from shareholders as follows:

	June 30, 2017	December 31, 2016
Bears interest of 10% per annum on a cumulative basis, secured by the assets of the Company, matures on July 1, 2018(iii)	**$ 385,300**	$ 372,400
Bears interest of 10% per annum on a cumulative basis, secured by the assets of the Company, matures on July 1, 2018(iv)	**100,000**	100,000
Bears interest of 6% per annum on a cumulative basis, secured by the assets of the Company, matures on March 2, 2018(v)	**-**	24,951
	$ 485,300	$ 497,351

(i) During the six month period ended June 30, 2017, the amount owing to the shareholder increased from $5,000 to $22,692 and was then fully settled through the issuance of 226,920 private placement units at a price of $0.10 per unit. Each unit consisted of one Common Share and a half Common Share purchase warrant exercisable over twelve months at an exercise price of $0.20 per share.

(ii) During the three and six month period ended June 30, 2017, the Company accrued interest of $1,327 and $2,726, respectively, on this shareholder loan (June 30, 2016: $1,452 and $2,797). Total accrued interest owing on the shareholder loan at June 30, 2017 was $16,017 (December 31, 2016: $12,784) which is included in accrued liabilities. During the six month period ended June 30, 2017, $10,000 owing on this shareholder loan was settled with the issuance of face value $10,000 of Convertible Debentures Series C-3 (note 15) and $3,512 was settled with cash.

(iii) On February 13, 2014, the Company entered into a secured promissory note (the "Secured Note") with a shareholder, whereby the Company agreed to pay the party the aggregate unpaid principal amount of CAD $500,000 (USD $385,300) (December 31, 2016: CAD $500,000; USD $372,400) on or before August 13, 2014, bearing interest at a rate of 10% per annum, such interest to accrue monthly and added to the principal. The Secured Note is secured by a general security agreement granting a general security interest over all the assets of the Company. During the years ended December 31, 2014 and 2015, the Company and the shareholder extended the maturity date of the Secured Note to January 1, 2016 and July 1, 2017, respectively. During the year ended December 31, 2016, the Company and the shareholder extended the maturity date of the Secured Note to July 1, 2018. The amendment to the Secured Note was accounted for as a modification of debt and no gain or loss was recognized on the amendment.

During the three and six month periods ended June 30, 2017, the Company accrued interest of $12,114 and $24,028, respectively, (June 30, 2016: $10,999 and $21,385) on the Secured Note. Accrued interest owing on the Secured Note at June 30, 2017 was $121,046 (December 31, 2016: $93,221) which is included in accrued liabilities.

(iv) On July 15, 2014, the Company entered into a secured promissory note (the "Secured Note No.2") with a shareholder, whereby the Company agreed to pay the party the aggregate unpaid principal amount of $100,000 on or before July 18, 2014, bearing interest at a rate of 10% per annum, such interest to accrue monthly and added to the principal. The Secured Note No.2 is secured by the general security agreement issued with the Secured Note. During the years ended December 31, 2014 and 2015, the Company and the shareholder extended the maturity date of the Secured Note No.2 to January 1, 2016 and July 1, 2017, respectively. During the year ended December 31, 2016, the Company and the shareholder extended the maturity date of the Secured Note No.2 to July 1, 2018. The amendment to the Secured Note No.2 was accounted for as a modification of debt and no gain or loss was recognized on the amendment.

During the three and six month periods ended June 30, 2017, the Company accrued interest of $3,234 and $6,389, respectively, (June 30, 2016: $2,928 and $5,784) on the Secured Note No.2. Accrued interest owing on the Secured Note No.2 at June 30, 2017 was $31,541 (December 31, 2016: $25,152) which is included in accrued liabilities.

In connection to the maturity date extension of Secured Note and Secured Note No.2 (together, the "Secured Notes"), the Company issued warrants for the purchase of 250,000 Common Shares exercisable until July 1, 2018 at an exercise price of $0.20 per share (note 17(b)).

(v) On March 2, 2016, the Company entered into a loan agreement (the "Loan Agreement") with a shareholder, whereby the shareholder would make available to the Company the aggregate principal amount of CAD $670,000 (USD $516,302) (the "Shareholder Loan") for capital expenditures, marketing expenditures and working capital. Under the terms of the Loan Agreement, the Shareholder Loan was made available to the Company in two equal tranches of CAD $335,000, for a total loan amount of CAD $670,000 (USD $516,302), with the first tranche ("Loan Tranche A") received on the closing date and the second tranche ("Loan Tranche B") received on April 14, 2016. At June 30, 2017, CAD $52,000 (USD $39,099) of the Loan Tranche B was being held in trust by the shareholder to be released on the incurrence of specific expenses. The Shareholder Loan bears interest at a rate of 6% per annum, on the outstanding principal, and shall mature on March 2, 2018, whereby any outstanding principal together with all accrued and unpaid interest thereon shall be due and payable. The Company shall also repay 5% of the initial principal amount of Loan Tranche A and 5% of Loan Tranche B, monthly in arrears, with the first principal repayment beginning on June 30, 2016. The Company may elect to repay the outstanding principal of the Shareholder Loan together with all accrued and unpaid interest thereon prior to maturity without premium or penalty. The Company also agreed to service the Shareholder Loan during the term prior to making any payments to the Company's Chief Executive Officer, Chief Financial Officer and Board of Directors. The Shareholder Loan is secured by a general security agreement granting a general security interest over all the assets of the Company. On March 2, 2016 and in connection to the Loan Agreement, the Company issued warrants for the purchase of 1,000,000 Common Shares exercisable until March 2, 2018 at an exercise price of $0.20 per share. The warrants shall vest in two equal tranches, with 500,000 warrants to vest upon the close of Loan Tranche A and the remaining 500,000 warrants to vest upon the close of Loan Tranche B. On March 3, 2016 and April 14, 2016, the Company closed Loan Tranche A and Loan Tranche B, respectively, at which dates the warrants became fully vested and exercisable (note 17(g)).

During the three and six month periods ended June 30, 2017, the Company accrued interest of $8,048 and $16,042, respectively, (June 30, 2016: $6,970 and $8,135) on the Shareholder Loan. Accrued interest owing on the Shareholder Loan at June 30, 2017 was $40,665 (December 31, 2016: $23,433) which is included in accrued liabilities. At June 30, 2017, the Company owes the shareholder $403,018 in principal payments.

(vi) On January 12, 2017, the Company entered into a bridge loan agreement (the "Bridge Loan Agreement") with a shareholder, whereby the shareholder would make available to the Company the aggregate principal amount of CAD $200,000 (USD $154,120) (the "Bridge Loan") in two equal tranches of CAD $100,000. The Company received the first tranche on January 12, 2017 ("Bridge Loan Note A") and the second tranche on January 18, 2017 ("Bridge Loan Note B"). The Bridge Loan is non-interest bearing and matures on March 12, 2017. Pursuant to the terms of the Bridge Loan Agreement, the shareholder received a 5% upfront fee upon the closing of Bridge Loan Note A and a 5% upfront fee upon the closing of Bridge Loan Note B. The Bridge Loan is secured by the general security agreement issued in connection to the Secured Note. On January 12, 2017 and in connection to the Bridge Loan Agreement, the Company issued warrants for the purchase of 50,000 Common Shares exercisable until January 11, 2018 at an exercise price of $0.20 per share, with 25,000 warrants to vest upon the closing of Bridge Loan Note A and the remaining 25,000 warrants vest upon the closing of Bridge Loan Note B. On January 12, 2017 and January 18, 2017, the Company closed Bridge Loan Note A and Bridge Loan Note B, respectively, at which dates the warrants became fully vested and exercisable (note 17(n)). The Bridge Loan matured on March 12, 2017 and is currently in default.

12. CREDIT FACILITY

On August 1, 2014, the Company entered into a revolving credit facility (the "Credit Facility") with an unrelated party acting as an agent to a consortium of participants (the "Lenders"), whereby the Lenders would make a revolving credit facility in the aggregate principal amount of CAD $500,000 for the exclusive purpose of purchasing inventory for sale in the Company's ordinary course of business to approved customers. The Credit Facility charged interest at a rate of 15% per annum on all drawn advances and a standby fee of 3.5% per annum on the undrawn portion of the Credit Facility. The Credit Facility matured on August 1, 2015 whereby the outstanding advances together with all accrued and unpaid interest thereon would be due and payable. On August 1, 2014, and in connection to the Credit Facility, the Company issued warrants for the purchase of 250,000 Common Shares exercisable over two years at an exercise price of $0.30 per share. The Company's Chief Executive Officer and Chief Financial Officer were both participants of the consortium of participants of the Credit Facility, each having committed to provide ten percent of the principal amount of the Credit Facility. The Credit Facility was secured by all of the Company's inventory and accounts due relating to any inventory as granted in an intercreditor and subordination agreement by and among the Company, the Secured Note holder and the Lenders to establish the relative rights and priorities of the secured parties against the Company and a security agreement by and between the Company and the Lenders.

During the year ended December 31, 2014, the Company was advanced $387,110 (CAD $449,083) from the Credit Facility for the purchase of inventory including $77,453 (CAD $89,852) of advances from the Company's Chief Executive Officer and Chief Financial Officer as their participation in the Credit Facility.

On April 24, 2015, the Company was advanced $89,590 (CAD $124,000) from the Credit Facility including $17,918 (CAD $24,800) of advances from the Company's Chief Executive Officer and Chief Financial Officer as their participation in the Credit Facility.

On September 1, 2015, the Company was advanced $122,825 (CAD $170,000) from the Credit Facility including $24,565 (CAD $34,000) of advances from the Company's Chief Executive Officer and Chief Financial Officer as their participation in the Credit Facility.

During the three and six month period ended June 30, 2017, the Company paid $nil and $nil, respectively, (June 30, 2016: $2,189 and $2,189) of interest and standby fees as a result of the Credit Facility.

On January 18, 2016, and in connection to the Term Loan (note 13), the Company and the Lenders entered into a loan termination agreement whereby the Company and the Lenders terminated and retired the Credit Facility. As a result, the CAD $294,000 in amounts advanced from the Credit Facility and the CAD $3,093 in accrued interest owing on the Credit Facility were rolled into the Term Loan.

13. TERM LOAN

On January 18, 2016, the Company entered into a term loan (the "Term Loan") with the Lenders, whereby the Lenders would loan the Company the aggregate principal amount of CAD $1,000,000 for capital expenditures, marketing expenditures and working capital. The agent who arranged the Term Loan was not a related party of the Company. The Term Loan bears interest at a rate of 16% per annum, on the outstanding principal, and shall mature on July 3, 2017, whereby any outstanding principal together with all accrued and unpaid interest thereon shall be due and payable. The Term Loan is secured the intercreditor and subordination agreement as well as the security agreement issued in connection to the Credit Facility. The Term Loan is subject to a monthly cash sweep, calculated as the total of (i) CAD $0.50 for every E-liquid bottle, smaller than 15 ml, sold by the Company within a monthly period; and (ii) CAD $1.00 for every E-liquid bottle, greater than 15 ml, sold by the Company within a monthly period (the "Cash Sweep"). The Cash Sweep will be disbursed to the Lenders in the following priority: first, to pay the monthly interest due on the Term Loan; and second, to repay any remaining principal outstanding on the Term Loan. The Company may elect to repay the outstanding principal of the Term Loan together with all accrued and unpaid interest thereon prior to the maturity, subject to an early repayment penalty of the maximum of (i) 3 months interest on the outstanding principal; or (ii) 50% of the interest payable on the outstanding principal until maturity (the "Early Repayment Penalty"). The Term Loan shall be immediately due and payable at the option of the Lenders if there is a change in key personnel meaning the Company's current Chief Executive Officer and Chief Financial Officer. On January 18, 2016 and in connection to the Term Loan, the Company issued warrants for the purchase of 250,000 Common Shares (note 17(d)) exercisable until December 31, 2017 at an exercise price of $0.20 per share. In addition, the Company also extended the expiration date of the 250,000 warrants (note 17(d)) issued on August 1, 2014 in connection with the Credit Facility until December 31, 2017, with all other terms of the warrants remaining the same.

The Company's Chief Executive Officer and Chief Financial Officer are both participants of the consortium of Lenders of the Term Loan, each having committed to provide ten percent of the principal amount of the Term Loan. Neither the Chief Executive Officer nor the Chief Financial Officer participated in the warrants issued or warrants extended in connection with the Term Loan and both parties have been appropriately abstained from voting on the Board of Directors to approve the Term Loan, where applicable.

On July 15, 2016, the Company and the Lenders of the Term Loan entered into a term loan amendment (the "Term Loan Amendment") in which the Lenders agreed to extend to the Company an additional CAD $600,000 in principal to increase the Term Loan facility up to the aggregate principal amount of CAD $1,600,000. The parties also extended the maturity date of the Term Loan to July 2, 2018 with all other terms of the Term Loan remaining the same. The Company's Chief Executive Officer and its Chief Financial Officer are both participants in the consortium of Lenders having each committed to provide a total of CAD $150,000 of the initial principal of the Term Loan and the additional principal of the Term Loan pursuant to the Term Loan Amendment.

On July 15, 2016 and in connection to the Term Loan Amendment, the Company issued warrants for the purchase of 300,000 Common Shares (note 17(k)) exercisable until December 31, 2018 at an exercise price of $0.20 per share. The Company also extended the expiration dates of: i) the warrants for the purchase of 250,000 Common Shares (note 17(d)) issued on January 18, 2016 in connection to the Term Loan; and ii) the warrants for the purchase of 250,000 Common Shares (note 17(d)) issued on August 1, 2014 and extended on January 18, 2016 in connection to the Term Loan, both until December 31, 2018, with all other terms of the warrants remaining the same. Neither the Chief Executive Officer nor the Chief Financial Officer participated in the warrants issued or warrants extended in connection with the Term Loan Amendment.

During the year ended December 31, 2016, the Company was advanced $1,219,840 (CAD $1,600,000) from the Term Loan including the CAD $294,000 and CAD $3,093 rolled in from the Credit Facility (note 12) as well as CAD $240,581 of advances from the Company's Chief Executive Officer and Chief Financial Officer.

On February 27, 2017, the Company and the Lenders of the Term Loan entered into a term loan amendment (the "Term Loan Amendment No.2") to amend certain terms and conditions of the Term Loan. Pursuant to the Term Loan Amendment No.2, the parties agreed to modify the Cash Sweep to be calculated as the total of CAD $0.01667 per ml of E-liquid sold by the Company within a monthly period, such modification to be retroactively applied as of January 1, 2017. The Lenders also agreed to cancel the Early Repayment Penalty and waive any interest payment penalties due under the Term Loan. On February 27, 2017 and in connection to the Term Loan Amendment No.2, the Company agreed to issue 500,000 private placement units at a price of $0.10 per unit as a settlement of $50,000 in financing fees. Each unit consisted of one Common Share and a half Common Share purchase warrant exercisable over twelve months at an exercise price of $0.20 per share. On April 4, 2017, the Company issued the 500,000 units. The Company's Chief Executive Officer and its Chief Financial Officer received a total of 93,622 units which included 93,622 Common Shares and warrants for the purchase of 46,811 Common Shares. The Term Loan Amendment No.2 was accounted for as a modification of debt and no gain or loss was recognized on the amendment.

During the three and six month periods ended June 30, 2017, the Company expensed $42,120 and $86,673, respectively, (June 30, 2016: $29,824 and $52,836) in interest as a result of the Term Loan. Pursuant to the Cash Sweep, during the six month period ended June 30, 2017, the Company paid $171,976 to the Lenders consisting of $101,511 in interest and $70,465 in principal payments. At June 30, 2017, the Company owes the Lenders $26,932, consisting of $14,225 in interest and $12,707 in principal payments, which was paid to the Lenders on July 15, 2017 as per the terms of the Cash Sweep.

The amount owing on the Term Loan is as follows:

	June 30, 2017	December 31, 2016
Opening balance/amount advanced	**$ 1,144,337**	$ 1,219,840
Exchange loss (gain) during the period/year	**36,885**	(28,159)
Principal payments made	**(70,465)**	(76,815)
Interest accrued	**86,673**	140,540
Interest payments made	**(101,511)**	(111,069)
Ending balance	**$ 1,095,919**	$ 1,144,337

14. PROMISSORY NOTES

The Company has outstanding current promissory notes as follows:

	June 30, 2017	December 31, 2016
Unsecured Promissory Notes (note 4(a))	**$ 783,317**	$ 783,317
Unsecured, bears interest at 18% per annum, matures June 19, 2019(i)	**30,000**	-
Unsecured, bears interest at 10%, matures December 15, 2017(ii)	**16,750**	-
Unsecured, bears interest at 10% per annum, matures September 28, 2017(iii)	**5,250**	17,750
	$ 835,317	$ 801,067

The Company has outstanding long term promissory notes as follows:

	June 30, 2017	December 31, 2016
Unsecured,bears interest at 18% per annum, matures June 19, 2019(i)	**$ 30,000**	-

(i) On June 30, 2017, the Company issued a promissory note in the amount of $60,000 to an unrelated party. The principal together with interest at the rate of 18% per annum is payable in monthly instalments of $3,400 with the first payment due on July 19, 2017 and the final payment due on June 19, 2019. In the event of default by way of any missed payment under the promissory note and not cured for a period of 15 days, at the option of the note holder, the entire principal amount remaining will become due and payable without notice. At June 30, 3017, $30,000 of the principal on this promissory note has been classified as a current liability and $30,000 has been classified as a long term liability on the balance sheet.

(ii) On April 20, 2017, the Company issued a promissory note in the amount of $20,000 to an unrelated party. The principal together with interest at the rate of 10% over the term of the promissory note is payable in monthly instalments of $2,750 with the first payment due on May 15, 2017 and the final payment due on December 15, 2017. In the event of default by way of any missed payment under the promissory note and not cured for a period of 15 days, at the option of the note holder, the entire principal amount remaining will become due and payable without notice. During the three and six month periods ended June 30, 2017, the Company paid $250 and $250, respectively, (June 30, 2016: $nil and $nil) in interest on this promissory note. At June 30, 2017, the Company was delinquent on its June 30, 2017 payment which has since been paid.

(iii) On September 28, 2016, the Company issued a promissory note in the amount of $21,000 to an unrelated party. The principal together with interest at the rate of 10% per annum is payable in monthly instalments of $2,000 with the first payment due on October 28, 2016 and the final payment due on September 28, 2017. In the event of default by way of any missed payment under the promissory note and not cured for a period of 15 days, at the option of the note holder, the entire principal amount remaining will become due and payable without notice. During the three and six month periods ended June 30, 2017, the Company paid $750 and $1,500, respectively, in interest (June 30, 2016: $nil and $nil) on this promissory note.

15. CONVERTIBLE DEBENTURES

Convertible Debentures Series A

On September 3, 2013, December 23, 2013 and February 11, 2014, the Company issued $425,000, $797,000 and $178,000, respectively, of unsecured subordinated convertible debentures (“Convertible Debentures Series A”). The Convertible Debentures Series A matured on January 31, 2016 and charged interest at a rate of 12% per annum, payable quarterly in arrears. The Convertible Debentures Series A were convertible into Common Shares at a fixed conversion rate of $0.07 per share at any time prior to the maturity date. Of the $178,000 in face value of Convertible Debentures Series A issued on February 11, 2014, $3,000 were issued in settlement of loans from shareholders and $50,000 were issued in settlement of loans from related parties.

Convertible Debentures Series B

On December 31, 2015, the Company issued 650 unsecured subordinated convertible debenture units (“Convertible Debentures Series B”) for proceeds of $650,000. Each Convertible Debentures Series B consisted of an unsecured subordinated convertible debenture having a principal amount of $1,000 and warrants for the purchase of 5,000 Common Shares at a price of $0.20 per share for a period of twenty-four months from the date of issuance (note 17(c)). The Convertible Debentures Series B mature on January 31, 2018 and bear interest at a rate of 8% per annum, payable quarterly in arrears. The face value of the Convertible Debentures Series B, together with all accrued and unpaid interest thereon, are convertible into Common Shares at a fixed conversion rate of $0.10 per share at any time prior to maturity. The Company also has the option to force conversion of any outstanding Convertible Debentures Series B at any time after six months from issuance and prior to maturity. Of the $650,000 in face value of Convertible Debentures Series B issued on December 31, 2015, $276,000 were issued in settlement of loans from related parties, $10,000 were issued in settlement of related party consulting fees $20,000 were issued in settlement of consulting fees owing to an unrelated party and $227,000 were issued in settlement of loans from shareholders.

Convertible Debentures Series C

On May 20, 2016, the Company issued 375 unsecured subordinated convertible debenture units (the “Convertible Debentures Series C”) for proceeds of $375,000. Each Convertible Debentures Series C consisted of an unsecured subordinated convertible debenture having a principal amount of $1,000 and warrants for the purchase of 10,000 Common Shares at a price of $0.20 per share for a period of twenty-four months from the date of issuance (note 17). The Convertible Debentures Series C mature on January 31, 2018 and bear interest at a rate of 8% per annum, accrued quarterly in arrears. The face value of the Convertible Debentures Series C, together with all accrued and unpaid interest thereon, are convertible into Common Shares at a fixed conversion rate of $0.10 per share at any time prior to maturity. The Company also has the option to force conversion of any outstanding Convertible Debentures Series C at any time after six months from issuance and prior to maturity. For Canadian holders, the Company may only force conversion of any outstanding Convertible Debentures Series C at such time that the Company is a reporting issuer within the jurisdiction of Canada. Of the $375,000 in face value of Convertible Debentures Series C issued on May 20, 2016 (“Convertible Debentures Series C-1”), $55,000 were issued in settlement of amounts owing to related parties (note 20(c)) and $10,000 were issued in settlement of amounts owing to an employee. The Company incurred costs of $22,725 as a result of the issuance of Convertible Debentures Series C-1 on May 20, 2016.

On December 31, 2016, the Company issued an additional 275 units of Convertible Debentures Series C ("Convertible Debentures Series C-2") for proceeds of $275,000 which were fully issued in exchange for cash.

On January 20, 2017, the Company issued an additional 75 units of Convertible Debentures Series C ("Convertible Debentures Series C-3") in settlement of $65,000 owing to a related party (note 20(c)) and $10,000 owing in shareholder loans (note 11(ii)).

The Company evaluated the terms and conditions of the Convertible Debentures Series A, Convertible Debentures Series B and each tranche of Convertible Debentures Series C (together, the "Convertible Debentures") under the guidance of ASC No. 815, *Derivatives and Hedging* ("ASC 815"). The conversion feature met the definition of conventional convertible for purposes of applying the conventional convertible exemption. The definition of conventional contemplates a limitation on the number of shares issuable under the arrangement. The instrument was convertible into a fixed number of shares and there were no down round protection features contained in the contracts.

Since a portion of the Convertible Debentures were issued in exchange for nonconvertible instruments at the original instrument's maturity date, the guidance of ASC 470-20-30-19 & 20 were applied. The fair value of the newly issued Convertible Debentures were equal to the redemption amounts owed at the maturity date of the original instruments. Therefore, there was no gain or loss on extinguishment of debt recorded. After the exchange occurred, the Company was required to consider whether the new hybrid contracts embodied a beneficial conversion feature ("BCF").

For the face value $425,000 of Convertible Debentures Series A issued on September 3, 2013, the calculation of the effective conversion amount did not result in a BCF because the effective conversion price was greater than the Company's stock price on the date of issuance, therefore no BCF was recorded. However, for the face value $797,000 of Convertible Debentures Series A that were issued on December 23, 2013 and the face value $178,000 of Convertible Debentures Series A that were issued on February 11, 2014, the calculation of the effective conversion amount resulted in a BCF because the effective conversion price was less than the Company's stock price on the date of issuance and a BCF in the amount of $797,000 and $178,000, respectively, were recorded in additional paid-in capital.

For the face value $650,000 of Convertible Debentures Series B issued on December 31, 2015, the relative fair value of the warrants included in the issuance totaling $287,757 was calculated using the Black-Scholes option pricing model. The resulting fair value of such Convertible Debentures Series B issuance was calculated to be $362,243. The calculation of the effective conversion amount resulted in a BCF because the effective conversion price was less than the Company's stock price on the date of issuance and a BCF in the amount of $133,657 was recorded in additional paid-in capital.

For the face value $375,000 of Convertible Debentures Series C-1 issued on May 20, 2016, the relative fair value of the warrants included in the issuance totaling $234,737 (note 17(i)) was calculated using the Black-Scholes option pricing model. The resulting fair value of such Convertible Debentures Series C-1 was calculated to be $140,263. The calculation of the effective conversion amount resulted in a BCF because the effective conversion price was less than the Company's stock price on the date of issuance and a BCF in the amount of $117,538, net of transaction costs, was recorded in additional paid-in capital.

For the face value $275,000 of Convertible Debentures Series C-2 issued on December 31, 2016, the relative fair value of the warrants included in the issuance totaling $143,871 (note 17(m)) was calculated using the Black-Scholes option pricing model. The resulting fair value of such Convertible Debentures Series C-2 was calculated to be $131,129. The calculation of the effective conversion amount resulted in a BCF because the effective conversion price was less than the Company's stock price on the date of issuance and a BCF in the amount of $131,129, was recorded in additional paid-in capital.

For the face value $75,000 of Convertible Debentures Series C-3 issued on January 20, 2017, the relative fair value of the warrants included in the issuance totaling $43,737 (note 17(o)) was calculated using the Black-Scholes option pricing model. The resulting fair value of such Convertible Debentures Series C-3 was calculated to be $31,263. The calculation of the effective conversion amount resulted in a BCF because the effective conversion price was less than the Company's stock price on the date of issuance and a BCF in the amount of $31,263, was recorded in additional paid-in capital.

The BCF and the fair value of the warrants, which represents debt discount, is accreted over the life of the Convertible Debentures using the effective interest rate. Amortization of debt discount was recorded as follows:

	For the Three Months Ended June 30, 2017	For the Three Months Ended June 30, 2016	**For the Six Months Ended June 30, 2017**	For the Six Months Ended June 30, 2016
Convertible Debentures Series A	**$ -**	$ -	**$ -**	$ 17,342
Convertible Debentures Series B	**40,104**	8,334	**83,841**	13,130
Conversion of Convertible Debentures Series B	**342,399**	-	**342,399**	-
Convertible Debentures Series C-1	**24,412**	5,814	**44,584**	5,814
Conversion of Convertible Debentures Series C-1	**163,599**	-	**163,599**	-
Convertible Debentures Series C-2	**15,077**	-	**20,286**	-
Convertible Debentures Series C-3	**4,112**	-	**6,283**	-
	$ 589,703	$ 14,148	**$ 660,992**	$ 36,286

Convertible Debentures as of June 30, 2017 and December 31, 2016, are as follows:

Balance, December 31, 2015	**$ 87,158**
Face value Convertible Debentures Series C-1	375,000
Face value Convertible Debentures Series C-2	275,000
Relative fair value of detachable warrants	(378,608)
BCF	(248,667)
Transaction costs	(22,725)
Amortization of debt discount	94,546
Conversion	(23,000)
Cash settlements	(75,000)
Balance, December 31, 2016	**$ 83,704**
Face Value Convertible Debentures Series C-3	75,000
Relative fair value of detachable warrants	(43,737)
BCF	(31,263)
Conversion of Convertible Debentures Series B	(423,000)
Conversion of Convertible Debenture Series C-1	(190,000)
Amortization of debt discount	660,992
Balance, June 30, 2017	**$ 131,696**

Conversions and Repayments of Convertible Debentures Series A

The Company received forms of election whereby holders of the Convertible Debentures Series A elected to convert the face value of the debentures into Common Shares at $0.07 per share pursuant to the terms of the Convertible Debentures Series A. As at June 30, 2017, the Company received the following forms of elections from holders of the Convertible Debentures:

Date Form of Election Received	**Face Value of Convertible Debentures Series A Converted**	**Number of Common Shares Issued on Conversion**
April 15, 2014	$ 50,000	714,286
September 30, 2014	800,000	11,428,572
November 10, 2014	275,000	3,928,571
March 9, 2015(1)	52,000	742,857
July 15, 2015	105,000	1,500,000
September 1, 2015	20,000	285,714
	$ 1,302,000	18,600,000

(1) On March 9, 2015, the Company settled interest payable on the Convertible Debentures Series A in the amount of $1,096 with the issuance of Common Shares at a price of $0.15 per share, of which, $358 of interest payable on the Convertible Debentures Series A was settled with a Director of the Company.

On January 25, 2016, the Company received a form of election to convert face value $23,000 of Convertible Debentures Series A, such 328,571 Common Shares remain unissued. On March 10, 2016, the Company settled face value $25,000 of Convertible Debentures Series A with a cash payment. On July 6, 2016, the Company settled face value $50,000 of Convertible Debentures Series A and agreed to pay to the holders such face value in monthly payments ending on November 1, 2016. As at December 31, 2016, the $50,000 was fully paid.

As at June 30, 2017, all Convertible Debentures Series A had been fully settled and only the 328,571 Common Shares remain unissued.

Conversions and Repayments of Convertible Debentures Series B & C

On April 30, 2017 and pursuant to the terms of the Convertible Debentures Series B, the Company sent notices of its election to convert $423,000 in face value and $45,058 in accrued interest to holders of Convertible Debentures Series B at $0.10 per share for a total of 4,680,581 Common Shares of the Company. As a result of these conversions, the Company recorded a debt discount in the amount of $342,399. The above amount included the conversion of $286,000 in face value and $30,465 in accrued interest held by related parties of the Company (note 20(c)).

On April 30, 2017 and pursuant to the terms of the Convertible Debentures Series C, the Company sent notices of its election to convert $190,000 in face value and $14,367 in accrued interest to holders of Convertible Debentures Series C-1 at $0.10 per share for a total of 2,043,670 Common Shares of the Company. As a result of these conversions, the Company recorded a debt discount in the amount of $163,599. The above amount included the conversion of $5,000 in face value and $378 in accrued interest held by related parties of the Company (note 20(c)).

As at June 30, 2017, face value $227,000 of Convertible Debentures Series B and face value $535,000 of Convertible Debentures Series C remain owing to their respective debenture holders.

Interest on Convertible Debentures

During the three and six month periods ended June 30, 2017, the Company recorded interest expense in the amount of $19,229 and $46,023, respectively, (June 30, 2016: $18,816 and $231,780) on the Convertible Debentures. The interest owing on the convertible debentures is included in accrued liabilities on the balance sheet.

16. COMMON STOCK

During the six months ended June 30, 2017, the Company:

- Issued 18,483,818 Common Shares on a private placement basis, at a price of $0.10 per private placement unit, for cash proceeds, net of issuance costs, of $1,758,672;

- Issued 1,998,950 Common Shares on a private placement basis, at a price of $0.10 per private placement unit, for settlement of $199,895 in amounts owing to related parties (note 20(c));

- Issued 226,920 Common Shares on a private placement basis, at a price of $0.10 per private placement unit, for settlement of $22,692 in amounts owing to a shareholder (note 11(i));

- Issued 320,022 Common Shares, at an average price of $0.156 per share, for settlement of $50,000 in consulting fees owing to a shareholder, previously granted and recognized as Common Shares to be issued as at December 31, 2016;

- Issued 143,715 Common Shares, at an average price of $0.129 per share, for settlement of $18,550 in consulting fees owing to an unrelated party, previously granted and recognized as Common Shares to be issued as at December 31, 2016;

- Issued 366,667 Common Shares, at a price of $0.15 per share, for settlement of $55,000 in consulting fees owing to an unrelated party, previously granted and recognized as Common Shares to be issued as at December 31, 2016;

- Issued 300,000 Common Shares, at a price of $0.10 per share, for settlement of $30,000 in amounts owing to a director of the Company (note 20(a)). The amount allocated to Shareholders' Deficiency, based on their fair value, amounted to $33,000. The balance of $3,000 has been recorded as a loss on settlement of debt;

- Issued 300,000 Common Shares, at a price of $0.167 per share, for settlement of $50,000 in charitable contributions owing to an unrelated party (note 22(d)). The amount allocated to Shareholders' Deficiency, based on their fair value, amounted to $36,000. The balance of $14,000 has been recorded as a gain on settlement of debt;

- Issued 50,000 Common Shares, at a price of $0.12 per share, as $6,000 in employment income to an unrelated party;

- Issued 871,000 Common Shares, at a price of $0.10 per share, for settlement of $87,100 in directors fees owing to former directors of the Company (note 20(a)). The amount allocated to Shareholders' Deficiency, based on their fair value, amounted to $121,940. The balance of $34,840 has been recorded as a loss on settlement of debt;

- Issued 500,000 Common Shares on a private placement basis, at a price of $0.10 per private placement unit, as settlement of $50,000 in financing fees in connection to the Term Loan Amendment No.2 (note 13). Of the 500,000 Common Shares issued, 93,622 Common Shares were issued to related parties (note 20(c));

- Issued 6,130,000 Common Shares, at a price of $0.10 per share, on conversion of $613,000 of Convertible Debentures (note 15). The above amount included the conversion of $291,000 of Convertible Debentures held by related parties of the Company (note 20(c)); and

- Issued 594,251 Common Shares, at price of $0.10 per share, for settlement of $59,425 in interest owing on Convertible Debentures (note 15). The above amount included the settlement of $30,843 of interest owing on Convertible Debentures held by related parties of the Company (note 20(c)).

During the year ended December 31, 2016, the Company:

- Issued 480,000 Common Shares, at a price of $0.10 per share, for settlement of $48,000 in deferred fees owing to a related party (note 20(c)). The amount allocated to Shareholders' Deficiency, based on their fair value, amounted to $76,800. The balance of $28,800 has been recorded as a loss on settlement of debt;

- Issued 562,715 Common Shares, at an average price of $0.141 per share, for settlement of $79,154 in consulting fees owing to unrelated parties. The amount allocated to Shareholders' Deficiency, based on their fair value, amounted to $78,780. The balance of $374 has been recorded as a gain on settlement of debt; and

- Issued 150,000 Common Shares, at a price of $0.14 per share, as $21,000 in related party employment income (note 20(c)).

17. WARRANTS

The following schedule summarizes the outstanding warrants for the purchase of Common Shares of the Company:

	June 30, 2017			December 31, 2016		
	Warrants Outstanding	**Weighted Average Exercise Price**	**Weighted Average Life Remaining (yrs)**	Warrants Outstanding	Weighted Average Exercise Price	Weighted Average Life Remaining (yrs)
Beginning of year	**17,310,000**	**$ 0.23**	**1.21**	8,177,373	$ 0.25	1.39
Issued	**14,252,782**	**0.21**	**0.93**	11,935,000	0.21	2.05
Cancelled	**(1,750,000)**	**0.25**	**1.03**	(1,125,000)	0.25	1.13
Expired	**(2,750,000)**	**0.35**	**-**	(1,677,373)	0.19	-
End of year	**27,062,782**	**$ 0.21**	**0.92**	17,310,000	$ 0.23	1.21

The Company has issued warrants for the purchase of Common Shares of the Company as follows:

Issuance Date		**Number of Warrants**	**Expected Life in Years**	**Exercise Price ($)**	**Risk Free Rate**	**Dividend Yield**	**Expected Volatility**	**Fair Value ($)**
May 29, 2015	(a)	250,000	2.00	0.40	0.85%	Nil	298%	35,362
May 29, 2015	(a)	250,000	2.00	0.50	0.85%	Nil	298%	35,134
May 29, 2015	(a)	250,000	2.00	0.60	0.85%	Nil	298%	34,934
May 29, 2015	(a)	250,000	2.00	0.70	0.85%	Nil	298%	34,755
December 30, 2015	(b)	250,000	1.50	0.20	0.88%	Nil	190%	26,821
December 31, 2015	(c)	3,250,000	2.00	0.20	1.19%	Nil	265%	516,343
January 18, 2016	(d)	250,000	2.46	0.20	0.91%	Nil	263%	51,598
February 18, 2016	(e)	300,000	2.00	0.25	0.80%	Nil	275%	30,501
February 18, 2016	(f)	1,500,000	2.00	0.25	0.80%	Nil	275%	152,503
March 2, 2016	(g)	1,000,000	2.00	0.20	0.91%	Nil	271%	158,995
April 13, 2016	(h)	1,750,000	2.00	0.25	0.88%	Nil	264%	241,754
May 20, 2016	(i)	3,750,000	2.00	0.20	1.03%	Nil	259%	234,737
May 20, 2016	(j)	85,000	2.00	0.20	1.03%	Nil	259%	14,225
July 15, 2016	(k)	300,000	2.46	0.20	0.91%	Nil	263%	45,799
December 22, 2016	(l)	250,000	1.50	0.20	0.87%	Nil	180%	18,840
December 31, 2016	(m)	2,750,000	2.00	0.20	1.20%	Nil	259%	143,871
January 12, 2017	(n)	50,000	1.00	0.20	0.81%	Nil	191%	4,988
January 20, 2017	(o)	750,000	2.00	0.20	1.20%	Nil	267%	43,737
January 31, 2017	(p)	3,773,006	1.00	0.20	0.84%	Nil	173%	224,479
January 31, 2017	(q)	411,361	1.00	0.20	0.84%	Nil	173%	24,474
February 17, 2017	(r)	907,948	1.00	0.20	0.82%	Nil	167%	63,641
February 17, 2017	(s)	108,954	1.00	0.20	0.82%	Nil	167%	7,615
March 8, 2017	(t)	1,500,000	2.00	0.25	1.36%	Nil	266%	193,438
March 21, 2017	(u)	3,270,045	1.00	0.20	1.00%	Nil	165%	236,773

March 21, 2017	(v)	27,623	1.00	0.20	1.00%	Nil	165%	2,000
April 4, 2017	(w)	250,000	1.00	0.20	1.03%	Nil	163%	19,703
April 6, 2017	(x)	500,000	2.00	0.25	1.24%	Nil	167%	52,643
June 2, 2017	(y)	1,634,615	1.00	0.20	1,16%	Nil	171%	110,602
June 16, 2017	(z)	769,230	1.00	0.20	1.21%	Nil	171%	57,765
June 28, 2017	(aa)	300,000	1.00	0.20	1.21%	Nil	159%	23,020
		30,687,782						2,841,050

(a) Issued in connection to a commission agreement. The warrants vest in four tranches of 250,000 warrants each. The first tranche has an exercise price of $0.40 per share and vested upon execution of the agreement. The second tranche has an exercise price of $0.50 per share and will vest upon the sales agent delivering $500,001 in sales revenue to Gilla Worldwide. The third tranche has an exercise price of $0.60 per share and will vest upon the sales agent delivering $1,000,001 in sales revenue to Gilla Worldwide. The fourth tranche has an exercise price of $0.70 per share and will vest upon the sales agent delivering $1,500,001 in sales revenue Gilla Worldwide. During the year ended December 31, 2015, the Company booked the fair value of the vested warrants in the amount of $35,362 as a prepaid to be expensed over the two year life of the commission agreement. During the six month periods ended June 30, 2017 and 2016, the Company expensed $7,367 and $8,840, respectively, in stock based compensation which has been recorded as an administrative expense. No portion of the value of the unvested warrants has been expensed as the sales agent had not yet delivered any sales revenue to Gilla Worldwide.

