SCHEDULE E

Vapen MJ Ventures Corporation

(formerly Calyx Growth Corporation; formerly Fabula Exploration Inc.)

Consolidated Financial Statements

December 31, 2018 and 2017

(Expressed in U.S. Dollars)

Vapen MJ Ventures Corporation

(formerly Calyx Growth Corporation; formerly Fabula Exploration Inc.)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Vapen MJ Ventures Corporation (formerly Calyx Growth Corporation; formerly Fabula Exploration Inc.).

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Vapen MJ Ventures Corporation (formerly Calyx Growth Corporation; formerly Fabula Exploration Inc.) (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income and comprehensive income, statements of changes in shareholders' equity and statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters include the following:

-Related party transactions including those outside the Company's normal course of business

-Risk of revenue overstatement or understatement

-Risk of accounts receivable being overstated, including overstatement due to uncollectibility of accounts receivable

-Risks relating to the acquisition of New Gen Holdings, Inc., including appropriate disclosure of the acquisition

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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

The engagement partner on the audit resulting in this independent auditor’s report is Geoff Dodds.

Vancouver, Canada	Buckley Dodds LLP
April 30, 2019	Chartered Professional Accountants

VAPEN MJ VENTURES CORPORATION
(formerly Calyx Growth Corporation; formerly Fabula Exploration Inc.)
Consolidated Statements of Financial Position
As at
(Expressed in U.S. Dollars)

		December 31, 2018		December 31, 2017
ASSETS				
Current assets				
Cash	**$**	**3,393,567**	$	-
Accounts receivable (Notes 4, 10, 13)		**13,206,458**		9,121,521
Subscriptions receivable (Note 11)		**233,250**		-
Inventory (Note 5)		**73,973**		279,591
Due from shareholders (Note 10)		**-**		6,607
Prepaid deposits and other receivables (Note 6)		**263,507**		110,449
		17,170,755		9,518,168
Due from related parties (Note 10)		**2,181,785**		853,402
Property, plant and equipment (Note 7)		**4,081,645**		3,469,427
	$	**23,434,185**	$	13,840,997
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank indebtedness	**$**	**-**	$	174,241
Payables and accrued liabilities (Notes 8, 10)		**899,707**		563,526
Notes payable – current (Notes 9, 10)		**1,098,695**		198,250
Income tax payable		**649,379**		491,879
		2,647,781		1,427,896
Deferred tax liabilities (Note 16)		**3,624,095**		2,654,299
Notes payable – long term (Notes 9, 10)		**161,734**		984,089
		6,433,610		5,066,284
Shareholders' equity				
Subordinated and super voting shares (Note 11)		**4,150,351**		20
Subordinated voting shares – subscriptions receivable		**50,000**		-
Special warrants – subscriptions receivable		**183,250**		-
Warrant reserve		**89,628**		-
Accumulated other comprehensive income		**4,091**		-
Retained earnings		**12,523,255**		8,774,693
		17,000,575		8,774,713
	$	**23,434,185**	$	13,840,997

Nature of operations and going concern (Note 1)
Commitments (Note 14)
Subsequent event (Note 18)

Approved on April 30, 2019 on behalf of the Board of Directors:

______________________, Director ______________________, Director

The accompanying notes are an integral part of these consolidated financial statements.

VAPEN MJ VENTURES CORPORATION
(formerly Calyx Growth Corporation; formerly Fabula Exploration Inc.)
Consolidated Statements of Income and Comprehensive Income
For the Years ended December 31
(Expressed in U.S. Dollars)

		2018		2017
REVENUES				
Management fees	$	**4,800,000**	$	4,800,000
Professional services		**6,652,534**		4,047,071
Product sales		**5,342,956**		4,574,684
Equipment leasing		**1,000,779**		913,775
Property leasing		**680,000**		513,200
		18,476,269		14,848,730
COST OF SALES				
Cost of goods sold		**3,726,520**		2,211,631
Salaries, wages, and contractors (Note 10)		**4,890,750**		3,843,524
Property and equipment leasing, utilities, and property taxes		**204,045**		160,207
Amortization (Note 7)		**480,603**		387,021
		(9,301,918)		(6,602,383)
Gross Profit		**9,174,351**		8,246,347
OPERATING EXPENSES				
Advertising and promotion		**1,022,045**		437,008
Amortization (Note 7)		**86,215**		27,155
Bank charges and interest		**59,365**		84,792
Insurance		**48,683**		33,462
Office and general		**288,075**		104,317
Professional and consulting fees (Note 10)		**535,733**		723,002
Rent, property taxes, and utilities		**169,103**		160,928
Repairs and maintenance		**508,550**		253,523
Research and development		**107,354**		70,772
Salaries, wages, and commissions (Note 10)		**304,180**		335,220
Travel, training, and meals and entertainment		**475,018**		380,402
		(3,604,321)		(2,610,581)
Loss on acquisition (Note 17)		**(702,036)**		-
Interest Income		**12,000**		-
Net income before tax		**4,879,994**		5,635,766
Income tax expense (Note 16)		**(1,131,432)**		(1,528,534)
Net income after taxes	$	**3,748,562**	$	4,107,232
Other comprehensive income				
Translation adjustment		**4,091**		-
Other comprehensive income	$	**3,752,653**	$	4,107,232
Basic and diluted income per common share	$	**0.06**	$	0.06
Weighted average number of common shares outstanding		**65,125,000**		65,125,000

The accompanying notes are an integral part of these consolidated financial statements.

