New Gen Holdings, Inc.

Consolidated Financial Statements

December 31, 2017 and 2016

(Expressed in U.S. Dollars)

New Gen Holdings, Inc.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of New Gen Holdings, Inc.:

We have audited the accompanying consolidated financial statements of New Gen Holdings, Inc. which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of New Gen Holdings, Inc. as at December 31, 2017 and 2016, and its consolidated financial performance and cash flows for the periods then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Vancouver, British Columbia
April 30, 2019

Buckley Dodds LLP
Chartered Professional Accounts

NEW GEN HOLDINGS, INC.
Consolidated Statements of Financial Position
As at
(Expressed in U.S. Dollars)

	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash	$ **-**	$ 156,561
Accounts receivable (Notes 4, 10)	**9,121,521**	4,837,294
Inventory (Note 5)	**279,591**	247,833
Due from shareholders (Note 10)	**6,607**	3,530
Other receivables (Note 6)	**110,449**	30,967
	9,518,168	5,276,185
Due from related parties (Note 10)	**853,402**	537,151
Property, plant and equipment (Note 7)	**3,469,427**	2,427,890
	$ 13,840,997	$ 8,241,226
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	**$ 174,241**	$ -
Payables and accrued liabilities (Notes 8, 10)	**563,526**	348,965
Notes payable – current portion (Notes 9, 10)	**198,250**	398,250
Income tax payable	**491,879**	142,989
	1,427,896	890,204
Deferred tax liabilities (Note 16)	**2,654,299**	1,474,655
Notes payable – noncurrent portion (Notes 9, 10)	**984,089**	1,208,886
	5,066,284	3,573,745
Shareholders' equity		
Share capital (Note 11)	**20**	20
Retained earnings	**8,774,693**	4,667,461
	8,774,713	4,667,481
	$ 13,840,997	$ 8,241,226

Nature of operations and going concern (Note 1)
Commitments (Note 14)
Subsequent events (Note 17)

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

__________________________ Director

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

NEW GEN HOLDINGS, INC.
Consolidated Statements of Income and Comprehensive Income
For the Years ended December 31
(Expressed in U.S. Dollars)

		2017		2016
REVENUES				
Management fees	**$**	**4,800,000**	$	4,800,000
Professional services		**4,047,071**		3,446,080
Product sales		**4,574,684**		1,788,539
Equipment leasing		**913,775**		1,733,844
Property leasing		**513,200**		567,820
		14,848,730		12,336,283
COST OF SALES				
Cost of goods sold		**2,211,631**		1,587,555
Salaries, wages, and contractors (Note 10)		**3,843,524**		2,269,228
Property and equipment leasing, utilities, and property taxes		**160,207**		119,346
Amortization (Note 7)		**387,021**		186,689
		(6,602,383)		(4,152,818)
		8,246,347		8,173,465
OPERATING EXPENSES				
Advertising and promotion		**437,008**		518,506
Amortization (Note 7)		**27,155**		7,043
Bank charges and interest		**84,792**		79,918
Insurance		**33,462**		18,257
Office and general		**104,317**		105,430
Professional and consulting fees (Note 10)		**723,002**		567,229
Rent, property taxes, and utilities		**160,928**		97,798
Repairs and maintenance		**253,523**		99,040
Research and development		**70,772**		688
Salaries, wages, and commissions (Note 10)		**335,220**		105,857
Travel, training, and meals and entertainment		**380,402**		190,356
		(2,610,581)		(1,790,122)
Net income before tax		**5,635,766**		6,383,343
Income tax expense (Note 16)		**(1,528,534)**		(1,617,644)
Net and comprehensive income for the year	**$**	**4,107,232**	$	4,765,699
Basic and diluted income per common share	**$**	**2,054**	$	2,383
Weighted average number of common shares outstanding		**2,000**		2,000

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

NEW GEN HOLDINGS, INC.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in U.S. Dollars)

	Share Capital						
	Number of shares		**Amount**		**Retained Earnings (Deficit)**		**Total**
Balance at December 31, 2015	2,000	$	20	$	(98,238)	$	(98,218)
Net income for the year	-		-		4,765,699		4,765,699
Balance at December 31, 2016	2,000		20		4,667,461		4,667,481
Net incomes for the year	-		-		4,107,232		4,107,232
Balance at December 31, 2017	2,000	$	20	$	8,774,693		8,774,713