(b) Issued in connection to the Secured Notes (note 11). During the year ended December 31, 2015, the Company booked the fair value of the warrants in the amount of $26,821 as a prepaid to be expensed over the life of the Secured Notes. During the six month periods ended June 30, 2017 and 2016, the Company expensed $8,843 and $8,892, respectively, of the prepaid as financing fees which has been recorded as an interest expense.

(c) Issued in connection to the issuance of Convertible Debentures Series B (note 14). The relative fair value of the warrants in the amount of $516,343, along with the BCF, represents debt discount on the Convertible Debentures Series B and is accreted over the life of the convertible debentures using the effective interest rate. During the six month periods ended June 30, 2017 and 2016, the Company recorded interest expense in the amount of $83,841 and $13,130, respectively, related to debt discount which includes the accretion of the BCF of the Convertible Debentures Series B.

(d) Issued in connection to the Term Loan (note 13). On July 15, 2016 and in connection to the Term Loan Amendment, the Company extended the expiration date of the warrants to December 31, 2018, with all other terms of the warrants remaining the same. During the year ended December 31, 2016, the Company booked the fair value of the warrants and the extension in the amount of $51,598 as a prepaid to be expensed over the life of the Term Loan. During the six months ended June 30, 2017 and 2016, the Company expensed $9,465 and $12,921, respectively, as financing fees which has been recorded as interest expense. On July 15, 2016 and in connection to the Term Loan Amendment, the Company also extended the expiration date of the warrants for the purchase of 250,000 Common Shares that were issued on August 1, 2014 in connection to the Credit Facility (note 12) and extended on January 18, 2016 in connection to the Term Loan (note 13) until December 31, 2018, with all other terms of the warrants remaining the same. During the year ended December 31, 2016, the Company booked the fair value of the extensions in the amount of $42,325 as a prepaid to be expensed over the life of the Term Loan. During the six month periods ended June 30, 2017 and 2016, the Company expensed $8,076 and $9,467, respectively, as financing fees which has been recorded as interest expense.

(e) Issued in relation to a consulting agreement. The warrants shall vest quarterly in eight equal tranches, with the first tranche vesting immediately and the final tranche vesting on November 18, 2017. If the consulting agreement was terminated prior to the expiration of the warrants, any unexercised fully vested warrants would expire thirty calendar days following the effective termination date and any unvested warrants would be automatically canceled. On August 31, 2016, the Company terminated the consulting agreement and 187,500 of the unvested warrants have been cancelled and the remaining 112,500 vested warrants remain outstanding and exercisable until February 17, 2018 as mutually agreed in the termination. During the six month periods ended June 30, 2017 and 2016, the Company expensed $nil and $16,511, respectively, as stock based compensation which has been recorded as an administrative expense.

(f) Issued in relation to a consulting agreement. The warrants shall vest quarterly in eight equal tranches, with the first tranche vesting immediately and the final tranche vesting on November 18, 2017. If the consulting agreement was terminated prior to the expiration of the warrants, any unexercised fully vested warrants would expire thirty calendar days following the effective termination date and any unvested warrants shall be automatically canceled. On October 25, 2016, the Company terminated the consulting agreement and 937,500 unvested warrants have been cancelled and the remaining 562,500 vested warrants remain outstanding and exercisable until June 30, 2018 as mutually agreed in the termination. During the six month periods ended June 30, 2017 and 2016, the Company expensed $nil and $82,556, respectively, as stock based compensation which has been recorded as an administrative expense.

(g) Issued in connection to the Loan Agreement (note 11(v)). The warrants shall vest in two equal tranches, with 500,000 warrants to vest upon the close of Loan Tranche A and the remaining 500,000 warrants to vest upon the close of Loan Tranche B. On March 3, 2016 and April 14, 2016, the Company closed Loan Tranche A and Loan Tranche B, respectively, at which dates the warrants became fully vested and exercisable. During the year ended December 31, 2016, the Company booked the fair value of the warrants in the amount of $158,995 as a prepaid to be expensed over the life of the Shareholder Loan. During the six month periods ended June 30, 2017 and 2016, the Company expensed $41,073 and $22,083, respectively, of the prepaid as financing fees which has been recorded as interest expense.

(h) Issued in connection to a consulting agreement. Forty percent of the warrants vested immediately with the remaining sixty percent vesting in equal tranches of fifteen percent on September 30, 2016, December 31 2016, June 30, 2017 and December 31, 2017. If the consulting agreement is terminated prior to the expiration of the warrants, any unexercised fully vested warrants shall expire ninety calendar days following the effective termination date and any unvested warrants shall be automatically canceled. During the six month period ended June 30, 2017, the Company terminated the consulting agreement for cause and all warrants issued in connection to the consulting agreement were canceled. As a result of the termination, the Company did not record any stock based compensation during the six month period ended June 30, 2017. During the six month period ended June 30, 2016, the Company expensed $135,032 in stock based compensation in relation to these warrants.

(i) Issued in connection to the issuance of Convertible Debentures Series C-1 (note 15). The relative fair value of the warrants in the amount of $234,737, along with the BCF, represents debt discount on the Convertible Debentures Series C-1 and is accreted over the life of the convertible debentures using the effective interest rate. During the six month periods ended June 30, 2017 and 2016, the Company recorded interest expense in the amount of $39,385 and $5,814, respectively, related to debt discount which includes the accretion of the BCF of the Convertible Debentures Series C-1.

(j) Issued as a commission payment related to the issuance of the Convertible Debentures Series C-1. The fair value of the warrants in the amount of $14,225 was recorded as a reduction to the proceeds received from the Convertible Debentures Series C-1 (note 15).

(k) Issued in connection to the Term Loan Amendment (note 13). During the year ended December 31, 2016, the Company booked the fair value of the warrants in the amount of $45,799 as a prepaid to be expensed over the life of the Term Loan. During the six month periods ended June 30, 2017 and 2016, the Company expensed $11,562 and $nil, respectively, of the prepaid as financing fees which has been recorded as interest expense.

(l) Issued in connection to the Secured Notes (note 11). During the year ended December 31, 2016, the Company booked the fair value of the warrants in the amount of $18,840 as prepaid to be expensed over the life of the Secured Notes. During the six month periods ended June 30, 2017 and 2016, the Company expensed $3,055 and $nil, respectively, of the prepaid as financing fees which has been recorded as interest expense.

(m) Issued in connection to the issuance of Convertible Debentures Series C-2 (note 15). The relative fair value of the warrants in the amount of $143,871, along with the BCF, represents debt discount on the Convertible Debentures Series C-2 and is accreted over the life of the convertible debentures using the effective interest rate. During the six month periods ended June 30, 2017 and 2016, the Company recorded interest expense in the amount of $11,022 and $nil, respectively, related to debt discount which includes the accretion of the BCF of the Convertible Debentures Series C-2.

(n) Issued in connection to the Bridge Loan Agreement (note 11(vi)). During the six month periods ended June 30, 2017 and 2016, the Company expensed the fair value of the warrants in the amount of $4,988 and $nil, respectively, as financing fees which has been recorded as interest expense.

(o) Issued in connection to the issuance of Convertible Debentures Series C-3 (note 15). The relative fair value of the warrants in the amount of $43,737, along with the BCF, represents debt discount on the Convertible Debentures Series C-3 and is accreted over the life of the convertible debentures using the effective interest rate. During the six month periods ended June 30, 2017 and 2016, the Company recorded interest expense in the amount of $20,286 and $nil, respectively, related to debt discount which includes the accretion of the BCF of the Convertible Debentures Series C-3.

(p) Issued in connection to private placement units. No stock based compensation expense was recorded since the warrants were issued as part of a private placement of Common Shares. The fair value of the warrants were calculated and recorded in additional paid in capital.

(q) Issued as a commission payment related to the issuance of private placement units. The fair value of the warrants in the amount of $24,474 was recorded as a reduction to the proceeds received from the private placement issuance.

(r) Issued in connection to private placement units. No stock based compensation expense was recorded since the warrants were issued as part of a private placement of Common Shares. The fair value of the warrants were calculated and recorded in additional paid in capital.

(s) Issued as a commission payment related to the issuance of private placement units. The fair value of the warrants in the amount of $7,615 was recorded as a reduction to the proceeds received from the private placement issuance.

(t) Issued in connection to an employment agreement. The warrants will vest in three equal tranches, with the first tranche vesting upon the employee generating over $25,000 in sales of new business for two consecutive months, the second tranche vesting upon the employee generating cumulative sales of over $500,000 and the third tranche vesting upon the employee generating cumulative sales of over $1,000,000 of new business. At June 30, 2017, no stock based compensation has been recorded as the employee has not yet begun to generate new business sales.

(u) Issued in connection to private placement units. No stock based compensation expense was recorded since the warrants were issued as part of a private placement of Common Shares. The fair value of the warrants were calculated and recorded in additional paid in capital.

(v) Issued as a commission payment related to the issuance of the private placement units. The fair value of the warrants in the amount of $2,000 was recorded as a reduction to the proceeds received from the private placement issuance.

(w) Issued in connection to private placement units. No stock based compensation expense was recorded since the warrants were issued as part of a private placement of Common Shares. The fair value of the warrants were calculated and recorded in additional paid in capital.

(x) Issued in connection to an employment agreement, the warrants shall vest in two equal tranches, with the first tranche vesting upon the commercial sale of a new product to be developed by the employee and the second tranche vesting upon the commercial sale of a total of two new products developed by the employee. The Company expects both tranches to vest at August 15, 2017 and has recorded $35,094 in stock based compensation for the six month period ended June 30, 2017.

(y) Issued in connection to private placement units. No stock based compensation expense was recorded since the warrants were issued as part of a private placement of Common Shares. The fair value of the warrants were calculated and recorded in additional paid in capital.

(z) Issued in connection to private placement units. No stock based compensation expense was recorded since the warrants were issued as part of a private placement of Common Shares. The fair value of the warrants were calculated and recorded in additional paid in capital.

(aa) Issued in connection to private placement units. No stock based compensation expense was recorded since the warrants were issued as part of a private placement of Common Shares. The fair value of the warrants were calculated and recorded in additional paid in capital.

18. STOCK BASED COMPENSATION

The Company recorded stock based compensation as follows:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	**Six Months Ended June 30, 2017**	Six Months Ended June 30, 2016
Warrants Issued as Stock Based Compensation				
Warrants issued in connection to the Bridge Loan Agreement	**$ -**	$ -	**$ 4,988**	$ -
Warrants issued as commission related to private placements units	**-**	-	**34,089**	-
Warrants issued in relation to consulting agreements	**35,094**	172,431	**35,094**	222,939
Total Warrants Issued as Stock Based Compensation	**35,094**	172,431	**74,171**	222,939
Issuance of stock options (note 21)	**1,213,605**	-	**1,213,605**	-
Common shares issued for consulting fees	**6,000**	100,154	**6,000**	100,154
Common shares to be issued for consulting fees	**-**	32,710	**-**	32,710
Total Stock Based Compensation	**$ 1,254,699**	$ 305,295	**$ 1,293,776**	$ 355,803

19. SHARES TO BE ISSUED

As at June 30, 2017, the Company has $83,000 in Common Shares to be issued, consisting of the following:

- 328,571 Common Shares, valued at $0.07 per share, to be issued due to the conversion of $23,000 of Convertible Debentures Series A (note 15); and

- 600,000 Common Shares on a private placement basis, at a price of $0.10 per private placement unit, for cash proceeds of $60,000.

As at December 31, 2016, the Company had $146,550 in Common Shares to be issued, consisting of the following:

- 328,571 Common Shares, valued at $0.07 per share, to be issued due to the conversion of $23,000 of Convertible Debentures Series A (note 15);

- 320,022 Common Shares, valued at an average price of $0.156 per share, to be issued due to the settlement of $50,000 in consulting fees owing to a shareholder. Such Common Shares were issued on April 5, 2017;

- 143,715 Common Shares, valued at an average price of $0.129 per share, to be issued due to the settlement of $18,550 in consulting fees owing to an unrelated party. Such Common Shares were issued on April 5, 2017; and

- 366,667 Common Shares, valued at $0.15 per share, to be issued due to the settlement of $55,000 in consulting fees owing to an unrelated party. Such Common Shares were issued on April 5, 2017.

20. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business and are as follows:

(a) The Company's current and former officers and shareholders have advanced funds on an unsecured, non-interest bearing basis to the Company, unless stated otherwise below, for travel related and working capital purposes. The Company has not entered into any agreement on the repayment terms for these advances.

Advances from related parties were as follows:

	June 30, 2017	December 31, 2016
Advances by and amounts payable to Officers of the Company, two of which are also Directors	**$ 159,236**	$ 95,759
Advances by and consulting fees payable to a corporation owned by two Officers of the Company, one of which is also a Director	**139,167**	313,745
Consulting fees owing to persons related to Officers who are also Directors of the Company	**53,878**	77,463
Advances by Officers of the Company, one of which is also a Director, bears interest at 1.5% per month	**552,634**	901,784
Amounts payable to a corporation related by virtue of a common Officer and Director of the Company	**-**	76,407
Consulting fees and directors fees payable to Directors of the Company	**25,680**	13,725
	$ 930,595	$ 1,478,883

At June 30, 2017, the Company had deferred amounts of $1,060,687 (December 31, 2016: $1,085,906) owing to related parties. The deferred amounts consist of $573,280 (December 31, 2016: $572,506) owing to Officers of the Company, two of which are also Directors, for consulting fees payable, amounts of $61,000 owing to Directors of the Company for directors fees payable and amounts of $385,300 (CAD $500,000) (December 31, 2016: $372,400; CAD $500,000) owing to a corporation owned by two Officers of the Company, one of which is also a Director, for management service fees payable and $41,107 of amounts accrued towards the incentive bonus to be paid at maturity. The amounts are non-interest bearing and payable on April 1, 2018, in exchange for agreeing to defer the fees, the Directors and Officers will receive an incentive bonus equal to 10% of the amount deferred and payable on April 1, 2018. The bonus will be expensed over the term of the deferrals. During the six month periods ended June 30, 2017 and 2016, the Company expensed $47,307 and $nil, respectively, in interest expense related to the incentive bonus.

During the six month period ended June 30, 2017, the Company settled $87,100 of fees payable, deferred and otherwise, to two former Directors of the Company with the issuance of 871,000 Common Shares at a price of $0.10 per share. The amount allocated to Shareholders' Deficiency, based on their fair value, amounted to $121,940. The balance of $34,840 has been recorded as a loss on settlement of debt (note 16).

During the six month period ended June 30, 2017, the Company settled $30,000 of amounts payable to a Director of the Company with the issuance of 300,000 Common Shares. The amount allocated to Shareholders' Deficiency, based on their fair value, amounted to $33,000. The balance of $3,000 has been recorded as a loss on settlement of debt (note 16).

During the year ended December 31, 2016, the Company settled $48,000 of the deferred amounts owing to an Officer and Director of the Company with 480,000 Common Shares.

(b)Interest accrued to related parties were as follows:

	June 30, 2017	December 31, 2016
Interest accrued on advances by Officers of the Company, one of which is also a Director	**$ 325,783**	**$ 234,121**
Advances by and consulting fees payable to a corporation owned by two Officers of the Company, one of which is also a Director	**44,277**	**29,669**
	$ 370,060	**$ 263,790**

(c) Transactions with related parties were as follows:

During the six month period ended June 30, 2017, the Company expensed $nil (June 30, 2016: $48,080) in rent expense payable to a corporation related by virtue of a common Officer and a common Director of the Company.

During the six month period ended June 30, 2017, the Company expensed $20,689 (June 30, 2016: $11,024) in costs related to vehicles for the benefit of three Officers, two of which are also Directors of the Company, and for the benefit of a person related to an Officer and Director of the Company. The Company also expensed $48,532 (June 30, 2016: $136,773) in travel and entertainment expenses incurred by Officers and Directors of the Company.

On June 30, 2017, the Company issued 3,042,931 Common Shares, at a price of $0.10 per share, to an Officer who is also a Director of the Company, on the conversion of $275,000 in face value of the Convertible Debentures Series B and the settlement of $29,293 in interest accrued on the Convertible Debentures Series B (note 15).

On June 30, 2017, the Company issued 121,717 Common Shares, at a price of $0.10 per share, to a person related to an Officer who is also a Director of the Company, on the conversion of $11,000 in face value of the Convertible Debentures Series B and the settlement of $1,171 in interest accrued on the Convertible Debentures Series B (note 15).

On June 30, 2017, the Company issued 53,781 Common Shares, at a price of $0.10 per share, to a Director of the Company, on the conversion of $5,000 in face value of the Convertible Debentures Series C-1 and the settlement of $378 in interest accrued on Convertible Debentures Series C-1 (note 15).

On March 21, 2017, the Company issued 1,998,950 Common Shares as part of private placement units, at a price of $0.10 per private placement unit, for settlement of $199,895 in amounts owing to related parties.

On January 20, 2017, the Company issued 65 units of Convertible Debentures Series C-3 in settlement of $65,000 owing to a related party (note 15).

During the year ended December 31, 2016, amounts owing to a former related party in the amount of $9,263 were forgiven, as a result, the Company recorded a gain on settlement in the amount of $9,263.

On June 17, 2016, the Company issued 150,000 Common Shares, at a price of $0.14 per share, to a person related to an Officer and Director of the Company, on the signing of a new employment agreement.

On May 20, 2016, the Company issued face value $55,000 of Convertible Debentures Series C-1 to related parties consisting of $10,000 to a person related to an Officer and Director for settlement of fees payable, $10,000 to a Director of the Company for settlement of directors fees payable and $35,000 to a corporation owned by two Officers of the Company, one of which is also a Director, for settlement of loans payable (note 15).

On May 20, 2016, the Company issued face value $15,000 of Convertible Debentures Series C-1 to two Directors of the Company for cash (note 15).

On February 2, 2016, the Company settled $48,000 in consulting fees payable to a related party and agreed to issue 480,000 Common Shares at a price of $0.10 per share. Such Common Shares were issued on May 19, 2016.

On May 20, 2016, the Company issued face value $55,000 of Convertible Debentures Series C-1 to related parties consisting of $10,000 to a person related to an Officer and Director for settlement of fees payable, $10,000 to a Director of the Company for settlement of directors fees payable and $35,000 to a corporation owned by two Officers of the Company, one of which is also a Director, for settlement of loans payable (note 15).

On May 20, 2016, the Company issued face value $15,000 of Convertible Debentures Series C-1 to two Directors of the Company for cash (note 15).During the year ended December 31, 2016, amounts owing to a former related party in the amount of $9,263 were forgiven, as a result, the Company recorded a gain on settlement in the amount of $9,263.

On June 30, 2017, the Company issued 3,042,931 Common Shares, at a price of $0.10 per share, to an Officer who is also a Director of the Company, on the conversion of $275,000 in face value of the Convertible Debentures Series B and the settlement of $29,293 in interest accrued on the Convertible Debentures Series B (note 15).

On June 30, 2017, the Company issued 121,717 Common Shares, at a price of $0.10 per share, to a person related to an Officer who is also a Director of the Company, on the conversion of $11,000 in face value of the Convertible Debentures Series B and the settlement of $1,171 in interest accrued on the Convertible Debentures Series B (note 15).

On June 30, 2017, the Company issued 53,781 Common Shares, at a price of $0.10 per share, to a Director of the Company, on the conversion of $5,000 in face value of the Convertible Debentures Series C-1 and the settlement of $378 in interest accrued on Convertible Debentures Series C-1 (note 15).

The Company expensed consulting fees payable to related parties as follows:

	June 30, 2017	June 30, 2016
Officers	**$ 170,595**	$ 81,840
Persons related to a Director	**73,109**	26,389
	$ 243,704	$ 108,229

The Company's Chief Executive Officer and Chief Financial Officer are both participants of the consortium of Lenders of the Credit Facility and the Term Loan, each committed to provide a total of CAD $150,000 of the Term Loan (notes 12 and 13).

On February 27, 2017 and in connection to the Term Loan Amendment No.2, the Company agreed to issue 500,000 private placement units, at a price of $0.10 per unit, for settlement of $50,000 in financing fees. The Company's Chief Executive Officer and its Chief Financial Officer received a total of 93,622 units which included 93,622 Common Shares and warrants for the purchase of 46,811 Common Shares.

21. STOCK OPTION PLAN

On June 16, 2017, the Company adopted a stock option plan (the "Option Plan"), under which the Board of Directors may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Company non-transferable options to purchase Common Shares.

Pursuant to the Option Plan, the Company may issue options for such period and exercise price as may be determined by the Board of Directors, and in any case not exceeding ten years from the date of grant and equal to not more than 10% of the then issued and outstanding Common Shares. The minimum exercise price of an option granted under the Option Plan must not be less than 100% of the market value of the Common Shares on the date such option is granted, and if the option is issued to a 10% shareholder of the Company, the exercise price will not be less than 110% of the market value of the Common Shares on the date such option is granted.

Outstanding options at June 30, 2017 are as follows:

Options Outstanding	**Exercise Price**	**Expiry Date**

Executive Officers	4,500,000	$	0.20	June 15, 2020
Directors	1,250,000	$	0.20	June 15, 2020
Employees	3,000,000	$	0.20	June 15, 2020
	8,750,000			

Grant Date	Expiry Date	Options Outstanding	Options Exercisable	Exercise Price	Fair Value Expense
June 16, 2017	June 15, 2020	8,750,000	8,750,000	$ 0.20	$ 1,213,605

The options fully vested on issuance and the fair value of $1,213,605 was determined using the Black Scholes option-pricing model with the following weighted average assumptions:

Stock price	$0.14
Risk-free interest rate	1.49%
Expected life	3 years
Estimated volatility in the market price of the Common Shares	306%

During the six month periods ended June 30, 2017 and 2016, the Company expensed $1,213,605 and $nil, respectively, as a stock option expense.

22. COMMITMENTS AND CONTINGENCIES

a) Premises Lease – Florida, USA

Effective January 1, 2015, a subsidiary of the Company entered into an operating lease agreement for a rental premises in Daytona Beach, Florida, USA. The terms of this agreement are to be for a period of 36 months and ending on December 31, 2017 with payments made monthly. Minimum annual lease payments are as follows:

2017	$	28,055

b) Premises Leases – Budapest, Hungary

Effective January 2, 2017, a subsidiary of the Company entered into a lease agreement for a rental premises in Budapest, Hungary. The terms of the agreement are to be for a period of one year ending on December 31, 2017 with payments made monthly. Minimum annual lease payments are denominated in Euros and are as follows:

2017	€	13,500

c) Litigation

The Company is subject to certain legal proceedings and claims, which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity.

On January 5, 2016, Yaron Elkayam, Pinchas Mamane and Levent Dimen filed a three count complaint against the Company in the Circuit Court of Hillsborough County, Florida alleging (i) breach of contract, (ii) breach of implied covenant of good faith and fair dealing, and (iii) fraud in the inducement seeking damages in the amount of approximately $900,000 of Unsecured Promissory Notes issued on July 1, 2015 as a result of the acquisition of E Vapor Labs. In July of 2016, the Company filed its Answer, Affirmative Defences and Counterclaim.

d) Charitable Sales Promotion

On January 21, 2016, the Company entered into an agreement with Wounded Warriors Family Support Inc. in which the Company agreed to make a donation of $1.00 for each sale of its “Vape Warriors” E-liquid product during the period from January 1, 2016 to December 31, 2016, with a minimum donation of $50,000. During the year ended December 31, 2016, the Company accrued the full $50,000 in charitable contributions regarding this agreement. During the six months ended June 30, 2017, the Company settled the full amount owing in exchange for 300,000 Common Shares.

e) Royalty Agreement

On June 14, 2016, the Company entered into a royalty agreement related to an E-liquid recipe purchased from an unrelated party in which the Company agreed to pay to the recipe developer, a royalty of $0.25 per 60 ml of E-liquid sold that contains the recipe, up to a maximum of $100,000. Although the Company has the ability to sell the E-liquid globally, the royalty is paid only on the E-liquid sold within the United States. The Company is no longer selling the original recipe and as of June 30, 2017, has stopped accruing royalty payments on this agreement. During the three and six month periods ended June 30, 2017, the Company paid $nil and $649, respectively, (June 30, 2016: $nil and $nil) in relation to the royalty agreement.

23. FINANCIAL INSTRUMENT

(i) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company’s credit risk is primarily attributable to fluctuations in the realizable values of its cash and trade receivables. Cash accounts are maintained with major international financial institutions of reputable credit and therefore bear minimal credit risk. In the normal course of business, the Company is exposed to credit risk from its customers and the related trade receivables are subject to normal commercial credit risks. A substantial portion of the Company’s trade receivables are concentrated with a limited number of large customers all of which the Company believes are subject to normal industry credit risks. At June 30, 2017, the Company recorded an allowance of $161,340 (December 31, 2016: $nil) in regards to customers with past due amounts. As at June 30, 2017, 23% (December 31, 2016: 15%)

of the Company’s trade receivables are due from one customer and 59% of the trade receivables are due from four customers. During the six month period ended June 30, 2017, 30% (June 30, 2016: 31%) of the Company’s sales were to one customer.

(ii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company manages liquidity risk by closely monitoring changing conditions in its investees, participating in the day to day management and by forecasting cash flows from operations and anticipated investing and financing activities. At June 30, 2017, the Company had liabilities due to unrelated parties through its financial obligations over the next five years in the aggregate principal amount of $5,316,945. Of such amount, the Company has obligations to repay $4,699,949 over the next twelve months with the remaining $616,996 becoming due within the following four years.

(iii) Foreign Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The risks and fluctuations are related to cash, accounts payable and trade receivables that are denominated in CAD, HUF and EUR.

Analysis by currency in CAD, HUF and EUR equivalents is as follows:

June 30, 2017	**Accounts Payable**	**Trade Receivables**	**Cash**
CAD	$ 197,015	$ 29,431	$ 43,268
HUF	$ 230,041	$ 52,219	$ 14,119
EUR	$ 55,636	$ 59,824	$ 94,563

The effect of a 10% strengthening of the United States Dollar against the Canadian Dollar, the Hungarian Forint and the Euro at the reporting date on the CAD, HUF and EUR-denominated trade receivables and payables carried at that date would, had all other variables held constant, have resulted in an increase in profit for the year and increase of net assets of $12,432, $16,370 and $9,875, respectively. A 10% weakening in the exchange rate would, on the same basis, have decreased profit and decreased net assets by $12,432, $16,370 and $9,875, respectively.

The Company purchases inventory in a foreign currency, at June 30, 2017, the Company included $105,346 (December 31, 2016: $238,888) in inventory purchased in a foreign currency on its consolidated balance sheet. The Company does not use derivative financial instruments to reduce its exposure to this risk.

(iv) 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 is exposed to interest rate risk on its fixed interest rate financial instruments. These fixed-rate instruments subject the Company to a fair value risk. The interest rates on all of the Company's existing interest bearing debt are fixed. Sensitivity to a plus or minus 25 basis points change in rates would not significantly affect the fair value of this debt.

24. SEGMENTED INFORMATION

The Company currently operates in only one business segment, namely, manufacturing, marketing and distributing of E-liquid, vaporizers, E-cigarettes, and vaping accessories in North America and Europe. Total long lived assets by geographic location are as follows:

	June 30, 2017	December 31, 2016
Canada	**$ 670**	$ 826
United States	**1,099,410**	1,125,704
Europe	**20,280**	23,418
	$ 1,120,360	$ 1,149,948

Total sales by geographic location are as follows:

	June 30, 2017	June 30, 2016
Canada	**$ 55,163**	$ -
United States	**470,360**	1,838,191
Europe	**1,984,042**	430,337
	$ 2,509,565	$ 2,268,528

25. SUBSEQUENT EVENTS

On July 1, 2017 and in connection to a consulting agreement, the Company issued warrants for the purchase of 75,000 Common Shares exercisable over eighteen (18) months at an exercise price of $0.20 per share.

On July 31, 2017, the Company acquired all of the issued and outstanding shares of Vape Brands International Inc. ("VBI"), a Canada-based E-liquid manufacturer and distributor, through its wholly owned subsidiary Gilla Enterprises Inc., pursuant to the terms of a share purchase agreement, dated July 31, 2017. Pursuant to the share purchase agreement, the Company paid to the vendors of VBI the following consideration: (i) 2,500,000 Common Shares of the Company valued at $0.14 per share for a total value of $350,000; (ii) warrants for the purchase of 2,000,000 Common Shares of the Company exercisable over twenty-four (24) months at an exercise price of $0.20 per share from the closing date, such warrants vesting in five (5) equal tranches every four (4) months following the closing date; (iii) a total of CAD $550,000 in non-interest bearing, unsecured vendor-take-back loans due over twenty-four (24) months, with principal repayments beginning five (5) months from the closing date until maturity of up to CAD $25,000 per month; and (iv) an earn-out capped at (a) the total cumulative amount of CAD $2,000,000; or (b) five (5) years from the closing date (the "Earn-Out"). The Earn-Out shall be calculated as: (x) 15% of the gross profit generated in Canada by VBI's co-pack and distribution business; (y) 10% of the revenue generated in Canada by Gilla's existing E-liquid brands; and (z) 15% of the revenue generated globally on VBI's existing E-liquid brands. Furthermore, the Earn-Out shall be calculated and paid to the vendors of VBI quarterly in arrears and only as 50% of the aforementioned amounts on incremental revenue between CAD $300,000 and CAD $600,000 per quarter and 100% of the aforementioned amounts on incremental revenue above CAD $600,000 per quarter with the Earn-Out payable to the vendors in the fifth year repeated and paid to the vendors in four (4) quarterly payments after the end of the Earn-Out period, subject to the cumulative limit of the Earn-Out. No Earn-Out shall be payable to the vendors of VBI if total revenue for the Earn-Out calculation period is less than CAD $300,000 per quarter. On July 31, 2017, the Company also entered into an employment agreement with one of the vendors at a base salary of CAD $155,000 per annum and issued warrants for the purchase of 1,000,000 Common Shares of the Company exercisable over twenty-four (24) months at an exercise price of $0.20 per share, such warrants vesting in four (4) equal tranches every six (6) months from the issuance date.

On August 4, 2017, the Company issued and sold on a private placement basis, 500,000 Common Shares of the Company at a price of $0.10 per share for cash proceeds of $50,000.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q (this "Report"). This Report contains certain forward-looking statements and the Company's future operating results could differ materially from those discussed herein. Our disclosure and analysis included in this Report concerning our operations, cash flows and financial position include forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expect", "anticipate", "intend", "plan", "believe", "estimate", "may", "project", "will likely result", and similar expressions are intended to identify forward-looking statements. Such forward-looking statements include (i) the ability to raise additional capital; and (ii) expectations regarding anticipated growth. Such forward-looking statements are subject to certain risks, uncertainties and assumptions, and are more fully described under "Part I, Item 1A - Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2016. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. In any event, these and other important factors, including those set forth in Item 1A ñ "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2016 may cause actual results to differ materially from those indicated by our forward-looking statements. We assume no obligation to update or revise any forward-looking statements we make in this Report, except as required by applicable securities laws.

Except as otherwise stated or required by the context, references in this document to "Gilla" the "Registrant", the "Company," "we," and "our" refer to Gilla Inc.

Overview

Gilla Inc. (the "Company", the "Registrant" or "Gilla") was incorporated under the laws of the State of Nevada on March 28, 1995 under the name of Truco, Inc. The Company later changed its name to Web Tech, Inc., and then to Cynergy, Inc., Mercantile Factoring Credit Online Corp., Incitations, Inc., Osprey Gold Corp. and to its present name. The Company adopted the present name, Gilla Inc., on February 27, 2007. The Company's registered address is 475 Fentress Blvd., Unit L, Daytona Beach, Florida 32114.

The current business of the Company consists of the manufacturing, marketing and distribution of generic and premium branded E-liquid ("E-liquid"), which is the liquid used in vaporizers, electronic cigarettes ("E-cigarettes"), and other vaping hardware and accessories. E-liquid is heated by an atomizer to deliver the sensation of smoking and sometimes even mimic traditional smoking implements, such as cigarettes or cigars, in their use and/or appearance, without burning tobacco. The Company provides consumers with choice and quality across various categories and price points to deliver the most efficient and effective vaping solutions for nicotine and related products. Gilla's proprietary product portfolio includes the following brands: Coil Glaze™, Siren, The Drip Factory, Craft Vapes™, Craft Clouds, Surf Sauce, Vinto Vape, VaporLiq, Vape Warriors, Vapor's Dozen, Miss Pennysworth's Elixirs, Enriched Vapor and Crown E-liquid™.

Recent Developments

On May 10, 2016, the U.S. Federal Food & Drug Administration ("FDA") finalized a new rule, captioned, the "Deeming Tobacco Products To Be Subject to the Federal Food, Drug, and Cosmetic Act", which extends the FDA's authority to include the regulation of electronic nicotine delivery systems (such as e-cigarettes and vape pens), all cigars, hookah (waterpipe) tobacco, pipe tobacco and nicotine gels, among others. Going forward, the FDA will be able to review new nicotine products not yet on the market; regulate claims by nicotine product manufacturers and distributers; require evaluation and reporting of the ingredients of nicotine products and how they are made; and require disclosures regarding risks of nicotine products. The final rule went into effect on August 8, 2016. The Company is assessing the impact of the new FDA rule. Prospective investors are directed to the "Risk Factors" contained in the Company's Annual Report filed with the U.S. Securities and Exchange Commission (the "SEC") for the fiscal year ended December 31, 2016.

On April 4, 2017, the Company issued, on a private placement basis, 500,000 private placement units of the Company (the "Units") at a price of $0.10 per Unit as a settlement of $50,000 in financing fees in connection to a term loan amendment. Each Unit consisted of one Common Share and one half Common Share purchase warrant, each full warrant entitling the holder to purchase one Common Share at an exercise price of $0.20 per Common Share for a period of twelve months following the closing. The warrants for the purchase of 250,000 Common Shares were issued on April 4, 2017 and the 500,000 Common Shares were issued on June 22, 2017.

On April 5, 2017, the Company issued 320,022 Common Shares at an average price of $0.156 per Common Share as a settlement of $50,000 in consulting fees owing to an unrelated party.

On April 5, 2017, the Company issued 143,715 Common Shares at an average price of $0.129 per Common Share as a settlement of $18,550 in consulting fees owing to an unrelated party.

On April 5, 2017, the Company issued 366,667 Common Shares at a price of $0.15 per Common Share as a settlement of $55,000 in consulting fees owing to an unrelated party.

On April 5, 2017, the Company issued 300,000 Common Shares at a price of $0.10 per Common Share as a settlement of $30,000 in amounts owing to a director of the Company.

On April 6, 2017 and in connection to an employment agreement, the Company issued warrants for the purchase of 500,000 Common Shares exercisable over twenty-four months at an exercise price of $0.25 per Common Share. The warrants will vest in two equal tranches, with the first tranche vesting upon the commercial sale of a new product to be developed by the employee and the second tranche vesting upon the commercial sale of a total of two new products developed by the employee.

On April 28, 2017, the Company issued 300,000 Common Shares at a price of $0.167 per Common Share as a settlement of $50,000 in charitable contributions owing to an unrelated party.

On April 28, 2017 and in connection to an employment agreement, the Company issued 50,000 Common Shares at a price of $0.12 per Common Share as $6,000 in employment income to an unrelated party.

On April 30, 2017, the Company sent notices of forced conversion to holders of its unsecured subordinated convertible debenture units issued on December 31, 2015 (the "Convertible Debenture Series B") electing to force conversion of a total of $423,000 in face value and $45,058 in accrued interest owing on the Convertible Debentures Series B. On June 30, 2017 and in connection to the aforementioned notices, the Company issued a total of 4,680,581 Common Shares at a price of $0.10 per Common Share.

On April 30, 2017, the Company sent notices of forced conversion to holders of its unsecured subordinated convertible debenture units issued on May 20, 2016 (the "Convertible Debentures Series C-1") electing to force conversion of a total of $190,000 in face value and $14,367 in accrued interest owing on the Convertible Debentures Series C-1. On June 30, 2017 and in connection to the aforementioned notices, the Company issued a total of 2,043,670 Common Shares at a price of $0.10 per Common Share.

On May 2, 2017, Henry J. Kloepper and Stanley D. Robinson resigned as directors of the Company, effective immediately. On May 2, 2017 and in connection to such resignations, the Company settled a total of $87,100 in directors fees payable to Mr. Kloepper and Mr. Robinson and issued a total of 871,000 Common Shares at a price of $0.10 per Common Share. Such Common Shares were issued on May 23, 2017.

On June 2, 2017, the Company issued and sold, on a private placement basis, 3,269,230 Units at a price of $0.10 per Unit for total gross proceeds of $326,923. The warrants for the purchase of 1,634,615 Common Shares were issued on June 2, 2017 and the 3,269,230 Common Shares were issued on June 22, 2017.

On June 16, 2017, the Company issued and sold, on a private placement basis, 1,538,460 Units at a price of $0.10 per Unit for total gross proceeds of $153,846. The warrants for the purchase of 769,230 Common Shares were issued on June 16, 2017 and the 1,538,460 Common Shares were issued on June 22, 2017.

On June 16, 2017, the Company adopted a stock option plan (the "Option Plan"), under which the Board of Directors may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Company non-transferable options to purchase Common Shares. Pursuant to the Option Plan, the Company may issue options for such period and exercise price as may be determined by the Board of Directors, and in any case not exceeding ten years from the date of grant and equal to not more than 10% of the then issued and outstanding Common Shares. The minimum exercise price of an option granted under the Option Plan must not be less than 100% of the market value of the Common Shares on the date such option is granted, and if the option is issued to a 10% shareholder of the Company, the exercise price will not be less than 110% of the market value of the Common Shares on the date such option is granted.

On June 16, 2017, the Company's Board of Directors granted and issued, under the Option Plan, options for the purchase of 8,750,000 Common Shares exercisable over thirty-six months at an exercise price of $0.20 per Common Share.