VAPEN MJ VENTURES CORPORATION
(formerly Calyx Growth Corporation; formerly Fabula Exploration Inc.)
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in U.S. Dollars)

	Share Capital										
	Number of subordinated voting shares	**Amount – subordinated voting shares**	**Number of Class A super voting shares**	**Amount - super voting shares**	**Number of special warrants**	**Subscriptions receivable – special warrants**	**Subscriptions receivable – voting shares**	**Warrant reserve**	**Accumulated other comprehensive income**	**Retained earnings (deficit)**	**Total shareholders' equity**
Balance at December 31, 2016	2,596,300	$ 1	625,287	$ 19	-	$ -	$ -	$ -	$ -	$ (4,667,461)	$ 4,667,481
Net income for the year	-	-	-	-	-	-	-	-	-	4,107,232	4,107,232
Balance at December 31, 2017	2,596,300	1	625,287	19	-	-	-	-	-	8,774,693	8,774,713
Private placement – New Gen	4,799,161	3,501,370	-	-	-	-	50,000	-	-	-	3,551,370
Equity of the Company at December 31, 2017	1,630,500	49,732	-	-	-	-	-	-	-	-	49,732
Repurchase of shares	(1,000,000)	(37,498)	-	-	-	-	-	-	-	-	(37,498)
Private placement	1,000,000	36,650	-	-	-	-	-	-	-	-	36,650
Private placement	2,500,000	91,625	-	-	-	-	-	-	-	-	91,625
Private placement – special warrants	-	-	-	-	1,000,000	183,250	-	-	-	-	183,250
Remove equity of the Company up to the date of the Acquisition	-	(140,509)	-	-	-	-	-	-	-	-	(140,509)
Fair value of the Acquisition	-	756,914	-	-	-	-	-	-	-	-	756,914
Share issuance costs – warrants	-	(89,628)	-	-	-	-	-	89,628	-	-	-
Share issuance costs – cash	-	(18,325)	-	-	-	-	-	-	-	-	(18,325)
Other comprehensive income for the year	-	-	-	-	-	-	-	-	4,091	-	4,091
Net income for the year	-	-	-	-	-	-	-	-	-	3,748,562	3,748,562
Balance at December 31, 2018	11,525,961	$ 4,150,332	625,287	$ 19	1,000,000	$ 183,250	$ 50,000	$ 89,628	$ 4,091	$ 12,523,255	$ 17,000,575

The accompanying notes are an integral part of these consolidated financial statements.

VAPEN MJ VENTURES CORPORATION
(formerly Calyx Growth Corporation; formerly Fabula Exploration Inc.)
Consolidated Statements of Cash Flows
For the Years ended December 31,
(Expressed in U.S. Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**$ 3,748,562**	$ 4,107,232
Items not affecting cash:		
Amortization	**566,818**	414,176
Deferred tax liabilities	**969,796**	1,179,644
Loss on acquisition	**702,036**	-
Non-cash working capital item changes:		
Accounts receivable	**(4,084,191)**	(4,284,227)
Inventory	**205,618**	(31,758)
Other receivables	**(153,058)**	(79,482)
Payables and accrued liabilities	**296,555**	214,561
Income tax payable	**157,500**	348,890
Net cash provided by operating activities	**2,409,636**	1,869,036
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	**(1,502,921)**	(1,131,828)
Cash acquired from acquisition	**79,524**	-
Net cash used in investing activities	**(1,423,397)**	(1,131,828)
CASH FLOWS FROM FINANCING ACTIVITIES		
Due from shareholder	**6,607**	(3,077)
Due from related parties	**(1,328,383)**	(316,251)
Notes payable	**401,975**	(748,682)
Shares issued for cash	**3,501,370**	-
Net cash provided by (used in) financing activities	**2,581,569**	(1,068,010)
Net change in cash during the year	**3,567,808**	(330,802)
Cash (bank indebtedness), beginning of the year	**(174,241)**	156,561
Cash (bank indebtedness), end of the year	**$ 3,393,567**	$ (174,241)
Cash paid for		
Interest	**$ 101,601**	$ 105,475
Taxes	**$ -**	$ -

The Company had the following significant non-cash transactions affecting cash flows from investing or financing during the years ended December 31, 2018 and 2017:

- On December 31, 2018, the Company issued 7,395,461 subordinated voting shares and 625,287 Class A super voting shares valued at $756,914 for the acquisition of New Gen Holdings Inc. (Note 17). In connection with this acquisition, the Company incurred cash finders' fees of $18,325, which are included in accounts payable as at December 31, 2018, and issued 1,000,000 finders' warrants valued at $89,628.

- As at December 31, 2018, $Nil (2017 - $323,885) of property, plant, and equipment purchased was included in notes payable of $18,325.

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Vapen MJ Ventures Corporation (formerly Calyx Growth Corporation; formerly Fabula Exploration Inc.) (the "Company') was incorporated on December 11, 2015 under the laws of British Columbia, Canada. The head office and principal address of the Company is located at Suite 1980 – 1075 W. Georgia St., Vancouver, BC V6E 3C9 and the U.S. headquarters is at 777 E Missouri Ave, Suite 200, Phoenix, Arizona 85014.

On December 31, 2018, the Company acquired New Gen Holdings Inc. ("New Gen") in a reverse take-over transaction (Note 17). As a result of the acquisition, these consolidated financial statements represent the consolidated accounts of the Company, which include its wholly owned subsidiary, New Gen Holdings, Inc., which in turn has the following wholly owned subsidiaries: Step 1 Consulting, LLC (incorporated in Delaware); New Gen Administration Services, LLC; New Gen Agricultural Services, LLC; X-Tane, LLC; New Gen Real Estate Services, LLC; Vapen LLC; and Hydroponics Solutions, LLC (all incorporated in Arizona). The Company provides management, advisory, cultivation, and dispensary services to non-for-profit entities in the medical marijuana field. The comparative amounts on these consolidate financial statements are those of New Gen.