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

NEW GEN HOLDINGS, INC.
Consolidated Statements of Cash Flows
For the Years ended December 31,
(Expressed in U.S. Dollars)

		2017		2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the year	**$**	**4,107,232**	$	4,765,699
Items not affecting cash:				
Amortization		**414,176**		193,732
Deferred tax liabilities		**1,179,644**		1,474,655
Non-cash working capital item changes:				
Accounts receivable		**(4,284,227)**		(4,951,428)
Inventory		**(31,758)**		(247,833)
Other receivables		**(79,482)**		(30,967)
Payables and accrued liabilities		**214,561**		247,126
Income tax payable		**348,890**		66,228
Net cash provided by operating activities		**1,869,036**		1,517,212
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property, plant and equipment		**(1,131,828)**		(1,398,883)
Net cash used in investing activities		**(1,131,828)**		(1,398,883)
CASH FLOWS FROM FINANCING ACTIVITIES				
Due from shareholders		**(3,077)**		145,619
Loans receivable		**(316,251)**		(512,151)
Notes payable		**(748,682)**		326,382
Net cash used in financing activities		**(1,068,010)**		(40,150)
Net change in cash during the year		**(330,802)**		78,179
Cash, beginning of the year		**156,561**		78,382
Cash (bank indebtedness), end of the year	**$**	**(174,241)**	$	156,561
Cash (paid) received for				
Interest	**$**	**105,475**	$	93,186
Taxes	**$**	**-**	$	76,761

During the year ended December 31, 2017, $323,885 (2016 - $356,898) in notes payable was used for the acquisition of property, plant and equipment.

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

1. NATURE OF OPERATIONS AND GOING CONCERN

The consolidated financial statements represent the consolidated accounts of New Gen Holdings, Inc. and its wholly-owned subsidiaries: Step 1 Consulting, LLC(incorporated in Delaware), New Gen Admin Services, LLC, New Gen Agricultural Services, LLC, X-Tane, LLC, New Gen Real Estate Services, LLC and Hydroponics Solutions, LLC (all incorporated in Arizona) (collectively, the "Company"). The Company provides management, advisory, cultivation, and dispensary services to non-for-profit entities in the medical marijuana field. The head office and principal address of the Company is located at 777 E Missouri Ave, Suite 200, Phoenix, Arizona 85014.

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 raise adequate financing. The Company intends to finance its future requirements through continued operations.

As at December 31, 2017, the Company had working capital of $8,090,272 (December 31, 2016 - $4,385,981) and retained earnings of $8,774,693 (December 31, 2016 - $4,667,461). 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 U.S. dollars, which is the functional currency of the Company.

2. BASIS OF PRESENTATION *(CONTINUED…)*

c) Basis of Consolidation

The consolidated financial statements include consolidated accounts of New Gen Holdings, Inc. and its wholly-owned subsidiaries Step 1 Consulting, LLC, New Gen Admin Services, LLC, New Gen Agricultural Services, LLC, X-Tane, LLC, New Gen Real Estate Services, 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 years ended December 31, 2017 were approved and authorized for issue by the Board of Directors on January _, 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.

Critical Judgements

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. The functional currency for the Company has been determined to be the U.S. dollar.

Key Sources of Estimation Uncertainty

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.

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 checks 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED…)*

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.

d) 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.

e) Earnings per Share

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

For diluted per share computations, assumptions are made regarding potential common shares outstanding during the period. The weighted average number of common shares is increased to include the number of additional common 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 common shares at their average market price during the period, thereby reducing the weighted average number of common shares outstanding. If these computations prove to be anti-dilutive, diluted loss per share is the same as basic loss per share.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED…)*

f) Financial Instruments

All financial instruments are initially recognized at fair value on the statement of financial position. The Company has classified each financial instrument into one of the following categories: (1) financial assets or liabilities at fair value through profit or loss ("FVTPL"), (2) loans and receivables, (3) financial assets available for sale, (4) financial assets held to maturity, and (5) other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in net earnings. Financial assets and liabilities classified as available for sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax.