On June 28, 2017, the Company issued and sold, on a private placement basis, 600,000 Units at a price of $0.10 per Unit for total gross proceeds of $60,000. The warrants for the purchase of 300,000 Common Shares were issued on June 28, 2017 and the 600,000 Common Shares remain unissued.

Subsequent Events

On July 1, 2017 and in connection to a consulting agreement, the Company issued warrants for the purchase of 75,000 Common Shares exercisable over eighteen months at an exercise price of $0.20 per Common Share.

On July 31, 2017, the Company acquired all of the issued and outstanding shares of Vape Brands International Inc. ("VBI"), a Canada-based E-liquid manufacturer and distributor, through its wholly owned subsidiary Gilla Enterprises Inc., pursuant to the terms of a share purchase agreement, dated July 31, 2017. Pursuant to the share purchase agreement, the Company paid to the vendors of VBI the following consideration: (i) 2,500,000 Common Shares of the Company valued at $0.14 per Common Share for a total value of $350,000; (ii) warrants for the purchase of 2,000,000 Common Shares of the Company exercisable over twenty-four months at an exercise price of $0.20 per Common Share from the closing date, such warrants vesting in five equal tranches every four months following the closing date; (iii) a total of $550,000 Canadian Dollars ("CAD") in non-interest bearing, unsecured vendor-take-back loans due over twenty-four months, with principal repayments beginning five months from the closing date until maturity of up to CAD $25,000 per month; and (iv) an earn-out capped at (a) the total cumulative amount of CAD $2,000,000; or (b) five years from the closing date (the "Earn-Out"). The Earn-Out shall be calculated as: (x) 15% of the gross profit generated in Canada by VBI's co-pack and distribution business; (y) 10% of the revenue generated in Canada by Gilla's existing E-liquid brands; and (z) 15% of the revenue generated globally on VBI's existing E-liquid brands. Furthermore, the Earn-Out shall be calculated and paid to the vendors of VBI quarterly in arrears and only as 50% of the aforementioned amounts on incremental revenue between CAD $300,000 and CAD $600,000 per quarter and 100% of the aforementioned amounts on incremental revenue above CAD $600,000 per quarter with the Earn-Out payable to the vendors in the fifth year repeated and paid to the vendors in four quarterly payments after the end of the Earn-Out period, subject to the cumulative limit of the Earn-Out. No Earn-Out shall be payable to the vendors of VBI if total revenue for the Earn-Out calculation period is less than CAD $300,000 per quarter. On July 31, 2017, the Company also entered into an employment agreement with one of the vendors at a base salary of CAD $155,000 per annum and issued warrants for the purchase of 1,000,000 Common Shares of the Company exercisable over twenty-four months at an exercise price of $0.20 per Common Share, such warrants vesting in four equal tranches every six months from the issuance date.

On August 4, 2017, the Company issued and sold, on a private placement basis, 500,000 Common Shares of the Company at a price of $0.10 per share for total gross proceeds of $50,000.

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016

Revenue

For the three month period ended June 30, 2017, the Company generated $1,266,026 in sales from E-liquids, vaporizers, E-cigarettes and accessories as compared to $911,595 in sales for the three month period ended June 30, 2016. Of the $1,266,026 in revenue generated for the three month period ended June 30, 2017, $935,061 (74% of total sales) was generated in Europe, $295,265 (23% of total sales) was generated in the United States and $35,700 (3% of total sales) was generated in Canada. Of the $911,595 in revenue generated for the three month period ended June 30, 2016, $521,527 (41% of total sales) was generated in the United States and $390,068 (31% of total sales) was generated in Europe. The increase in international sales is the result of the Company's focus on building its global business as well as growing demand for its E-liquid products contained within the Company's E-liquid brand portfolio.

For the six month period ended June 30, 2017, the Company generated $2,509,565 in sales from E-liquids, vaporizers, E-cigarettes and accessories as compared to $2,268,528 in sales for the six month period ended June 30, 2016. Of the $2,509,565 in revenue generated for the six month period ended June 30, 2017, $1,984,042 (79% of total sales) was generated in Europe, $470,360 (19% of total sales) was generated in the United States and $55,163 (2% of total sales) was generated in Canada. Of the $2,268,528 in revenue generated for the six month period ended June 30, 2016, $1,838,191 (73% of total sales) was generated in the United States and $430,337 (17% of total sales) was generated in Europe. The increase in international sales is the result of the Company's focus on building its global business as well as growing demand for its E-liquid products contained within the Company's E-liquid brand portfolio.

The Company's cost of goods sold for the three month period ended June 30, 2017 was $493,987 which represents E-liquid, bottles, hardware and related packaging as compared to $345,036 for the three month period ended June 30, 2016. Gross profit for the three month period ended June 30, 2017 was $772,039 with margins of 61% as compared to $566,559 with margins of 62% for the comparative period in 2016.

The Company's cost of goods sold for the six month period ended June 30, 2017 was $1,040,720 which represents E-liquid, bottles, hardware and related packaging as compared to $1,205,982 for the six month period ended June 30, 2016. Gross profit for the six month period ended June 30, 2017 was $1,468,845 with margins of 59% as compared to $1,062,546 with margins of 47% for the comparative period in 2016.

Operating Expenses

For the three month period ended June 30, 2017, the Company incurred an administrative expense of $1,146,710, consulting fees due to related parties of $124,245, depreciation expense of $10,045, amortization expense of $11,650, stock option expense of $1,213,605 and a loss on settlement of $23,840. For the three month period ended June 30, 2016, the Company incurred an administrative expense of $1,751,612, consulting fees due to related parties of $111,415, depreciation expense of $15,015, amortization expense of $43,500, recovery of bad debt of $1,198, impairment of goodwill of $208,376 and a gain on settlement of $245,625. Total operating expenses for the three month period ended June 30, 2017 were $2,530,095 as compared to $1,883,095 for the three month period ended June 30, 2016.

Administrative costs were primarily comprised of rent, legal and audit fees, marketing fees, travel expenses, consulting fees and employee wages. The decrease in administrative expenses of $604,902 between the three month period ended June 30, 2017 as compared to the three month period ended June 30, 2016 is attributable to cost cutting measures by management. The increase in consulting fees due to related parties of $12,830 between the three month period ended June 30, 2017 as compared to the three month period ended June 30, 2016 is attributable to the effects of foreign exchange translation. The stock option expense incurred in the three month period ended June 30, 2017 of $1,213,605 is attributable to the adoption of a stock option plan and issuance thereunder to the Company's directors, officers and employees. The loss on settlement of $23,840 for the three month period ended June 30, 2017 is attributable to losses associated with the settlement of debt. The gain on settlement of $245,625 for the three month period ended June 30, 2016 is attributable to the settlement of consideration and compensation payable to a vendor of an acquisition. As a result of the settlement, the Company also tested and impaired $208,376 in goodwill related to the value of workforce and business acumen required from such acquisition.

For the six month period ended June 30, 2017, the Company incurred an administrative expense of $2,144,060, consulting fees due to related parties of $243,704, depreciation expense of $19,701, amortization expense of $23,300, bad debt expense of $161,340, stock option expense of $1,213,605 and a loss on settlement of $23,840. For the six month period ended June 30, 2016, the Company incurred an administrative expense of $2,798,638, consulting fees due to related parties of $219,644, depreciation expense of $28,510, amortization expense of $55,000, recovery of bad debt of $1,198, impairment of goodwill of $208,376 and a gain on settlement of $245,625. Total operating expenses for the six month period ended June 30, 2017 were $3,829,550 as compared to $3,063,345 for the six month period ended June 30, 2016.

Administrative costs were primarily comprised of rent, legal and audit fees, marketing fees, travel expenses, consulting fees and employee wages. The decrease in administrative expenses of $654,578 between the six month period ended June 30, 2017 as compared to the six month period ended June 30, 2016 is attributable to cost cutting measures by management. The increase in consulting fees due to related parties of $24,060 between the six month period ended June 30, 2017 as compared to the six month period ended June 30, 2016 is attributable to the effects of foreign exchange translation and the hiring of a new related party in the second half of fiscal 2016. The bad debt expense of $161,340 for the six month period ended June 30, 2017 is attributable to an allowance booked for doubtful accounts. The stock option expense incurred in the six month period ended June 30, 2017 of $1,213,605 is attributable to the adoption of a stock option plan and issuance thereunder to the Company's directors, officers and employees. The loss on settlement of $23,840 for the six month period ended June 30, 2017 is attributable to losses associated with the settlement of debt. The gain on settlement of $245,625 for the six month period ended June 30, 2016 is attributable to the settlement of consideration and compensation payable to a vendor of an acquisition. As a result of the settlement, the Company also tested and impaired $208,376 in goodwill related to the value of workforce and business acumen required from such acquisition.

Loss from Operations

For the three month period ended June 30, 2017, the Company incurred a loss from operations of $1,758,056 as compared to a loss from operations of $1,316,536 for the three month period ended June 30, 2016 due to the reasons discussed above.

For the six month period ended June 30, 2017, the Company incurred a loss from operations of $2,360,705 as compared to a loss from operations of $2,000,799 for the six month period ended June 30, 2016 due to the reasons discussed above.

Other Expenses

For the three month period ended June 30, 2017, the Company incurred a foreign exchange loss of $64,839, amortization of debt discount expense of $589,703 and interest expense of $220,371. For the three month period ended June 30, 2016, the Company incurred a foreign exchange loss of $11,609, amortization of debt discount expense of $14,148 and interest expense of $149,932. For the three month period ended June 30, 2017, the Company incurred total other expenses of $874,913 as compared to $175,689 for the three month period ended June 30, 2016. The increase in amortization of debt discount expense of $575,555 between the three month period ended June 30, 2017 as compared to the three month period ended June 30, 2016 is attributable to an increase in accretion of the beneficial conversion feature and fair value of the warrants associated with the Company's convertible debentures resulting from the cumulative effects of the issuance of new convertible debentures in fiscal 2016 and 2017 and the conversion of convertible debentures in 2017. The increase in interest expense of $70,439 between the three month period ended June 30, 2017 as compared to the three month period ended June 30, 2016 is attributable to increased interest expenses associated with the Company's debt instruments.

For the six month period ended June 30, 2017, the Company incurred a foreign exchange loss of $59,894, amortization of debt discount expense of $660,992 and interest expense of $449,648. For the six month period ended June 30, 2016, the Company incurred a foreign exchange loss of $89,092, amortization of debt discount expense of $36,286 and interest expense of $271,916. For the six month period ended June 30, 2017, the Company incurred total other expenses of $1,170,534 as compared to $397,294 for the six month period ended June 30, 2016. The increase in amortization of debt discount expense of $624,706 between the six month period ended June 30, 2017 as compared to the six month period ended June 30, 2016 is attributable to an increase in accretion of the beneficial conversion feature and fair value of the warrants associated with the Company's convertible debentures resulting from the cumulative effects of the issuance of new convertible debentures in fiscal 2016 and 2017 and the conversion of convertible debentures in 2017. The increase in interest expense of $177,732 between the six month period ended June 30, 2017 as compared to the six month period ended June 30, 2016 is attributable to increased interest expenses associated with the Company's debt instruments.

Net Loss and Comprehensive Loss

Net loss amounted to $2,632,969 for the three month period ended June 30, 2017 as compared to a net loss of $1,492,225 for the three month period ended June 30, 2016 due to the reasons discussed above.

Net loss amounted to $3,531,239 for the six month period ended June 30, 2017 as compared to a net loss of $2,398,093 for the six month period ended June 30, 2016 due to the reasons discussed above.

Comprehensive loss amounted to $2,732,954 for the three month period ended June 30, 2017 as compared to a comprehensive loss of $1,491,513 for the three month period ended June 30, 2016. The change in comprehensive loss as compared to net loss was due to foreign currency translation adjustments resulting from the Company's translation of financial statements from Canadian Dollars, Euros and Hungarian Forints to U.S. Dollars.

Comprehensive loss amounted to $3,698,506 for the six month period ended June 30, 2017 as compared to a comprehensive loss of $2,521,679 for the six month period ended June 30, 2016. The change in comprehensive loss as compared to net loss was due to foreign currency translation adjustments resulting from the Company's translation of financial statements from Canadian Dollars, Euros and Hungarian Forints to U.S. Dollars.

Liquidity and Capital Resources

As at June 30, 2017, the Company had total assets of $2,612,271 (as compared to total assets of $2,422,954 at December 31, 2016) consisting of cash and cash equivalents of $314,028, trade receivables of $167,921, inventory of $555,773, other current assets of $454,189, property and equipment of $86,780, website development of $6,083, intangibles of $138,000 and goodwill of $889,497. The increase in assets as at June 30, 2017 as compared to December 31, 2016 are primarily the result of the increase in cash as a result of private placements completed during the six months ended June 30, 2017 and an increase of trade receivables.

As at June 30, 2017, the Company had total liabilities of $7,678,287 (as compared to total liabilities of $8,113,864 at December 31, 2016) consisting of accounts payable of $1,592,726, accrued liabilities of $368,563, accrued interest due to related parties of $370,060, customer deposits of $39,322, loans from shareholders of $683,102, amounts due to related parties of $930,595, promissory notes of $835,317, amounts owing on acquisition of $55,000, term loan of $1,095,919, long term promissory notes of $30,000, long term loans from shareholders of $485,300, long term amounts due to related parties of $1,060,687 and long term convertible debentures of $131,696.

At June 30, 2017, the Company had negative working capital of $4,478,693 and an accumulated deficit of $16,782,133.

As at December 31, 2016, the Company had total assets of $2,422,954 consisting of cash and cash equivalents of $184,754, trade receivables of $80,409, inventory of $545,135, other current assets of $462,708, property and equipment of $93,068, website development of $7,083, intangibles of $160,300 and goodwill of $889,497.

As at December 31, 2016, the Company had total liabilities of $8,113,864 consisting of accounts payable of $1,740,071, accrued liabilities of $404,633, accrued interest due to related parties of $263,790, customer deposits of $56,834, loans from shareholders of $502,288, amounts due to related parties of $1,478,883, promissory notes of $801,067, amounts owing on acquisition of $55,000, term loan of $1,144,337, long term loans from shareholders of $497,351, long term amounts due to related parties of $1,085,906 and long term convertible debentures of $83,704.

At December 31, 2016, the Company had negative working capital of $5,173,897 and an accumulated deficit of $13,250,894.

Net cash used in operating activities

For the six month period ended June 30, 2017, the Company used net cash of $1,250,358 (as compared to $1,319,077 during the six month period ended June 30, 2016) in operating activities to fund administrative, marketing and sales. The decrease is attributable to the results of operations and changes in the operating assets and liabilities as discussed above.

Net cash used in investing activities

For the six month period ended June 30, 2017, the Company used net cash of $11,673 (as compared to $60,290 during the six month period ended June 30, 2016) in investing activities relating to the addition of capital assets.

Net cash flow from financing activities

For the six month period ended June 30, 2017, net cash provided by financing activities was $1,487,349 (see “Term Loan”, “Bridge Loan”, “Promissory Notes” and “Common Shares”) as compared to net cash provided by financing activities of $1,377,123 for the six month period ended June 30, 2016.

Term Loan

On January 18, 2016, the Company entered into a term loan (the “Term Loan”) with the Lenders, whereby the Lenders would loan the Company the aggregate principal amount of CAD $1,000,000 for capital expenditures, marketing expenditures and working capital. The agent who arranged the Term Loan was not a related party of the Company. The Term Loan bears interest at a rate of 16% per annum, on the outstanding principal, and shall mature on July 3, 2017, whereby any outstanding principal together with all accrued and unpaid interest thereon shall be due and payable. The Term Loan is secured the intercreditor and subordination agreement as well as the security agreement issued in connection to the Credit Facility. The Term Loan is subject to a monthly cash sweep, calculated as the total of (i) CAD $0.50 for every E-liquid bottle, smaller than 15 ml, sold by the Company within a monthly period; and (ii) CAD $1.00 for every E-liquid bottle, greater than 15 ml, sold by the Company within a monthly period (the “Cash Sweep”). The Cash Sweep will be disbursed to the Lenders in the following priority: first, to pay the monthly interest due on the Term Loan; and second, to repay any remaining principal outstanding on the Term Loan. The Company may elect to repay the outstanding principal of the Term Loan together with all accrued and unpaid interest thereon prior to the maturity, subject to an early repayment penalty of the maximum of (i) 3 months interest on the outstanding principal; or (ii) 50% of the interest payable on the outstanding principal until maturity (the “Early Repayment Penalty”). The Term Loan shall be immediately due and payable at the option of the Lenders if there is a change in key personnel meaning the Company’s current Chief Executive Officer and Chief Financial Officer. On January 18, 2016 and in connection to the Term Loan, the Company issued warrants for the purchase of 250,000 Common Shares exercisable until December 31, 2017 at an exercise price of $0.20 per share. In addition, the Company also extended the expiration date of the 250,000 warrants issued on August 1, 2014 in connection with the Credit Facility until December 31, 2017, with all other terms of the warrants remaining the same.

The Company’s Chief Executive Officer and Chief Financial Officer are both participants of the consortium of Lenders of the Term Loan, each having committed to provide ten percent of the principal amount of the Term Loan. Neither the Chief Executive Officer nor the Chief Financial Officer participated in the warrants issued or warrants extended in connection with the Term Loan and both parties have been appropriately abstained from voting on the Board of Directors to approve the Term Loan, where applicable.

On July 15, 2016, the Company and the Lenders of the Term Loan entered into a term loan amendment (the "Term Loan Amendment") in which the Lenders agreed to extend to the Company an additional CAD $600,000 in principal to increase the Term Loan facility up to the aggregate principal amount of CAD $1,600,000. The parties also extended the maturity date of the Term Loan to July 2, 2018 with all other terms of the Term Loan remaining the same. The Company's Chief Executive Officer and its Chief Financial Officer are both participants in the consortium of Lenders having each committed to provide a total of CAD $150,000 of the initial principal of the Term Loan and the additional principal of the Term Loan pursuant to the Term Loan Amendment.

On July 15, 2016 and in connection to the Term Loan Amendment, the Company issued warrants for the purchase of 300,000 Common Shares exercisable until December 31, 2018 at an exercise price of $0.20 per share. The Company also extended the expiration dates of: i) the warrants for the purchase of 250,000 Common Shares issued on January 18, 2016 in connection to the Term Loan; and ii) the warrants for the purchase of 250,000 Common Shares issued on August 1, 2014 and extended on January 18, 2016 in connection to the Term Loan, both until December 31, 2018, with all other terms of the warrants remaining the same. Neither the Chief Executive Officer nor the Chief Financial Officer participated in the warrants issued or warrants extended in connection with the Term Loan Amendment.

During the year ended December 31, 2016, the Company was advanced $1,219,840 (CAD $1,600,000) from the Term Loan including the CAD $294,000 and CAD $3,093 rolled in from the Credit Facility as well as CAD $240,581 of advances from the Company's Chief Executive Officer and Chief Financial Officer.

On February 27, 2017, the Company and the Lenders of the Term Loan entered into a term loan amendment (the "Term Loan Amendment No.2") to amend certain terms and conditions of the Term Loan. Pursuant to the Term Loan Amendment No.2, the parties agreed to modify the Cash Sweep to be calculated as the total of CAD $0.01667 per ml of E-liquid sold by the Company within a monthly period, such modification to be retroactively applied as of January 1, 2017. The Lenders also agreed to cancel the Early Repayment Penalty and waive any interest payment penalties due under the Term Loan. On February 27, 2017 and in connection to the Term Loan Amendment No.2, the Company agreed to issue 500,000 private placement units at a price of $0.10 per unit as a settlement of $50,000 in financing fees. Each unit consisted of one Common Share and a half Common Share purchase warrant exercisable over twelve months at an exercise price of $0.20 per share. On April 4, 2017, the Company issued the 500,000 units. The Company's Chief Executive Officer and its Chief Financial Officer received a total of 93,622 units which included 93,622 Common Shares and warrants for the purchase of 46,811 Common Shares. The Term Loan Amendment No.2 was accounted for as a modification of debt and no gain or loss was recognized on the amendment.

During the three and six month periods ended June 30, 2017, the Company expensed $42,120 and $86,673, respectively, (June 30, 2016: $29,824 and $52,836) in interest as a result of the Term Loan. Pursuant to the Cash Sweep, during the six month period ended June 30, 2017, the Company paid $171,976 to the Lenders consisting of $101,511 in interest and $70,465 in principal payments. At June 30, 2017, the Company owes the Lenders $26,932, consisting of $14,225 in interest and $12,707 in principal payments, which was paid to the Lenders on July 15, 2017 as per the terms of the Cash Sweep.

The amount owing on the Term Loan is as follows:

	June 30, 2017	December 31, 2016
Opening balance/amount advanced	**$ 1,144,337**	$ 1,219,840
Exchange loss (gain) during the period/year	**36,885**	(28,159)
Principal payments made	**(70,465)**	(76,815)
Interest accrued	**86,673**	140,540
Interest payments made	**(101,511)**	(111,069)
Ending balance	**$ 1,095,919**	$ 1,144,337

Bridge Loan

On January 12, 2017, the Company entered into a bridge loan agreement (the "Bridge Loan Agreement") with a shareholder, whereby the shareholder would make available to the Company the aggregate principal amount of CAD $200,000 (USD $154,120) (the "Bridge Loan") in two equal tranches of CAD $100,000. The Company received the first tranche on January 12, 2017 ("Bridge Loan Note A") and the second tranche on January 18, 2017 ("Bridge Loan Note B"). The Bridge Loan is non-interest bearing and matures on March 12, 2017. Pursuant to the terms of the Bridge Loan Agreement, the shareholder received a 5% upfront fee upon the closing of Bridge Loan Note A and a 5% upfront fee upon the closing of Bridge Loan Note B. The Bridge Loan is secured by the general security agreement issued in connection to the Secured Note. On January 12, 2017 and in connection to the Bridge Loan Agreement, the Company issued warrants for the purchase of 50,000 Common Shares exercisable until January 11, 2018 at an exercise price of $0.20 per share, with 25,000 warrants to vest upon the closing of Bridge Loan Note A and the remaining 25,000 warrants vest upon the closing of Bridge Loan Note B. On January 12, 2017 and

January 18, 2017, the Company closed Bridge Loan Note A and Bridge Loan Note B, respectively, at which dates the warrants became fully vested and exercisable. The Bridge Loan matured on March 12, 2017 and is currently in default.

Promissory Notes

On June 30, 2017, the Company issued a promissory note in the amount of $60,000 to an unrelated party. The principal together with interest at the rate of 18% per annum is payable in monthly instalments of $3,400 with the first payment due on July 19, 2017 and the final payment due on June 19, 2019. In the event of default by way of any missed payment under the promissory note and not cured for a period of 15 days, at the option of the note holder, the entire principal amount remaining will become due and payable without notice. At June 30, 3017, $30,000 of the principal on this promissory note has been classified as a current liability and $30,000 has been classified as a long term liability on the balance sheet.

On April 20, 2017, the Company issued a promissory note in the amount of $20,000 to an unrelated party. The principal together with interest at the rate of 10% over the term of the promissory noteis payable in monthly instalments of $2,750 with the first payment due on May 15, 2017 and the final payment due on December 15, 2017. In the event of default by way of any missed payment under the promissory note and not cured for a period of 15 days, at the option of the note holder, the entire principal amount remaining will become due and payable without notice. During the three and six month periods ended June 30, 2017, the Company paid $250 and $250, respectively, (June 30, 2016: $nil and $nil) in interest on this promissory note. At June 30, 2017, the Company was delinquent on its June 30, 2017 payment which has since been paid.

Common Shares

During the six months ended June 30, 2017, the Company:

- Issued 18,483,818 Common Shares on a private placement basis, at a price of $0.10 per private placement unit, for cash proceeds, net of issuance costs, of $1,758,672;

- Issued 1,998,950 Common Shares on a private placement basis, at a price of $0.10 per private placement unit, for settlement of $199,895 in amounts owing to related parties;

- Issued 226,920 Common Shares on a private placement basis, at a price of $0.10 per private placement unit, for settlement of $22,692 in amounts owing to a shareholder;

- Issued 320,022 Common Shares, at an average price of $0.156 per share, for settlement of $50,000 in consulting fees owing to a shareholder, previously granted and recognized as Common Shares to be issued as at December 31, 2016;

- Issued 143,715 Common Shares, at an average price of $0.129 per share, for settlement of $18,550 in consulting fees owing to an unrelated party, previously granted and recognized as Common Shares to be issued as at December 31, 2016;

- Issued 366,667 Common Shares, at a price of $0.15 per share, for settlement of $55,000 in consulting fees owing to an unrelated party, previously granted and recognized as Common Shares to be issued as at December 31, 2016;

- Issued 300,000 Common Shares, valued at $0.10 per share, for settlement of $30,000 in amounts owing to a director of the Company. The amount allocated to Shareholders' Deficiency, based on their fair value, amounted to $33,000. The balance of $3,000 has been recorded as a loss on settlement of debt;

- Issued 300,000 Common Shares, at a price of $0.167 per share, for settlement of $50,000 in charitable contributions owing to an unrelated party. The amount allocated to Shareholders' Deficiency, based on their fair value, amounted to $36,000. The balance of $14,000 has been recorded as a gain on settlement of debt;

- Issued 50,000 Common Shares, at a price of $0.12 per share, as $6,000 in employment income to an unrelated party;

- Issued 871,000 Common Shares, at a price of $0.10 per share, for settlement of $87,100 in directors fees owing to former directors of the Company. The amount allocated to Shareholders' Deficiency, based on their fair value, amounted to $121,940. The balance of $34,840 has been recorded as a loss on settlement of debt;

- Issued 500,000 Common Shares on a private placement basis, at a price of $0.10 per private placement unit, as settlement of $50,000 in financing fees in connection to the Term Loan Amendment No.2. Of the 500,000 Common Shares issued, 93,622 Common Shares were issued to related parties;

- Issued 6,130,000 Common Shares, at a price of $0.10 per share, on conversion of $613,000 of convertible debentures. The above amount included the conversion of $291,000 of convertible debentures held by related parties of the Company; and

- Issued 594,251 Common Shares, at price of $0.10 per share, for settlement of $59,425 in interest owing on convertible debentures. The above amount included the settlement of $30,843 of interest owing on convertible debentures held by related parties of the Company.

Satisfaction of Our Cash Obligations for the Next 12 Months

These unaudited condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in these unaudited condensed consolidated interim financial statements, at June 30, 2017, the Company has an accumulated deficit of $16,782,133 and a working capital deficiency of $4,478,693 as well as negative cash flows from operating activities of $1,250,358 for the six month period ended June 30, 2017. These conditions represent material uncertainty that cast significant doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon achieving a profitable level of operations or on the ability of the Company to obtain necessary financing to fund ongoing operations. Management believes that the Company will not be able to continue as a going concern for the next twelve months without additional financing or increased revenues.

To meet these objectives, the Company continues to seek other sources of financing in order to support existing operations and expand the range and scope of its business. However, there are no assurances that any such financing can be obtained on acceptable terms and in a timely manner, if at all. Failure to obtain the necessary working capital would have a material adverse effect on the business prospects and, depending upon the shortfall, the Company may have to curtail or cease its operations.

These unaudited condensed consolidated interim financial statements do not include any adjustments to the recorded assets or liabilities that might be necessary should the Company have to curtail operations or be unable to continue in existence.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Recently Adopted Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"). ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet statement of financial position. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. Adoption of ASU 2015-17 did not have an impact on the Company's condensed consolidated interim financial statements.

On March 30, 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). This update requires that all excess tax benefits and tax deficiencies arising from share-based payment awards should be recognized as income tax expense or benefit on the income statement. The amendment also states that excess tax benefits should be classified along with other income tax cash flows as an operating activity. In addition, an entity can make an entity-wide accounting policyelection to either estimate the number of awards expected to vest or account for forfeitures as they occur. The provisions of this update are effective for annual and interim periods beginning after December 15, 2016. Adoption of ASU 2016-09 did not have an impact on the Company's condensed consolidated interim financial statements.

In October 2016, the FASB issued ASU No. 2016-17, *Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control* ("ASU 2016-17"). The new guidance changed how a reporting entity that is a single decision maker for a variable interest entity ("VIE") will consider its indirect interests in that VIE when determining whether the reporting entity is the primary beneficiary and should consolidate the VIE. Under previous U.S. GAAP, a single decision maker in a VIE is required to consider an indirect interest held by a related party under common control in its entirety. Under ASU 2016-17, the single decision maker will consider the indirect interest on a proportionate basis. Adoption of ASU 2016-17 did not have an impact on the Company's condensed consolidated interim financial statements.

Recent Accounting Pronouncements

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and other than the below, does not expect the future adoption of any such pronouncements to have a significant impact on its results of operations, financial condition or cash flow.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), requiring an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 will supersede nearly all existing revenue recognition guidance under U.S. GAAP when it becomes effective. ASU 2014-09 as amended by ASU No. 2015-14, ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12 and ASU No. 2016-20, is effective for interim and annual periods beginning after December 15, 2017 and is applied on either a modified retrospective or full retrospective basis. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize all leases with terms in excess of one year on their balance sheet as a right-of-use asset and a lease liability at the commencement date. The new standard also simplifies the accounting for sale and leaseback transactions. The amendments in this update are effective for annual periods beginning after December 15, 2018, and interim periods therein and must be adopted using a modified retrospective method for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* (“ASU 2016-10”). ASU 2016-10 clarifies the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The provisions of this update are effective for annual and interim periods beginning after December 15, 2017, with early application permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606)*: *Narrow-Scope Improvements and Practical Expedients* (“ASU 2016-12”). The core principal of ASU 2016-12 is the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The provisions of this update are effective for annual and interim periods beginning after December 15, 2017, with early application permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments ñ Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which requires financial assets measured at amortized cost be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis. The measurement of expected losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This guidance is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)* (“ASU 2016-15”), which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. Among other clarifications, the guidance requires that cash proceeds received from the settlement of corporate-owned life insurance (COLI) policies be classified as cash inflows from investing activities and that cash payments for premiums on COLI policies may be classified as cash outflows for investing activities, operating activities or a combination of both. The guidance is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Retrospective application is required. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* ("ASU 2016-16"). ASU 2016-16 prohibits the recognition of current and deferred income taxes for an intra-entity transfer until the asset has been sold to an outside party. The amendment in ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”). The new guidance eliminates the requirement to calculate the implied fair value of goodwill (Step 2 of the current two-step goodwill impairment test under ASC 350). Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value (Step 1 of the current two-step goodwill impairment test). ASU 2017-04 is effective prospectively for reporting periods beginning after December 15, 2019, with early adoption permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting* (“ASU 2017-09”). ASU 2017-09 clarifies which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The standard is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for a full year. These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as filed with the U.S. Securities and Exchange Commission.

The accounting policies of the Company are in accordance with accounting principles generally accepted in the United States of America. Outlined below are those policies considered particularly significant:

Basis of Consolidation

These unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiaries; Gilla Operations, LLC; E Vapor Labs Inc.; E-Liq World, LLC; Charlie's Club, Inc.; Gilla Enterprises Inc. and its wholly owned subsidiaries Gilla Europe Kft. and Gilla Operations Europe s.r.o.; Gilla Operations Worldwide Limited; Gilla Franchises, LLC and its wholly owned subsidiary Legion of Vape, LLC; and Snoke Distribution Canada Ltd. and its wholly owned subsidiary Snoke Distribution USA, LLC. All inter-company accounts and transactions have been eliminated in preparing these unaudited condensed consolidated interim financial statements.

Advertising Costs

In accordance with the FASB ASC No. 720, *Other Expenses* ("ASC 720"), the Company expenses the production costs of advertising the first time the advertising takes place. The Company expenses all advertising costs as incurred. During the three and six month periods ended June 30, 2017, the Company expensed $39,313 and $91,847, respectively, (June 30, 2016: $113,442 and $158,552) as corporate promotions. These amounts have been recorded as an administrative expense.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This item is not applicable to smaller reporting companies.

ITEM 4. DISCLOSURE CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its filings with the SEC is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

As of the end of the period covered by this Report, and under the supervision and with the participation of management, including the Company's Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), the Company has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Company believes that disclosure controls and procedures were not effective as of June 30, 2017, due to the Company's limited resources and staff.

Limitations on Effectiveness of Controls and Procedures

The Company's management, including its Chief Executive Officer and Chief Financial Officer, does not expect that disclosure controls and procedures or its internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Furthermore, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Controls

During the quarter ended June 30, 2017, there have been no changes in the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect its internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On January 5, 2016, Yaron Elkayam, Pinchas Mamane and Levent Dikmen filed a three count complaint against the Company in the Circuit Court of Hillsborough County, Florida alleging (i) breach of contract, (ii) breach of implied covenant of good faith and fair dealing, and (iii) fraud in the inducement seeking damages in the amount of approximately $900,000 of promissory notes issued on July 1, 2015 as a result of the acquisition of E Vapor Labs Inc. In July of 2016, the Company filed its Answer, Affirmative Defences and Counterclaim. There can be no assurance that the outcome of this complaint would not have a material adverse effect on the business, results of operations and financial condition. The legal proceeding has been brought in Circuit Court of the Thirteenth Judicial Circuit in and for Hillsborough County, State of Florida, Civil Division under the following caption: Yaron Elkayam, Pinchas Mamane, Levent Dikmen, Plaintiffs, v. Gilla, Inc., Case No. 16-CA-0047, Division H, filed January 5, 2016.

ITEM 1A. RISK FACTORS

There have been no material changes in the Company's risk factors from those disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the period covered by this Report, we did not have any sales of securities in transactions that were not registered under the Securities Act that have not been previously reported in a Form 8-K, Form 10-Q or Form 10-K, except for the following:

On April 4, 2017, the Company issued, on a private placement basis, 500,000 Units at a price of $0.10 per Unit as a settlement of $50,000 in financing fees in connection to a term loan amendment. The warrants for the purchase of 250,000 Common Shares were issued on April 4, 2017 and the 500,000 Common Shares were issued on June 22, 2017. The Company offered and issued the Units, Common Shares and warrants pursuant to exemptions from the registration requirements of the Securities Act available under Section 4(a)(2) and Rule 506 of Regulation D and Rule 903 of Regulation S promulgated thereunder.

On April 5, 2017, the Company issued 320,022 Common Shares at an average price of $0.156 per Common Share as a settlement of $50,000 in consulting fees owing to an unrelated party, pursuant to exemptions from the registration requirements of the Securities Act available under Rule 903 of Regulations S promulgated thereunder.

On April 5, 2017, the Company issued 143,715 Common Shares at an average price of $0.129 per Common Share as a settlement of $18,550 in consulting fees owing to an unrelated party, pursuant to exemptions from the registration requirements of the Securities Act available under Rule 903 of Regulations S promulgated thereunder.

On April 5, 2017, the Company issued 366,667 Common Shares at a price of $0.15 per Common Share as a settlement of $55,000 in consulting fees owing to an unrelated party, pursuant to exemptions from the registration requirements of the Securities Act available under Section 4(a)(2) and Rule 506 of Regulation D.

On April 5, 2017, the Company issued 300,000 Common Shares at a price of $0.10 per Common Share as a settlement of $30,000 in amounts owing to a director of the Company, pursuant to exemptions from the registration requirements of the Securities Act available under Section 4(a)(2) and Rule 506 of Regulation D.

On April 28, 2017, the Company issued 300,000 Common Shares at a price of $0.167 per Common Share as a settlement of $50,000 in charitable contributions owing to an unrelated party, pursuant to exemptions from the registration requirements of the Securities Act available under Section 4(a)(2) and Rule 506 of Regulation D.

On April 28, 2017 and in connection to an employment agreement, the Company issued 50,000 Common Shares at a price of $0.12 per Common Share as $6,000 in employment income to an unrelated party, pursuant to exemptions from the registration requirements of the Securities Act available under Section 4(a)(2) of Regulation D.

On May 23, 2017, the Company issued 871,000 Common Shares at a price of $0.10 per Common Share as a settlement of $87,100 in directors fees payable to former directors of the Company, pursuant to exemptions from the registration requirements of the Securities Act available under Rule 903 of Regulations S promulgated thereunder.

On June 30, 2017 and in connection to the conversion of Convertible Debenture Series B, the Company issued a total of 4,680,581 Common Shares at a price of $0.10 per Common Share, pursuant to exemptions from the registration requirements of the Securities Act available under Section 4(a)(2) and Rule 506 of Regulation D and Rule 903 of Regulation S promulgated thereunder.

On June 30, 2017 and in connection to the conversion of Convertible Debenture Series C-1, the Company issued a total of 2,043,670 Common Shares at a price of $0.10 per Common Share, pursuant to exemptions from the registration requirements of the Securities Act available under Section 4(a)(2) and Rule 506 of Regulation D and Rule 903 of Regulation S promulgated thereunder.

On June 2, 2017, the Company issued and sold, on a private placement basis, 3,269,230 Units at a price of $0.10 per Unit for total gross proceeds of $326,923. The warrants for the purchase of 1,634,615 Common Shares were issued on June 2, 2017 and the 3,269,230 Common Shares were issued on June 22, 2017. The Company offered and issued the Units, Common Shares and warrants pursuant to exemptions from the registration requirements of the Securities Act available under Section 4(a)(2) and Rule 506 of Regulation D and Rule 903 of Regulation S promulgated thereunder.

On June 16, 2017, the Company issued and sold, on a private placement basis, 1,538,460 Units at a price of $0.10 per Unit for total gross proceeds of $153,846. The warrants for the purchase of 769,230 Common Shares were issued on June 16, 2017 and the 1,538,460 Common Shares were issued on June 22, 2017. The Company offered and issued the Units, Common Shares and warrants pursuant to exemptions from the registration requirements of the Securities Act available under Section 4(a)(2) and Rule 506 of Regulation D and Rule 903 of Regulation S promulgated thereunder.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

			Incorporated by Reference		
Exhibit Number	**Exhibit Description**	**Filed Herewith**	**Form**	**Exhibit**	**Filing Date**
10.29	Option Plan, dated as of June 16, 2017.	X			
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*	X			
32.2	Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*	X			
101.INS	XBRL Instance Document	X			
101.SCH	XBRL Taxonomy Extension Schema	X			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	X			
101.DEF	XBRL Taxonomy Definition Linkbase	X			
101.LAB	XBRL Taxonomy Extension label Linkbase	X			

101.PRE	XBRL Taxonomy Extension Presentation Linkbase	X

* This certification is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

GILLA INC.
(Registrant)

August 14, 2017

By: /s/ Graham Simmonds

Name: Graham Simmonds
Title: Chief Executive Officer and Principal Executive Officer

By: /s/ Ashish Kapoor

Name: Ashish Kapoor
Title: Chief Financial Officer and Principal Accounting Officer

Exhibit 10.29

GILLA INC.