During the year ended December 31, 2018, New Gen re-organized its share structure, by cancelling the 2,000 common shares outstanding, and issuing in their place 2,596,300 subordinated voting shares, and 625,287 Class A super voting shares. Each Class A super voting share can be converted into 100 subordinated voting shares. All share and per share amounts have been retroactively restated to show this shar ere-organization. (Note 11).

These consolidated financial statements have been prepared on the going concern basis, which assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. The continuing operations of the Company are dependent upon the Company's ability to continue to earn adequate revenues from operations, and to collect its receivables. The Company intends to finance its future requirements through continued operations.

As at December 31, 2018, the Company had working capital of $14,522,974 (December 31, 2017 - $8,090,272) and retained earnings of $12,523,255 (December 31, 2017 - $8,774,693). Management has assessed that this working capital is sufficient for the Company to continue as a going concern beyond one year.

These financial statements do not reflect any adjustments, which could be material, to the carrying values of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

a) Statement of Compliance

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

b) Basis of Preparation

These financial statements have been prepared on a historical cost basis, except for certain financial instruments classified as fair value through profit or loss, and are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for certain cash flow information. The financial statements, unless otherwise specified, are presented in United States. dollars.

2. BASIS OF PRESENTATION *(CONTINUED…)*

c) Basis of Consolidation

The consolidated financial statements include consolidated accounts of the Company, which include its wholly owned subsidiary, New Gen Holdings, Inc. which in turn has the following wholly owned subsidiaries: Step 1 Consulting, LLC; New Gen Administration Services, LLC; New Gen Agricultural Services, LLC; X-Tane, LLC; New Gen Real Estate Services, LLC; Vapen LLC; and Hydroponics Solutions, LLC. A wholly owned entity is an entity in which the Company has control, directly or indirectly. All intercompany transactions and balances have been eliminated on consolidation.

d) Approval of the Consolidated Financial Statements

The consolidated financial statements of the Company for the year ended December 31, 2018 were approved and authorized for issue by the Board of Directors on April _, 2019.

e) Significant Accounting Judgements and Estimates

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported revenues and expenses during the reporting period.

<u>Critical Judgements</u>

The preparation of these consolidated financial statements requires management to make judgements regarding the going concern of the Company, as previously discussed in Note 1, as well as the determination of functional currency. The functional currency is the currency of the primary economic environment in which an entity operates, and has been determined for each entity within the Company. Management has determined that the functional currency of the parent is the Canadian dollar, while the functional currency of the subsidiaries has been determined to be the United States (U.S.) dollar.

<u>Key Sources of Estimation Uncertainty</u>

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant.

Significant estimates made by management affecting the financial statements include:

Allowance for Doubtful Accounts

The Company estimates the amount of accounts receivable that may not be collectable and will allow for a write down of such amounts. Management uses historical information on the recoverability of accounts receivable and also looks at specific account balances in determining the allowance.

2. BASIS OF PRESENTATION *(CONTINUED…)*

e) Significant Accounting Judgements and Estimates *(continued…)*

Key Sources of Estimation Uncertainty *(continued…)*

Deferred Tax Assets & Liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all the deferred income tax assets and liabilities will not be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income, which in turn is dependent upon the successful management of marijuana operations. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

Useful Life of Property and Equipment

Property and equipment is amortized over its estimated useful life. Estimated useful lives are determined based on current facts and past management experience and take into consideration the anticipated physical life of the asset, the potential for technological obsolescence, and regulations.

Inventory Obsolescence

The Company estimates the amount of inventory on hand that may not be recoverable and will allow for a write down of such amounts.

Share-based Payments

Estimating fair value for granted stock options and compensatory warrants requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option or warrant, volatility, dividend yield, and rate of forfeitures and making assumptions about them.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Cash and bank indebtedness

Cash consists of cash held at major financial institutions and is subject to insignificant risk of changes in value. Bank indebtedness consists of cheques written and not yet withdrawn in excess of cash held.

b) Inventory

Inventories are valued at the lower of cost and net realizable value, with cost determined based on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

Inventories include the cost of materials purchased, as well as other costs required to bring the inventories to their present location and condition.

c) Property, plant and equipment

Property, plant and equipment is carried at cost, less accumulated amortization and accumulated impairment losses. The cost of the item of property and equipment consists of the purchase price, financing costs, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. An item of property, plant and equipment is no longer recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of net and comprehensive income. The cost of repairs and maintenance is expensed as incurred. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Asset		Rate
Land	No amortization	
Building	Straight line method	3%
Equipment and machinery	Straight line method	14-20%
Leasehold improvements	Straight line method	5 years (over the term of the lease)
Automobile	Straight line method	20%

Property, plant and equipment acquired during the year but not placed into use are not amortized until they are placed into use.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED…)*

d) Earnings per Share

Basic earnings per share is computed by dividing net earnings available to shareholders by the weighted average number of shares outstanding during the reporting period.

For diluted per share computations, assumptions are made regarding potential subordinated voting shares outstanding during the period. The weighted average number of subordinated voting shares is increased to include the number of additional subordinated voting shares that would be outstanding if, at the beginning of the period, or at time of issuance, if later, all options and warrants are exercised. Proceeds from exercise are used to purchase the Company's subordinated voting shares at their average market price during the period, thereby reducing the weighted average number of subordinated voting shares outstanding. If these computations prove to be anti-dilutive, diluted loss per share is the same as basic loss per share.

e) Financial Instruments

Financial assets and financial liabilities are recognized on the statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for any assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following is the Company's new accounting policy for financial instruments under IFRS 9:

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED…)*

e) Financial Instruments *(continued…)*

Measurement

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss and comprehensive loss in the period in which they arise.