Financial assets "held to maturity", "loans and receivables", and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method. 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
Due from shareholders	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	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…)*

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:

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

Professional services:
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.

Product sales:
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.

Equipment and property leasing:
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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED…)*

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) Foreign currency translation

Foreign currency transactions are translated into U.S. dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into U.S. dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into U.S. dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net loss. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net loss. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of such financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into U.S. dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into U.S. dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net loss or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED…)*

k) 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.

Amendments to IFRS 2 – "Share-based Payments". This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. The Company is in the process of determining the impact of the adoption of this standard on the financial statements, if any. Effective for annual periods beginning on or after January 1, 2018.

New standard IFRS 9 "Financial Instruments". This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for the classification and measurement of financial assets, additional changes relating to financial liabilities, a new general hedge accounting standard which will align hedge accounting more closely with risk management. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

New standard IFRS 15 "Revenue from Contracts with Customers". This new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

New standard IFRS 16 "Leases" This new standard replaces 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.

IFRIC 22, "Foreign Currency Transactions and Advance Consideration". This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The Company has considered the change and assessed that it will have no material impact on adoption. Effective for annual periods beginning on or after January 1, 2018.

Other accounting standards and amendments to existing accounting standards that have been issued and have future effective dates are not applicable or are not expected to have a significant impact on the Company's financial statements.

(Expressed in U.S. Dollars)

4. ACCOUNTS RECEIVABLES

	December 31, 2017	December 31, 2016
Total receivables	$ 23,494,520	$ 19,210,293
Allowance	(14,372,999)	(14,372,999)
	$ 9,121,521	$ 4,837,294

5. INVENTORY

Inventory consists of various types of low pressure liquid gas held in X-Tane, LLC. There were no adjustments to inventory during the years ended December 31, 2017 and 2016. The amount of inventory recognized as an expense during the year ended December 31, 2017 was $315,255 (2016 - $47,677).

6. OTHER RECEIVABLES

	December 31, 2017	December 31, 2016
Short-term loans receivable – interest free	$ 76,247	$ 26,247
Short-term loans receivable – 20% interest	30,000	-
Employee advances	4,202	4,720
	$ 110,449	$ 30,967

(Expressed in U.S. Dollars)

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Equipment and machinery	Leasehold improvements	Automobile	Total
Cost						
Balance at December 31, 2015	$ 104,521	$ 236,870	$ 177,973	$ 475,496	$ -	$ 994,860
Additions	114,913	303,371	723,870	613,627	-	1,755,781
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
Accumulated Amortization						
Balance at December 31, 2015	-	5,793	35,329	87,897	-	129,019
Amortization	-	11,593	82,761	99,378	-	193,732
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
Net Book Value						
December 31, 2016	$ 219,434	$ 522,855	$ 783,753	$ 901,848	$ -	$ 2,427,890
December 31, 2017	$ 340,779	$ 1,030,358	$ 961,356	$ 1,073,376	$ 63,558	$ 3,469,427

8. PAYABLES AND ACCRUED LIABILITIES

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

	December 31, 2017	December 31, 2016
Trade payables	**$ 163,165**	$ 148,352
Credit card payable	**314,242**	112,337
Interest payable	**9,361**	87,987
Sales tax payable	**2,276**	289
Insurance payable	**9,482**	-
Accrued liabilities	**65,000**	-
	$ 563,526	$ 348,965

(Expressed in U.S. Dollars)

9. NOTES PAYABLE

Current notes payable are made up of the following:

	December 31, 2017	December 31, 2016
Loan from related parties (Note 10)	**$ 16,000**	$ 16,000
Loans from non-related parties at 12% interest per annum	**182,250**	182,250
Loan from non-related parties at 25% interest	**-**	200,000
	$ 198,250	$ 398,250

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

	December 31, 2017	December 31, 2016
Maturing on February 1, 2019 with an interest rate of 12% per annum.	**$ 272,000**	$ 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**	100,000
Maturing in March 2020 with an interest rate of 7.6% per annum	**43,885**	-
Maturing on September 20, 2022 with an interest rate of 13% per annum	**11,427**	-
Maturing in 2024, with an interest rate of 13% per annum, from related parties. (Note 10).	**184,812**	621,054
Maturing in 2026, with an interest rate of 13% per annum, from related parties. (Note 10).	**91,965**	215,832
	$ 984,089	$ 1,208,886

(Expressed in U.S. Dollars)

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, Chief Financial Officer.