STOCK OPTION PLAN

Approved by the board of directors on June 16, 2017.

TABLE OF CONTENTS

		Page
Section 1 DEFINITIONS AND INTERPRETATION		1
1.1	Definitions	1
1.2	Choice of Law	7
1.3	Headings	7
Section 2 GRANT OF OPTIONS		7
2.1	Grant of Options	7
2.2	Record of Option Grants	7
2.3	Effect of Plan	8
Section 3 PURPOSE AND PARTICIPATION		8
3.1	Purpose of Plan	8
3.2	Participation in Plan	8
3.3	Limits on Option Grants	8
3.4	Incentive Stock Options	9
3.5	Notification of Grant	9
3.6	Copy of Plan	10
3.7	Limitation on Service	10
3.8	No Obligation to Exercise	10
3.9	Agreement	10
3.1	Notice	10
3.11	Representation	10
Section 4 NUMBER OF SHARES UNDER PLAN		11
4.1	Board to Approve Issuance of Shares	11
4.2	Number of Shares	11
4.3	Fractional Shares	11
Section 5 TERMS AND CONDITIONS OF OPTIONS		11
5.1	Exercise Period of Option	11
5.2	Number of Shares Under Option	12
5.3	Exercise Price of Option	12
5.4	CASHLESS EXCERSISE PROCEDURE	12
5.5	Termination of Option	12
5.6	Vesting of Option and Acceleration	14
5.7	Additional Terms	14
Section 6 TRANSFERABILITY OF OPTIONS		15
6.1	Non-transferable	15
6.2	Death of Option Holder	15
6.3	Disability of Option Holder	15
6.4	Disability and Death of Option Holder	15
6.5	Vesting	15
6.6	Deemed Non-Interruption of Engagement	15

Section 7 EXERCISE OF OPTION		16
7.1	Exercise of Option	16
7.2	Issue of Share Certificates	16
7.3	No Rights as Shareholder	16
7.4	Tax Withholding and Procedures	16
Section 8 ADMINISTRATION		17
8.1	Board or Committee	17
8.2	Powers of Committee	17
8.3	Administration by Committee	18
8.4	Interpretation	18
Section 9 APPROVALS AND AMENDMENT		18
9.1	Shareholder Approval of Plan	18
9.2	Amendment of Option or Plan	19
Section 10 CONDITIONS PRECEDENT TO ISSUANCE OF OPTIONS AND SHARES		19
10.1	Compliance with Laws	19
10.2	Regulatory Approvals	19
10.3	Inability to Obtain Regulatory Approvals	19
10.4	US Securities Law Compliance	20
Section 11 ADJUSTMENTS AND TERMINATION		20
11.1	Termination of Plan	20
11.2	No Grant During Suspension of Plan	20
11.3	Alteration in Capital Structure	20
11.4	Triggering Events	21
11.5	Notice of Termination by Triggering Event	21
11.6	Determinations to be Made By Committee	21

STOCK OPTION PLAN

SECTION 1
DEFINITIONS AND INTERPRETATION

1.1 Definitions

As used herein, unless there is something in the subject matter or context inconsistent therewith, the following terms shall have the meanings set forth below:

(a) "1933 Act" means the Securities Act of 1933 of the United States of America, as amended.

(b) "Administrator" means such Executive or Employee of the Company as may be designated as Administrator by the Committee from time to time, or, if no such person is appointed, the Committee itself.

(c) "Associate" means, where used to indicate a relationship with any person:

(i) any relative, including the spouse of that person or a relative of that person's spouse, where the relative has the same home as the person;

(ii) any partner, other than a limited partner, of that person;

(iii) any trust or estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar capacity; and

(iv) any corporation of which such person beneficially owns or controls, directly or indirectly, voting securities carrying more than 10% of the voting rights attached to all outstanding voting securities of the corporation.

(d) "Black-Out" means a restriction imposed by the Company on all or any of its directors, officers, employees, insiders or persons in a special relationship whereby they are to refrain from trading in the Company's securities until the restriction has been lifted by the Company.

(e) "Board" means the board of directors of the Company.

(f) "Cashless Exercise Procedure" has the meaning ascribed thereto in section 5.4

(g) "Cashless Exercise Right" means the right of the Option Holder to surrender to the Company any exercisable but unexercised portion of the Option in lieu of the payment required in an amount equal to the aggregate Exercise Price of the Shares in respect of any Option being exercised in accordance to section 5.4.

(h) "Change of Control" means an occurrence when either:

(i) a Person or Entity, other than the current "control person" of the Company (as that term is defined in the Securities Act), becomes a "control person" of the Company; or

(ii) a majority of the directors elected at any annual or extraordinary general meeting of shareholders of the Company are not individuals nominated by the Company's then-incumbent Board.

(i) "Code" means the Internal Revenue Code of 1986, as amended, and all regulations promulgated thereunder.

(j) "Committee" means a committee of the Board to which the responsibility of approving the grant of stock options has been delegated, or if no such committee is appointed, the Board itself.

(k) "Company" means Gilla Inc.

(l) "Consultant" means an individual who:

(i) is engaged to provide, on an ongoing bona fide basis, consulting, technical, management or other services to the Company or any Subsidiary other than services provided in relation to a "distribution" (as that term is described in the Securities Act);

(ii) provides the services under a written contract between the Company or any Subsidiary and the individual or a Consultant Entity (as defined in clause (h)(v) below);

(iii) in the reasonable opinion of the Company, spends or will spend a significant amount of time and attention on the affairs and business of the Company or any Subsidiary; and

(iv) has a relationship with the Company or any Subsidiary that enables the individual to be knowledgeable about the business and affairs of the Company or is otherwise permitted by applicable Regulatory Rules to be granted Options as a Consultant or as an equivalent thereof,

and includes:

(i) a corporation of which the individual is an employee or shareholder or a partnership of which the individual is an employee or partner (a "Consultant Entity"); or

(ii) an RRSP, RRIF or other form of registered accounts acceptable to the Company established by or for the individual under which he or she is the beneficiary.

(iii) "Disability" means a medically determinable physical or mental impairment expected to result in death or to last for a continuous period of not less than 12 months, and which causes an individual to be unable to engage in any substantial gainful activity, or any other condition of impairment that the Committee, acting reasonably, determines constitutes a disability.

(m) "Employee" means:

(i) an individual who works full-time or part-time for the Company or any Subsidiary and such other individual as may, from time to time, be permitted by applicable Regulatory Rules to be granted Options as an employee or as an equivalent thereto; or

(ii) an individual who works for the Company or any Subsidiary either full-time or on a continuing and regular basis for a minimum amount of time per week providing services normally provided by an employee and who is subject to the same control and direction by the Company or any Subsidiary over the details and methods of work as an employee of the Company or any Subsidiary, but for whom income tax deductions are not made at source,

and includes:

(i) a corporation wholly-owned by such individual; and

(ii) any RRSP, RRIF or other form of registered accounts acceptable to the Company established by or for such individual under which he or she is the beneficiary.

(n) "Exchange" means the stock exchange upon which the Company's shares principally trade.

(o) "Executive" means an individual who is a director or officer of the Company or a Subsidiary, and includes:

(i) a corporation wholly-owned by such individual; and

(ii) any RRSP or RRIF established by or for such individual under which he or she is the beneficiary.

(p) "Exercise Notice" means the written notice of the exercise of an Option, in the form set out as Schedule B hereto, or by written notice in the case of uncertificated Shares, duly executed by the Option Holder.

(q) "Exercise Period" means the period during which a particular Option may be exercised and is the period from and including the Grant Date through to and including the Expiry Time on the Expiry Date provided, however, that no Option can be exercised unless and until all necessary Regulatory Approvals have been obtained.

(r) “Exercise Price” means the price at which an Option is exercisable as determined in accordance with section 5.3.

(s) “Exercise Value” means the value of the Shares as determined in accordance with section 5.4.

(t) “Expiry Date” means the date the Option expires as set out in the Option Certificate or as otherwise determined in accordance with sections 5.5, 6.2, 6.3, 6.4 or 11.4.

(u) “Expiry Time” means the time the Option expires on the Expiry Date, which is 4:00 p.m. local time in Toronto, Ontario on the Expiry Date.

(v) “Grant Date” means the date on which the Committee grants a particular Option, which is the date the Option comes into effect provided however that no Option can be exercised unless and until all necessary Regulatory Approvals have been obtained.

(w) “Insider” means an insider as that term is defined in the *Securities Act*.

(x) “Market Value” means the market value of the Shares as determined in accordance with section 5.3.

(y) “Non-statutory Stock Option” means an Option that does not qualify or is not intended to qualify as an Incentive Stock Option.

(z) “Option” means an incentive share purchase option granted pursuant to this Plan entitling the Option Holder to purchase Shares of the Company.

(aa) “Incentive Stock Option” means an Option intended to qualify as an incentive stock option under Section 422 of the Code.

(bb) “Option Certificate” means the certificate, in substantially the form set out as Schedule A hereto, evidencing the Option.

(cc) “Option Holder” means a Person or Entity who holds an unexercised and unexpired Option or, where applicable, the Personal Representative of such person.

(dd) “Outstanding Issue” means the number of Shares that are outstanding (on a non-diluted basis) immediately prior to the Share issuance or grant of Option in question.

(ee) “Person or Entity” means an individual, natural person, corporation, government or political subdivision or agency of a government, and where two or more persons act as a partnership, limited partnership, syndicate or other group for the purpose of acquiring, holding or disposing of securities of an issuer, such partnership, limited partnership, syndicate or group shall be deemed to be a Person or Entity.

(ff) “Personal Representative” means:

(i) in the case of a deceased Option Holder, the executor or administrator of the deceased duly appointed by a court or public authority having jurisdiction to do so; and

(ii) in the case of an Option Holder who for any reason is unable to manage his or her affairs, the person entitled by law to act on behalf of such Option Holder.

(gg) "Plan" means this stock option plan as from time to time amended.

(hh) "Pre-Existing Options" has the meaning ascribed thereto in section 4.1.

(ii) "Regulatory Approvals" means any necessary approvals of the Regulatory Authorities as may be required from time to time for the implementation, operation or amendment of this Plan or for the Options granted from time to time hereunder.

(jj) "Regulatory Authorities" means all organized trading facilities on which the Shares are listed, and all securities commissions or similar securities regulatory bodies having jurisdiction over the Company, this Plan or the Options granted from time to time hereunder.

(kk) "Regulatory Rules" means all corporate and securities laws, regulations, rules, policies, notices, instruments and other orders of any kind whatsoever which may, from time to time, apply to the implementation, operation or amendment of this Plan or the Options granted from time to time hereunder including, without limitation, those of the applicable Regulatory Authorities.

(ll) "*Securities Act*" means the *Securities Act* (Ontario), R.S.O. 1990, c. S.5

(mm) "Share" or "Shares" means, as the case may be, one or more common shares without par value in the capital stock of the Company.

(nn) "Subsidiary" means a wholly-owned or controlled subsidiary corporation of the Company.

(oo) "Triggering Event" means:

(i) the proposed dissolution, liquidation or wind-up of the Company;

(ii) a proposed merger, amalgamation, arrangement or reorganization of the Company with one or more corporations as a result of which, immediately following such event, the shareholders of the Company as a group, as they were immediately prior to such event, are expected to hold less than a majority of the outstanding capital stock of the surviving corporation;

(iii) the proposed acquisition of all or substantially all of the issued and outstanding shares of the Company by one or more Persons or Entities;

(iv) a proposed Change of Control of the Company;

(v) the proposed sale or other disposition of all or substantially all of the assets of the Company; or

(vi) a proposed material alteration of the capital structure of the Company which, in the opinion of the Committee, is of such a nature that it is not practical or feasible to make adjustments to this Plan or to the Options granted hereunder to permit the Plan and Options granted hereunder to stay in effect.

(pp) "Vest" or "Vesting" means that a portion of the Option granted to the Option Holder which is available to be exercised by the Option Holder at any time and from time to time.

(qq) "U.S. Person"

(i) Any natural person resident in the United States,

(ii) Any partnership or corporation organized or incorporated under the laws of the United States,

(iii) Any estate of which any executor or administrator is a U.S. person;

(iv) Any trust of which any trustee is a U.S. person;

(v) Any agency or branch of a foreign entity located in the United States;

(vi) Any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. person;

(vii) Any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States; and

(viii) Any partnership or corporation if:

(A) Organized or incorporated under the laws of any foreign jurisdiction; and

(B) Formed by a U.S. person principally for the purpose of investing in securities not registered under the 1933 Act, as amended, unless it is organized or incorporated, and owned, by accredited investors (as defined in Rule 501(a) promulgated under the 1933 Act) who are not natural persons, estates or trusts.

1.2 Choice of Law

The Plan is established under, and the provisions of the Plan shall be subject to and interpreted and construed solely in accordance with, the laws of the Province of Ontario and the laws of Canada applicable therein without giving effect to the conflicts of laws principles thereof and without reference to the laws of any other jurisdiction. The Company and each Option Holder hereby attorn to the jurisdiction of the courts of the Province of Ontario.

1.3 Headings

The headings used herein are for convenience only and are not to affect the interpretation of the Plan.

SECTION 2
GRANT OF OPTIONS

2.1 Grant of Options

The Committee shall, from time to time in its sole discretion, grant Options to such Persons or Entities and on such terms and conditions as are permitted under this Plan.

2.2 Record of Option Grants

The Committee shall be responsible to maintain a record of all Options granted under this Plan and such record shall contain, in respect of each Option:

(a) the name and address of the Option Holder;

(b) the category (Executive, Employee or Consultant) under which the Option was granted to him, her or it;

(c) the Grant Date and Expiry Date of the Option;

(d) the number of Shares which may be acquired on the exercise of the Option and the Exercise Price of the Option;

(e) the vesting and other additional terms, if any, attached to the Option;

(f) the particulars of each and every time the Option is exercised; and

(g) the classification as an Incentive Stock Option or a Nonstatutory Stock Option.

2.3 Effect of Plan

All Options granted pursuant to the Plan shall be subject to the terms and conditions of the Plan notwithstanding the fact that the Option Certificates issued in respect thereof do not expressly contain such terms and conditions but instead incorporate them by reference to the Plan. The Option Certificates will be issued for convenience only and in the case of a dispute with regard to any matter in respect thereof, the provisions of the Plan and the records of the Company shall prevail over the terms and conditions in the Option Certificate, save and except as noted below. Each Option will also be subject to, in addition to the provisions of the Plan, the terms and conditions contained in the schedules, if any, attached to the Option Certificate for such Option. Should the terms and conditions contained in such schedules be inconsistent with the provisions of the Plan, such terms and conditions will supersede the provisions of the Plan.

SECTION 3
PURPOSE AND PARTICIPATION

3.1 Purpose of Plan

The purpose of the Plan is to provide the Company with a share-related mechanism to attract, retain and motivate qualified Executives, Employees and Consultants to contribute toward the long term goals of the Company, and to encourage such individuals to acquire Shares of the Company as long term investments.

3.2 Participation in Plan

The Committee shall, from time to time and in its sole discretion, determine those Executives, Employees and Consultants to whom Options are to be granted, provided however that Incentive Stock Options may be granted only to Employees. All other Options may be granted to Employees, Consultants, members of the Board and/or any such Persons or Entities as permitted under this Plan.

3.3 Limits on Option Grants

The following limitations shall apply to the Plan and all Options thereunder:

(a) the maximum number of Options which may be granted to any one Option Holder under the Plan within any 12 month period shall be 5% of the Outstanding Issue (unless the Company has obtained disinterested shareholder approval if required by Regulatory Rules);

(b) if required by Regulatory Rules, disinterested shareholder approval is required to the grant to Insiders, within a 12 month period, of a number of Options which, when added to the number of outstanding incentive stock options granted to Insiders within the previous 12 months, exceed 10% of the issued Shares;

(c) with respect to section 5.1, the Expiry Date of an Option shall be no later than the tenth anniversary of the Grant Date of such Option;

(d) the maximum number of Options which may be granted to any one Consultant within any 12 month period must not exceed 2% of the Outstanding Issue; and

(e) the maximum number of Options which may be granted within any 12 month period to Employees or Consultants engaged in investor relations activities must not exceed 2% of the Outstanding Issue and such options must vest in stages over 12 months with no more than 25% of the Options vesting in any three month period, and such limitation will not be an amendment to this Plan requiring the Option Holders consent under section 9.2 of this Plan.

3.4 Incentive Stock Options

(a) Each Option will be designated in the Option Certificate as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Market Value of the Shares underlying Incentive Stock Options exercisable for the first time by the Option Holder during any calendar year (including all plans of the Company and any Subsidiary) exceeds one hundred thousand U.S. dollars (US $100,000), all such Options will be construed as Nonstatutory Stock Options. Incentive Stock Options will be taken into account in the order in which they were granted. The Market Value of the Shares will be determined as of the date the Option for such Shares is granted. If for any reason any Option (or portion thereof) does not qualify as an Incentive Stock Option, then, to the extent of such nonqualification, the Option (or portion thereof) shall be treated as a Nonstatutory Option granted under the Plan. In no event will the Administrator, the Company or any parent or subsidiary of the Company or any of their respective Employees or member of the Board have any liability to any Option Holder (or any other Person or Entity) due to the failure of the Option to qualify for any reason as an Incentive Stock Option.

(b) Any Option Holder who shall make a "disposition" (as defined in Section 424 of the Code) of all or any portion of Shares acquired upon exercise of an Incentive Stock Option within two years from the Grant Date of such Incentive Stock Option or within one year after the issuance of the Shares acquired upon exercise of such Incentive Stock Option shall be required to immediately advise the Company in writing as to the occurrence of the sale and the price realized upon the sale of such Shares.

(c) To the extent that an Option does not qualify or cease to qualify as an Incentive Stock Option it shall not affect the validity of such Option and shall constitute a Non-qualified Stock Option. In the event that the Participant disposes of the Shares acquired upon

3.5 Notification of Grant

Following the granting of an Option, the Administrator shall, within a reasonable period of time, notify the Option Holder in writing of the grant and shall enclose with such notice the Option Certificate representing the Option so granted. In no case will the Company be required to deliver an Option Certificate to an Option Holder until such time as the Company has obtained all necessary Regulatory Approvals for the grant of the Option.

3.6 Copy of Plan

Each Option Holder, concurrently with the notice of the grant of the Option, shall be provided with a copy of the Plan. A copy of any amendment to the Plan shall be promptly provided by the Administrator to each Option Holder.

3.7 Limitation on Service

The Plan does not give any Option Holder that is an Executive the right to serve or continue to serve as an Executive of the Company or any Subsidiary, nor does it give any Option Holder that is an Employee or Consultant the right to be or to continue to be employed or engaged by the Company or any Subsidiary.

3.8 <u>No Obligation to Exercise</u>

Option Holders shall be under no obligation to exercise Options.

3.9 <u>Agreement</u>

The Company and every Option Holder granted an Option hereunder shall be bound by and subject to the terms and conditions of this Plan. By accepting an Option granted hereunder, the Option Holder has expressly agreed with the Company to be bound by the terms and conditions of this Plan. In the event that the Option Holder receives his, her or its Options pursuant to an oral or written agreement with the Company or a Subsidiary, whether such agreement is an employment agreement, consulting agreement or any other kind of agreement of any kind whatsoever, the Option Holder acknowledges that in the event of any inconsistency between the terms relating to the grant of such Options in that agreement and the terms attaching to the Options as provided for in this Plan, the terms provided for in this Plan shall prevail and the other agreement shall be deemed to have been amended accordingly.

3.10 <u>Notice</u>

Any notice, delivery or other correspondence of any kind whatsoever to be provided by the Company to an Option Holder will be deemed to have been provided if provided to the last home address, fax number or email address of the Option Holder in the records of the Company and the Company shall be under no obligation to confirm receipt or delivery.

3.11 <u>Representation</u>

As a condition precedent to the issuance of an Option, the Company must be able to represent to the Exchange as of the Grant Date that the Option Holder is a *bona fide* Executive, Employee or Consultant of the Company or any Subsidiary.

SECTION 4
NUMBER OF SHARES UNDER PLAN

4.1 <u>Board to Approve Issuance of Shares</u>

The Committee shall approve by resolution the issuance of all Shares to be issued to Option Holders upon the exercise of Options, such authorization to be deemed effective as of the Grant Date of such Options regardless of when it is actually done. The Committee shall be entitled to approve the issuance of Shares in advance of the Grant Date, retroactively after the Grant Date, or by a general approval of this Plan.

4.2 <u>Number of Shares</u>

Subject to adjustment as provided for herein, the number of Shares which will be available for purchase pursuant to Options granted pursuant to this Plan, plus any other outstanding incentive stock options of the Company granted pursuant to a previous stock option plan or agreement, will not exceed 10% of the Outstanding Issue. If any Option expires or otherwise terminates for any reason without having been exercised in full, the number of Shares in respect of such expired or terminated Option shall again be available for the purposes of granting Options pursuant to this Plan.

4.3 Fractional Shares

No fractional shares shall be issued upon the exercise of any Option and, if as a result of any adjustment, an Option Holder would become entitled to a fractional share, such Option Holder shall have the right to purchase only the next lowest whole number of Shares and no payment or other adjustment will be made for the fractional interest.

SECTION 5
TERMS AND CONDITIONS OF OPTIONS

5.1 Exercise Period of Option

(a) Subject to sections 5.5, 6.2, 6.3, 6.4 and 11.4, the Grant Date and the Expiry Date of an Option shall be the dates fixed by the Committee at the time the Option is granted and shall be set out in the Option Certificate issued in respect of such Option.

(b) In the case of an Incentive Stock Options the Expiry Date will be ten (10) years from the date of Grant Date or such shorter term as specified in the respective Option Certificate. Incentive Stock Options granted to an Option Holder who, at the time the Incentive Stock Option is granted, owns ten percent (10%) or more of the total combined voting power of all classes of stock of the Company or any parent or subsidiary of the Company will be subject to a five (5) year term from the date of grant or such shorter term as specified in the Option Certificate.

5.2 Number of Shares Under Option

The number of Shares which may be purchased pursuant to an Option shall be determined by the Committee and shall be set out in the Option Certificate issued in respect of the Option.

5.3 Exercise Price of Option

The Exercise Price at which an Option Holder may purchase a Share upon the exercise of an Option shall be determined by the Committee and shall be set out in the Option Certificate issued in respect of the Option, provided that: (i) the Exercise Price shall not be less than one hundred percent (100%) of the Market Value of the Shares as of the Grant Date, and (ii) the Exercise Price of any Incentive Stock Option granted to a ten percent shareholder of the Company will not be less than one hundred ten percent (110%) of the Market Value of the Shares on the Grant Date. The Market Value of the Shares for a particular Grant Date shall be determined as follows:

(a) for each organized trading facility on which the Shares are listed, Market Value will be the closing trading price of the Shares on the day immediately preceding the Grant Date, and may be less than this price if it is within the discounts permitted by the applicable Regulatory Authorities;

(b) if the Company's Shares are listed on more than one organized trading facility, the Market Value shall be the Market Value as determined in accordance with subparagraph (a) above for the primary organized trading facility on which the Shares are listed, as determined by the Committee, subject to any adjustments as may be required to secure all necessary Regulatory Approvals;

(c) if the Company's Shares are listed on one or more organized trading facilities but have not traded during the ten trading days immediately preceding the Grant Date, then the Market Value will be, subject to any adjustments as may be required to secure all necessary Regulatory Approvals, such value as is determined by the Committee; and

(d) if the Company's Shares are not listed on any organized trading facility, then the Market Value will be, subject to any adjustments as may be required to secure all necessary Regulatory Approvals, such value as is determined by the Committee to be the fair value of the Shares, taking into consideration all factors that the Committee deems appropriate, including, without limitation, recent sale and offer prices of the Shares in private transactions negotiated at arms' length. Notwithstanding anything else contained herein, in no case will the Market Value be less than the minimum prescribed by each of the organized trading facilities that would apply to the Company on the Grant Date in question.

5.4 <u>Cashless Exercise Procedure</u>

In lieu of the payment required in an amount equal to the aggregate Exercise Price of the Shares in respect of any Option being exercised, the Option Holder shall have a Cashless Exercise Right (but not the obligation) to pay the aggregate Exercise Price of the Shares with the Option upon exercise by surrendering to the Company any exercisable but unexercised portion of the Option having an Exercise Value, at the close of trading on the day immediately preceding any particular exercise date of an Option, equal to the Exercise Price multiplied by the number of Shares being purchased upon exercise. The sum of (a) the number of Shares being purchased upon exercise of the non-surrendered portion of an Option pursuant to the Cashless Exercise Right and (b) the number of Shares underlying the portion of an Option being surrendered, shall not in any event be greater than the total number of Shares purchasable upon the complete exercise of any Option if the Exercise Price were paid in cash. Upon exercise of a Cashless Exercise Right, the Company shall deliver to the Option Holder (without payment by the Option Holder of any of the Exercise Price if so desired) that number of Shares equal to the quotient obtained by dividing (x) the Exercise Value of the portion of the Option being converted at the time which the Cashless Exercise Right is exercised by (y) the Exercise Price. The Exercise Value of the portion of the Options being surrendered shall equal the remainder derived from subtracting (a) the Exercise Price multiplied by the number of Shares underlying the portion of the Option being surrendered from (b) the Market Value, at the close of trading on the day immediately preceding any particular exercise date of an Option, multiplied by the number of Shares underlying the portion of the Option being surrendered.

5.5 <u>Termination of Option</u>

Subject to such other terms or conditions that may be attached to Options granted hereunder, an Option Holder may exercise an Option in whole or in part at any time and from time to time during the Exercise Period. Any Option or part thereof not exercised within the Exercise Period shall terminate and become null, void and of no effect as of the Expiry Time on the Expiry Date. The Expiry Date of an Option shall be the earlier of the date so fixed by the Committee at the time the Option is granted as set out in the Option Certificate and the date established, if applicable, in paragraphs (a) or (b) below or sections 6.2, 6.3, 6.4, or 11.4 of this Plan:

(a) *Ceasing to Hold Office* - In the event that the Option Holder holds his or her Option as an Executive and such Option Holder ceases to hold such position other than by reason of death or Disability, the Expiry Date of the Option shall be, unless otherwise determined by the Committee and expressly provided for in the Option Certificate, up to 18 months following the date the Option Holder ceases to hold such position unless the Option Holder ceases to hold such position as a result of:

(i) ceasing to meet the qualifications set forth in the corporate legislation applicable to the Company;

(ii) a special resolution having been passed by the shareholders of the Company removing the Option Holder as a director of the Company or any Subsidiary; or

(iii) an order made by any Regulatory Authority having jurisdiction to so order,

in which case the Expiry Date shall be the date the Option Holder ceases to hold such position; OR

(b) *Ceasing to be Employed or Engaged* - In the event that the Option Holder holds his or her Option as an Employee or Consultant and such Option Holder ceases to hold such position other than by reason of death or Disability, the Expiry Date of the Option shall be, unless otherwise determined by the Committee and expressly provided for in the Option Certificate, up to 18 months following the date the Option Holder ceases to hold such position, unless the Option Holder ceases to hold such position as a result of:

(i) termination for cause; or

(ii) an order made by any Regulatory Authority having jurisdiction to so order,

in which case the Expiry Date shall be the date the Option Holder ceases to hold such position.

In the event that the Option Holder ceases to hold the position of Executive, Employee or Consultant for which the Option was originally granted, but comes to hold a different position as an Executive, Employee or Consultant prior to the expiry of the Option, the Committee may, in its sole discretion, choose to permit the Option to stay in place for that Option Holder with such Option then to be treated as being held by that Option Holder in his or her new position and such will not be considered to be an amendment to the Option in question requiring the consent of the Option Holder under section 9.2 of this Plan. Notwithstanding anything else contained herein, in no case will an Option be exercisable later than the Expiry Date of the Option.

5.6 <u>Vesting of Option and Acceleration</u>

The vesting schedule for an Option, if any, shall be determined by the Committee and shall be set out in the Option Certificate issued in respect of the Option. The Committee may elect, at any time, to accelerate the vesting schedule of one or more Options including, without limitation, on a Triggering Event, and such acceleration will not be considered an amendment to the Option in question requiring the consent of the Option Holder under section 9.2 of this Plan.

5.7 Additional Terms

Subject to all applicable Regulatory Rules and all necessary Regulatory Approvals, the Committee may attach additional terms and conditions to the grant of a particular Option, such terms and conditions to be set out in a schedule attached to the Option Certificate. The Option Certificates will be issued for convenience only, and in the case of a dispute with regard to any matter in respect thereof, the provisions of this Plan and the records of the Company shall prevail over the terms and conditions in the Option Certificate, save and except as noted below. Each Option will also be subject to, in addition to the provisions of the Plan, the terms and conditions contained in the schedules, if any, attached to the Option Certificate for such Option. Should the terms and conditions contained in such schedules be inconsistent with the provisions of the Plan, such terms and conditions will supersede the provisions of the Plan.

SECTION 6
TRANSFERABILITY OF OPTIONS

6.1 Non-transferable

Except as provided otherwise in this section 6, Options are non-assignable and non-transferable.

6.2 Death of Option Holder

In the event of the Option Holder's death, any Options held by such Option Holder shall pass to the Personal Representative of the Option Holder and shall be exercisable by the Personal Representative on or before the date which is the earlier of one year following the date of death and the applicable Expiry Date.

6.3 Disability of Option Holder

If the employment or engagement of an Option Holder as an Employee or Consultant or the position of an Option Holder as a director or officer of the Company or a Subsidiary is terminated by the Company by reason of such Option Holder's Disability, any Options held by such Option Holder shall be exercisable by such Option Holder or by the Personal Representative on or before the date which is the earlier of one year following the termination of employment, engagement or appointment as a director or officer and the applicable Expiry Date.

6.4 Disability and Death of Option Holder

If an Option Holder has ceased to be employed, engaged or appointed as a director or officer of the Company or a Subsidiary by reason of such Option Holder's Disability and such Option Holder dies within one year after the termination of such engagement, any Options held by such Option Holder that could have been exercised immediately prior to his or her death shall pass to the Personal Representative of such Option Holder and shall be exercisable by the Personal Representative on or before the date which is the earlier of one year following the death of such Option Holder and the applicable Expiry Date.

6.5 Vesting

Unless the Committee determines otherwise, Options held by or exercisable by a Personal Representative shall, during the period prior to their termination, continue to vest in accordance with any vesting schedule to which such Options are subject.

6.6 Deemed Non-Interruption of Engagement

Employment or engagement by the Company shall be deemed to continue intact during any military or sick leave or other *bona fide* leave of absence if the period of such leave does not exceed 90 days or, if longer, for so long as the Option Holder's right to re-employment or re-engagement by the Company is guaranteed either by statute or by contract. If the period of such leave exceeds 90 days and the Option Holder's re-employment or re-engagement is not so guaranteed, then his or her employment or engagement shall be deemed to have terminated on the ninety-first day of such leave.

SECTION 7
EXERCISE OF OPTION

7.1 Exercise of Option

An Option may be exercised only by the Option Holder or the Personal Representative of any Option Holder. In the case of an Incentive Stock Option, the Option shall be exercisable during the lifetime of the Option Holder only by the Option Holder. Notwithstanding the foregoing, the Option Holder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Option Holder, shall thereafter be entitled to exercise the Option. An Option Holder or the Personal Representative of any Option Holder may exercise an Option in whole or in part at any time and from time to time during the Exercise Period up to the Expiry Time on the Expiry Date by delivering to the Administrator the required Exercise Notice, or by written notice in the case of uncertificated Shares, the applicable Option Certificate and a certified cheque or bank draft or wire transfer payable to the Company or its legal counsel in an amount equal to the aggregate Exercise Price of the Shares then being purchased pursuant to the exercise of the Option (unless a Cashless Exercise is chosen in which case the Cashless Exercise Procedure will prevail). Notwithstanding anything else contained herein, Options may not be exercised during a Black-Out unless the Committee determines otherwise.

7.2 Issue of Share Certificates

As soon as reasonably practicable following the receipt of the notice of exercise as described in section 7.1 and payment in full for the Optioned Shares being acquired (unless a Cashless Exercise is chosen in which case the Cashless Exercise Procedure will prevail), the Administrator will direct its transfer agent to issue to the Option Holder the appropriate number of Shares in either certificate form or at the election of the Option Holder, on an uncertificated basis pursuant to the instructions given by the Option Holder to the Administrator. If the number of Shares so purchased is less than the number of Shares subject to the Option Certificate surrendered, the Administrator shall also provide a new Option Certificate for the balance of Shares available under the Option to the Option Holder concurrent with delivery of the Shares.

7.3 No Rights as Shareholder

Until the date of the issuance of the certificate for the Shares purchased pursuant to the exercise of an Option, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to such Shares, notwithstanding the exercise of the Option, unless the Committee determines otherwise. In the event of any dispute over the date of the issuance of the Shares, the decision of the Committee shall be final, conclusive and binding.

7.4 Tax Withholding and Procedures

Notwithstanding anything else contained in this Plan, the Company may, from time to time, implement such procedures and conditions as it determines appropriate with respect to the withholding and remittance of taxes imposed under applicable law, or the funding of related amounts for which liability may arise under such applicable law. Without limiting the generality of the foregoing, an Option Holder who wishes to exercise an Option must, in addition to following the procedures set out in section 7.1 and elsewhere in this Plan, and as a condition of exercise:

(a) deliver a certified cheque, wire transfer or bank draft payable to the Company for the amount determined by the Company to be the appropriate amount on account of such taxes or related amounts; or

(b) otherwise ensure, in a manner acceptable to the Company (if at all) in its sole and unfettered discretion, that the amount will be securely funded;

(c) and must in all other respects follow any related procedures and conditions imposed by the Company.

SECTION 8
ADMINISTRATION

8.1 Board or Committee

The Plan shall be administered by the Administrator with oversight by the Committee.

8.2 Powers of Committee

The Committee shall have the authority to do the following:

(a) oversee the administration of the Plan in accordance with its terms;

(b) appoint or replace the Administrator from time to time;

(c) determine all questions arising in connection with the administration, interpretation and application of the Plan, including all questions relating to the Market Value;

(d) correct any defect, supply any information or reconcile any inconsistency in the Plan in such manner and to such extent as shall be deemed necessary or advisable to carry out the purposes of the Plan;

(e) prescribe, amend, and rescind rules and regulations relating to the administration of the Plan;

(f) determine the duration and purposes of leaves of absence from employment or engagement by the Company which may be granted to Option Holders without constituting a termination of employment or engagement for purposes of the Plan;

(g) do the following with respect to the granting of Options:

(i) determine the Executives, Employees or Consultants to whom Options shall be granted, based on the eligibility criteria set out in this Plan;

(ii) determine the terms of the Option to be granted to an Option Holder including, without limitation, the Grant Date, Expiry Date, Exercise Price and vesting schedule (which need not be identical with the terms of any other Option);

(iii) subject to any necessary Regulatory Approvals and section 9.2, amend the terms of any Options;

(iv) determine when Options shall be granted; and

(v) determine the number of Shares subject to each Option;

(h) accelerate the vesting schedule of any Option previously granted;

(i) add or amend any terms relating to the Cashless Exercise and Cashless Exercise Procedures; and

(j) make all other determinations necessary or advisable, in its sole discretion, for the administration of the Plan.

8.3 Administration by Committee

All determinations made by the Committee in good faith shall be final, conclusive and binding upon all persons. The Committee shall have all powers necessary or appropriate to accomplish its duties under this Plan.

8.4 Interpretation

The interpretation by the Committee of any of the provisions of the Plan and any determination by it pursuant thereto shall be final, conclusive and binding and shall not be subject to dispute by any Option Holder. No member of the Committee or any person acting pursuant to authority delegated by it hereunder shall be personally liable for any action or determination in connection with the Plan made or taken in good faith and each member of the Committee and each such person shall be entitled to indemnification with respect to any such action or determination in the
manner provided for by the Company.

SECTION 9
APPROVALS AND AMENDMENT

9.1 Shareholder Approval of Plan

(a) If required by a Regulatory Authority or by the Committee, this Plan may be made subject to the approval of the shareholders of the Company as prescribed by the Regulatory Authority. If shareholder approval is required, any Options granted under this Plan prior to such time will not be exercisable or binding on the Company unless and until such shareholder approval is obtained.

(b) Incentive Stock Options can only be granted under this Plan if this Plan is submitted for the approval of the Company's shareholders within twelve (12) months before or after the date this Plan is adopted by the Board.

9.2 Amendment of Option or Plan

Subject to any required Regulatory Approvals, the Committee may from time to time amend any existing Option or the Plan or the terms and conditions of any Option thereafter to be granted provided that where such amendment relates to an existing Option and it would:

(a) materially decrease the rights or benefits accruing to an Option Holder; or

(b) materially increase the obligations of an Option Holder; then, unless otherwise excepted out by a provision of this Plan, the Committee must also obtain the written consent of the Option Holder in question to such amendment. If at the time the Exercise Price of an Option is reduced the Option Holder is an Insider of the Company, the Insider must not exercise the option at the reduced Exercise Price until the reduction in Exercise Price has been approved by the disinterested shareholders of the Company, if required by the Exchange.

SECTION 10
CONDITIONS PRECEDENT TO ISSUANCE OF OPTIONS AND SHARES

10.1 Compliance with Laws

An Option shall not be granted or exercised, and Shares shall not be issued pursuant to the exercise of any Option, unless the grant and exercise of such Option and the issuance and delivery of such Shares comply with all applicable Regulatory Rules, and such Options and Shares will be subject to all applicable trading restrictions in effect pursuant to such Regulatory Rules and the Company shall be entitled to legend the Option Certificates and the certificates for the Shares or the written notice in the case of uncertificated Shares representing such Shares accordingly.

10.2 Regulatory Approvals

In administering this Plan, the Committee will seek any Regulatory Approvals which may be required. The Committee will not permit any Options to be granted without first obtaining the necessary Regulatory Approvals unless such Options are granted conditional upon such Regulatory Approvals being obtained. The Committee will make all filings required with the Regulatory Authorities in respect of the Plan and each grant of Options hereunder. No Option granted will be exercisable or binding on the Company unless and until all necessary Regulatory Approvals have been obtained. The Committee shall be entitled to amend this Plan and the Options granted hereunder in order to secure any necessary Regulatory Approvals and such amendments will not require the consent of the Option Holders under section 9.2 of this Plan.