Debt investments at FVOCI
These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI
These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED…)*

e) Financial Instruments *(continued…)*

Derecognition

Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

The Company's financial assets and liabilities are recorded and measured as follows:

Asset or Liability	Category	Measurement
Cash and bank indebtedness	FVTPL	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Subscriptions receivable	Loans and receivables	Amortized cost
Due from shareholders	Loans and receivables	Amortized cost
Prepaid deposits and other receivables	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Due to shareholders	Other liabilities	Amortized cost
Payables	Other liabilities	Amortized cost
Notes payable	Other liabilities	Amortized cost

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

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Cash and bank indebtedness have been measured at fair value using Level 1 inputs.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED…)*

f) Impairment of Financial Assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in a separate line item. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

g) Revenue Recognition

The Company recognizes revenue when it has persuasive evidence of a contract, performance obligations have been identified and satisfied, payment terms have been identified, and it is probable that the Company will collect the consideration it is entitled to.

In addition to this general policy, the following are the specific revenue recognition policies for each major category of revenue:

<u>Management fees:</u>
The Company provides monthly management fees at a fixed rate to its customer. This revenue is recorded monthly, when billed.

<u>Professional services:</u>
Revenues derived from professional services consist of fees associated with staff provided by the Company to its customer. The Company bills its customer monthly, based on a markup of paid wages and salaries. This revenue is recorded when billed.

<u>Product sales:</u>
Product sales relates to the sale of low-pressure tanks with liquid gas, as well as for materials and supplies purchased by the Company for the cultivation and dispensary facilities it provides to its customer. Revenue relating to the sale of the liquid gas is recognized when the tanks are shipped to the customer. Revenue from the materials and supplies used in cultivation and dispensary facilities are recognized when invoiced to the customer, based on the supplies purchased specifically for the cultivation and dispensary locations.

<u>Equipment and property leasing:</u>
Revenues derived from leasing are recognized when invoiced to the customer. This revenue consists of amounts charged to the customer for leased equipment used in the cultivation and dispensary facilities, as well as buildings and property leased to the customer.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED…)*

h) Cost of Sales

Cost of goods sold consists of the cost of cultivation supplies, merchandising materials, packaging materials and the cost of the low pressure liquid gas. Other cost of goods includes the cost of sales included in the cost of salaries, wages, and contractors used to generate management fees and professional services revenue; utilities, property taxes and lease expenses used to generate revenues from leasing certain equipment and properties; as well as amortization of property used to generate property leasing revenue.

i) Income Taxes

Income tax on profit or loss for the year comprises of current and deferred tax. Current tax is the expected tax paid or payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date and any adjustment to tax paid or payable in respect of previous years.

Deferred tax is recorded by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of the enactment or substantive enactment of the change. Deferred tax assets and liabilities are presented separately except where there is a right of set-off within fiscal jurisdictions.

j) Share capital

Subordinated voting shares are classified as equity. Transaction costs directly attributable to the issue of subordinated voting shares and subordinated voting share warrants are recognized as a deduction from equity. Subordinated voting shares issued for non- monetary consideration are measured based on their market value at the date the subordinated voting shares are issued.

Proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Share capital issued for non-monetary consideration are valued at the closing market price at the date of issuance. The proceeds from the issuance of units are allocated between subordinated voting shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to share capital based on the fair value of the subordinated voting shares at the time the units are priced, and any residual value is allocated to the warrants reserve. Consideration received for the exercise of options or warrants is recorded in share capital and the related residual value is transferred to share capital.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED…)*

k) Foreign Currency Translation

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency of the Company is the Canadian dollar, and the functional currency of its wholly owned subsidiaries is the U.S. dollar. The statements are presented in U.S dollars.

Accordingly, the accounts of the Company are translated into U.S. dollars as follows:

- all of the assets and liabilities are translated at the rate of exchange in effect on the date of the statement of financial position;

- revenue and expenses are translated at the exchange rate approximating those in effect on the date of the transactions; and

- exchange gains and losses arising from translation are included in accumulated other comprehensive income.

Transactions in currencies other than the functional currency are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the date of the statement of financial position while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of operations and comprehensive loss.

l) Share-Based Payments

The Company grants stock options and warrants to buy subordinated voting shares of the Company to directors, officers, employees and service providers. The Company recognizes share-based compensation expense based on the estimated fair value of the options. A fair value measurement is made for each vesting instalment within each option grant and is determined using the Black-Scholes option-pricing model. The fair value of the options is recognized over the vesting period of the options granted as both share-based compensation expense and reserves. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods. The reserves account is subsequently reduced if the options are exercised and the amount initially recorded is then credited to capital stock.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of the goods or services received.

(Expressed in U.S. Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED…)*

m) Warrants issued in equity financing transactions

The Company engages in equity financing transactions. These equity financing transactions may involve issuance of subordinated voting shares or units. A unit comprises a certain number of subordinated voting shares and a certain number of share purchase warrants. Depending on the terms and conditions of each equity financing agreement, the warrants are exercisable into additional subordinated voting shares prior to expiry at price stipulated by the agreement. Warrants that are part of units are valued based on the residual value method and included in share capital with the subordinated voting shares that were concurrently issued. Warrants that are issued as payment for an agency fee or other transactions costs are accounted for as share-based payments.

n) Standards Issued but not yet Effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

New standard IFRS 16 "Leases" This new standard replaced IAS 17 "Leases" and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15. The Company has two building leases that go through 2024 that will be recorded in accordance with IFRS 16 on the statement of financial position at a value of approximately $992,000 using a net present value rate 6%.

4. ACCOUNTS RECEIVABLES

The Company's accounts receivables consist of the following:

		December 31, 2018		December 31, 2017
Total receivables	**$**	**27,579,457**	$	23,494,520
Allowance		**(14,372,999)**		(14,372,999)
	$	**13,206,458**	$	9,121,521

5. INVENTORY

Inventory consists of various types of low-pressure liquid gas held in X-Tane, LLC. There was a $26,230 adjustment to inventory during the year ended December 31, 2018, recorded as cost of sales, to write down the value of empty 100-pound tanks, as the Company determined there was no longer a market for these tanks. There were no adjustments to inventory during the year ended December 31, 2017. The amount of inventory recognized as an expense during the year ended December 31, 2018 was $707,613 (2017 - $315,255).

(Expressed in U.S. Dollars)

6. PREPAID DEPOSITS AND OTHER RECEIVABLES

The Company's prepaid deposits and other receivables consist of the following:

	December 31, 2018	December 31, 2017
Short-term loans receivable – interest free	**$ -**	$ 76,247
Short-term loans receivable – 20% interest	**-**	30,000
Vendor deposits	**255,914**	-
Employee advances	**7,593**	4,202
	$ 263,507	$ 110,449

7. PROPERTY, PLANT AND EQUIPMENT

	Land	**Building**	**Equipment and machinery**	**Leasehold improvements**	**Automobile**	**Total**
Cost						
Balance at December 31, 2016	$ 219,434	$ 540,241	$ 901,843	$ 1,089,123	$ -	$ 2,750,641
Additions	121,345	534,720	329,195	406,568	63,885	1,455,713
Balance at December 31, 2017	340,779	1,074,961	1,231,038	1,495,691	63,885	4,206,354
Additions	-	136,235	220,139	804,762	17,900	1,179,036
Balance at December 31, 2018	340,779	1,211,196	1,451,177	2,300,453	81,785	5,385,390
Accumulated Amortization						
Balance at December 31, 2016	-	17,386	118,090	187,275	-	322,751
Amortization	-	27,217	151,592	235,040	327	414,176
Balance at December 31, 2017	-	44,603	269,682	422,315	327	736,927
Amortization	-	80,016	185,959	286,056	14,787	566,818
Balance at December 31, 2018	-	124,619	455,641	708,372	15,114	1,303,745
Net Book Value						
December 31, 2017	$ 340,779	$ 1,030,358	$ 961,356	$ 1,073,376	$ 63,558	$ 3,469,427
December 31, 2018	$ 340,779	$ 1,086,577	$ 995,536	$ 1,592,082	$ 66,671	$ 4,081,645

Of the total amortization expense during the year ended December 31, 2018 - $480,603 (2017 – $387,021) was included in the cost of sales, and $86,215 (2017 - $27,155) was included in operating expenses.

(Expressed in U.S. Dollars)

8. PAYABLES AND ACCRUED LIABILITIES

The Company's payables and accrued liabilities consist of the following:

		December 31, 2018		December 31, 2017
Trade payables (Note 10)	**$**	**214,998**	**$**	163,165
Credit card payable		**203,604**		314,242
Interest payable		**2,931**		9,361
Sales tax payable		**3,859**		2,276
Insurance payable		**9,251**		9,482
Payroll liabilities		**5,406**		-
Finder fee payable (Note 17)		**18,325**		-
Accrued liabilities (Note 10)		**441,333**		65,000
	$	**899,707**	**$**	563,526

9. NOTES PAYABLE

Current notes payable are made up of the following:

		December 31, 2018		December 31, 2017
Loan from related parties (Note 10)	**$**	**14,445**	**$**	16,000
Loans from non-related parties at 12% interest per annum		**182,250**		182,250
Loan from non-related party with an interest rate of 12% per annum (1)		**272,000**		-
Loan from non-related party with an interest rate of 12% per annum (2)		**280,000**		-
Loan from non-related party with an interest rate of 15% per annum (3)		**350,000**		-
	$	**1,098,695**	**$**	198,250

(1) Subsequent to the year ended December 31, 2018, the maturity date of this loan was extended to February 1, 2020.

(2) Subsequent to the year ended December 31, 2018, the maturity date of this loan was extended to March 1, 2020.

(3) Subsequent to the year ended December 31, 2018, the maturity date of this loan was extended to January 5, 2020.

(Expressed in U.S. Dollars)

9. NOTES PAYABLE *(CONTINUED…)*

Non-current notes payable are made up of the following:

	December 31, 2018	December 31, 2017
Maturing on February 1, 2019 with an interest rate of 12% per annum.	$ -	$ 272,000
Maturing on March 1, 2019 with an interest rate of 12% per annum.	-	280,000
Maturing on October 1, 2019 with an interest rate of 5% per annum.	-	100,000
Maturing in March 2020 with an interest rate of 7.6% per annum	33,506	43,885
Maturing on September 20, 2022 with an interest rate of 13% per annum	3,171	11,427
Maturing on March 31, 2023 with an interest rate of 13% per annum	54,434	
Maturing in 2024, with an interest rate of 13% per annum, from related parties. (Note 10).	776	184,812
Maturing in 2026, with an interest rate of 13% per annum, from related parties. (Note 10).	69,847	91,965
	$ 161,734	$ 984,089

10. RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the consolidated financial statements not disclosed elsewhere in these consolidated financial statements are summarized below and include transactions with the following individuals or entities:

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company's Board of Directors, corporate officers, including the Company's Chief Executive Officer and Chief Financial Officer.