10.3 Inability to Obtain Regulatory Approvals

The Company's inability to obtain Regulatory Approval from any applicable Regulatory Authority, which Regulatory Approval is deemed by the Committee to be necessary to complete the grant of Options hereunder, the exercise of those Options or the lawful issuance and sale of any Shares pursuant to such Options, shall relieve the Company of any liability with respect to the failure to complete such transaction.

10.4 US Securities Law Compliance

Securities Registration. No Awards shall be granted to a U.S. Person under the Plan and no Shares shall be issued and delivered upon the exercise of Options granted under the Plan unless and until the Company and/or the Option Holder have complied with all applicable U.S. federal and state registration, listing and/or qualification requirements and all other requirements of law or of any regulatory agencies having jurisdiction.

SECTION 11
ADJUSTMENTS AND TERMINATION

11.1 Termination of Plan

Subject to any necessary Regulatory Approvals, the Committee may terminate or suspend the Plan. Unless earlier terminated as provided in this section 11, the Plan shall terminate on, and no more Options shall be granted under the Plan after, the tenth anniversary of the date of the Exchange's acceptance of the Plan.

11.2 No Grant During Suspension of Plan

No Option may be granted during any suspension, or after termination, of the Plan. Suspension or termination of the Plan shall not, without the consent of the Option Holder, alter or impair any rights or obligations under any Option previously granted.

11.3 Alteration in Capital Structure

If there is a material alteration in the capital structure of the Company and the Shares are consolidated, subdivided, converted, exchanged, reclassified or in any way substituted for, the Committee shall make such adjustments to this Plan and to the Options then outstanding under this Plan as the Committee determines to be appropriate and equitable under the circumstances, so that the proportionate interest of each Option Holder shall, to the extent practicable, be maintained as before the occurrence of such event. Such adjustments may include, without limitation:

(a) a change in the number or kind of shares of the Company covered by such Options; and

(b) a change in the Exercise Price payable per Share provided, however, that the aggregate Exercise Price applicable to the unexercised portion of existing Options shall not be altered, it being intended that any adjustments made with respect to such Options shall apply only to the Exercise Price per Share and the number of Shares subject thereto.

For purposes of this section 11.3, and without limitation, neither:

(c) the issuance of additional securities of the Company in exchange for adequate consideration (including services); nor

(d) the conversion of outstanding securities of the Company into Shares shall be deemed to be material alterations of the capital structure of the Company. Any adjustment made to any Options pursuant to this section 11.3 shall not be considered an amendment requiring the Option Holder's consent for the purposes of section 9.2 of this Plan.

11.4 Triggering Events

Subject to the Company complying with section 11.5 and any necessary Regulatory Approvals and notwithstanding any other provisions of this Plan or any Option Certificate, the Committee may, without the consent of the Option Holder or Holders in question:

(a) cause all or a portion of any of the Options granted under the Plan to terminate upon the occurrence of a Triggering Event; or

(b) cause all or a portion of any of the Options granted under the Plan to be exchanged for incentive stock options of another corporation upon the occurrence of a Triggering Event in such ratio and at such exercise price as the Committee deems appropriate, acting reasonably.

Such termination or exchange shall not be considered an amendment requiring the Option Holder's consent for the purpose of section 9.2 of the Plan.

11.5 Notice of Termination by Triggering Event

In the event that the Committee wishes to cause all or a portion of any of the Options granted under this Plan to terminate on the occurrence of a Triggering Event, it must give written notice to the Option Holders in question not less than 10 days prior to the consummation of a Triggering Event so as to permit the Option Holder the opportunity to exercise the vested portion of the Options prior to such termination. Upon the giving of such notice and subject to any necessary Regulatory Approvals, all Options or portions thereof granted under the Plan which the Company proposes to terminate shall become immediately exercisable notwithstanding any contingent vesting provision to which such Options may have otherwise been subject.

11.6 Determinations to be Made By Committee

Adjustments and determinations under this section 11 shall be made by the Committee, whose decisions as to what adjustments or determination shall be made, and the extent thereof, shall be final, binding, and conclusive.

SCHEDULE A

[Include legends prescribed by Regulatory Authorities, if required.]

GILLA INC.

STOCK OPTION PLAN - OPTION CERTIFICATE

This Option Certificate is issued pursuant to the provisions of the Stock Option Plan (the "**Plan**") of Gilla Inc. (the "**Company**") and evidences that ● [Name of Option Holder] is the holder (the "**Option Holder**") of an option (the "**Option**") to purchase up to ● common shares (the "**Shares**") in the capital stock of the Company at a purchase price of US$____________ per Share (the "**Exercise Price**"). This Option may be exercised at any time and from time to time from and including the following Grant Date through to and including up to 4:00 p.m. local time in Toronto, Ontario (the "**Expiry Time**") on the following Expiry Date:

(a) the Grant Date of this Option is ●, 20●; and

(b) subject to sections 5.5, 6.2, 6.3, 6.4 and 11.4 of the Plan, the Expiry Date of this Option is ●,20●.

To exercise this Option, the Option Holder must deliver to the Administrator of the Plan, prior to the Expiry Time on the Expiry Date, an Exercise Notice, in the form provided in the Plan, or written notice in the case of uncertificated Shares, which is incorporated by reference herein, together with the original of this Option Certificate and a certified cheque or bank draft payable to the Company or its legal counsel in an amount equal to the aggregate of the Exercise Price of the Shares in respect of which this Option is being exercised.

This Option Certificate and the Option evidenced hereby is not assignable, transferable or negotiable and is subject to the detailed terms and conditions contained in the Plan. This Option Certificate is issued for convenience only and in the case of any dispute with regard to any matter in respect hereof, the provisions of the Plan and the records of the Company shall prevail. This Option is also subject to the terms and conditions contained in the schedules, if any, attached hereto.

[Include legends on the certificate or the written notice in the case of uncertificated shares prescribed by Regulatory Authorities, if required.]

If the Option Holder is a resident or citizen of the United States of America at the time of the exercise of the Option, the certificate(s) representing the Shares will be endorsed with the following or a similar legend:

> "The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended, of the United States of America (the "Act") or the securities laws of any state ("State") of the United States of America and may not be sold, transferred, pledged, hypothecated or distributed, directly or indirectly, to a U.S. person (as defined in Regulation S adopted by the U.S. Securities and Exchange Commission under the Act) or within the United States unless such securities are (i) registered under the Act and any applicable State securities act (a "State Act"), or (ii) exempt from registration under the Act and any applicable State Act and the Company has received an opinion of counsel to such effect reasonably satisfactory to it, or (iii) sold in accordance with Regulation S and the Company has received an opinion of counsel to such effect reasonably satisfactory to it."

GILLA INC.
by its authorized signatory:

____

The Option Holder acknowledges receipt of a copy of the Plan and represents to the Company that the Option Holder is familiar with the terms and conditions of the Plan, and hereby accepts this Option subject to all of the terms and conditions of the Plan. The Option Holder agrees to execute, deliver, file and otherwise assist the Company in filing any report, undertaking or document with respect to the awarding of the Option and exercise of the Option, as may be required by the Regulatory Authorities. The Option Holder further acknowledges that if the Plan has not been approved by the shareholders of the Company on the Grant Date, this Option is not exercisable until such approval has been obtained.

Signature of Option Holder:

________________________________	________________________________
Signature	Date signed

____
Print Name

____
Address

____

OPTION CERTIFICATE – SCHEDULE

[Complete the following additional terms and any other special terms, if applicable, or remove the inapplicable terms or this schedule entirely.]

The additional terms and conditions attached to the Option represented by this Option Certificate are as follows:

1. The Options will not be exercisable unless and until they have vested and then only to the extent that they have vested. The Options will vest in accordance with the following:

   (a) ● Shares (●%) will vest and be exercisable on or after the Grant Date;
   (b) ● additional Shares (●%) will vest and be exercisable on or after ● [date];
   (c) ● additional Shares (●%) will vest and be exercisable on or after ● [date];
   (d) ● additional Shares (●%) will vest and be exercisable on or after ● [date];

2. Upon the Option Holder ceasing to hold a position with the Company, other than as a result of the events set out in paragraphs 5.5(a) or 5.5(b) of the Plan, the Expiry Date of the Option shall be ? **[Insert date desired that is longer or shorter than the standard 30 days as set out in the Plan]** following the date the Option Holder ceases to hold such position.

SCHEDULE B
GILLA INC.
STOCK OPTION PLAN

NOTICE OF EXERCISE OF OPTION

TO: The Administrator, Stock Option Plan

●
● **[** Address]
(or such other address as the Company may advise)

The undersigned hereby irrevocably gives notice, pursuant to the Stock Option Plan (the "**Plan**") of Gilla Inc. (the "**Company**"), of the exercise of the Option to acquire and hereby subscribes for (**cross out inapplicable item):**

(a) all of the Shares; or
(b) _____________of the Shares;

which are the subject of the Option Certificate attached hereto **(attach your original Option Certificate)**. The undersigned tenders herewith a certified cheque or bank draft (**circle one**) payable to the Company in an amount equal to the aggregate Exercise Price of the aforesaid Shares (unless a Cashless Exercise is chosen in which case the Cashless Exercise Procedure will prevail) and directs the Company to issue a certificate OR a written notice in the case of uncertificated Shares evidencing said Shares in the name of the undersigned to be issued to the undersigned [in the case of issuance of a share certificate, at the following address (**provide full complete address**)]:

____

____

____

The undersigned elects to exercise the Options electing for a Cashless Exercise (**circle here**)

The undersigned acknowledges the Option is not validly exercised unless this Notice is completed in strict compliance with this form and delivered to the required address with the required payment (unless a Cashless Exercise is chosen in which case the Cashless Exercise Procedure will prevail) prior to 4:00 p.m. local time in Toronto, ON on the Expiry Date of the Option.

DATED the day _ of ________________ 20___

____
Signature of Option Holder

Exhibit 31.1

OFFICER'S CERTIFICATION PURSUANT TO SECTION 302

I, Graham Simmonds, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Gilla Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14 , 2017

By: /s/ Graham Simmonds
Graham Simmonds
Chief Executive Officer

Exhibit 31.2

OFFICER'S CERTIFICATION PURSUANT TO SECTION 302

I, Ashish Kapoor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Gilla Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2017

By: /s/ Ashish Kapoor
Ashish Kapoor
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report of Gilla Inc. (the “Registrant”) on Form 10-Q for the period ending June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Graham Simmonds, Chief Executive Officer of the Registrant, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 14 , 2017

By: /s/ Graham Simmonds
Graham Simmonds
Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report of Gilla Inc. (the "Registrant") on Form 10-Q for the period ending June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Ashish Kapoor, Chief Financial Officer of the Registrant, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 14, 2017

By: /s/ Ashish Kapoor
Ashish Kapoor
Chief Financial Officer

Document and Entity Information - shares	6 Months Ended Jun. 30, 2017	Aug. 11, 2017
Entity Registrant Name	GILLA INC.	
Entity Central Index Key	0001004411	
Document Type	10-Q	
Document Period End Date	Jun. 30, 2017	
Amendment Flag	false	
Current Fiscal Year End Date	--12-31	
Is Entity a Well-known Seasoned Issuer?	No	
Is Entity a Voluntary Filer?	No	
Is Entity's Reporting Status Current?	Yes	
Entity Filer Category	Smaller Reporting Company	
Entity Common Stock, Shares Outstanding		134,038,981
Document Fiscal Period Focus	Q2	
Document Fiscal Year Focus	2017	

Condensed Consolidated Interim Balance Sheets (Unaudited) - USD ($)	Jun. 30, 2017	Dec. 31, 2016
Current assets		
Cash and cash equivalents	$ 314,028	$ 184,754
Trade receivables (net of allowance for doubtful accounts $161,340 (December 31, 2016: $nil))	167,921	80,409
Inventory (note 6)	555,773	545,135
Other current assets (note 5)	454,189	462,708
Total Current assets	1,491,911	1,273,006
Long term assets		
Property and equipment (note 7)	86,780	93,068
Website development (note 8)	6,083	7,083
Intangibles (note 9)	138,000	160,300
Goodwill (note 10)	889,497	889,497
Total long term assets	1,120,360	1,149,948
Total assets	2,612,271	2,422,954
Current liabilities		
Accounts payable	1,592,726	1,740,071
Accrued liabilities (note 11)	368,563	404,633
Accrued interest - related parties (note 20)	370,060	263,790
Customer deposits	39,322	56,834
Loans from shareholders (note 11)	683,102	502,288
Due to related parties (note 20)	930,595	1,478,883
Promissory notes (note 14)	835,317	801,067
Amounts owing on acquisition (note 4)	55,000	55,000
Term loan (note 13)	1,095,919	1,144,337
Total current liabilities	5,970,604	6,446,903
Long term liabilities		
Promissory notes (note 14)	30,000	0
Loans from shareholders (note 11)	485,300	497,351
Due to related parties (note 20)	1,060,687	1,085,906
Convertible debentures (note 15)	131,696	83,704
Total long term liabilities	1,707,683	1,666,961
Total liabilities	7,678,287	8,113,864
Going concern (note 2)		
Related party transactions (note 20)		
Commitments and contingencies (note 22)		
Subsequent events (note 25)		
STOCKHOLDERS' DEFICIENCY		
Common stock: $0.0002 par value, 300,000,000 common shares authorized; 131,038,981 and 100,753,638 common shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively (note 16)	26,210	20,151
Additional paid-in capital	11,428,870	7,047,979

Common shares to be issued (note 19)	83,000	146,550
Accumulated deficit	(16,782,133)	(13,250,894)
Accumulated other comprehensive income	178,037	345,304
Total stockholders’ deficiency	(5,066,016)	(5,690,910)
Total liabilities and stockholders’ deficiency	$ 2,612,271	$ 2,422,954

Condensed Consolidated Interim Balance Sheets (Parenthetical) - USD ($)	Jun. 30, 2017	Dec. 31, 2016
Statement of Financial Position [Abstract]		
Allowance for doubtful accounts	$ 161,340	$ 0
Common stock, par value	$ 0.0002	$ 0.0002
Common stock, authorized	300,000,000	300,000,000
Common stock,issued	131,038,981	100,753,638
Common stock, outstanding	131,038,981	100,753,638

Unaudited Condensed Consolidated Interim Statements of Operations and Comprehensive Loss (Unaudited) - USD ($)	3 Months Ended		6 Months Ended	
	Jun. 30, 2017	Jun. 30, 2016	Jun. 30, 2017	Jun. 30, 2016
Income Statement [Abstract]				
Sales revenue	$ 1,266,026	$ 911,595	$ 2,509,565	$ 2,268,528
Cost of goods sold	493,987	345,036	1,040,720	1,205,982
Gross profit	772,039	566,559	1,468,845	1,062,546
Operating expenses				
Administrative	1,146,710	1,751,612	2,144,060	2,798,638
Consulting fees - related parties (note 20)	124,245	111,415	243,704	219,644
Depreciation	10,045	15,015	19,701	28,510
Amortization (notes 8 and 9)	11,650	43,500	23,300	55,000
Bad debt expense (recovery)	0	(1,198)	161,340	(1,198)
Stock option expense (note 18)	1,213,605	0	1,213,605	0
Impairment of goodwill (note 4b)	0	208,376	0	208,376
Loss (gain) on settlements	23,840	(245,625)	23,840	(245,625)
Total operating expenses	2,530,095	1,883,095	3,829,550	3,063,345
Loss from operations	(1,758,056)	(1,316,536)	(2,360,705)	(2,000,799)
Other income (expenses):				
Foreign exchange	(64,839)	(11,609)	(59,894)	(89,092)
Amortization of debt discount (note 15)	(589,703)	(14,148)	(660,992)	(36,286)
Interest expense, net	(220,371)	(149,932)	(449,648)	(271,916)
Total other expenses	(874,913)	(175,689)	(1,170,534)	(397,294)
Net loss before income taxes	(2,632,969)	(1,492,225)	(3,531,239)	(2,398,093)
Income taxes	0	0	0	0
Net loss	$ (2,632,969)	$ (1,492,225)	$ (3,531,239)	$ (2,398,093)
Loss per share (basic and diluted)	$ (0.022)	$ (0.015)	$ (0.031)	$ (0.024)
Weighted average number of common shares outstanding (basic and diluted)	118,942,199	99,881,520	113,244,746	99,721,221
Comprehensive loss:				
Net loss	$ (2,632,969)	$ (1,492,225)	$ (3,531,239)	$ (2,398,093)
Foreign exchange translation adjustment	(99,985)	712	(167,267)	(123,586)
Comprehensive loss	$ (2,732,954)	$ (1,491,513)	$ (3,698,506)	$ (2,521,679)

Unaudited Condensed Consolidated Interim Statement of Changes in Stockholders' Deficit - 6 months ended Jun. 30, 2017 - USD ($)	Common Stock	Additional Paid-In Capital	Shares To Be Issued	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Beginning Balance, Shares at Dec. 31, 2016	100,753,638					
Beginning Balance, Amount at Dec. 31, 2016	$ 20,151	$ 7,047,979	$ 146,550	$ (13,250,894)	$ 345,304	$ (5,690,910)
Private placement units issued for cash, net of issuance costs, Shares	18,483,818					
Private placement units issued for cash, net of issuance costs, Amount	$ 3,697	1,754,975				1,758,672
Private placement units issued for settlement of amounts owing to related parties (note 20(c))	1,998,950					
Private placement units issued for settlement of amounts owing to related parties, Amount (note 20(c))	$ 400	199,495				199,895
Private placement units issued for settlement of amounts owing to a shareholder, Shares (note 11(i))	226,920					
Private placement units issued for settlement of amounts owing to a shareholder, Amount (note 11(i))	$ 45	22,647				22,692
Common shares issued for settlement of amounts owing to a shareholder, Shares	320,022					
Common shares issued for settlement of amounts owing to a shareholder, Amount	$ 65	49,935	(50,000)			0
Common shares issued for settlement of consulting fees owing to unrelated parties, Shares	510,382					
Common shares issued for settlement of consulting fees owing to unrelated parties, Amount	$ 103	73,447	(73,550)			0
Common shares issued for settlement of amounts owing to a director of the Company, Shares (note 20(a))	300,000					
Common shares issued for settlement of amounts owing to a director of the Company, Amount (note 20(a))	$ 60	32,940				33,000

Common shares issued for settlement of amounts owing as charitable contributions to an unrelated party, Shares (note 22(d))	300,000			
Common shares issued for settlement of amounts owing as charitable contributions to an unrelated party, Amount (note 22(d))	$ 60	35,940		36,000
Common shares issued as employment income to an unrelated party, Shares	50,000			
Common shares issued as employment income to an unrelated party, Amount	$ 10	5,990		6,000
Common shares issued for settlement of fees owing to former directors of the Company, Shares (note 20(a))	871,000			
Common shares issued for settlement of fees owing to former directors of the Company, Amount (note 20(a))	$ 174	121,766		121,940
Common shares issued on conversion of convertible debentures to unrelated parties, Shares (note 15)	3,220,000			
Common shares issued on conversion of convertible debentures to unrelated parties, Amount (note 15)	$ 644	321,356		322,000
Common shares issued on conversion of convertible debentures to related parties, Shares (note 15)	2,910,000			
Common shares issued on conversion of convertible debentures to related parties, Amount (note 15)	$ 582	290,418		291,000
Common shares issued on settlement of interest owing on convertible debentures to unrelated parties, Shares (note 15)	285,822			
Common shares issued on settlement of interest owing on convertible debentures to unrelated parties, Amount (note 15)	$ 57	28,525		28,582

Common shares issued on settlement of interest owing on convertible debentures to related parties, Shares (note 15)	308,429					
Common shares issued on settlement of interest owing on convertible debentures to related parties, Amount (note 15)	$ 62	30,781				30,843
Private placement units to be issued to an unrelated party (note 19)			60,000			60,000
Private placement units issued for settlement of financing fees related to an amendment of the term loan (note 13), Shares	500,000					
Private placement units issued for settlement of financing fees related to an amendment of the term loan (note 13), Amount	$ 100	49,900				50,000
Issuance of stock options (note 21)		1,213,605				1,213,605
Warrants issued as stock based compensation (note 18)		74,171				74,171
Warrants issued with convertible debentures (note 17)		43,737				43,737
Embedded conversion feature of convertible debentures (note 15)		31,263				31,263
Foreign currency translation gain					(167,267)	(167,267)
Net loss				(3,531,239)		(3,531,239)
Ending Balance, Shares at Jun. 30, 2017	131,038,981					
Ending Balance, Amount at Jun. 30, 2017	$ 26,210	$ 11,428,870	$ 83,000	$ (16,782,133)	$ 178,037	$ (5,066,016)

Unaudited Condensed Consolidated Interim Statements of Cash Flows (Unaudited) - USD ($)	6 Months Ended	
	Jun. 30, 2017	Jun. 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (3,531,239)	$ (2,398,093)
Items not requiring an outlay of cash		
Depreciation	19,701	28,510
Amortization	23,300	55,000
Stock based compensation	80,171	355,803
Amortization of debt discount	660,992	36,286
Stock option expense	1,213,605	0
Interest accrued on related party fee deferrals	47,307	0
Loss (gain) on settlement of debt	23,840	(245,625)
Interest accrued on term loan	86,673	0
Interest on amounts owing on acquisition	0	9,583
Bad debt expense (recovery)	161,340	(1,198)
Interest on promissory notes	0	23,246
Impairment of goodwill	0	208,376
Changes in operating assets and liabilities		
Trade receivable	(246,355)	(390,111)
Other current assets	71,905	156,007
Inventory	26,857	(198,863)
Accounts payable	(122,648)	945,590
Accrued liabilities	13,930	42,464
Customer deposits	(19,680)	(287,930)
Amounts owing on acquisition	0	(45,000)
Due to related parties	133,673	329,130
Accrued interest-related parties	106,270	57,748
Net cash used in operating activities	(1,250,358)	(1,319,077)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposal (addition) of capital assets	(11,673)	(60,290)
Net cash used in investing activities	(11,673)	(60,290)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from promisorry notes	80,000	0
Repayments to promisorry notes	(13,000)	0
Proceeds from term loan	0	435,353
Repayments to term loan	(171,976)	(6,875)
Shareholder loan repayments	(3,512)	0
Shareholder loans received	150,380	518,714
Proceeds from related parties	78,569	236,462
Repayments to related parties	(451,784)	(133,031)
Proceeds from sale of convertible debentures	0	351,500
Repayments of convertible debentures	0	(25,000)

Proceeds from share subscriptions	60,000	0
Proceeds from issuance of common shares	1,758,672	0
Net cash provided by financing activities	1,487,349	1,377,123
Effect of exchange rate changes on cash	(96,044)	(11,751)
Net increase (decrease) in cash	129,274	(13,995)
Cash at beginning of period	184,754	81,696
Cash at end of period	314,028	67,701
Supplemental Schedule of Cash Flow Information:		
Cash paid for interest	101,511	59,479
Cash paid for income taxes	0	0
Non cash financing activities:		
Convertible debentures issued for settlement of related party fees	0	20,000
Convertible debentures issued for settlement of accounts payable	0	10,000
Convertible debentures issued for settlement of related party and shareholder loans	75,000	35,000
Common shares issued for settlement of accounts payable	36,000	0
Common shares issued in settlement of related party fees	154,940	0
Common shares issued in settlement of related party and shareholder loans	222,587	0
Common shares issued in settlement of deferred related party fees	$ 0	$ 48,000

1. NATURE OF OPERATIONS	6 Months Ended Jun. 30, 2017
Nature Of Operations	
1. NATURE OF OPERATIONS	Gilla Inc. (“Gilla”, the “Company” or the “Registrant”) was incorporated under the laws of the state of Nevada on March 28, 1995 under the name of Truco, Inc. The current business of the Company consists of the manufacturing, marketing and distribution of generic and premium branded E-liquid (“E-liquid”), which is the liquid used in vaporizers, electronic cigarettes (“E-cigarettes”), and other vaping hardware and accessories. E-liquid is heated by an atomizer to deliver the sensation of smoking and sometimes even mimic traditional smoking implements, such as cigarettes or cigars, in their use and/or appearance, without burning tobacco. The Company provides consumers with choice and quality across various categories and price points to deliver the most efficient and effective vaping solutions for nicotine and related products. Gilla’s proprietary product portfolio includes the following brands: Coil Glaze™, Siren, The Drip Factory, Craft Vapes™, Craft Clouds, Surf Sauce, Vinto Vape, VaporLiq, Vape Warriors, Vapor’s Dozen, Miss Pennysworth’s Elixirs, Enriched Vapor and Crown E-liquid™.

2. GOING CONCERN	6 Months Ended Jun. 30, 2017
Going Concern	
2. GOING CONCERN	These unaudited condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in these unaudited condensed consolidated interim financial statements, at June 30, 2017, the Company has an accumulated deficit of $16,782,133 and a working capital deficiency of $4,478,693 as well as negative cash flows from operating activities of $1,250,358 for the six month period ended June 30, 2017. These conditions represent material uncertainty that cast significant doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon achieving a profitable level of operations or on the ability of the Company to obtain necessary financing to fund ongoing operations. Management believes that the Company will not be able to continue as a going concern for the next twelve months without additional financing or increased revenues. To meet these objectives, the Company continues to seek other sources of financing in order to support existing operations and expand the range and scope of its business. However, there are no assurances that any such financing can be obtained on acceptable terms and in a timely manner, if at all. Failure to obtain the necessary working capital would have a material adverse effect on the business prospects and, depending upon the shortfall, the Company may have to curtail or cease its operations. These unaudited condensed consolidated interim financial statements do not include any adjustments to the recorded assets or liabilities that might be necessary should the Company have to curtail operations or be unable to continue in existence.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6 Months Ended

Jun. 30, 2017

Accounting Policies [Abstract]

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation

These unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiaries; Gilla Operations, LLC; E Vapor Labs Inc. ("E Vapor Labs"); E-Liq World, LLC; Charlie's Club, Inc.; Gilla Enterprises Inc. and its wholly owned subsidiaries Gilla Europe Kft. and Gilla Operations Europe s.r.o.; Gilla Operations Worldwide Limited ("Gilla Worldwide"); Gilla Franchises, LLC and its wholly owned subsidiary Legion of Vape, LLC; and Snoke Distribution Canada Ltd. and its wholly owned subsidiary Snoke Distribution USA, LLC. All inter-company accounts and transactions have been eliminated in preparing these unaudited condensed consolidated interim financial statements.

(b) Advertising Costs

In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 720, *Other Expenses* ("ASC 720"), the Company expenses the production costs of advertising the first time the advertising takes place. The Company expenses all advertising costs as incurred. During the three and six month periods ended June 30, 2017, the Company expensed $39,313 and $91,847, respectively, (June 30, 2016: $113,442 and $158,552) as corporate promotions. These amounts have been recorded as an administrative expense.

(c) Recently Adopted Accounting Pronouncements

In November 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"). ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet statement of financial position. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. Adoption of ASU 2015-17 did not have an impact on the Company's coondensed consolidated interim financial statements.

On March 30, 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). This update requires that all excess tax benefits and tax deficiencies arising from share-based payment awards should be recognized as income tax expense or benefit on the income statement. The amendment also states that excess tax benefits should be classified along with other income tax cash flows as an operating activity. In addition, an entity can make an entity-wide accounting policy election to either estimate the number of awards expected to vest or account for forfeitures as they occur. The provisions of this update are effective for annual and interim periods beginning after December 15, 2016. Adoption of ASU 2016-09 did not have an impact on the Company's condensed consolidated interim financial statements.

In October 2016, the FASB issued ASU No. 2016-17, *Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control* ("ASU 2016-17"). The new guidance changed how a reporting entity that is a single decision maker for a variable interest entity ("VIE") will consider its indirect interests in that VIE when determining whether the reporting entity is the primary beneficiary and should consolidate the VIE. Under previous U.S. GAAP, a single decision maker in a VIE is required to consider an indirect interest held by a related party under common control in its entirety. Under ASU 2016-17, the single decision maker will consider the indirect interest on a proportionate basis. Adoption of ASU 2016-17 did not have an impact on the Company's condensed consolidated interim financial statements.

(d) Recent Accounting Pronouncements

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and other than the below, does not expect the future adoption of any such pronouncements to have a significant impact on its results of operations, financial condition or cash flow.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), requiring an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 will supersede nearly all existing revenue recognition guidance under U.S. GAAP when it becomes effective. ASU 2014-09 as amended by ASU No. 2015-14, ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12 and ASU No. 2016-20, is effective for interim and annual periods beginning after December 15, 2017 and is applied on either a modified retrospective or full retrospective basis. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). ASU 2016-02 requires lessees to recognize all leases with terms in excess of one year on their balance sheet as a right-of-use asset and a lease liability at the commencement date. The new standard also simplifies the accounting for sale and leaseback transactions. The amendments in this update are effective for annual periods beginning after December 15, 2018, and interim periods therein and must be adopted using a modified retrospective method for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* (“ASU 2016-10”). ASU 2016-10 clarifies the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The provisions of this update are effective for annual and interim periods beginning after December 15, 2017, with early application permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606)*: *Narrow-Scope Improvements and Practical Expedients* (“ASU 2016-12”). The core principal of ASU 2016-12 is the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The provisions of this update are effective for annual and interim periods beginning after December 15, 2017, with early application permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which requires financial assets measured at amortized cost be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis. The measurement of expected losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This guidance is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)* (“ASU 2016-15”), which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. Among other clarifications, the guidance requires that cash proceeds received from the settlement of corporate-owned life insurance (COLI) policies be classified as cash inflows from investing activities and that cash payments for premiums on COLI policies may be classified as cash outflows for investing activities, operating activities or a combination of both. The guidance is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Retrospective application is required. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* ("ASU 2016-16"). ASU 2016-16 prohibits the recognition of current and deferred income taxes for an intra-entity transfer until the asset has been sold to an outside party. The amendment in ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”). The new guidance eliminates the requirement to calculate the implied fair value of goodwill (Step 2 of the current two-step goodwill impairment test under ASC 350). Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value (Step 1 of the current two-step goodwill impairment test). ASU 2017-04 is effective prospectively for reporting periods beginning after December 15, 2019, with early adoption permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting* (“ASU 2017-09”). ASU 2017-09 clarifies which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The standard is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

4. AMOUNTS OWING ON ACQUISITIONS	6 Months Ended Jun. 30, 2017
Business Combinations [Abstract]	
4. AMOUNTS OWING ON ACQUISITIONS	(a) On July 1, 2015, the Company acquired all of the issued and outstanding shares of E Vapor Labs, a Florida based E-liquid manufacturer. The Company acquired E Vapor Labs in order to procure an E-liquid manufacturing platform allowing the Company to secure large private label contracts as well as manufacture its own brands going forward.

In consideration for the acquisition, the Company paid to the vendors, $225,000 in cash on closing and issued $900,000 in unsecured promissory notes on closing (collectively, the "Unsecured Promissory Notes"). The Unsecured Promissory Notes were issued in three equal tranches of $300,000 due four (4), nine (9) and eighteen (18) months respectfully from closing (individually, "Promissory Notes A", "Promissory Notes B", and "Promissory Notes C", respectively). The Unsecured Promissory Notes are all unsecured, non-interest bearing, and on the maturity date, at the option of the vendors, up to one-third of each tranche of the Unsecured Promissory Notes can be repaid in Common Shares, calculated using the 5 day weighted average closing market price prior to the maturity of the Unsecured Promissory Notes. The Unsecured Promissory Notes, are all and each subject to adjustments as outlined in the share purchase agreement (the "SPA"), dated June 25, 2015.

At December 31, 2015, the Company adjusted the Promissory Notes A for $116,683 which is the known difference in the working capital balance at closing of the acquisition from the amount specified in the SPA. Furthermore, a 12% discount rate has been used to calculate the present value of the Unsecured Promissory Notes based on the Company's estimate of cost of financing for comparable notes with similar term and risk profiles. Over the term of the respective Unsecured Promissory Notes, interest will be accrued at 12% per annum to accrete the Unsecured Promissory Notes to their respective principal amounts. During the six month periods ended June 30, 2017 and 2016, the Company recorded $nil and $16,078, respectively, in interest expense related to the accretion of the Unsecured Promissory Notes.

	Promissory Notes A	Promissory Notes B	Promissory Notes C	Total
Present value at December 31, 2015	**$ 203,573**	**$ 291,620**	**$ 267,857**	**$ 763,050**
Measurement period adjustment	(19,505)	—	—	(19,505)
Interest expense related to accretion	(751)	8,380	32,143	39,772
Present value at December 31, 2016	**183,317**	**300,000**	**300,000**	**783,317**
Present value at June 30, 2017	**$ 183,317**	**$ 300,000**	**$ 300,000**	**$ 783,317**

(b) On December 2, 2015, the Company acquired all of the assets of The Mad Alchemist, LLC ("TMA"), an E-liquid manufacturer, including the assets, rights and title to own and operate The Mad Alchemist™ and Replicant E-liquid brands (the "The Mad Alchemist Brands").

In consideration for the acquisition, the Company issued 819,672 Common Shares valued at $0.122 per share for a total value of $100,000; agreed to pay a total of $400,000 in deferred payments (the "Amounts Owing on Acquisition"), payable in ten (10) equal payments of $20,000 in cash and $20,000 in Common Shares every three (3) months following the closing date; and agreed to a quarterly earn-out based on the gross profit stream derived from product sales of The Mad Alchemist Brands. The earn-out commences on the closing date and pays up to a maximum of 25% of the gross profit stream. The number of Common Shares issuable will be calculated and priced using the 5 day weighted average closing market price prior to each issuance date. Furthermore, a 12% discount rate has been used to calculate the present value of the Amounts Owing on Acquisition. Over the term of the respective deferred payments, interest will be accrued at 12% per annum to accrete the payments to their respective principal amounts. During the six month periods ended June 30, 2017 and 2016, the Company recorded $nil and $9,582, respectively, in interest expense related to the accretion of the Amounts Owing on Acquisition.

On April 15, 2016, the Company entered into a settlement agreement (the "TMA Settlement Agreement") with TMA and the vendors of TMA (collectively, the "TMA Vendors"). Subject to the terms and conditions of the TMA Settlement Agreement, the parties settled: (i) any and all compensation and expenses owing by the Company to the TMA Vendors and (ii) the $400,000 of Amounts Owing on Acquisition payable by the Company to TMA Vendors pursuant to the TMA Asset Purchase Agreement in exchange for the Company paying to the TMA Vendors a total settlement consideration of $133,163 payable as $100,000 in cash and $33,163 in the Company's assets as a payment-in-kind. Of the $100,000 payable in cash under the TMA Settlement Agreement, $45,000 was paid upon execution of the settlement, $27,500 was payable thirty days following the signing of the settlement and the remaining $27,500 was payable at the later of (i) sixty days following the signing of the TMA Settlement Agreement, or (ii) the completion of the historical audit of TMA. As a result of the TMA Settlement Agreement, the Company has recorded a gain on settlement in the amount of $274,051. As at June 30, 2017, $55,000 (December 31, 2016: $55,000) remains payable to the TMA Vendors. In addition, the Company and the TMA Vendors mutually terminated all employment agreements between the Company and the TMA vendors, entered into on the date of closing of the acquisition by the Company, and all amounts were fully settled pursuant to the TMA Settlement Agreement. Due to the change in circumstances, during the year ended December 31, 2016, the Company tested goodwill and intangibles for impairment and as a result, the Company has fully impaired goodwill and intangible assets related to the acquired assets of TMA in the amount of $208,376 and $122,983, respectively, which formerly represented the value of brands, customer relationships, workforce and business acumen acquired.

5. OTHER CURRENT ASSETS	6 Months Ended Jun. 30, 2017

Other Current Assets

5. OTHER CURRENT ASSETS

Other current assets consist of the following:

		June 30, 2017		December 31, 2016
Vendor deposits	**$**	**21,421**	$	13,256
Prepaid expenses		**235,385**		301,348
Trade currency		**45,000**		45,000
Other receivables		**152,383**		103,104
	$	**454,189**	$	462,708

Other receivables include VAT receivable, HST receivable and holdback amounts related to the Company's merchant services accounts.

6. INVENTORY

6 Months Ended Jun. 30, 2017

Inventory Disclosure [Abstract]

6. INVENTORY

Inventory consists of the following:

		June 30, 2017		December 31, 2016
Vaping hardware and accessories	**$**	**29,284**	$	105,496
E-liquid bottles - finished goods		**160,922**		181,392
E-liquid components		**109,454**		158,050
Bottles and packaging		**256,113**		100,197
	$	**555,773**	$	545,135

During the three month periods ended June 30, 2017 and 2016, the Company expensed $493,987 and $345,036 of inventory as cost of goods sold, respectively. During the six month periods ended June 30, 2017 and 2016, the Company expensed $1,040,720 and $1,205,982 of inventory as cost of goods sold, respectively. At June 30, 2017, the full amount of the Company's inventory serves as collateral for the Company's secured borrowings.

7. PROPERTY AND EQUIPMENT

Property, Plant and Equipment [Abstract]

7. PROPERTY AND EQUIPMENT

6 Months Ended
Jun. 30, 2017

Property and equipment consists of the following:

	June 30, 2017			December 31, 2016
	Cost	**Accumulated Depreciation**	**Net**	Net
Furniture and equipment	**$ 65,610**	**$ 28,732**	**$ 36,878**	$ 45,917
Computer hardware	**20,899**	**8,565**	**12,334**	15,985
Manufacturing equipment	**64,529**	**26,961**	**37,568**	31,166
	$ 151,038	**$ 64,258**	**$ 86,780**	$ 93,068

Depreciation expense for the three month periods ended June 30, 2017 and 2016 amounted to $10,045 and $15,015, respectively. Depreciation expense for the six month periods ended June 30, 2017 and 2016 amounted to $19,701 and $28,510, respectively.

At June 30, 2017, the full amount of the Company’s property and equipment serves as collateral for the Company’s secured borrowings.

8. WEBSITE DEVELOPMENT

6 Months Ended Jun. 30, 2017

Website Development

8. WEBSITE DEVELOPMENT

Website development consists of the following:

	June 30, 2017			December 31, 2016
	Cost	**Accumulated Amortization**	**Net**	Net
VaporLiq Website	**$ 10,000**	**$ 3,917**	**$ 6,083**	$ 7,083

Amortization expense on website development for the three month periods ended June 30, 2017 and 2016 amounted to $500 for each period. Amortization expense on website development for the six month periods ended June 30, 2017 and 2016 amounted to $1,000 for each period. The estimated amortization expense for the next 3 years ending December 31, 2017, 2018 and 2019 approximates $2,000 per year. For the year ending December 31, 2020, estimated amortization expense approximates $1,083.