Remuneration attributed to key management personnel for the years ended December 31, 2018 and 2017 is summarized as follows:

	December 31, 2018	December 31, 2017
Consulting fees – included in professional and consulting fees	$ -	$ 37,500
Salaries, wages, and commissions – included in operating expenses	31,351	12,478
Salaries and wages – included in cost of sales	595,668	237,083
	$ 627,019	$ 287,061

(Expressed in U.S. Dollars)

10. RELATED PARTY TRANSACTIONS *(CONTINUED…)*

Other related parties

Other related parties include close family members of the Company's CEO.

Remuneration attributed to other related parties for the years ended December 31, 2018 and 2017 is summarized as follows:

		December 31, 2018		December 31, 2017
Salaries and wages – included cost of sales	**$**	**118,898**	$	139,650
Salaries, wages, and commissions – included in operating expenses		**6,258**		2,297
	$	**125,156**	$	141,947

Balances with related parties:

Due from related parties:

		December 31, 2018		December 31, 2017
Non-interest bearing, due on December 31, 2021 from the CEO	**$**	**537,151**	$	537,151
Non-interest bearing, due on December 31, 2022 from the CEO		**316,251**		316,251
Non-interest bearing, due on December 31, 2023 from the CEO		**1,328,383**		-
	$	**2,181,785**	$	853,402

Other amounts due to and from related parties as at December 31, 2018 and 2017 included the following:

- Included in accounts receivable as at December 31, 2018 is $nil (2017 - $3,267) owing from a company controlled by the CEO. This amount is non-interest bearing.
- The amount due from a significant shareholder of the Company as at December 31, 2018 is $Nil (2017 - $6,607) and is non-interest bearing.
- Included in payables and accrued liabilities as at December 31, 2018 is $290,167 (2017 - $6,761) owing to the CEO, companies controlled by the CEO, and close family members of the CEO. The majority of this amount is made up of unpaid salary.
- Included in short-term loans payable as at December 31, 2018 is $14,445 (2017 - $16,000) owing to a company controlled by the CEO of the Company. This amount bears interest of 13% per annum and is due on demand. (Note 9).
- Included in the long-term loans payable as at December 31, 2018 is $70,623 (2017 - $276,777) due to the CEO of the Company, the spouse of the CEO, and a company controlled by the CEO of the Company. These loans bear interest of 13% per annum and are due between 2024 – 2026. (Note 9).

11. SHARE CAPITAL

The Company is authorized to issue the following shares:

- Unlimited subordinated voting shares without par value; and
- Unlimited Class A shares with super voting rights, each convertible into 100 subordinated voting shares.

During the year ended December 31, 2018, the Company had the following share transactions:

- During the year ended December 31, 2018, the Company approved the creation of an unlimited number of Class A Shares, which are convertible into 100 subordinated voting shares of the Company.

- On April 19, 2018, the Company repurchased 1,000,000 common shares at a price of CAD$0.05 per share for aggregate amounts of $37,498 (CAD$50,000).

- On December 10, 2018, the Company completed a private placement of an aggregate of 1,000,000 common shares at a price of CAD$0.05 per share for aggregate gross proceeds of $36,650 (CAD$50,000).

- On December 17, 2018, the Company completed a private placement of an aggregate of 2,500,000 units at a price of CAD$0.05 per unit for aggregate gross proceeds of $91,625 (CAD$125,000). Each unit consists of one (1) common share and one (1) share purchase warrant. Each whole warrant entitles the holder to purchase one (1) additional common share of the Company at a price of CAD$0.25 per share for a period of one (1) years from the closing date of the private placement. The value of the warrants was determined to be $Nil, using the residual value method of valuation.

- On December 24, 2018, the Company completed a non-brokered private placement of a gross proceeds of $183,250 (CAD$250,000), which consist of 1,000,000 of Special Warrants (each a “Special Warrant”) whereby each Special Warrant will automatically convert into one (1) Unit on the earlier of the third business day after the date on which the Company obtains the final receipt of a non-offering prospectus by the British Columbia Securities Commission, or the date that is four months and a day from closing of the private placement. Each Unit will consist of one (1) subordinated voting share and one-half of one (½) subordinated voting share purchase warrant (each a “Warrant”). Each whole Warrant will entitle the holder to purchase one (1) additional subordinated voting share from the Company at an intended exercise price of CAD$0.25 per share for a period of one (1) year. The value of the warrants was determined to be $Nil, using the residual value method of valuation. As at December 31, 2018, this amount was included in subscriptions receivable. It was received subsequent to December 31, 2018.

(Expressed in U.S. Dollars)

11. SHARE CAPITAL *(CONTINUED…)*

- On December 31, 2018, the Company acquired 100% of the issued and outstanding subordinated voting shares and Class A super voting shares of New Gen a company located in Phoenix, Arizona, U.S.A for an aggregate of 7,395,461 common shares of the Company and 625,287 of Class A super voting shares of the Company. New Gen provides management, advisory, cultivation, and dispensary services to non-for-profit entities in the medical marijuana field. In connection with the acquisition, the Company accrued $18,325 in finders' fees. and issued 2,000,000 finders' warrants valued at $89,628 recorded as share issuance costs. The warrants are exercisable at CAD$1.00 until December 31, 2019. The fair value of the warrants was calculated using the Black-Scholes Option Pricing Model, with a volatility of 150%, risk free interest rate of 1%, and expected life of 1 year. (Note 17).

During the year ended December 31, 2018, New Gen had the following share transactions:

- During the year ended December 31, 2018, New Gen re-organized its share structure, by cancelling the 2,000 common shares outstanding, and issuing in their place 2,596,300 subordinated voting shares, and 625,287 Class A super voting shares. Each Class A super voting share can be converted into 100 subordinated voting shares. All share and per share amounts have been retroactively restated to show this shar ere-organization.

- New Gen completed a private placement of 4,799,161 shares for total proceeds of $3,551,370. Of this amount, $50,000 was recovered as a subscription receivable, and was received subsequent to December 31, 2018.

During the year ended December 31, 2017, the Company had the following share transactions:

- On July 11, 2017, 1,000,000 subordinated voting shares were issued by the Company at CAD$0.05 per common share for aggregate gross proceeds of $36,650 (CAD$50,000).

Share purchase warrants

The following is a summary of warrant activities during the years ended December 31, 2018 and 2017:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2016 and 2017	-	$ -
Issued	$4,500,000	$ 0.43
Outstanding, December 31, 2018	$4,500,000	$ 0.43

As at December 31, 2018 the Company had the following share purchase warrants outstanding:

Outstanding	Exercise Price	Remaining Life (Years)	Expiry Date
2,500,000	CAD$0.25	0.96	December 17, 2019
2,000,000	CAD$1.00	1.00	December 31, 2019
4,500,000	$0.43	0.98	

As at December 31, 2018 and 2017, the Company had no stock options outstanding.

12. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to support the growth and development of its operations and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its components of equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets.

In order to maximize ongoing development efforts, the Company does not pay out dividends. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable given the relative size of the Company.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year.

13. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The fair value of the Company's accounts receivable, subscriptions receivable, due from shareholder, prepaid deposits and other receivables, payables, and current portion of notes payable, approximate their carrying value, due to their short-term nature. The carrying amounts of the long-term notes payable approximate their fair values as these liabilities bear interest at variable market rates. The carrying amount of the amount due from related parties approximates its fair value. The Company's cash and bank indebtedness are measured at fair value under the fair value hierarchy based on Level 1 quoted prices in active markets for identical assets or liabilities.

The Company's financial instruments are exposed to certain financial risks, including credit risk; liquidity risk; interest rate risk; price risk; and currency risk.

<u>Credit risk</u>

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company is subject to credit risk on its receivables. As at December 31, 2018 and 2017, the Company was dependent on one major customer from its consulting business segment (Note 15). As at December 31, 2018, the majority of the Company's accounts receivable was from this customer ($13,113,105). The Company has taken an allowance for all receivables earned in New Gen from its inception to December 31, 2015, as the Company is of the opinion that its customer did not have sufficient cash flow in those years to settle its obligations. The Company, however, is of the opinion that, as at December 31, 2018, it is not exposed to significant credit risk from this customer, as $3,827,804 of the outstanding accounts receivables were received by the Company subsequent to year ended December 31, 2018, to March 31, 2019. The Company is of the opinion that it is not exposed to significant credit risk from this customer as at December 31, 2018 as it continues to collect accounts receivable routinely. The Company has no investments in asset-backed commercial paper.

(Expressed in U.S. Dollars)

13. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(CONTINUED…)*

Credit risk *(continued…)*

The Company records an allowance for doubtful accounts related to accounts receivable that are considered to be non-collectible. The allowance is based on the Company's knowledge of the financial condition of its customer, current business environment, customer and industry concentrations, and historical experience. To reduce credit risk, cash is only held at major financial institutions.

The Company invoices its major customer on credit terms of net 30 days. The aging of the Company's receivables as at December 31, 2018 is as follows:

	Current	1-30 days	31–60 days	61-90 days	>90 days	Total
The top customer of the Company	$ 958,194	$ 2,076,190	$ 1,394,328	$ 1,530,376	**$** 21,527,016	$ 27,486,104
Other customers	746	-	53,767	31,699	7,141	93,353
Allowance	-	-	-	-	(14,372,999)	(14,372,999)
	$ 958,940	$ 2,076,190	$ 1,448,095	$ 1,562,075	**$** 7,161,158	$ 13,206,458

The aging of the Company's receivables as at December 31, 2017 is as follows:

	Current	1-30 days	31–60 days	61-90 days	>90 days	Total
The top customer of the Company	$ 1,868,730	$ 1,122,902	$ 1,380,771	$ 932,353	**$** 17,901,056	$ 23,205,812
Other customers	24,228	93,743	94,666	45,220	30,851	288,708
Allowance	-	-	-	-	(14,372,999)	(14,372,999)
	$ 1,892,958	$ 1,216,645	$ 1,475,437	$ 977,573	**$** 3,558,908	$ 9,121,521

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 manages liquidity risk through its capital management as outlined in Note 12. As at December 31, 2018, the Company had cash of $3,393,567 to settle its accounts payable and short-term notes payable of $2,647,781. Management believes the Company has sufficient funds to support ongoing operating expenditures and meet its liabilities as they fall due.

13. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(CONTINUED…)*

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, commodity and equity prices, and foreign exchange rates.

a) Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company does not hold any financial instruments with variable interest rates, and as a result, is subject to insignificant interest rate risk.

b) Price risk

The Company is not exposed to significant price risk as it does hold investments in publicly traded securities.

c) Currency risk

The Company's expenditures are predominantly in U.S. dollars, and any future equity raised is expected to be predominantly in U.S. dollars. As at December 31, 2018, the Company had approximately $240,485 in net financial assets denominated in Canadian currencies. A 10% change in the foreign exchange rate between the U.S dollar and the Canadian dollar would result in a change on approximately $24,000 in other comprehensive income.

14. COMMITMENTS AND CONTINGENCIES

The Company has a lease agreement for its leased premises, with the term of the lease ending on April 30, 2024.