9. INTANGIBLE ASSETS

6 Months Ended Jun. 30, 2017

Website Development
9. INTANGIBLE ASSETS

Intangible assets consist of the following:

	June 30, 2017			December 31, 2016
	Cost	Accumulated Amortization	Net	Net
Brands	$ 50,000	$ 18,000	$ 32,000	$ 37,000
Customer relationships	173,000	67,000	106,000	123,300
	$ 223,000	$ 85,000	$ 138,000	$ 160,300

Amortization expense on intangible assets for the three month periods ended June 30, 2017 and 2016 amounted to $11,150 and $43,000, respectively. Amortization expense on intangible assets for the six month periods ended June 30, 2017 and 2016 amounted to $22,300 and $54,000, respectively. The estimated amortization expense for the next 3 years ending December 31, 2017, 2018 and 2019 approximates $44,600 per year. For the year ending December 31, 2020, estimated amortization expense approximates $26,500.

10. GOODWILL

6 Months Ended Jun. 30, 2017

Goodwill

10. GOODWILL

	June 30, 2017	December 31, 2016
Opening balance	**$ 889,497**	$ 1,252,084
Measurement period adjustment	—	(154,211)
Impairment	—	(208,376)
End of period	**$ 889,497**	$ 889,497

During the year ended December 31, 2016, the Company tested the goodwill for impairment. As a result, the Company fully impaired the goodwill related to the acquisition of the assets of TMA in the amount of $208,376 which formerly represented the value of workforce and business acumen acquired.

11. LOANS FROM SHAREHOLDERS

6 Months Ended Jun. 30, 2017

Loans From Shareholders

11. LOANS FROM SHAREHOLDERS

The Company has outstanding current loans from shareholders as follows:

	June 30, 2017	December 31, 2016
Non-interest bearing, unsecured, no specific terms of repayment(i)	$ -	$ 5,000
Bears interest of 1.5% per month on a cumulative basis, unsecured, no specific terms of repayment(ii)	12,680	23,223
Bears interest of 6% per annum on a cumulative basis, secured by the assets of the Company, matures on March 2, 2018(v)	516,302	474,065
Non-interest bearing, secured by the assets of the Company, matures on March 12, 2017 and currently in default(vi)	154,120	-
	$ 683,102	$ 502,288

The Company has outstanding long term loans from shareholders as follows:

	June 30, 2017	December 31, 2016
Bears interest of 10% per annum on a cumulative basis, secured by the assets of the Company, matures on July 1, 2018(iii)	$ 385,300	$ 372,400
Bears interest of 10% per annum on a cumulative basis, secured by the assets of the Company, matures on July 1, 2018(iv)	100,000	100,000
Bears interest of 6% per annum on a cumulative basis, secured by the assets of the Company, matures on March 2, 2018(v)	-	24,951
	$ 485,300	$ 497,351

(i) During the six month period ended June 30, 2017, the amount owing to the shareholder increased from $5,000 to $22,692 and was then fully settled through the issuance of 226,920 private placement units at a price of $0.10 per unit. Each unit consisted of one Common Share and a half Common Share purchase warrant exercisable over twelve months at an exercise price of $0.20 per share.

(ii) During the three and six month period ended June 30, 2017, the Company accrued interest of $1,327 and $2,726, respectively, on this shareholder loan (June 30, 2016: $1,452 and $2,797). Total accrued interest owing on the shareholder loan at June 30, 2017 was $16,017 (December 31, 2016: $12,784) which is included in accrued liabilities. During the six month period ended June 30, 2017, $10,000 owing on this shareholder loan was settled with the issuance of face value $10,000 of Convertible Debentures Series C-3 (note 15) and $3,512 was settled with cash.

(iii) On February 13, 2014, the Company entered into a secured promissory note (the “Secured Note”) with a shareholder, whereby the Company agreed to pay the party the aggregate unpaid principal amount of CAD $500,000 (USD $385,300) (December 31, 2016: CAD $500,000; USD $372,400) on or before August 13, 2014, bearing interest at a rate of 10% per annum, such interest to accrue monthly and added to the principal. The Secured Note is secured by a general security agreement granting a general security interest over all the assets of the Company. During the years ended December 31, 2014 and 2015, the Company and the shareholder extended the maturity date of the Secured Note to January 1, 2016 and July 1, 2017, respectively. During the year ended December 31, 2016, the Company and the shareholder extended the maturity date of the Secured Note to July 1, 2018. The amendment to the Secured Note was accounted for as a modification of debt and no gain or loss was recognized on the amendment.

During the three and six month periods ended June 30, 2017, the Company accrued interest of $12,114 and $24,028, respectively, (June 30, 2016: $10,999 and $21,385) on the Secured Note. Accrued interest owing on the Secured Note at June 30, 2017 was $121,046 (December 31, 2016: $93,221) which is included in accrued liabilities.

(iv) On July 15, 2014, the Company entered into a secured promissory note (the “Secured Note No.2”) with a shareholder, whereby the Company agreed to pay the party the aggregate unpaid principal amount of $100,000 on or before July 18, 2014, bearing interest at a rate of 10% per annum, such interest to accrue monthly and added to the principal. The Secured Note No.2 is secured by the general security agreement issued with the Secured Note. During the years ended December 31, 2014 and 2015, the Company and the shareholder extended the maturity date of the Secured Note No.2 to January 1, 2016 and July 1, 2017, respectively. During the year ended December 31, 2016, the Company and the shareholder extended the maturity date of the Secured Note No.2 to July 1, 2018. The amendment to the Secured Note No.2 was accounted for as a modification of debt and no gain or loss was recognized on the amendment.

During the three and six month periods ended June 30, 2017, the Company accrued interest of $3,234 and $6,389, respectively, (June 30, 2016: $2,928 and $5,784) on the Secured Note No.2. Accrued interest owing on the Secured Note No.2 at June 30, 2017 was $31,541 (December 31, 2016: $25,152) which is included in accrued liabilities.

In connection to the maturity date extension of Secured Note and Secured Note No.2 (together, the "Secured Notes"), the Company issued warrants for the purchase of 250,000 Common Shares exercisable until July 1, 2018 at an exercise price of $0.20 per share (note 17(b)).

(v) On March 2, 2016, the Company entered into a loan agreement (the "Loan Agreement") with a shareholder, whereby the shareholder would make available to the Company the aggregate principal amount of CAD $670,000 (USD $516,302) (the "Shareholder Loan") for capital expenditures, marketing expenditures and working capital. Under the terms of the Loan Agreement, the Shareholder Loan was made available to the Company in two equal tranches of CAD $335,000, for a total loan amount of CAD $670,000 (USD $516,302), with the first tranche ("Loan Tranche A") received on the closing date and the second tranche ("Loan Tranche B") received on April 14, 2016. At June 30, 2017, CAD $52,000 (USD $39,099) of the Loan Tranche B was being held in trust by the shareholder to be released on the incurrence of specific expenses. The Shareholder Loan bears interest at a rate of 6% per annum, on the outstanding principal, and shall mature on March 2, 2018, whereby any outstanding principal together with all accrued and unpaid interest thereon shall be due and payable. The Company shall also repay 5% of the initial principal amount of Loan Tranche A and 5% of Loan Tranche B, monthly in arrears, with the first principal repayment beginning on June 30, 2016. The Company may elect to repay the outstanding principal of the Shareholder Loan together with all accrued and unpaid interest thereon prior to maturity without premium or penalty. The Company also agreed to service the Shareholder Loan during the term prior to making any payments to the Company's Chief Executive Officer, Chief Financial Officer and Board of Directors. The Shareholder Loan is secured by a general security agreement granting a general security interest over all the assets of the Company. On March 2, 2016 and in connection to the Loan Agreement, the Company issued warrants for the purchase of 1,000,000 Common Shares exercisable until March 2, 2018 at an exercise price of $0.20 per share. The warrants shall vest in two equal tranches, with 500,000 warrants to vest upon the close of Loan Tranche A and the remaining 500,000 warrants to vest upon the close of Loan Tranche B. On March 3, 2016 and April 14, 2016, the Company closed Loan Tranche A and Loan Tranche B, respectively, at which dates the warrants became fully vested and exercisable (note 17(g)).

During the three and six month periods ended June 30, 2017, the Company accrued interest of $8,048 and $16,042, respectively, (June 30, 2016: $6,970 and $8,135) on the Shareholder Loan. Accrued interest owing on the Shareholder Loan at June 30, 2017 was $40,665 (December 31, 2016: $23,433) which is included in accrued liabilities. At June 30, 2017, the Company owes the shareholder $403,018 in principal payments.

(vi) On January 12, 2017, the Company entered into a bridge loan agreement (the "Bridge Loan Agreement") with a shareholder, whereby the shareholder would make available to the Company the aggregate principal amount of CAD $200,000 (USD $154,120) (the "Bridge Loan") in two equal tranches of CAD $100,000. The Company received the first tranche on January 12, 2017 ("Bridge Loan Note A") and the second tranche on January 18, 2017 ("Bridge Loan Note B"). The Bridge Loan is non-interest bearing and matures on March 12, 2017. Pursuant to the terms of the Bridge Loan Agreement, the shareholder received a 5% upfront fee upon the closing of Bridge Loan Note A and a 5% upfront fee upon the closing of Bridge Loan Note B. The Bridge Loan is secured by the general security agreement issued in connection to the Secured Note. On January 12, 2017 and in connection to the Bridge Loan Agreement, the Company issued warrants for the purchase of 50,000 Common Shares exercisable until January 11, 2018 at an exercise price of $0.20 per share, with 25,000 warrants to vest upon the closing of Bridge Loan Note A and the remaining 25,000 warrants vest upon the closing of Bridge Loan Note B. On January 12, 2017 and January 18, 2017, the Company closed Bridge Loan Note A and Bridge Loan Note B, respectively, at which dates the warrants became fully vested and exercisable (note 17(n)). The Bridge Loan matured on March 12, 2017 and is currently in default.

12. CREDIT FACILITY

6 Months Ended Jun. 30, 2017

Credit Facility

12. CREDIT FACILITY

On August 1, 2014, the Company entered into a revolving credit facility (the "Credit Facility") with an unrelated party acting as an agent to a consortium of participants (the "Lenders"), whereby the Lenders would make a revolving credit facility in the aggregate principal amount of CAD $500,000 for the exclusive purpose of purchasing inventory for sale in the Company's ordinary course of business to approved customers. The Credit Facility charged interest at a rate of 15% per annum on all drawn advances and a standby fee of 3.5% per annum on the undrawn portion of the Credit Facility. The Credit Facility matured on August 1, 2015 whereby the outstanding advances together with all accrued and unpaid interest thereon would be due and payable. On August 1, 2014, and in connection to the Credit Facility, the Company issued warrants for the purchase of 250,000 Common Shares exercisable over two years at an exercise price of $0.30 per share. The Company's Chief Executive Officer and Chief Financial Officer were both participants of the consortium of participants of the Credit Facility, each having committed to provide ten percent of the principal amount of the Credit Facility. The Credit Facility was secured by all of the Company's inventory and accounts due relating to any inventory as granted in an intercreditor and subordination agreement by and among the Company, the Secured Note holder and the Lenders to establish the relative rights and priorities of the secured parties against the Company and a security agreement by and between the Company and the Lenders.

During the year ended December 31, 2014, the Company was advanced $387,110 (CAD $449,083) from the Credit Facility for the purchase of inventory including $77,453 (CAD $89,852) of advances from the Company's Chief Executive Officer and Chief Financial Officer as their participation in the Credit Facility.

On April 24, 2015, the Company was advanced $89,590 (CAD $124,000) from the Credit Facility including $17,918 (CAD $24,800) of advances from the Company's Chief Executive Officer and Chief Financial Officer as their participation in the Credit Facility.

On September 1, 2015, the Company was advanced $122,825 (CAD $170,000) from the Credit Facility including $24,565 (CAD $34,000) of advances from the Company's Chief Executive Officer and Chief Financial Officer as their participation in the Credit Facility.

During the three and six month period ended June 30, 2017, the Company paid $nil (June 30, 2016: $2,189 and $2,189) of interest and standby fees as a result of the Credit Facility.

On January 18, 2016, and in connection to the Term Loan (note 13), the Company and the Lenders entered into a loan termination agreement whereby the Company and the Lenders terminated and retired the Credit Facility. As a result, the CAD $294,000 in amounts advanced from the Credit Facility and the CAD $3,093 in accrued interest owing on the Credit Facility were rolled into the Term Loan.

13. TERM LOAN

Term Loan

13. TERM LOAN

6 Months Ended
Jun. 30, 2017

On January 18, 2016, the Company entered into a term loan (the "Term Loan") with the Lenders, whereby the Lenders would loan the Company the aggregate principal amount of CAD $1,000,000 for capital expenditures, marketing expenditures and working capital. The agent who arranged the Term Loan was not a related party of the Company. The Term Loan bears interest at a rate of 16% per annum, on the outstanding principal, and shall mature on July 3, 2017, whereby any outstanding principal together with all accrued and unpaid interest thereon shall be due and payable. The Term Loan is secured the intercreditor and subordination agreement as well as the security agreement issued in connection to the Credit Facility. The Term Loan is subject to a monthly cash sweep, calculated as the total of (i) CAD $0.50 for every E-liquid bottle, smaller than 15 ml, sold by the Company within a monthly period; and (ii) CAD $1.00 for every E-liquid bottle, greater than 15 ml, sold by the Company within a monthly period (the "Cash Sweep"). The Cash Sweep will be disbursed to the Lenders in the following priority: first, to pay the monthly interest due on the Term Loan; and second, to repay any remaining principal outstanding on the Term Loan. The Company may elect to repay the outstanding principal of the Term Loan together with all accrued and unpaid interest thereon prior to the maturity, subject to an early repayment penalty of the maximum of (i) 3 months interest on the outstanding principal; or (ii) 50% of the interest payable on the outstanding principal until maturity (the "Early Repayment Penalty"). The Term Loan shall be immediately due and payable at the option of the Lenders if there is a change in key personnel meaning the Company's current Chief Executive Officer and Chief Financial Officer. On January 18, 2016 and in connection to the Term Loan, the Company issued warrants for the purchase of 250,000 Common Shares (note 17(d)) exercisable until December 31, 2017 at an exercise price of $0.20 per share. In addition, the Company also extended the expiration date of the 250,000 warrants (note 17(d)) issued on August 1, 2014 in connection with the Credit Facility until December 31, 2017, with all other terms of the warrants remaining the same.

The Company's Chief Executive Officer and Chief Financial Officer are both participants of the consortium of Lenders of the Term Loan, each having committed to provide ten percent of the principal amount of the Term Loan. Neither the Chief Executive Officer nor the Chief Financial Officer participated in the warrants issued or warrants extended in connection with the Term Loan and both parties have been appropriately abstained from voting on the Board of Directors to approve the Term Loan, where applicable.

On July 15, 2016, the Company and the Lenders of the Term Loan entered into a term loan amendment (the "Term Loan Amendment") in which the Lenders agreed to extend to the Company an additional CAD $600,000 in principal to increase the Term Loan facility up to the aggregate principal amount of CAD $1,600,000. The parties also extended the maturity date of the Term Loan to July 2, 2018 with all other terms of the Term Loan remaining the same. The Company's Chief Executive Officer and its Chief Financial Officer are both participants in the consortium of Lenders having each committed to provide a total of CAD $150,000 of the initial principal of the Term Loan and the additional principal of the Term Loan pursuant to the Term Loan Amendment.

On July 15, 2016 and in connection to the Term Loan Amendment, the Company issued warrants for the purchase of 300,000 Common Shares (note 17(k)) exercisable until December 31, 2018 at an exercise price of $0.20 per share. The Company also extended the expiration dates of: i) the warrants for the purchase of 250,000 Common Shares (note 17(d)) issued on January 18, 2016 in connection to the Term Loan; and ii) the warrants for the purchase of 250,000 Common Shares (note 17(d)) issued on August 1, 2014 and extended on January 18, 2016 in connection to the Term Loan, both until December 31, 2018, with all other terms of the warrants remaining the same. Neither the Chief Executive Officer nor the Chief Financial Officer participated in the warrants issued or warrants extended in connection with the Term Loan Amendment.

During the year ended December 31, 2016, the Company was advanced $1,219,840 (CAD $1,600,000) from the Term Loan including the CAD $294,000 and CAD $3,093 rolled in from the Credit Facility (note 12) as well as CAD $240,581 of advances from the Company's Chief Executive Officer and Chief Financial Officer.

On February 27, 2017, the Company and the Lenders of the Term Loan entered into a term loan amendment (the "Term Loan Amendment No.2") to amend certain terms and conditions of the Term Loan. Pursuant to the Term Loan Amendment No.2, the parties agreed to modify the Cash Sweep to be calculated as the total of CAD $0.01667 per ml of E-liquid sold by the Company within a monthly period, such modification to be retroactively applied as of January 1, 2017. The Lenders also agreed to cancel the Early Repayment Penalty and waive any interest payment penalties due under the Term Loan. On February 27, 2017 and in connection to the Term Loan Amendment No.2, the Company agreed to issue 500,000 private placement units at a price of $0.10 per unit as a settlement of $50,000 in financing fees. Each unit consisted of one Common Share and a half Common Share purchase warrant exercisable over twelve months at an exercise price of $0.20 per share. On April 4, 2017, the Company issued the 500,000 units. The Company's Chief Executive Officer and its Chief Financial Officer received a total of 93,622 units which included 93,622 Common Shares and warrants for the purchase of 46,811 Common Shares. The Term Loan Amendment No.2 was accounted for as a modification of debt and no gain or loss was recognized on the amendment.

During the three and six month periods ended June 30, 2017, the Company expensed $42,120 and $86,673, respectively, (June 30, 2016: $29,824 and $52,836) in interest as a result of the Term Loan. Pursuant to the Cash Sweep, during the six month period ended June 30, 2017, the Company paid $171,976 to the Lenders consisting of $101,511 in interest and $70,465 in principal payments. At June 30, 2017, the Company owes the Lenders $26,932, consisting of $14,225 in interest and $12,707 in principal payments, which was paid to the Lenders on July 15, 2017 as per the terms of the Cash Sweep.

The amount owing on the Term Loan is as follows:

	June 30, 2017	December 31, 2016
Opening balance/amount advanced	**$ 1,144,337**	$ 1,219,840
Exchange loss (gain) during the period/year	**36,885**	(28,159)
Principal payments made	**(70,465)**	(76,815)
Interest accrued	**86,673**	140,540
Interest payments made	**(101,511)**	(111,069)
Ending balance	**$ 1,095,919**	$ 1,144,337

14. PROMISSORY NOTE

Promissory Note	6 Months Ended Jun. 30, 2017
14. PROMISSORY NOTE	

The Company has outstanding current promissory notes as follows:

		June 30, 2017		December 31, 2016
Unsecured Promissory Notes (note 4(a))	$	**783,317**	$	783,317
Unsecured, bears interest at 18% per annum, matures June 19, 2019(i)		**30,000**		-
Unsecured, bears interest at 10%, matures December 15, 2017(ii)		**16,750**		-
Unsecured, bears interest at 10% per annum, matures September 28, 2017(iii)		**5,250**		17,750
	$	**835,317**	$	801,067

The Company has outstanding long term promissory notes as follows:

		June 30, 2017		December 31, 2016
Unsecured, bears interest at 18% per annum, matures June 19, 2019(i)	$	**30,000**	$	-

(i) On June 30, 2017, the Company issued a promissory note in the amount of $60,000 to an unrelated party. The principal together with interest at the rate of 18% per annum is payable in monthly instalments of $3,400 with the first payment due on July 19, 2017 and the final payment due on June 19, 2019. In the event of default by way of any missed payment under the promissory note and not cured for a period of 15 days, at the option of the note holder, the entire principal amount remaining will become due and payable without notice. At June 30, 3017, $30,000 of the principal on this promissory note has been classified as a current liability and $30,000 has been classified as a long term liability on the balance sheet.

(ii) On April 20, 2017, the Company issued a promissory note in the amount of $20,000 to an unrelated party. The principal together with interest at the rate of 10% over the term of the promissory note is payable in monthly instalments of $2,750 with the first payment due on May 15, 2017 and the final payment due on December 15, 2017. In the event of default by way of any missed payment under the promissory note and not cured for a period of 15 days, at the option of the note holder, the entire principal amount remaining will become due and payable without notice. During the three and six month periods ended June 30, 2017, the Company paid $250 and $250, respectively, (June 30, 2016: $nil and $nil) in interest on this promissory note. At June 30, 2017, the Company was delinquent on its June 30, 2017 payment which has since been paid.

(iii) On September 28, 2016, the Company issued a promissory note in the amount of $21,000 to an unrelated party. The principal together with interest at the rate of 10% per annum is payable in monthly instalments of $2,000 with the first payment due on October 28, 2016 and the final payment due on September 28, 2017. In the event of default by way of any missed payment under the promissory note and not cured for a period of 15 days, at the option of the note holder, the entire principal amount remaining will become due and payable without notice. During the three and six month periods ended June 30, 2017, the Company paid $750 and $1,500, respectively, in interest (June 30, 2016: $nil and $nil) on this promissory note.

15. CONVERTIBLE DEBENTURES	6 Months Ended Jun. 30, 2017
Debt Disclosure [Abstract]	
15. CONVERTIBLE DEBENTURES	*Convertible Debentures Series A* On September 3, 2013, December 23, 2013 and February 11, 2014, the Company issued $425,000, $797,000 and $178,000, respectively, of unsecured subordinated convertible debentures ("Convertible Debentures Series A"). The Convertible Debentures Series A matured on January 31, 2016 and charged interest at a rate of 12% per annum, payable quarterly in arrears. The Convertible Debentures Series A were convertible into Common Shares at a fixed conversion rate of $0.07 per share at any time prior to the maturity date. Of the $178,000 in face value of Convertible Debentures Series A issued on February 11, 2014, $3,000 were issued in settlement of loans from shareholders and $50,000 were issued in settlement of loans from related parties. *Convertible Debentures Series B* On December 31, 2015, the Company issued 650 unsecured subordinated convertible debenture units ("Convertible Debentures Series B") for proceeds of $650,000. Each Convertible Debentures Series B consisted of an unsecured subordinated convertible debenture having a principal amount of $1,000 and warrants for the purchase of 5,000 Common Shares at a price of $0.20 per share for a period of twenty-four months from the date of issuance (note 17(c)). The Convertible Debentures Series B mature on January 31, 2018 and bear interest at a rate of 8% per annum, payable quarterly in arrears. The face value of the Convertible Debentures Series B, together with all accrued and unpaid interest thereon, are convertible into Common Shares at a fixed conversion rate of $0.10 per share at any time prior to maturity. The Company also has the option to force conversion of any outstanding Convertible Debentures Series B at any time after six months from issuance and prior to maturity. Of the $650,000 in face value of Convertible Debentures Series B issued on December 31, 2015, $276,000 were issued in settlement of loans from related parties, $10,000 were issued in settlement of related party consulting fees $20,000 were issued in settlement of consulting fees owing to an unrelated party and $227,000 were issued in settlement of loans from shareholders. *Convertible Debentures Series C* On May 20, 2016, the Company issued 375 unsecured subordinated convertible debenture units (the "Convertible Debentures Series C") for proceeds of $375,000. Each Convertible Debentures Series C consisted of an unsecured subordinated convertible debenture having a principal amount of $1,000 and warrants for the purchase of 10,000 Common Shares at a price of $0.20 per share for a period of twenty-four months from the date of issuance (note 17). The Convertible Debentures Series C mature on January 31, 2018 and bear interest at a rate of 8% per annum, accrued quarterly in arrears. The face value of the Convertible Debentures Series C, together with all accrued and unpaid interest thereon, are convertible into Common Shares at a fixed conversion rate of $0.10 per share at any time prior to maturity. The Company also has the option to force conversion of any outstanding Convertible Debentures Series C at any time after six months from issuance and prior to maturity. For Canadian holders, the Company may only force conversion of any outstanding Convertible Debentures Series C at such time that the Company is a reporting issuer within the jurisdiction of Canada. Of the $375,000 in face value of Convertible Debentures Series C issued on May 20, 2016 ("Convertible Debentures Series C-1"), $55,000 were issued in settlement of amounts owing to related parties (note 20(c)) and $10,000 were issued in settlement of amounts owing to an employee. The Company incurred costs of $22,725 as a result of the issuance of Convertible Debentures Series C-1 on May 20, 2016. On December 31, 2016, the Company issued an additional 275 units of Convertible Debentures Series C ("Convertible Debentures Series C-2") for proceeds of $275,000 which were fully issued in exchange for cash. On January 20, 2017, the Company issued an additional 75 units of Convertible Debentures Series C ("Convertible Debentures Series C-3") in settlement of $65,000 owing to a related party (note 20(c)) and $10,000 owing in shareholder loans (note 11(ii)). The Company evaluated the terms and conditions of the Convertible Debentures Series A, Convertible Debentures Series B and each tranche of Convertible Debentures Series C (together, the "Convertible Debentures") under the guidance of ASC No. 815, *Derivatives and Hedging* ("ASC 815"). The conversion feature met the definition of conventional convertible for purposes of applying the conventional convertible exemption. The definition of conventional contemplates a limitation on the number of shares issuable under the arrangement. The instrument was convertible into a fixed number of shares and there were no down round protection features contained in the contracts. Since a portion of the Convertible Debentures were issued in exchange for nonconvertible instruments at the original instrument's maturity date, the guidance of ASC 470-20-30-19 & 20 were applied. The fair value of the newly issued Convertible Debentures were equal to the redemption amounts owed at the maturity date of the original instruments. Therefore, there was no gain or loss on extinguishment of debt recorded. After the exchange occurred, the Company was required to consider whether the new hybrid contracts embodied a beneficial conversion feature ("BCF"). For the face value $425,000 of Convertible Debentures Series A issued on September 3, 2013, the calculation of the effective conversion amount did not result in a BCF because the effective conversion price was greater than the Company's stock price on the date of issuance, therefore no BCF was recorded. However, for the face value $797,000 of Convertible Debentures Series A that were issued on December 23, 2013 and the face value $178,000 of Convertible Debentures Series A that were issued on February 11, 2014, the calculation of the effective conversion amount resulted in a BCF because the

effective conversion price was less than the Company's stock price on the date of issuance and a BCF in the amount of $797,000 and $178,000, respectively, were recorded in additional paid-in capital.

For the face value $650,000 of Convertible Debentures Series B issued on December 31, 2015, the relative fair value of the warrants included in the issuance totaling $287,757 was calculated using the Black-Scholes option pricing model. The resulting fair value of such Convertible Debentures Series B issuance was calculated to be $362,243. The calculation of the effective conversion amount resulted in a BCF because the effective conversion price was less than the Company's stock price on the date of issuance and a BCF in the amount of $133,657 was recorded in additional paid-in capital.

For the face value $375,000 of Convertible Debentures Series C-1 issued on May 20, 2016, the relative fair value of the warrants included in the issuance totaling $234,737 (note 17(i)) was calculated using the Black-Scholes option pricing model. The resulting fair value of such Convertible Debentures Series C-1 was calculated to be $140,263. The calculation of the effective conversion amount resulted in a BCF because the effective conversion price was less than the Company's stock price on the date of issuance and a BCF in the amount of $117,538, net of transaction costs, was recorded in additional paid-in capital.

For the face value $275,000 of Convertible Debentures Series C-2 issued on December 31, 2016, the relative fair value of the warrants included in the issuance totaling $143,871 (note 17(m)) was calculated using the Black-Scholes option pricing model. The resulting fair value of such Convertible Debentures Series C-2 was calculated to be $131,129. The calculation of the effective conversion amount resulted in a BCF because the effective conversion price was less than the Company's stock price on the date of issuance and a BCF in the amount of $131,129, was recorded in additional paid-in capital.

For the face value $75,000 of Convertible Debentures Series C-3 issued on January 20, 2017, the relative fair value of the warrants included in the issuance totaling $43,737 (note 17(o)) was calculated using the Black-Scholes option pricing model. The resulting fair value of such Convertible Debentures Series C-3 was calculated to be $31,263. The calculation of the effective conversion amount resulted in a BCF because the effective conversion price was less than the Company's stock price on the date of issuance and a BCF in the amount of $31,263, was recorded in additional paid-in capital.

The BCF and the fair value of the warrants, which represents debt discount, is accreted over the life of the Convertible Debentures using the effective interest rate. Amortization of debt discount was recorded as follows:

	For the Three Months Ended June 30, 2017	For the Three Months Ended June 30, 2016	**For the Six Months Ended June 30, 2017**	For the Six Months Ended June 30, 2016
Convertible Debentures Series A	**$ -**	$ -	**$ -**	$ 17,342
Convertible Debentures Series B	**40,104**	8,334	**83,841**	13,130
Conversion of Convertible Debentures Series B	**342,399**	-	**342,399**	-
Convertible Debentures Series C-1	**24,412**	5,814	**44,584**	5,814
Conversion of Convertible Debentures Series C-1	**163,599**	-	**163,599**	-
Convertible Debentures Series C-2	**15,077**	-	**20,286**	-
Convertible Debentures Series C-3	**4,112**	-	**6,283**	-
	$ 589,703	$ 14,148	**$ 660,992**	$ 36,286

Convertible Debentures as of June 30, 2017 and December 31, 2016, are as follows:

Balance, December 31, 2015	**$ 87,158**
Face value Convertible Debentures Series C-1	375,000
Face value Convertible Debentures Series C-2	275,000
Relative fair value of detachable warrants	(378,608)
BCF	(248,667)
Transaction costs	(22,725)
Amortization of debt discount	94,546
Conversion	(23,000)
Cash settlements	(75,000)
Balance, December 31, 2016	**$ 83,704**
Face Value Convertible Debentures Series C-3	75,000
Relative fair value of detachable warrants	(43,737)
BCF	(31,263)

Conversion of Convertible Debentures Series B	(423,000)
Conversion of Convertible Debenture Series C-1	(190,000)
Amortization of debt discount	660,992
Balance, June 30, 2017	**$ 131,696**

Conversions and Repayments of Convertible Debentures Series A

The Company received forms of election whereby holders of the Convertible Debentures Series A elected to convert the face value of the debentures into Common Shares at $0.07 per share pursuant to the terms of the Convertible Debentures Series A. As at June 30, 2017, the Company received the following forms of elections from holders of the Convertible Debentures:

Date Form of Election Received	**Face Value of Convertible Debentures Series A Converted**	**Number of Common Shares Issued on Conversion**
April 15, 2014	$ 50,000	714,286
September 30, 2014	800,000	11,428,572
November 10, 2014	275,000	3,928,571
March 9, 2015(1)	52,000	742,857
July 15, 2015	105,000	1,500,000
September 1, 2015	20,000	285,714
	$ 1,302,000	18,600,000

(1) On March 9, 2015, the Company settled interest payable on the Convertible Debentures Series A in the amount of $1,096 with the issuance of Common Shares at a price of $0.15 per share, of which, $358 of interest payable on the Convertible Debentures Series A was settled with a Director of the Company.

On January 25, 2016, the Company received a form of election to convert face value $23,000 of Convertible Debentures Series A, such 328,571 Common Shares remain unissued. On March 10, 2016, the Company settled face value $25,000 of Convertible Debentures Series A with a cash payment. On July 6, 2016, the Company settled face value $50,000 of Convertible Debentures Series A and agreed to pay to the holders such face value in monthly payments ending on November 1, 2016. As at December 31, 2016, the $50,000 was fully paid.

As at June 30, 2017, all Convertible Debentures Series A had been fully settled and only the 328,571 Common Shares remain unissued.

Conversions and Repayments of Convertible Debentures Series B & C

On April 30, 2017 and pursuant to the terms of the Convertible Debentures Series B, the Company sent notices of its election to convert $423,000 in face value and $45,058 in accrued interest to holders of Convertible Debentures Series B at $0.10 per share for a total of 4,680,581 Common Shares of the Company. As a result of these conversions, the Company recorded a debt discount in the amount of $342,399. The above amount included the conversion of $286,000 in face value and $30,465 in accrued interest held by related parties of the Company (note 20(c)).

On April 30, 2017 and pursuant to the terms of the Convertible Debentures Series C, the Company sent notices of its election to convert $190,000 in face value and $14,367 in accrued interest to holders of Convertible Debentures Series C-1 at $0.10 per share for a total of 2,043,670 Common Shares of the Company. As a result of these conversions, the Company recorded a debt discount in the amount of $163,599. The above amount included the conversion of $5,000 in face value and $378 in accrued interest held by related parties of the Company (note 20(c)).

As at June 30, 2017, face value $227,000 of Convertible Debentures Series B and face value $535,000 of Convertible Debentures Series C remain owing to their respective debenture holders.

Interest on Convertible Debentures

During the three and six month periods ended June 30, 2017, the Company recorded interest expense in the amount of $19,229 and $46,023, respectively, (June 30, 2016: $18,816 and $231,780) on the Convertible Debentures. The interest owing on the convertible debentures is included in accrued liabilities on the balance sheet.

16. COMMON STOCK

Equity [Abstract]	6 Months Ended Jun. 30, 2017
16. COMMON STOCK	

During the six months ended June 30, 2017, the Company:

- Issued 18,483,818 Common Shares on a private placement basis, at a price of $0.10 per private placement unit, for cash proceeds, net of issuance costs, of $1,758,672;
- Issued 1,998,950 Common Shares on a private placement basis, at a price of $0.10 per private placement unit, for settlement of $199,895 in amounts owing to related parties (note 20(c));
- Issued 226,920 Common Shares on a private placement basis, at a price of $0.10 per private placement unit, for settlement of $22,692 in amounts owing to a shareholder (note 11(i));
- Issued 320,022 Common Shares, at an average price of $0.156 per share, for settlement of $50,000 in consulting fees owing to a shareholder, previously granted and recognized as Common Shares to be issued as at December 31, 2016;
- Issued 143,715 Common Shares, at an average price of $0.129 per share, for settlement of $18,550 in consulting fees owing to an unrelated party, previously granted and recognized as Common Shares to be issued as at December 31, 2016;
- Issued 366,667 Common Shares, at a price of $0.15 per share, for settlement of $55,000 in consulting fees owing to an unrelated party, previously granted and recognized as Common Shares to be issued as at December 31, 2016;
- Issued 300,000 Common Shares, at a price of $0.10 per share, for settlement of $30,000 in amounts owing to a director of the Company (note 20(a)). The amount allocated to Shareholders' Deficiency, based on their fair value, amounted to $33,000. The balance of $3,000 has been recorded as a loss on settlement of debt;
- Issued 300,000 Common Shares, at a price of $0.167 per share, for settlement of $50,000 in charitable contributions owing to an unrelated party (note 22(d)). The amount allocated to Shareholders' Deficiency, based on their fair value, amounted to $36,000. The balance of $14,000 has been recorded as a gain on settlement of debt;
- Issued 50,000 Common Shares, at a price of $0.12 per share, as $6,000 in employment income to an unrelated party;
- Issued 871,000 Common Shares, at a price of $0.10 per share, for settlement of $87,100 in directors fees owing to former directors of the Company (note 20(a)). The amount allocated to Shareholders' Deficiency, based on their fair value, amounted to $121,940. The balance of $34,840 has been recorded as a loss on settlement of debt;
- Issued 500,000 Common Shares on a private placement basis, at a price of $0.10 per private placement unit, as settlement of $50,000 in financing fees in connection to the Term Loan Amendment No.2 (note 13). Of the 500,000 Common Shares issued, 93,622 Common Shares were issued to related parties (note 20(c));
- Issued 6,130,000 Common Shares, at a price of $0.10 per share, on conversion of $613,000 of Convertible Debentures (note 15). The above amount included the conversion of $291,000 of Convertible Debentures held by related parties of the Company (note 20(c)); and
- Issued 594,251 Common Shares, at price of $0.10 per share, for settlement of $59,425 in interest owing on Convertible Debentures (note 15). The above amount included the settlement of $30,843 of interest owing on Convertible Debentures held by related parties of the Company (note 20(c)).

During the year ended December 31, 2016, the Company:

- Issued 480,000 Common Shares, at a price of $0.10 per share, for settlement of $48,000 in deferred fees owing to a related party (note 20(c)). The amount allocated to Shareholders' Deficiency, based on their fair value, amounted to $76,800. The balance of $28,800 has been recorded as a loss on settlement of debt;
- Issued 562,715 Common Shares, at an average price of $0.141 per share, for settlement of $79,154 in consulting fees owing to unrelated parties. The amount allocated to Shareholders' Deficiency, based on their fair value, amounted to $78,780. The balance of $374 has been recorded as a gain on settlement of debt; and
- Issued 150,000 Common Shares, at a price of $0.14 per share, as $21,000 in related party employment income (note 20(c)).