The annual commitment under this lease for the next five years is as follows:

	Commitment	
2019	$	196,800
2020	$	205,944
2021	$	211,216
2022	$	213,616
2023	$	220,328

(Expressed in U.S. Dollars)

15. SEGMENT INFORMATION

The Company operates in the Unites States, and has two major segments of operations, being its management and advisory services to non-for-profit entities in the medical marijuana field, and its sale of various types of low pressure liquid gas. The Company has included the operations, assets, and liabilities from the Canadian parent in its segment of management and advisory services to non-profit entities in the medical marijuana field, as the parent has no major operations of its own, and it's main purpose is to support the operations in the aforementioned segment.

Segmented information over these two operating segments is as follows:

As at, and for the year ended December 31, 2018:

	Services and products relating to the medical marijuana field	Liquid gas sales	Total
Sales	$ 17,506,133	$ 970,136	$ 18,476,269
Cost of Sales	(8,640,156)	(661,762)	(9,301,918)
Operating expenses	(3,465,759)	(138,562)	(3,604,321)
Interest income	12,000	-	12,000
Loss from acquisition	(702,036)	-	(702,036)
Income tax expense	(1,131,432)	-	(1,131,432)
Net income	$ 3,578,750	$ 169,812	$ 3,748,562
Assets	$ 23,066,756	$ 367,429	$ 23,434,185
Liabilities	$ 6,414,052	$ 19,558	$ 6,433,610

As at, and for the year ended December 31, 2017:

	Services and products relating to the medical marijuana field	Liquid gas sales	Total
Sales	$ 14,122,509	$ 726,221	$ 14,848,730
Cost of Sales	(6,287,128)	(315,255)	(6,602,383)
Operating expenses	(2,493,503)	(117,078)	(2,610,581)
Income tax expense	(1,528,534)	-	(1,528,534)
Net income	$ 3,813,344	$ 293,888	$ 4,107,232
Assets	$ 13,272,698	$ 568,299	$ 13,840,997
Liabilities	$ 5,042,324	$ 23,960	$ 5,066,284

(Expressed in U.S. Dollars)

16. INCOME TAXES

The following is a reconciliation of income taxes attributable to operations computed at the statutory tax rates to income tax recovery.

		December 31, 2018		December 31, 2017
Net income for the year before taxes	**$**	**4,879,994**	$	5,635,766
Federal statutory tax rate		**21%**		34%
State statutory tax rate		**4.9%**		4.9%
Expected income tax expense at statutory rate	**$**	**1,263,918**	$	2,098,421
Change in tax rates and other		**(132,486)**		(569,887)
Income tax expense	**$**	**1,131,432**	$	1,528,534
Income tax expense consists of:				
Current income tax expense		**161,636**		348,890
Deferred tax expense		**969,796**		1,179,644
	$	**1,131,432**	$	1,528,534

Significant components of the Company's future tax liabilities, after applying enacted corporate income tax rates, are as follows: The majority of the deferred tax liability is related to cash accounting method for tax purposes.

		December 31, 2018		December 31, 2017
Deferred tax liabilities	**$**	**3,624,095**	$	2,654,299

Tax attributes are subject to review and potential adjustment by taxation authorities.

(Expressed in U.S. Dollars)

17. ACQUISITION

On December 31, 2018, the Company completed a share exchange agreement with New Gen whereby the Company acquired 100% of the issued and outstanding shares of New Gen, for an aggregate of 7,395,461 subordinated voting shares of the Company and 625,287 of Class A super voting share of the Company (the "Transaction"). New Gen provides management, advisory, cultivation, and dispensary services to non-for-profit entities in the medical marijuana field.

The Company issued 2,000,000 finder's warrants valued at $89,628 and incurred $18,325 as finder's fees in connection with the completion of the Transaction. The warrants are exercisable at CAD$1.00 until December 31, 2019.

The acquisition of New Gen. by the Company constitutes a reverse asset acquisition ("RTO"). The acquisition of the net assets of the Company is accounted for as a share-based payment as follows:

Net asset acquired:	
Cash and cash equivalents	$ 79,524
Subscription receivable	183,250
GST receivable	746
Accounts payable and accrued liabilities	(21,301)
Total net asset acquired	$ 242,219

Consideration paid:	
Fair value of the Company's 4,130,500 subordinated voting shares	$ 756,914
Fair value of the Company's 1,000,000 special warrants	183,250
Finder's fees in cash (to be paid)	18,325
Finder's fees in warrants	89,628
Total consideration paid:	$ 1,048,117

(Expressed in U.S. Dollars)

17. ACQUISITION *(CONTINUED…)*

Costs Attributable to Obtaining a Listing Status:

Total consideration paid	$	1,048,117
Net assets acquired		(242,219)
Foreign exchange translation		4,091
Share issuance costs – warrants		(89,628)
Share issuance costs – cash		(18,325)
Listing costs:	$	702,036

Under RTO accounting, the existing share capital and deficit balances of the Company before the transaction date are eliminated.

18. SUBSEQUENT EVENT

On January 4, 2019, the Company granted 909,000 stock options to certain directors, officers, and employees, with an exercise price of CAD$1.00, and an expiry date of January 4, 2029.

On April 25, 2019, 1,000,000 Special Warrants were automatically converted in accordance with its terms to 1,000,000 Units, each Unit consisting of one (1) subordinated voting share and one-half of one (½) subordinated voting share purchase warrant. Each whole purchase warrant will entitle the holder to purchase one (1) additional subordinated voting share from the Company at an exercise price of CAD$0.25 per subordinated voting share for a period of one (1) year from issuance.