17. WARRANTS

6 Months Ended Jun. 30, 2017

Warrants

17. WARRANTS

The following schedule summarizes the outstanding warrants for the purchase of Common Shares of the Company:

	June 30, 2017			December 31, 2016		
	Warrants Outstanding	**Weighted Average Exercise Price**	**Weighted Average Life Remaining (yrs)**	Warrants Outstanding	Weighted Average Exercise Price	Weighted Average Life Remaining (yrs)
Beginning of year	**17,310,000**	**$ 0.23**	**1.21**	8,177,373	$ 0.25	1.39
Issued	**14,252,782**	**0.21**	**0.93**	11,935,000	0.21	2.05
Cancelled	**(1,750,000)**	**0.25**	**1.03**	(1,125,000)	0.25	1.13
Expired	**(2,750,000)**	**0.35**	**-**	(1,677,373)	0.19	-
End of year	**27,062,782**	**$ 0.21**	**0.92**	17,310,000	$ 0.23	1.21

The Company has issued warrants for the purchase of Common Shares of the Company as follows:

Issuance Date		**Number of Warrants**	**Expected Life in Years**	**Exercise Price ($)**	**Risk Free Rate**	**Dividend Yield**	**Expected Volatility**	**Fair Value ($)**
May 29, 2015	(a)	250,000	2.00	0.40	0.85%	Nil	298%	35,362
May 29, 2015	(a)	250,000	2.00	0.50	0.85%	Nil	298%	35,134
May 29, 2015	(a)	250,000	2.00	0.60	0.85%	Nil	298%	34,934
May 29, 2015	(a)	250,000	2.00	0.70	0.85%	Nil	298%	34,755
December 30, 2015	(b)	250,000	1.50	0.20	0.88%	Nil	190%	26,821
December 31, 2015	(c)	3,250,000	2.00	0.20	1.19%	Nil	265%	516,343
January 18, 2016	(d)	250,000	2.46	0.20	0.91%	Nil	263%	51,598
February 18, 2016	(e)	300,000	2.00	0.25	0.80%	Nil	275%	30,501
February 18, 2016	(f)	1,500,000	2.00	0.25	0.80%	Nil	275%	152,503
March 2, 2016	(g)	1,000,000	2.00	0.20	0.91%	Nil	271%	158,995
April 13, 2016	(h)	1,750,000	2.00	0.25	0.88%	Nil	264%	241,754
May 20, 2016	(i)	3,750,000	2.00	0.20	1.03%	Nil	259%	234,737
May 20, 2016	(j)	85,000	2.00	0.20	1.03%	Nil	259%	14,225
July 15, 2016	(k)	300,000	2.46	0.20	0.91%	Nil	263%	45,799
December 22, 2016	(l)	250,000	1.50	0.20	0.87%	Nil	180%	18,840
December 31, 2016	(m)	2,750,000	2.00	0.20	1.20%	Nil	259%	143,871
January 12, 2017	(n)	50,000	1.00	0.20	0.81%	Nil	191%	4,988
January 20, 2017	(o)	750,000	2.00	0.20	1.20%	Nil	267%	43,737
January 31, 2017	(p)	3,773,006	1.00	0.20	0.84%	Nil	173%	224,479
January 31, 2017	(q)	411,361	1.00	0.20	0.84%	Nil	173%	24,474

February 17, 2017	(r)	907,948	1.00	0.20	0.82%	Nil	167%	63,641
February 17, 2017	(s)	108,954	1.00	0.20	0.82%	Nil	167%	7,615
March 8, 2017	(t)	1,500,000	2.00	0.25	1.36%	Nil	266%	193,438
March 21, 2017	(u)	3,270,045	1.00	0.20	1.00%	Nil	165%	236,773
March 21, 2017	(v)	27,623	1.00	0.20	1.00%	Nil	165%	2,000
April 4, 2017	(w)	250,000	1.00	0.20	1.03%	Nil	163%	19,703
April 6, 2017	(x)	500,000	2.00	0.25	1.24%	Nil	167%	52,643
June 2, 2017	(y)	1,634,615	1.00	0.20	1,16%	Nil	171%	110,602
June 16, 2017	(z)	769,230	1.00	0.20	1.21%	Nil	171%	57,765
June 28, 2017	(aa)	300,000	1.00	0.20	1.21%	Nil	159%	23,020
		30,687,782						2,841,050

(a) Issued in connection to a commission agreement. The warrants vest in four tranches of 250,000 warrants each. The first tranche has an exercise price of $0.40 per share and vested upon execution of the agreement. The second tranche has an exercise price of $0.50 per share and will vest upon the sales agent delivering $500,001 in sales revenue to Gilla Worldwide. The third tranche has an exercise price of $0.60 per share and will vest upon the sales agent delivering $1,000,001 in sales revenue to Gilla Worldwide. The fourth tranche has an exercise price of $0.70 per share and will vest upon the sales agent delivering $1,500,001 in sales revenue Gilla Worldwide. During the year ended December 31, 2015, the Company booked the fair value of the vested warrants in the amount of $35,362 as a prepaid to be expensed over the two year life of the commission agreement. During the six month periods ended June 30, 2017 and 2016, the Company expensed $7,367 and $8,840, respectively, in stock based compensation which has been recorded as an administrative expense. No portion of the value of the unvested warrants has been expensed as the sales agent had not yet delivered any sales revenue to Gilla Worldwide.

(b) Issued in connection to the Secured Notes (note 11). During the year ended December 31, 2015, the Company booked the fair value of the warrants in the amount of $26,821 as a prepaid to be expensed over the life of the Secured Notes. During the six month periods ended June 30, 2017 and 2016, the Company expensed $8,843 and $8,892, respectively, of the prepaid as financing fees which has been recorded as an interest expense.

(c) Issued in connection to the issuance of Convertible Debentures Series B (note 14). The relative fair value of the warrants in the amount of $516,343, along with the BCF, represents debt discount on the Convertible Debentures Series B and is accreted over the life of the convertible debentures using the effective interest rate. During the six month periods ended June 30, 2017 and 2016, the Company recorded interest expense in the amount of $83,841 and $13,130, respectively, related to debt discount which includes the accretion of the BCF of the Convertible Debentures Series B.

(d) Issued in connection to the Term Loan (note 13). On July 15, 2016 and in connection to the Term Loan Amendment, the Company extended the expiration date of the warrants to December 31, 2018, with all other terms of the warrants remaining the same. During the year ended December 31, 2016, the Company booked the fair value of the warrants and the extension in the amount of $51,598 as a prepaid to be expensed over the life of the Term Loan. During the six months ended June 30, 2017 and 2016, the Company expensed $9,465 and $12,921, respectively, as financing fees which has been recorded as interest expense. On July 15, 2016 and in connection to the Term Loan Amendment, the Company also extended the expiration date of the warrants for the purchase of 250,000 Common Shares that were issued on August 1, 2014 in connection to the Credit Facility (note 12) and extended on January 18, 2016 in connection to the Term Loan (note 13) until December 31, 2018, with all other terms of the warrants remaining the same. During the year ended December 31, 2016, the Company booked the fair value of the extensions in the amount of $42,325 as a prepaid to be expensed over the life of the Term Loan. During the six month periods ended June 30, 2017 and 2016, the Company expensed $8,076 and $9,467, respectively, as financing fees which has been recorded as interest expense.

(e) Issued in relation to a consulting agreement. The warrants shall vest quarterly in eight equal tranches, with the first tranche vesting immediately and the final tranche vesting on November 18, 2017. If the consulting agreement was terminated prior to the expiration of the warrants, any unexercised fully vested warrants would expire thirty calendar days following the effective termination date and any unvested warrants would be automatically canceled. On August 31, 2016, the Company terminated the consulting agreement and 187,500 of the unvested warrants have been cancelled and the remaining 112,500 vested warrants remain outstanding and exercisable until February 17, 2018 as mutually agreed in the termination. During the six month periods ended June 30, 2017 and 2016, the Company expensed $nil and $16,511, respectively, as stock based compensation which has been recorded as an administrative expense.

(f) Issued in relation to a consulting agreement. The warrants shall vest quarterly in eight equal tranches, with the first tranche vesting immediately and the final tranche vesting on November 18, 2017. If the consulting agreement was terminated prior to the expiration of the warrants, any unexercised fully vested warrants would expire thirty calendar days following the effective termination date and any unvested warrants shall be automatically canceled. On October 25, 2016, the Company terminated the consulting agreement and 937,500 unvested warrants have been cancelled and the remaining 562,500 vested warrants remain outstanding and exercisable until June 30, 2018 as mutually agreed in the termination.

During the six month periods ended June 30, 2017 and 2016, the Company expensed $nil and $82,556, respectively, as stock based compensation which has been recorded as an administrative expense.

(g) Issued in connection to the Loan Agreement (note 11(v)). The warrants shall vest in two equal tranches, with 500,000 warrants to vest upon the close of Loan Tranche A and the remaining 500,000 warrants to vest upon the close of Loan Tranche B. On March 3, 2016 and April 14, 2016, the Company closed Loan Tranche A and Loan Tranche B, respectively, at which dates the warrants became fully vested and exercisable. During the year ended December 31, 2016, the Company booked the fair value of the warrants in the amount of $158,995 as a prepaid to be expensed over the life of the Shareholder Loan. During the six month periods ended June 30, 2017 and 2016, the Company expensed $41,073 and $22,083, respectively, of the prepaid as financing fees which has been recorded as interest expense.

(h) Issued in connection to a consulting agreement. Forty percent of the warrants vested immediately with the remaining sixty percent vesting in equal tranches of fifteen percent on September 30, 2016, December 31 2016, June 30, 2017 and December 31, 2017. If the consulting agreement is terminated prior to the expiration of the warrants, any unexercised fully vested warrants shall expire ninety calendar days following the effective termination date and any unvested warrants shall be automatically canceled. During the six month period ended June 30, 2017, the Company terminated the consulting agreement for cause and all warrants issued in connection to the consulting agreement were canceled. As a result of the termination, the Company did not record any stock based compensation during the six month period ended June 30, 2017. During the six month period ended June 30, 2016, the Company expensed $135,032 in stock based compensation in relation to these warrants.

(i) Issued in connection to the issuance of Convertible Debentures Series C-1 (note 15). The relative fair value of the warrants in the amount of $234,737, along with the BCF, represents debt discount on the Convertible Debentures Series C-1 and is accreted over the life of the convertible debentures using the effective interest rate. During the six month periods ended June 30, 2017 and 2016, the Company recorded interest expense in the amount of $39,385 and $5,814, respectively, related to debt discount which includes the accretion of the BCF of the Convertible Debentures Series C-1.

(j) Issued as a commission payment related to the issuance of the Convertible Debentures Series C-1. The fair value of the warrants in the amount of $14,225 was recorded as a reduction to the proceeds received from the Convertible Debentures Series C-1 (note 15).

(k) Issued in connection to the Term Loan Amendment (note 13). During the year ended December 31, 2016, the Company booked the fair value of the warrants in the amount of $45,799 as a prepaid to be expensed over the life of the Term Loan. During the six month periods ended June 30, 2017 and 2016, the Company expensed $11,562 and $nil, respectively, of the prepaid as financing fees which has been recorded as interest expense.

(l) Issued in connection to the Secured Notes (note 11). During the year ended December 31, 2016, the Company booked the fair value of the warrants in the amount of $18,840 as prepaid to be expensed over the life of the Secured Notes. During the six month periods ended June 30, 2017 and 2016, the Company expensed $3,055 and $nil, respectively, of the prepaid as financing fees which has been recorded as interest expense.

(m) Issued in connection to the issuance of Convertible Debentures Series C-2 (note 15). The relative fair value of the warrants in the amount of $143,871, along with the BCF, represents debt discount on the Convertible Debentures Series C-2 and is accreted over the life of the convertible debentures using the effective interest rate. During the six month periods ended June 30, 2017 and 2016, the Company recorded interest expense in the amount of $11,022 and $nil, respectively, related to debt discount which includes the accretion of the BCF of the Convertible Debentures Series C-2.

(n) Issued in connection to the Bridge Loan Agreement (note 11(vi)). During the six month periods ended June 30, 2017 and 2016, the Company expensed the fair value of the warrants in the amount of $4,988 and $nil, respectively, as financing fees which has been recorded as interest expense.

(o) Issued in connection to the issuance of Convertible Debentures Series C-3 (note 15). The relative fair value of the warrants in the amount of $43,737, along with the BCF, represents debt discount on the Convertible Debentures Series C-3 and is accreted over the life of the convertible debentures using the effective interest rate. During the six month periods ended June 30, 2017 and 2016, the Company recorded interest expense in the amount of $20,286 and $nil, respectively, related to debt discount which includes the accretion of the BCF of the Convertible Debentures Series C-3.

(p) Issued in connection to private placement units. No stock based compensation expense was recorded since the warrants were issued as part of a private placement of Common Shares. The fair value of the warrants were calculated and recorded in additional paid in capital.

(q) Issued as a commission payment related to the issuance of private placement units. The fair value of the warrants in the amount of $24,474 was recorded as a reduction to the proceeds received from the private placement issuance.

(r) Issued in connection to private placement units. No stock based compensation expense was recorded since the warrants were issued as part of a private placement of Common Shares. The fair value of the warrants were calculated and recorded in additional paid in capital.

(s) Issued as a commission payment related to the issuance of private placement units. The fair value of the warrants in the amount of $7,615 was recorded as a reduction to the proceeds received from the private placement issuance.

(t) Issued in connection to an employment agreement. The warrants will vest in three equal tranches, with the first tranche vesting upon the employee generating over $25,000 in sales of new business for two consecutive months, the second tranche vesting upon the employee generating cumulative sales of over $500,000 and the third tranche vesting upon the employee generating cumulative sales of over $1,000,000 of new business. At June 30, 2017, no stock based compensation has been recorded as the employee has not yet begun to generate new business sales.

(u) Issued in connection to private placement units. No stock based compensation expense was recorded since the warrants were issued as part of a private placement of Common Shares. The fair value of the warrants were calculated and recorded in additional paid in capital.

(v) Issued as a commission payment related to the issuance of the private placement units. The fair value of the warrants in the amount of $2,000 was recorded as a reduction to the proceeds received from the private placement issuance.

(w) Issued in connection to private placement units. No stock based compensation expense was recorded since the warrants were issued as part of a private placement of Common Shares. The fair value of the warrants were calculated and recorded in additional paid in capital.

(x) Issued in connection to an employment agreement, the warrants shall vest in two equal tranches, with the first tranche vesting upon the commercial sale of a new product to be developed by the employee and the second tranche vesting upon the commercial sale of a total of two new products developed by the employee. The Company expects both tranches to vest at August 15, 2017 and has recorded $35,094 in stock based compensation for the six month period ended June 30, 2017.

(y) Issued in connection to private placement units. No stock based compensation expense was recorded since the warrants were issued as part of a private placement of Common Shares. The fair value of the warrants were calculated and recorded in additional paid in capital.

(z) Issued in connection to private placement units. No stock based compensation expense was recorded since the warrants were issued as part of a private placement of Common Shares. The fair value of the warrants were calculated and recorded in additional paid in capital.

(aa) Issued in connection to private placement units. No stock based compensation expense was recorded since the warrants were issued as part of a private placement of Common Shares. The fair value of the warrants were calculated and recorded in additional paid in capital.

18. STOCK BASED COMPENSATION

6 Months Ended Jun. 30, 2017

Stock Based Compensation

18. STOCK BASED COMPENSATION

The Company recorded stock based compensation as follows:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Warrants Issued as Stock Based Compensation				
Warrants issued in connection to the Bridge Loan Agreement	$ -	$ -	$ 4,988	$ -
Warrants issued as commission related to private placements units	-	-	34,089	-
Warrants issued in relation to consulting agreements	35,094	172,431	35,094	222,939
Total Warrants Issued as Stock Based Compensation	35,094	172,431	74,171	222,939
Issuance of stock options (note 21)	1,213,605	-	1,213,605	-
Common shares issued for consulting fees	6,000	100,154	6,000	100,154
Common shares to be issued for consulting fees	-	32,710	-	32,710
Total Stock Based Compensation	$ 1,254,699	$ 305,295	$ 1,293,776	$ 355,803

19. SHARES TO BE ISSUED	6 Months Ended Jun. 30, 2017
Shares To Be Issued Abstract	
19. SHARES TO BE ISSUED	As at June 30, 2017, the Company has $83,000 in Common Shares to be issued, consisting of the following: • 328,571 Common Shares, valued at $0.07 per share, to be issued due to the conversion of $23,000 of Convertible Debentures Series A (note 15); and • 600,000 Common Shares on a private placement basis, at a price of $0.10 per private placement unit, for cash proceeds of $60,000. As at December 31, 2016, the Company had $146,550 in Common Shares to be issued, consisting of the following: • 328,571 Common Shares, valued at $0.07 per share, to be issued due to the conversion of $23,000 of Convertible Debentures Series A (note 15); • 320,022 Common Shares, valued at an average price of $0.156 per share, to be issued due to the settlement of $50,000 in consulting fees owing to a shareholder. Such Common Shares were issued on April 5, 2017; • 143,715 Common Shares, valued at an average price of $0.129 per share, to be issued due to the settlement of $18,550 in consulting fees owing to an unrelated party. Such Common Shares were issued on April 5, 2017; and • 366,667 Common Shares, valued at $0.15 per share, to be issued due to the settlement of $55,000 in consulting fees owing to an unrelated party. Such Common Shares were issued on April 5, 2017.

20. RELATED PARTY TRANSACTIONS

Related Party Transactions [Abstract]

20. RELATED PARTY TRANSACTIONS

	6 Months Ended
	Jun. 30, 2017

Transactions with related parties are incurred in the normal course of business and are as follows:

(a) The Company's current and former officers and shareholders have advanced funds on an unsecured, non-interest bearing basis to the Company, unless stated otherwise below, for travel related and working capital purposes. The Company has not entered into any agreement on the repayment terms for these advances.

Advances from related parties were as follows:

	June 30, 2017	December 31, 2016
Advances by and amounts payable to Officers of the Company, two of which are also Directors	**$ 159,236**	$ 95,759
Advances by and consulting fees payable to a corporation owned by two Officers of the Company, one of which is also a Director	**139,167**	313,745
Consulting fees owing to persons related to Officers who are also Directors of the Company	**53,878**	77,463
Advances by Officers of the Company, one of which is also a Director, bears interest at 1.5% per month	**552,634**	901,784
Amounts payable to a corporation related by virtue of a common Officer and Director of the Company	**-**	76,407
Consulting fees and directors fees payable to Directors of the Company	**25,680**	13,725
	$ 930,595	$ 1,478,883

At June 30, 2017, the Company had deferred amounts of $1,060,687 (December 31, 2016: $1,085,906) owing to related parties. The deferred amounts consist of $573,280 (December 31, 2016: $572,506) owing to Officers of the Company, two of which are also Directors, for consulting fees payable, amounts of $61,000 owing to Directors of the Company for directors fees payable and amounts of $385,300 (CAD $500,000) (December 31, 2016: $372,400; CAD $500,000) owing to a corporation owned by two Officers of the Company, one of which is also a Director, for management service fees payable and $41,107 of amounts accrued towards the incentive bonus to be paid at maturity. The amounts are non-interest bearing and payable on April 1, 2018, in exchange for agreeing to defer the fees, the Directors and Officers will receive an incentive bonus equal to 10% of the amount deferred and payable on April 1, 2018. The bonus will be expensed over the term of the deferrals. During the six month periods ended June 30, 2017 and 2016, the Company expensed $47,307 and $nil, respectively, in interest expense related to the incentive bonus.

During the six month period ended June 30, 2017, the Company settled $87,100 of fees payable, deferred and otherwise, to two former Directors of the Company with the issuance of 871,000 Common Shares at a price of $0.10 per share. The amount allocated to Shareholders' Deficiency, based on their fair value, amounted to $121,940. The balance of $34,840 has been recorded as a loss on settlement of debt (note 16).

During the six month period ended June 30, 2017, the Company settled $30,000 of amounts payable to a Director of the Company with the issuance of 300,000 Common Shares. The amount allocated to Shareholders' Deficiency, based on their fair value, amounted to $33,000. The balance of $3,000 has been recorded as a loss on settlement of debt (note 16).

During the year ended December 31, 2016, the Company settled $48,000 of the deferred amounts owing to an Officer and Director of the Company with 480,000 Common Shares.

(b) Interest accrued to related parties were as follows:

	June 30, 2017	December 31, 2016
Interest accrued on advances by Officers of the Company, one of which is also a Director	**$ 325,783**	**$ 234,121**
Advances by and consulting fees payable to a corporation owned by two Officers of the Company, one of which is also a Director	**44,277**	**29,669**
	$ 370,060	**$ 263,790**

(c) Transactions with related parties were as follows:

During the six month period ended June 30, 2017, the Company expensed $nil (June 30, 2016: $48,080) in rent expense payable to a corporation related by virtue of a common Officer and a common Director of the Company.

During the six month period ended June 30, 2017, the Company expensed $20,689 (June 30, 2016: $11,024) in costs related to vehicles for the benefit of three Officers, two of which are also Directors of the Company, and for the benefit of a person related to an Officer and Director of the Company. The Company also expensed $48,532 (June 30, 2016: $136,773) in travel and entertainment expenses incurred by Officers and Directors of the Company.

On June 30, 2017, the Company issued 3,042,931 Common Shares, at a price of $0.10 per share, to an Officer who is also a Director of the Company, on the conversion of $275,000 in face value of the Convertible Debentures Series B and the settlement of $29,293 in interest accrued on the Convertible Debentures Series B (note 15).

On June 30, 2017, the Company issued 121,717 Common Shares, at a price of $0.10 per share, to a person related to an Officer who is also a Director of the Company, on the conversion of $11,000 in face value of the Convertible Debentures Series B and the settlement of $1,171 in interest accrued on the Convertible Debentures Series B (note 15).

On June 30, 2017, the Company issued 53,781 Common Shares, at a price of $0.10 per share, to a Director of the Company, on the conversion of $5,000 in face value of the Convertible Debentures Series C-1 and the settlement of $378 in interest accrued on Convertible Debentures Series C-1 (note 15).

On March 21, 2017, the Company issued 1,998,950 Common Shares as part of private placement units, at a price of $0.10 per private placement unit, for settlement of $199,895 in amounts owing to related parties.

On January 20, 2017, the Company issued 65 units of Convertible Debentures Series C-3 in settlement of $65,000 owing to a related party (note 15).

During the year ended December 31, 2016, amounts owing to a former related party in the amount of $9,263 were forgiven, as a result, the Company recorded a gain on settlement in the amount of $9,263.

On June 17, 2016, the Company issued 150,000 Common Shares, at a price of $0.14 per share, to a person related to an Officer and Director of the Company, on the signing of a new employment agreement.

On May 20, 2016, the Company issued face value $55,000 of Convertible Debentures Series C-1 to related parties consisting of $10,000 to a person related to an Officer and Director for settlement of fees payable, $10,000 to a Director of the Company for settlement of directors fees payable and $35,000 to a corporation owned by two Officers of the Company, one of which is also a Director, for settlement of loans payable (note 15).

On May 20, 2016, the Company issued face value $15,000 of Convertible Debentures Series C-1 to two Directors of the Company for cash (note 15).

On February 2, 2016, the Company settled $48,000 in consulting fees payable to a related party and agreed to issue 480,000 Common Shares at a price of $0.10 per share. Such Common Shares were issued on May 19, 2016.

The Company expensed consulting fees payable to related parties as follows:

	June 30, 2017	June 30, 2016
Officers	$ **170,595**	$ 81,840
Persons related to a Director	**73,109**	26,389
	$ 243,704	$ 108,229

The Company's Chief Executive Officer and Chief Financial Officer are both participants of the consortium of Lenders of the Credit Facility and the Term Loan, each committed to provide a total of CAD $150,000 of the Term Loan (notes 12 and 13).

On February 27, 2017 and in connection to the Term Loan Amendment No.2, the Company agreed to issue 500,000 private placement units, at a price of $0.10 per unit, for settlement of $50,000 in financing fees. The Company's Chief Executive Officer and its Chief Financial Officer received a total of 93,622 units which included 93,622 Common Shares and warrants for the purchase of 46,811 Common Shares.

21. STOCK OPTION PLAN

6 Months Ended
Jun. 30, 2017

Stock Option Plan

21. STOCK OPTION PLAN

On June 16, 2017, the Company adopted a stock option plan (the "Option Plan"), under which the Board of Directors may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Company non-transferable options to purchase Common Shares.

Pursuant to the Option Plan, the Company may issue options for such period and exercise price as may be determined by the Board of Directors, and in any case not exceeding ten years from the date of grant and equal to not more than 10% of the then issued and outstanding Common Shares. The minimum exercise price of an option granted under the Option Plan must not be less than 100% of the market value of the Common Shares on the date such option is granted, and if the option is issued to a 10% shareholder of the Company, the exercise price will not be less than 110% of the market value of the Common Shares on the date such option is granted.

Outstanding options at June 30, 2017 are as follows:

	Options Outstanding	Exercise Price	Expiry Date
Executive Officers	4,500,000	$0.20	June 15, 2020
Directors	1,250,000	$0.20	June 15, 2020
Employees	3,000,000	$0.20	June 15, 2020
	8,750,000		

Grant Date	Expiry Date	Options Outstanding	Options Exercisable	Exercise Price	Fair Value Expense
June 16, 2017	June 15, 2020	8,750,000	8,750,000	$0.20	$1,213,605

The options fully vested on issuance and the fair value of $1,213,605 was determined using the Black Scholes option-pricing model with the following weighted average assumptions:

Stock price	$0.14
Risk-free interest rate	1.49%
Expected life	3 years
Estimated volatility in the market price of the Common Shares	306%

During the six month periods ended June 30, 2017 and 2016, the Company expensed $1,213,605 and $nil, respectively, as a stock option expense.

22. COMMITMENTS AND CONTINGENCIES	6 Months Ended Jun. 30, 2017
Commitments and Contingencies Disclosure [Abstract]	
22. COMMITMENTS AND CONTINGENCIES	a) Premises Lease – Florida, USA Effective January 1, 2015, a subsidiary of the Company entered into an operating lease agreement for a rental premises in Daytona Beach, Florida, USA. The terms of this agreement are to be for a period of 36 months and ending on December 31, 2017 with payments made monthly. Minimum annual lease payments are as follows: 2017 \$ 28,055 b) Premises Leases – Budapest, Hungary Effective January 2, 2017, a subsidiary of the Company entered into a lease agreement for a rental premises in Budapest, Hungary. The terms of the agreement are to be for a period of one year ending on December 31, 2017 with payments made monthly. Minimum annual lease payments are denominated in Euros and are as follows: 2017 € 13,500 c) Litigation The Company is subject to certain legal proceedings and claims, which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity. On January 5, 2016, Yaron Elkayam, Pinchas Mamane and Levent Dimen filed a three count complaint against the Company in the Circuit Court of Hillsborough County, Florida alleging (i) breach of contract, (ii) breach of implied covenant of good faith and fair dealing, and (iii) fraud in the inducement seeking damages in the amount of approximately \$900,000 of Unsecured Promissory Notes issued on July 1, 2015 as a result of the acquisition of E Vapor Labs. In July of 2016, the Company filed its Answer, Affirmative Defences and Counterclaim. d) Charitable Sales Promotion On January 21, 2016, the Company entered into an agreement with Wounded Warriors Family Support Inc. in which the Company agreed to make a donation of \$1.00 for each sale of its “Vape Warriors” E-liquid product during the period from January 1, 2016 to December 31, 2016, with a minimum donation of \$50,000. During the year ended December 31, 2016, the Company accrued the full \$50,000 in charitable contributions regarding this agreement. During the six months ended June 30, 2017, the Company settled the full amount owing in exchange for 300,000 Common Shares. e) Royalty Agreement On June 14, 2016, the Company entered into a royalty agreement related to an E-liquid recipe purchased from an unrelated party in which the Company agreed to pay to the recipe developer, a royalty of \$0.25 per 60 ml of E-liquid sold that contains the recipe, up to a maximum of \$100,000. Although the Company has the ability to sell the E-liquid globally, the royalty is paid only on the E-liquid sold within the United States. The Company is no longer selling the original recipe and as of June 30, 2017, has stopped accruing royalty payments on this agreement. During the three and six month periods ended June 30, 2017, the Company paid \$nil and \$649, respectively (June 30, 2016: \$nil), related to the royalty agreement.

23. FINANCIAL INSTRUMENT

Financial Instrument

23. FINANCIAL INSTRUMENT

6 Months Ended Jun. 30, 2017

(i) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to fluctuations in the realizable values of its cash and trade receivables. Cash accounts are maintained with major international financial institutions of reputable credit and therefore bear minimal credit risk. In the normal course of business, the Company is exposed to credit risk from its customers and the related trade receivables are subject to normal commercial credit risks. A substantial portion of the Company's trade receivables are concentrated with a limited number of large customers all of which the Company believes are subject to normal industry credit risks. At June 30, 2017, the Company recorded an allowance of $161,340 (December 31, 2016: $nil) in regards to customers with past due amounts. As at June 30, 2017, 23% (December 31, 2016: 15%) of the Company's trade receivables are due from one customer and 59% of the trade receivables are due from four customers. During the six month period ended June 30, 2017, 30% (June 30, 2016: 31%) of the Company's sales were to one customer.

(ii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company manages liquidity risk by closely monitoring changing conditions in its investees, participating in the day to day management and by forecasting cash flows from operations and anticipated investing and financing activities. At June 30, 2017, the Company had liabilities due to unrelated parties through its financial obligations over the next five years in the aggregate principal amount of $5,316,945. Of such amount, the Company has obligations to repay $4,699,949 over the next twelve months with the remaining $616,996 becoming due within the following four years.

(iii) Foreign Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The risks and fluctuations are related to cash, accounts payable and trade receivables that are denominated in CAD, HUF and EUR.

Analysis by currency in CAD, HUF and EUR equivalents is as follows:

June 30, 2017	**Accounts Payable**	**Trade Receivables**	**Cash**
CAD	$ 197,015	$ 29,431	$ 43,268
HUF	$ 230,041	$ 52,219	$ 14,119
EUR	$ 55,636	$ 59,824	$ 94,563

The effect of a 10% strengthening of the United States Dollar against the Canadian Dollar, the Hungarian Forint and the Euro at the reporting date on the CAD, HUF and EUR-denominated trade receivables and payables carried at that date would, had all other variables held constant, have resulted in an increase in profit for the year and increase of net assets of $12,432, $16,370 and $9,875, respectively. A 10% weakening in the exchange rate would, on the same basis, have decreased profit and decreased net assets by $12,432, $16,370 and $9,875, respectively.

The Company purchases inventory in a foreign currency, at June 30, 2017, the Company included $105,346 (December 31, 2016: $238,888) in inventory purchased in a foreign currency on its consolidated balance sheet. The Company does not use derivative financial instruments to reduce its exposure to this risk.

(iv) 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 is exposed to interest rate risk on its fixed interest rate financial instruments. These fixed-rate instruments subject the Company to a fair value risk. The interest rates on all of the Company's existing interest bearing debt are fixed. Sensitivity to a plus or minus 25 basis points change in rates would not significantly affect the fair value of this debt.

24. SEGMENTED INFORMATION	6 Months Ended Jun. 30, 2017
Segment Reporting [Abstract]	
24. SEGMENTED INFORMATION	The Company currently operates in only one business segment, namely, manufacturing, marketing and distributing of E-liquid, vaporizers, E-cigarettes, and vaping accessories in North America and Europe. Total long lived assets by geographic location are as follows:

	June 30, 2017	December 31, 2016
Canada	**$ 670**	$ 826
United States	**1,099,410**	1,125,704
Europe	**20,280**	23,418
	$ 1,120,360	$ 1,149,948

Total sales by geographic location are as follows:

	June 30, 2017	June 30, 2016
Canada	**$ 55,163**	$ -
United States	**470,360**	1,838,191
Europe	**1,984,042**	430,337
	$ 2,509,565	$ 2,268,528

25. SUBSEQUENT EVENTS	**6 Months Ended Jun. 30, 2017**
Subsequent Events [Abstract]	
25. SUBSEQUENT EVENTS	On July 1, 2017 and in connection to a consulting agreement, the Company issued warrants for the purchase of 75,000 Common Shares exercisable over eighteen (18) months at an exercise price of $0.20 per share. On July 31, 2017, the Company acquired all of the issued and outstanding shares of Vape Brands International Inc. ("VBI"), a Canada-based E-liquid manufacturer and distributor, through its wholly owned subsidiary Gilla Enterprises Inc., pursuant to the terms of a share purchase agreement, dated July 31, 2017. Pursuant to the share purchase agreement, the Company paid to the vendors of VBI the following consideration: (i) 2,500,000 Common Shares of the Company valued at $0.14 per share for a total value of $350,000; (ii) warrants for the purchase of 2,000,000 Common Shares of the Company exercisable over twenty-four (24) months at an exercise price of $0.20 per share from the closing date, such warrants vesting in five (5) equal tranches every four (4) months following the closing date; (iii) a total of CAD $550,000 in non-interest bearing, unsecured vendor-take-back loans due over twenty-four (24) months, with principal repayments beginning five (5) months from the closing date until maturity of up to CAD $25,000 per month; and (iv) an earn-out capped at (a) the total cumulative amount of CAD $2,000,000; or (b) five (5) years from the closing date (the "Earn-Out"). The Earn-Out shall be calculated as: (x) 15% of the gross profit generated in Canada by VBI's co-pack and distribution business; (y) 10% of the revenue generated in Canada by Gilla's existing E-liquid brands; and (z) 15% of the revenue generated globally on VBI's existing E-liquid brands. Furthermore, the Earn-Out shall be calculated and paid to the vendors of VBI quarterly in arrears and only as 50% of the aforementioned amounts on incremental revenue between CAD $300,000 and CAD $600,000 per quarter and 100% of the aforementioned amounts on incremental revenue above CAD $600,000 per quarter with the Earn-Out payable to the vendors in the fifth year repeated and paid to the vendors in four (4) quarterly payments after the end of the Earn-Out period, subject to the cumulative limit of the Earn-Out. No Earn-Out shall be payable to the vendors of VBI if total revenue for the Earn-Out calculation period is less than $300,000 per quarter. On July 31, 2017, the Company also entered into an employment agreement with one of the vendors at a base salary of CAD $155,000 per annum and issued warrants for the purchase of 1,000,000 Common Shares of the Company exercisable over twenty-four (24) months at an exercise price of $0.20 per share, such warrants vesting in four (4) equal tranches every (6) months from the issuance date. On August 4, 2017, the Company issued and sold on a private placement basis, 500,000 Common Shares of the Company at a price of $0.10 per share for cash proceeds of $50,000.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Policies)	6 Months Ended
	Jun. 30, 2017
Accounting Policies [Abstract]	
Basis of Consolidation	These unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiaries; Gilla Operations, LLC; E Vapor Labs Inc. ("E Vapor Labs"); E-Liq World, LLC; Charlie's Club, Inc.; Gilla Enterprises Inc. and its wholly owned subsidiaries Gilla Europe Kft. and Gilla Operations Europe s.r.o.; Gilla Operations Worldwide Limited ("Gilla Worldwide"); Gilla Franchises, LLC and its wholly owned subsidiary Legion of Vape, LLC; and Snoke Distribution Canada Ltd. and its wholly owned subsidiary Snoke Distribution USA, LLC. All inter-company accounts and transactions have been eliminated in preparing these unaudited condensed consolidated interim financial statements.
Advertising Costs	In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 720, *Other Expenses* ("ASC 720"), the Company expenses the production costs of advertising the first time the advertising takes place. The Company expenses all advertising costs as incurred. During the three and six month periods ended June 30, 2017, the Company expensed $39,313 and $91,847, respectively, (June 30, 2016: $113,442 and $158,552) as corporate promotions. These amounts have been recorded as an administrative expense.
Recently Adopted Accounting Pronouncements	In November 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"). ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet statement of financial position. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. Adoption of ASU 2015-17 did not have an impact on the Company's coondensed consolidated interim financial statements. On March 30, 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). This update requires that all excess tax benefits and tax deficiencies arising from share-based payment awards should be recognized as income tax expense or benefit on the income statement. The amendment also states that excess tax benefits should be classified along with other income tax cash flows as an operating activity. In addition, an entity can make an entity-wide accounting policy election to either estimate the number of awards expected to vest or account for forfeitures as they occur. The provisions of this update are effective for annual and interim periods beginning after December 15, 2016. Adoption of ASU 2016-09 did not have an impact on the Company's condensed consolidated interim financial statements. In October 2016, the FASB issued ASU No. 2016-17, *Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control* ("ASU 2016-17"). The new guidance changed how a reporting entity that is a single decision maker for a variable interest entity ("VIE") will consider its indirect interests in that VIE when determining whether the reporting entity is the primary beneficiary and should consolidate the VIE. Under previous U.S. GAAP, a single decision maker in a VIE is required to consider an indirect interest held by a related party under common control in its entirety. Under ASU 2016-17, the single decision maker will consider the indirect interest on a proportionate basis. Adoption of ASU 2016-17 did not have an impact on the Company's condensed consolidated interim financial statements.
Recent Accounting Pronouncements	The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and other than the below, does not expect the future adoption of any such pronouncements to have a significant impact on its results of operations, financial condition or cash flow. In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), requiring an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 will supersede nearly all existing revenue recognition guidance under U.S. GAAP when it becomes effective. ASU 2014-09 as amended by ASU No. 2015-14, ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12 and ASU No. 2016-20, is effective for interim and annual periods beginning after December 15, 2017 and is applied on either a modified retrospective or full retrospective basis. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements. In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize all leases with terms in excess of one year on their balance sheet as a right-of-use asset and a lease liability at the commencement date. The new standard also simplifies the accounting for sale and leaseback transactions. The amendments in this update are effective for annual periods beginning after December 15, 2018, and interim periods therein and must be adopted using a modified retrospective method for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements. In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* ("ASU 2016-10"). ASU 2016-10 clarifies the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for

those areas. The provisions of this update are effective for annual and interim periods beginning after December 15, 2017, with early application permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606)*: *Narrow-Scope Improvements and Practical Expedients* ("ASU 2016-12"). The core principal of ASU 2016-12 is the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The provisions of this update are effective for annual and interim periods beginning after December 15, 2017, with early application permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which requires financial assets measured at amortized cost be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis. The measurement of expected losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This guidance is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)* ("ASU 2016-15"), which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. Among other clarifications, the guidance requires that cash proceeds received from the settlement of corporate-owned life insurance (COLI) policies be classified as cash inflows from investing activities and that cash payments for premiums on COLI policies may be classified as cash outflows for investing activities, operating activities or a combination of both. The guidance is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Retrospective application is required. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* ("ASU 2016-16"). ASU 2016-16 prohibits the recognition of current and deferred income taxes for an intra-entity transfer until the asset has been sold to an outside party. The amendment in ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). The new guidance eliminates the requirement to calculate the implied fair value of goodwill (Step 2 of the current two-step goodwill impairment test under ASC 350). Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (Step 1 of the current two-step goodwill impairment test). ASU 2017-04 is effective prospectively for reporting periods beginning after December 15, 2019, with early adoption permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09"). ASU 2017-09 clarifies which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The standard is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the guidance and has not yet determined the impact on its consolidated financial statements.

4. AMOUNTS OWING ON ACQUISITIONS (Tables)

6 Months Ended Jun. 30, 2017

Amounts Owing On Acquisitions Tables

Amounts owed on acquisitions

	Promissory Notes A	Promissory Notes B	Promissory Notes C	Total
Present value at December 31, 2015	**$ 203,573**	**$ 291,620**	**$ 267,857**	**$ 763,050**
Measurement period adjustment	(19,505)	—	—	(19,505)
Interest expense related to accretion	(751)	8,380	32,143	39,772
Present value at December 31, 2016	**183,317**	**300,000**	**300,000**	**783,317**
Present value at June 30, 2017	**$ 183,317**	**$ 300,000**	**$ 300,000**	**$ 783,317**

5. OTHER CURRENT ASSETS (Tables)	6 Months Ended Jun. 30, 2017

Other Current Assets

Summary of Other Current Assets

		June 30, 2017		December 31, 2016
Vendor deposits	$	**21,421**	$	13,256
Prepaid expenses		**235,385**		301,348
Trade currency		**45,000**		45,000
Other receivables		**152,383**		103,104
	$	**454,189**	$	462,708

6. INVENTORY (Tables)

6 Months Ended Jun. 30, 2017

Inventory Tables

Inventory

	June 30, 2017	December 31, 2016
Vaping hardware and accessories	$ 29,284	$ 105,496
E-liquid bottles - finished goods	160,922	181,392
E-liquid components	109,454	158,050
Bottles and packaging	256,113	100,197
	$ 555,773	$ 545,135

7. PROPERTY AND EQUIPMENT (Tables)

	6 Months Ended Jun. 30, 2017

Property, Plant and Equipment [Abstract]

PROPERTY AND EQUIPMENT

	June 30, 2017			December 31, 2016
	Cost	Accumulated Depreciation	Net	Net
Furniture and equipment	$ 65,610	$ 28,732	$ 36,878	$ 45,917
Computer hardware	20,899	8,565	12,334	15,985
Manufacturing equipment	64,529	26,961	37,568	31,166
	$151,038	$ 64,258	$ 86,780	$ 93,068

8. WEBSITE DEVELOPMENT (Tables)	6 Months Ended Jun. 30, 2017
Website Development Tables	
WEBSITE DEVELOPMENT	

	June 30, 2017			December 31, 2016
	Cost	**Accumulated Amortization**	**Net**	Net
VaporLiq Website	**$ 10,000**	**$ 3,917**	**$ 6,083**	$ 7,083

9. INTANGIBLE ASSETS (Tables)

6 Months Ended Jun. 30, 2017

Intangible Assets Tables

Intangible Assets

	June 30, 2017 Cost	June 30, 2017 Accumulated Amortization	June 30, 2017 Net	December 31, 2016 Net
Brands	**$ 50,000**	**$ 18,000**	**$ 32,000**	$ 37,000
Customer relationships	**173,000**	**67,000**	**106,000**	123,300
	$ 223,000	**$ 85,000**	**$ 138,000**	$ 160,300

10. GOODWILL (Tables)

	6 Months Ended Jun. 30, 2017

Goodwill Tables

Schedule of goodwill

	June 30, 2017	December 31, 2016
Opening balance	**$889,497**	$1,252,084
Measurement period adjustment	—	(154,211)
Impairment	—	(208,376)
End of period	**$889,497**	$ 889,497

11. LOANS FROM SHAREHOLDERS (Tables)

	6 Months Ended Jun. 30, 2017

Loans From Shareholders

Schedule of outstanding loans from shareholders

	June 30, 2017	December 31, 2016
Non-interest bearing, unsecured, no specific terms of repayment(i)	**$ -**	$ 5,000
Bears interest of 1.5% per month on a cumulative basis, unsecured, no specific terms of repayment(ii)	**12,680**	23,223
Bears interest of 6% per annum on a cumulative basis, secured by the assets of the Company, matures on March 2, 2018(v)	**516,302**	474,065
Non-interest bearing, secured by the assets of the Company, matures on March 12, 2017 and currently in default(vi)	**154,120**	-
	$ 683,102	$ 502,288

	June 30, 2017	December 31, 2016
Bears interest of 10% per annum on a cumulative basis, secured by the assets of the Company, matures on July 1, 2018(iii)	**$ 385,300**	$ 372,400
Bears interest of 10% per annum on a cumulative basis, secured by the assets of the Company, matures on July 1, 2018(iv)	**100,000**	100,000
Bears interest of 6% per annum on a cumulative basis, secured by the assets of the Company, matures on March 2, 2018(v)	**-**	24,951
	$ 485,300	$ 497,351

13. TERM LOAN (Tables)

	6 Months Ended Jun. 30, 2017

Term Loan Tables

Term loan

	June 30, 2017	December 31, 2016
Opening balance/amount advanced	**$1,144,337**	$1,219,840
Exchange loss (gain) during the period/year	**36,885**	(28,159)
Principal payments made	**(70,465)**	(76,815)
Interest accrued	**86,673**	140,540
Interest payments made	**(101,511)**	(111,069)
Ending balance	**$1,095,919**	$1,144,337

14. PROMISSORY NOTE (Tables)

6 Months Ended Jun. 30, 2017

Promissory Note Tables

Outstanding promissory notes

		June 30, 2017		December 31, 2016
Unsecured Promissory Notes (note 4(a))	$	**783,317**	$	783,317
Unsecured, bears interest at 18% per annum, matures June 19, 2019(i)		**30,000**		-
Unsecured, bears interest at 10%, matures December 15, 2017(ii)		**16,750**		-
Unsecured, bears interest at 10% per annum, matures September 28, 2017(iii)		**5,250**		17,750
	$	**835,317**	$	801,067

The Company has outstanding long term promissory notes as follows:

		June 30, 2017		December 31, 2016
Unsecured, bears interest at 18% per annum, matures June 19, 2019(i)	$	**30,000**	$	-

17. WARRANTS (Tables)

	6 Months Ended Jun. 30, 2017

Warrants Tables

Summary of warrants

	June 30, 2017				December 31, 2016			
	Warrants Outstanding		**Weighted Average Exercise Price**	**Weighted Average Life Remaining (yrs)**	Warrants Outstanding		Weighted Average Exercise Price	Weighted Average Life Remaining (yrs)
Beginning of year	**17,310,000**	**$**	**0.23**	**1.21**	8,177,373	$	0.25	1.39
Issued	**14,252,782**		**0.21**	**0.93**	11,935,000		0.21	2.05
Cancelled	**(1,750,000)**		**0.25**	**1.03**	(1,125,000)		0.25	1.13
Expired	**(2,750,000)**		**0.35**	**-**	(1,677,373)		0.19	-
End of year	**27,062,782**	**$**	**0.21**	**0.92**	17,310,000	$	0.23	1.21

Black Scholes option-pricing model

Issuance Date		**Number of Warrants**	**Expected Life in Years**	**Exercise Price ($)**	**Risk Free Rate**	**Dividend Yield**	**Expected Volatility**	**Fair Value ($)**
May 29, 2015	(a)	250,000	2.00	0.40	0.85%	Nil	298%	35,362
May 29, 2015	(a)	250,000	2.00	0.50	0.85%	Nil	298%	35,134
May 29, 2015	(a)	250,000	2.00	0.60	0.85%	Nil	298%	34,934
May 29, 2015	(a)	250,000	2.00	0.70	0.85%	Nil	298%	34,755
December 30, 2015	(b)	250,000	1.50	0.20	0.88%	Nil	190%	26,821
December 31, 2015	(c)	3,250,000	2.00	0.20	1.19%	Nil	265%	516,343
January 18, 2016	(d)	250,000	2.46	0.20	0.91%	Nil	263%	51,598
February 18, 2016	(e)	300,000	2.00	0.25	0.80%	Nil	275%	30,501
February 18, 2016	(f)	1,500,000	2.00	0.25	0.80%	Nil	275%	152,503
March 2, 2016	(g)	1,000,000	2.00	0.20	0.91%	Nil	271%	158,995
April 13, 2016	(h)	1,750,000	2.00	0.25	0.88%	Nil	264%	241,754
May 20, 2016	(i)	3,750,000	2.00	0.20	1.03%	Nil	259%	234,737
May 20, 2016	(j)	85,000	2.00	0.20	1.03%	Nil	259%	14,225
July 15, 2016	(k)	300,000	2.46	0.20	0.91%	Nil	263%	45,799
December 22, 2016	(l)	250,000	1.50	0.20	0.87%	Nil	180%	18,840
December 31, 2016	(m)	2,750,000	2.00	0.20	1.20%	Nil	259%	143,871
January 12, 2017	(n)	50,000	1.00	0.20	0.81%	Nil	191%	4,988
January 20, 2017	(o)	750,000	2.00	0.20	1.20%	Nil	267%	43,737
January 31, 2017	(p)	3,773,006	1.00	0.20	0.84%	Nil	173%	224,479
January 31, 2017	(q)	411,361	1.00	0.20	0.84%	Nil	173%	24,474
February 17, 2017	(r)	907,948	1.00	0.20	0.82%	Nil	167%	63,641
February 17, 2017	(s)	108,954	1.00	0.20	0.82%	Nil	167%	7,615
March 8, 2017	(t)	1,500,000	2.00	0.25	1.36%	Nil	266%	193,438
March 21, 2017	(u)	3,270,045	1.00	0.20	1.00%	Nil	165%	236,773

March 21, 2017	(v)	27,623	1.00	0.20	1.00%	Nil	165%	2,000
April 4, 2017	(w)	250,000	1.00	0.20	1.03%	Nil	163%	19,703
April 6, 2017	(x)	500,000	2.00	0.25	1.24%	Nil	167%	52,643
June 2, 2017	(y)	1,634,615	1.00	0.20	1,16%	Nil	171%	110,602
June 16, 2017	(z)	769,230	1.00	0.20	1.21%	Nil	171%	57,765
June 28, 2017	(aa)	300,000	1.00	0.20	1.21%	Nil	159%	23,020
		30,687,782						2,841,050

18. STOCK BASED COMPENSATION (Tables)

Stock Based Compensation Tables

Stock based compensation

6 Months Ended Jun. 30, 2017

		Three Months Ended June 30, 2017		Three Months Ended June 30, 2016		Six Months Ended June 30, 2017		Six Months Ended June 30, 2016
Warrants Issued as Stock Based Compensation								
Warrants issued in connection to the Bridge Loan Agreement	$	-	$	-	$	4,988	$	-
Warrants issued as commission related to private placements units		-		-		34,089		-
Warrants issued in relation to consulting agreements		35,094		172,431		35,094		222,939
Total Warrants Issued as Stock Based Compensation		35,094		172,431		74,171		222,939
Issuance of stock options (note 21)		1,213,605		-		1,213,605		-
Common shares issued for consulting fees		6,000		100,154		6,000		100,154
Common shares to be issued for consulting fees		-		32,710		-		32,710
Total Stock Based Compensation	$	1,254,699	$	305,295	$	1,293,776	$	355,803

20. RELATED PARTY TRANSACTIONS (Tables)

	6 Months Ended
	Jun. 30, 2017

Related Party Transactions Tables

Transactions with related parties

	June 30, 2017	December 31, 2016
Advances by and amounts payable to Officers of the Company, two of which are also Directors	$ 159,236	$ 95,759
Advances by and consulting fees payable to a corporation owned by two Officers of the Company, one of which is also a Director	139,167	313,745
Consulting fees owing to persons related to Officers who are also Directors of the Company	53,878	77,463
Advances by Officers of the Company, one of which is also a Director, bears interest at 1.5% per month	552,634	901,784
Amounts payable to a corporation related by virtue of a common Officer and Director of the Company	-	76,407
Consulting fees and directors fees payable to Directors of the Company	25,680	13,725
	$ 930,595	$ 1,478,883

Interest accrued to related parties

	June 30, 2017	December 31, 2016
Interest accrued on advances by Officers of the Company, one of which is also a Director	$ 325,783	$ 234,121
Advances by and consulting fees payable to a corporation owned by two Officers of the Company, one of which is also a Director	44,277	29,669
	$ 370,060	$ 263,790

Cosulting fees payable

	June 30, 2017	June 30, 2016
Officers	$ 170,595	$ 81,840
Persons related to a Director	73,109	26,389
	$ 243,704	$ 108,229

21. STOCK OPTION PLAN (Tables)

	6 Months Ended Jun. 30, 2017

Stock Option Plan Tables

Outstanding options

	Options Outstanding	Exercise Price	Expiry Date
Executive Officers	4,500,000	$0.20	June 15, 2020
Directors	1,250,000	$0.20	June 15, 2020
Employees	3,000,000	$0.20	June 15, 2020
	8,750,000		

Grant Date	Expiry Date	Options Outstanding	Options Exercisable	Exercise Price	Fair Value Expense
June 16, 2017	June 15, 2020	8,750,000	8,750,000	$0.20	$1,213,605

Weighted average assumptions:

Stock price	$0.14
Risk-free interest rate	1.49%
Expected life	3 years
Estimated volatility in the market price of the Common Shares	306%

22. COMMITMENTS AND CONTINGENCIES (Tables)

	6 Months Ended Jun. 30, 2017

Commitments And Contingencies Tables

Minimum annual lease payments

a) Premises Lease – Florida, USA

Effective January 1, 2015, a subsidiary of the Company entered into an operating lease agreement for a rental premises in Daytona Beach, Florida, USA. The terms of this agreement are to be for a period of 36 months and ending on December 31, 2017 with payments made monthly. Minimum annual lease payments are as follows:

2017	$	28,055

b) Premises Leases – Budapest, Hungary

Effective January 2, 2017, a subsidiary of the Company entered into a lease agreement for a rental premises in Budapest, Hungary. The terms of the agreement are to be for a period of one year ending on December 31, 2017 with payments made monthly. Minimum annual lease payments are denominated in Euros and are as follows:

2017	€	13,500

23. FINANCIAL INSTRUMENT (Tables)	6 Months Ended Jun. 30, 2017

Financial Instrument

Currency risk (CAD)

June 30, 2017	Accounts Payable	Trade Receivables	Cash
CAD	$ 197,015	$ 29,431	$43,268
HUF	$ 230,041	$ 52,219	$14,119
EUR	$ 55,636	$ 59,824	$94,563

24. SEGMENTED INFORMATION (Tables)	6 Months Ended Jun. 30, 2017
Segmented Information Tables	
Assets by geographic location	(see table below)
Revenues by geographic location	(see table below)

Assets by geographic location

	June 30, 2017	December 31, 2016
Canada	**$ 670**	$ 826
United States	**1,099,410**	1,125,704
Europe	**20,280**	23,418
	$1,120,360	$ 1,149,948

Revenues by geographic location

	June 30, 2017	June 30, 2016
Canada	**$ 55,163**	$ -
United States	**470,360**	1,838,191
Europe	**1,984,042**	430,337
	$2,509,565	$2,268,528

2. GOING CONCERN (Details Narrative) - USD ($)	6 Months Ended Jun. 30, 2017	Jun. 30, 2016	Dec. 31, 2016
Going Concern Details Narrative			
Accumulated deficit	$ (16,782,133)		$ (13,250,894)
Working capital deficiency	(4,478,693)		
Cash flows from operating activities	$ (1,250,358)	$ (1,319,077)	

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Details Narrative) - USD ($)	3 Months Ended		6 Months Ended	
	Jun. 30, 2017	Jun. 30, 2016	Jun. 30, 2017	Jun. 30, 2016
Summary Of Significant Accounting Policies Details Narrative				
Advertising Costs	$ 39,313	$ 113,442	$ 91,847	$ 158,553

4. AMOUNTS OWING ON ACQUISITIONS (Details) - USD ($)	12 Months Ended		
	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2015
Measurement period adjustment	$ (19,505)		
Interest expense related to accretion	39,772		
Present value	783,317	$ 783,317	$ 763,050
Promissory Notes A			
Measurement period adjustment	(19,505)		
Interest expense related to accretion	(751)		
Present value	183,317	183,317	203,573
Promissory Notes B			
Measurement period adjustment	0		
Interest expense related to accretion	8,380		
Present value	300,000	300,000	291,620
Promissory Notes C			
Measurement period adjustment	0		
Interest expense related to accretion	32,143		
Present value	$ 300,000	$ 300,000	$ 267,857

5. OTHER CURRENT ASSETS (Details) - USD ($)	Jun. 30, 2017	Dec. 31, 2016
Other Current Assets	$ 454,189	$ 462,708
Vendor deposits		
Other Current Assets	21,421	13,256
Prepaid expenses		
Other Current Assets	235,385	301,348
Trade currency		
Other Current Assets	45,000	45,000
Other receivables		
Other Current Assets	$ 152,383	$ 103,104

6. INVENTORY (Details) - USD ($)	Jun. 30, 2017	Dec. 31, 2016
Inventory Details		
Vaping hardware and accessories	$ 29,284	$ 105,496
E-liquid bottles - finished goods	160,922	181,392
E-liquid components	109,454	158,050
Bottles and packaging	256,113	100,197
Inventory	$ 555,773	$ 545,135

6. INVENTORY (Details Narrative) - USD ($)	3 Months Ended		6 Months Ended		
	Jun. 30, 2017	Jun. 30, 2016	Jun. 30, 2017	Jun. 30, 2016	Dec. 31, 2016
Inventory Details Narrative					
Inventory written off					$ 14,671
Cost of goods sold	$ 493,987	$ 345,036	$ 1,040,720	$ 1,205,982	

7. PROPERTY AND EQUIPMENT (Details) - USD ($)	Jun. 30, 2017	Dec. 31, 2016
Cost	$ 151,038	
Accumulated Depreciation	64,258	
Net	86,780	$ 93,068
Furniture and equipment		
Cost	65,610	
Accumulated Depreciation	28,732	
Net	36,878	45,917
Computer hardware		
Cost	20,899	
Accumulated Depreciation	8,565	
Net	12,334	15,985
Manufacturing Equipment		
Cost	64,529	
Accumulated Depreciation	26,961	
Net	$ 37,568	$ 31,166

7. PROPERTY AND EQUIPMENT (Details Narrative) - USD ($)	3 Months Ended		6 Months Ended	
	Jun. 30, 2017	Jun. 30, 2016	Jun. 30, 2017	Jun. 30, 2016
Property And Equipment Details Narrative				
Depreciation expense	$ 10,045	$ 15,015	$ 19,701	$ 28,510

8. WEBSITE DEVELOPMENT (Details) - USD ($)	Jun. 30, 2017	Dec. 31, 2016
Website Development Net	$ 6,083	$ 7,083
VaporLiq website		
Website Development Cost	10,000	
Website Development Accumulated Amortization	3,917	
Website Development Net	$ 6,083	$ 7,083

8. WEBSITE DEVELOPMENT (Details Narrative) - Website development [Member] - USD ($)	3 Months Ended		6 Months Ended	
	Jun. 30, 2017	Jun. 30, 2016	Jun. 30, 2017	Jun. 30, 2016
Amortization expense	$ 500	$ 500	$ 1,000	$ 1,000
Year ended 2017	2,000		2,000	
Year ended 2018	2,000		2,000	
Year ended 2019	2,000		2,000	
Year ended 2020	$ 1,083		$ 1,083	

9. INTANGIBLE ASSETS (Details) - USD ($)	Jun. 30, 2017	Dec. 31, 2016
Cost	$ 223,000	
Accumulated Amortization	85,000	
Net	138,000	$ 160,300
Brands		
Cost	50,000	
Accumulated Amortization	18,000	
Net	32,000	37,000
Customer Relationships		
Cost	173,000	
Accumulated Amortization	67,000	
Net	$ 106,000	$ 123,300

9. INTANGIBLE ASSETS (Details Narrative) - Intangible Assets - USD ($)	3 Months Ended		6 Months Ended	
	Jun. 30, 2017	Jun. 30, 2016	Jun. 30, 2017	Jun. 30, 2016
Amortization expense	$ 11,150	$ 43,000	$ 22,300	$ 54,000
Year ended 2017	44,600		44,600	
Year ended 2018	44,600		44,600	
Year ended 2019	44,600		44,600	
Year ended 2020	$ 26,500		$ 26,500	

10. GOODWILL (Details) - USD ($)	3 Months Ended		6 Months Ended		12 Months Ended
	Jun. 30, 2017	Jun. 30, 2016	Jun. 30, 2017	Jun. 30, 2016	Dec. 31, 2016
Goodwill Details					
Goodwill, beginning			$ 889,497	$ 1,252,084	$ 1,252,084
Measurement period adjustment			0		(154,211)
Impairment	$ 0	$ (208,376)	0	$ (208,376)	(208,376)
Goodwill, ending	$ 889,497		$ 889,497		$ 889,497

11. LOANS FROM SHAREHOLDERS (Details) - USD ($)	Jun. 30, 2017	Dec. 31, 2016
Non-interest bearing, unsecured, no specific terms of repayment		
Loan from shareholder	$ 0	$ 5,000
Bears interest of 1.5% per month on a cumulative basis, unsecured, no specific terms of repayment [Member]		
Loan from shareholder	12,680	23,223
Bears interest of 6% per annum on a cumulative basis, secured by the assets of the Company, matures on March 2, 2018		
Loan from shareholder	516,302	474,065
Non-interest bearing, secured by the assets of the Company, matures on March 12, 2017		
Loan from shareholder	154,120	0
Total Current Loans [Member]		
Loan from shareholder	683,102	502,288
Bears interest of 10% per annum on a cumulative basis, secured by the assets of the Company, matures on July 1, 2018		
Loan from shareholder	385,000	372,400
Bears interest of 10% per annum on a cumulative basis, secured by the assets of the Company, matures on July 1, 2018		
Loan from shareholder	100,000	100,000
Bears interest of 6% per annum on a cumulative basis, secured by the assets of the Company, matures on March 2, 2018		
Loan from shareholder	0	24,951
Total Long Term Loans [Member]		
Loan from shareholder	$ 485,300	$ 497,351

11. LOANS FROM SHAREHOLDERS (Details Narrative) - USD ($)	Jun. 30, 2017	Dec. 31, 2016
Loan From Shareholder Details		
Accrued interest On Shareholders loan	$ 5,000	$ 22,692
Total accrued interest owed on shareholders loan	16,017	12,784
Total Accrued interest owed On Secured Note	121,046	93,221
Total Accrued interest owed On Secured Note 2	31,541	25,152
Total Interest	$ 40,665	$ 23,433

12. CREDIT FACILITY (Details Narrative) - USD ($)	3 Months Ended		6 Months Ended	
	Jun. 30, 2017	Jun. 30, 2016	Jun. 30, 2017	Jun. 30, 2016
Promissory Notes B, unsecured and non-interest bearing, due April 1, 2016				
Interest paid and standby fees	$ 0	$ 2,189	$ 0	$ 2,189

13. TERM LOAN (Details) - USD ($)	Jun. 30, 2017	Dec. 31, 2016
Term Loan Details		
Opening balance/amount advanced	$ 1,144,337	$ 1,219,840
Exchange loss (gain) during the period/year	36,885	(28,159)
Principal payments made	(70,465)	(76,815)
Interest accrued	86,673	140,540
Interest payments made	(101,511)	(111,068)
Ending balance	$ 1,095,919	$ 1,144,337

14. PROMISSORY NOTE (Details) - USD ($)	Jun. 30, 2017	Dec. 31, 2016
Current notes payable	$ 835,317	$ 801,067
Long-term notes payable	30,000	0
Unsecured Promissory Note 1		
Current notes payable	783,317	783,317
Unsecured Promissory Note 2		
Current notes payable	30,000	0
Unsecured Promissory Note 3		
Current notes payable	16,750	0
Unsecured Promissory Note 4		
Current notes payable	$ 5,250	$ 17,750

15. CONVERTIBLE DEBENTURES (Details) - USD ($)	3 Months Ended		6 Months Ended	
	Jun. 30, 2017	Jun. 30, 2016	Jun. 30, 2017	Jun. 30, 2016
Interest expense	$ 589,703	$ 14,148	$ 660,992	$ 36,286
Convertible Debentures Series A				
Interest expense	0	0	0	17,342
Convertible Debentures Series B				
Interest expense	40,104	8,334	83,841	13,130
Conversion of Convertible Debentures Series B				
Interest expense	342,399	0	342,399	0
Convertible Debentures Series C-1				
Interest expense	24,412	5,814	44,584	5,814
Conversion of Convertible Debentures Series C-1				
Interest expense	163,599	0	163,599	0
Convertible Debentures Series C-2				
Interest expense	15,077	0	20,286	0
Convertible Debentures Series C-3				
Interest expense	$ 4,112	$ 0	$ 6,283	$ 0

15. CONVERTIBLE DEBENTURES (Details 1) - USD ($)	3 Months Ended		6 Months Ended		12 Months Ended
	Jun. 30, 2017	Jun. 30, 2016	Jun. 30, 2017	Jun. 30, 2016	Dec. 31, 2016
Convertible Debentures Details 1					
Convertible debentures, beginning			$ 83,704	$ 87,158	$ 87,158
Face value Convertible Debentures Series C-1					375,000
Face value Convertible Debentures Series C-2					275,000
Face value Convertible Debentures Series C-3			75,000		
Relative fair value of detachable warrants			(43,737)		(378,608)
BCF			(31,263)		(248,667)
Transaction costs					(22,725)
Amortization of debt discount	$ 589,703	$ 14,148	660,992	$ 36,286	94,546
Conversion of Convertible Debentures Series B			(423,000)		
Conversion of Convertible Debenture Series C-1			(190,000)		
Conversions					(23,000)
Cash settlements					(75,000)
Convertible debentures, ending	$ 131,696		$ 131,696		$ 83,704

15. CONVERTIBLE DEBENTURES (Details 2)	6 Months Ended Jun. 30, 2017 USD ($) shares
Convertible Debentures Converted | $	$ 1,302,000
Number of Common Shares Issued | shares	18,600,000
Convertible Debt 1 [Member]	
Convertible Debentures Converted | $	$ 50,000
Number of Common Shares Issued | shares	714,286
Date Form of Election Received	Apr. 15, 2014
Convertible Debt 2 [Member]	
Convertible Debentures Converted | $	$ 800,000
Number of Common Shares Issued | shares	11,428,572
Date Form of Election Received	Sep. 30, 2014
Convertible Debt 3 [Member]	
Convertible Debentures Converted | $	$ 275,000
Number of Common Shares Issued | shares	3,928,571
Date Form of Election Received	Nov. 10, 2014
Convertible Debt 4 [Member]	
Convertible Debentures Converted | $	$ 52,000
Number of Common Shares Issued | shares	742,857
Date Form of Election Received	Mar. 09, 2015
Convertible Debt 5 [Member]	
Convertible Debentures Converted | $	$ 105,000
Number of Common Shares Issued | shares	1,500,000
Date Form of Election Received	Jul. 15, 2015
Convertible Debt 6 [Member]	
Convertible Debentures Converted | $	$ 20,000
Number of Common Shares Issued | shares	285,714
Date Form of Election Received	Sep. 01, 2015

17. WARRANTS (Details) - $ / shares	6 Months Ended Jun. 30, 2017	12 Months Ended Dec. 31, 2016
Weighted average exercise price, End of year	$ 0.20	
Warrants [Member]		
Warrants Outstanding, Beginning of year	17,310,000	8,177,373
Warrants Outstanding, Issued	14,252,782	11,935,000
Warrants Outstanding, Cancelled	(1,750,000)	(1,125,000)
Warrants Outstanding, Expired	(2,750,000)	(1,677,373)
Warrants Outstanding, End of year	27,062,782	17,310,000
Weighted average exercise price, Beginning of year	$ 0.23	$ 0.25
Weighted average exercise price, Issued	0.21	0.21
Weighted average exercise price, Cancelled	0.25	0.25
Weighted average exercise price, Expired	0.35	0.19
Weighted average exercise price, End of year	$ 0.21	$ 0.23
Weighted Average Life Remaining, Beginning of year	1 year 2 months 16 days	1 year 4 months 17 days
Weighted Average Life Remaining, Issued	11 months 5 days	2 years 18 days
Weighted Average Life Remaining, Cancelled	1 year 11 days	1 year 1 month 17 days
Weighted Average Life Remaining, End of year	11 months 1 day	1 year 2 months 16 days

17. WARRANTS (Details 1)	6 Months Ended Jun. 30, 2017 USD ($) $ / shares shares
Number of warrants	30,687,782
Warrant 1	
Number of warrants	250,000
Expected life	2 years
Exercise Price | $ / shares	$ 0.4
Risk-free interest rate	0.85%
Dividend yield | $	$ 0
Estimated volatility	298.00%
Warrants 2	
Number of warrants	250,000
Expected life	2 years
Exercise Price | $ / shares	$ 0.5
Risk-free interest rate	0.85%
Dividend yield | $	$ 0
Estimated volatility	298.00%
Warrants 3	
Number of warrants	250,000
Expected life	2 years
Exercise Price | $ / shares	$ 0.6
Risk-free interest rate	0.85%
Dividend yield | $	$ 0
Estimated volatility	298.00%
Warrants 4	
Number of warrants	250,000
Expected life	2 years
Exercise Price | $ / shares	$ 0.7
Risk-free interest rate	0.85%
Dividend yield | $	$ 0
Estimated volatility	298.00%
Warrants 5	
Number of warrants	250,000
Expected life	1 year 6 months
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	0.88%
Dividend yield | $	$ 0
Estimated volatility	190.00%
Warrants 6	
Number of warrants	3,250,000
Expected life	2 years

Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	1.19%
Dividend yield | $	$ 0
Estimated volatility	265.00%
Warrants 7	
Number of warrants	250,000
Expected life	2 years 5 months 16 days
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	0.91%
Dividend yield | $	$ 0
Estimated volatility	263.00%
Warrants 8	
Number of warrants	300,000
Expected life	2 years
Exercise Price | $ / shares	$ 0.25
Risk-free interest rate	0.80%
Dividend yield | $	$ 0
Estimated volatility	275.00%
Warrants 9	
Number of warrants	1,500,000
Expected life	2 years
Exercise Price | $ / shares	$ 0.25
Risk-free interest rate	0.80%
Dividend yield | $	$ 0
Estimated volatility	275.00%
Warrants 10	
Number of warrants	1,000,000
Expected life	2 years
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	0.91%
Dividend yield | $	$ 0
Estimated volatility	271.00%
Warrants 11	
Number of warrants	1,750,000
Expected life	2 years
Exercise Price | $ / shares	$ 0.25
Risk-free interest rate	0.88%
Dividend yield | $	$ 0
Estimated volatility	264.00%
Warrants 12	
Number of warrants	3,750,000
Expected life	2 years
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	1.03%

Dividend yield | $	$ 0
Estimated volatility	259.00%
Warrants 13	
Number of warrants	85,000
Expected life	2 years
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	1.03%
Dividend yield | $	$ 0
Estimated volatility	259.00%
Warrants 14	
Number of warrants	300,000
Expected life	2 years 5 months 16 days
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	0.91%
Dividend yield | $	$ 0
Estimated volatility	263.00%
Warrants 15	
Number of warrants	250,000
Expected life	1 year 6 months
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	0.87%
Dividend yield | $	$ 0
Estimated volatility	180.00%
Warrants 16	
Number of warrants	2,750,000
Expected life	2 years
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	1.20%
Dividend yield | $	$ 0
Estimated volatility	259.00%
Warrants 17	
Number of warrants	50,000
Expected life	1 year
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	0.81%
Dividend yield | $	$ 0
Estimated volatility	191.00%
Warrants 18	
Number of warrants	750,000
Expected life	2 years
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	1.20%
Dividend yield | $	$ 0
Estimated volatility	267.00%

Warrants 19	
Number of warrants	3,773,006
Expected life	1 year
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	0.84%
Dividend yield | $	$ 0
Estimated volatility	173.00%
Warrants 20	
Number of warrants	411,361
Expected life	1 year
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	0.84%
Dividend yield | $	$ 0
Estimated volatility	173.00%
Warrants 21	
Number of warrants	907,948
Expected life	1 year
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	0.82%
Dividend yield | $	$ 0
Estimated volatility	167.00%
Warrants 22	
Number of warrants	108,954
Expected life	1 year
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	0.82%
Dividend yield | $	$ 0
Estimated volatility	167.00%
Warrants 23	
Number of warrants	1,500,000
Expected life	2 years
Exercise Price | $ / shares	$ 0.25
Risk-free interest rate	1.36%
Dividend yield | $	$ 0
Estimated volatility	266.00%
Warrants 24	
Number of warrants	3,270,045
Expected life	1 year
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	1.00%
Dividend yield | $	$ 0
Estimated volatility	165.00%
Warrants 25	
Number of warrants	27,623

Expected life	1 year
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	1.00%
Dividend yield | $	$ 0
Estimated volatility	165.00%
Warrants 26	
Number of warrants	250,000
Expected life	1 year
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	1.03%
Dividend yield | $	$ 0
Estimated volatility	163.00%
Warrants 27	
Number of warrants	500,000
Expected life	2 years
Exercise Price | $ / shares	$ 0.25
Risk-free interest rate	1.24%
Dividend yield | $	$ 0
Estimated volatility	167.00%
Warrants 28	
Number of warrants	1,634,615
Expected life	1 year
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	1.16%
Dividend yield | $	$ 0
Estimated volatility	171.00%
Warrants 29	
Number of warrants	769,230
Expected life	1 year
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	1.21%
Dividend yield | $	$ 0
Estimated volatility	171.00%
Warrants 30	
Number of warrants	300,000
Expected life	1 year
Exercise Price | $ / shares	$ 0.2
Risk-free interest rate	1.21%
Dividend yield | $	$ 0
Estimated volatility	159.00%

18. STOCK BASED COMPENSATION (Details) - USD ($)	3 Months Ended		6 Months Ended	
	Jun. 30, 2017	Jun. 30, 2016	Jun. 30, 2017	Jun. 30, 2016
Warrants Issued as Stock Based Compensation				
Warrants issued in connection to the Bridge Loan Agreement	$ 0	$ 0	$ 4,988	$ 0
Warrants issued as commission related to private placements units	0	0	34,089	0
Warrants issued in relation to consulting agreements	35,094	172,431	35,094	222,939
Total Warrants Issued as Stock Based Compensation	35,094	172,431	74,171	222,939
Issuance of stock options (note 21)	1,213,605	0	1,213,605	0
Common shares issued for consulting fees	6,000	100,154	6,000	100,154
Common shares to be issued for consulting fees	0	32,710	0	32,710
Total Stock Based Compensation	$ 1,254,699	$ 305,295	$ 1,293,776	$ 355,803

20. RELATED PARTY TRANSACTIONS (Details) - USD ($)	6 Months Ended Jun. 30, 2017	12 Months Ended Dec. 31, 2016
Advances from related parties	$ 930,595	$ 1,478,883
Advances by and amounts payable to Officers of the Company, two of which are also Directors		
Advances from related parties	159,236	95,759
Advances by and consulting fees payable to a corporation owned by two Officers of the Company, one of which is also a Director		
Advances from related parties	139,167	313,745
Consulting fees owing to persons related to Officers who are also Directors of the Company		
Advances from related parties	53,878	77,463
Advances by Officers of the Company, one of which is also a Director, bears interest at 1.5% per month		
Advances from related parties	552,634	901,784
Amounts payable to a corporation related by virtue of common Officers and a common Director of the Company		
Advances from related parties	0	76,407
Consulting fees and director fees payable to Directors of the Company		
Advances from related parties	$ 25,680	$ 13,725

20. RELATED PARTY TRANSACTIONS (Details 1) - USD ($)	6 Months Ended Jun. 30, 2017	12 Months Ended Dec. 31, 2016
Interest accrued to related parties	$ 370,060	$ 263,790
Interest accrued on advances by Officers of the Company, one of which is also a Director		
Interest accrued to related parties	325,783	234,121
Advances by and consulting fees payable to a corporation owned by two Officers of the Company, one of which is also a Director		
Interest accrued to related parties	$ 44,277	$ 29,669

20. RELATED PARTY TRANSACTIONS (Details 2) - USD ($)	Jun. 30, 2017	Jun. 30, 2016
Consulting fees payable to related parties	$ 243,704	$ 108,229
Officers [Member]		
Consulting fees payable to related parties	170,595	81,840
Persons related to a Director [Member]		
Consulting fees payable to related parties	$ 73,109	$ 26,389

20. RELATED PARTY TRANSACTIONS (Details Narrative) - USD ($)	Jun. 30, 2017	Dec. 31, 2016
Related Party Transactions Details Narrative		
Amounts due to related parties	$ 930,595	$ 1,478,883

21. STOCK OPTION PLAN (Details)	6 Months Ended Jun. 30, 2017 USD ($) $ / shares shares
Stock options outstanding	8,750,000
Stock options exerciseable	8,750,000
Stock option exercise price | $ / shares	$ 0.20
Stock option expiry date	Jun. 15, 2020
Stock option fair value | $	$ 1,213,605
Officers [Member]	
Stock options outstanding	4,500,000
Stock option exercise price | $ / shares	$ 0.20
Stock option expiry date	Jun. 15, 2020
Directors [Member]	
Stock options outstanding	1,250,000
Stock option exercise price | $ / shares	$ 0.20
Stock option expiry date	Jun. 15, 2020
Employees [Member]	
Stock options outstanding	3,000,000
Stock option exercise price | $ / shares	$ 0.20
Stock option expiry date	Jun. 15, 2020

21. STOCK OPTION PLAN (Details 1)	6 Months Ended Jun. 30, 2017 $ / shares
Stock Option Plan Details 1	
Stock price	$ 0.14
Risk-free interest rate	1.49%
Expected life	3 years
Estimated volatility in the market price of the Common Shares	306.00%

22. COMMITMENTS AND CONTINGENCIES (Details)	Jun. 30, 2017 USD ($)
Daytona Beach Lease	
2017	$ 28,055
Budapest Lease	
2017	$ 13,500

22. COMMITMENTS AND CONTINGENCIES (Details Narrative)	12 Months Ended Dec. 31, 2016 USD ($)
Commitments And Contingencies Details Narrative	
Accrued charitable contributions	$ 50,000

23. FINANCIAL INSTRUMENTS (Details)	Jun. 30, 2017 USD ($)
Canada, Dollars	
Accounts Payable	$ 197,015
Trade Receivables	29,431
Cash	43,268
Hungarian Forint Equals	
Accounts Payable	230,041
Trade Receivables	52,219
Cash	14,119
Slovakia, Euro	
Accounts Payable	55,636
Trade Receivables	59,824
Cash	$ 94,563

24. SEGMENTED INFORMATION (Details) - USD ($)	Jun. 30, 2017	Dec. 31, 2016
Total assets	$ 1,120,360	$ 1,149,948
Canada		
Total assets	670	826
United States		
Total assets	1,099,410	1,125,704
Europe		
Total assets	$ 20,280	$ 23,418

24. SEGMENTED INFORMATION (Details 1) - USD ($)	6 Months Ended	
	Jun. 30, 2017	Jun. 30, 2016
Total revenues	$ 2,509,565	$ 2,268,528
Canada		
Total revenues	55,163	0
United States		
Total revenues	470,360	1,838,191
Europe		
Total revenues	$ 1,984,042	$ 430,337