Remuneration attributed to key management personnel for the years ended December 31, 2017 and 2016 is summarized as follows:

		December 31, 2017		**December 31, 2016**
Consulting fees – included in professional and consulting fees	$	37,500	$	15,300
Salaries, wages and commissions – included in operating expenses		12,478		882
Salaries and wages– included in cost of sales		237,083		1,676
	$	287,061	$	17,858

Other related parties

Other related parties include close family members of the Company's CEO, sole shareholder and its sole director.

Remuneration attributed to other related parties for the years ended December 31, 2017 and 2016 is summarized as follows:

		December 31, 2017		**December 31, 2016**
Salaries and wages – included cost of sales	$	139,650	$	-
Salaries, wages and commissions – included in operating expenses		2,297		-
	$	141,947	$	-

(Expressed in U.S. Dollars)

10. RELATED PARTY TRANSACTIONS *(CONTINUED…)*

Balances with related parties:

Due from related parties:

		December 31, 2017		December 31, 2016
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**		-
	$	**853,402**	$	537,151

Other amounts due to and from related parties as at December 31, 2017 and 2016 included the following:

- Included in accounts receivable as at December 31, 2017 is $3,267 (2016 - $Nil) owing from a company controlled by the CEO. This amount is non-interest bearing.
- The amount due from the sole shareholder of the Company as at December 31, 2017 is $6,607 (2016 - $3,530) and is non-interest bearing.
- Included in payables and accrued liabilities as at December 31, 2017 is $6,761 (2016 - $81,202) owing to the CEO, companies controlled by the CEO, and the sole director of the Company. The majority of this amount is made up of interest owing on notes payable.
- Included in short-term loans payable as at December 31, 2017 is $16,000 (2016 - $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, 2017 is $276,667 (2016: $836,886) due to the sole director of the Company, 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:

- 2,000 Class “A” voting common shares with a par value of $0.01.

All of the issued and outstanding common shares are held by a company controlled by the CEO of the Company.

There were no capital transactions during the years ended December 31, 2017 and 2016.

As at December 31, 2017 and 2016, the Company has no outstanding options or warrants.

Subsequent to year end, on November 20, 2018, the Company changed its authorized number of shares to the following:

- 100,000,000 Class A Common shares with a par value of $0.01, and
- 100,000,000 Class B Common shares with a par value of $0.01.

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, due from shareholder, other receivables, payables, and current portion of notes payable, approximate 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 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, 2017 and 2016, the Company was dependent on one major customer from its consulting business segment (Note 15). The majority of the Company's accounts receivable are from this customer. The Company has taken an allowance for all receivables earned prior to 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, 2017, it is not exposed to significant credit risk from this customer, as the majority of the outstanding accounts receivables were received by the Company subsequent to year ended December 31, 2017. The Company has no investments in asset-backed commercial paper.

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.

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

The Company invoices its major customer on credit terms of net 30 days. The aging of the Company's receivables as at December 31, 2017 is as follows:

Credit risk *(continued…)*

	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, 2017, the Company accounts receivable of $9,121,521 to settle its bank indebtedness, accounts payable and short-term notes payable of $936,017. Management believes the Company has sufficient funds to support ongoing operating expenditures and meet its liabilities as they fall due.

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, 2017, the Company does not have any financial assets denominated in other currencies.

(Expressed in U.S. Dollars)

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
2018	$	157,316
2019	$	159,912
2020	$	164,176
2021	$	166,308
2022	$	166,308

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.

Segmented information over these two operating segments is as follows:

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)

15. SEGMENT INFORMATION *(CONTINUED…)*

As at, and for the year ended December 31, 2016:

		Services and products relating to the medical marijuana field		Liquid gas sales		Total
Sales	$	12,289,901	$	46,382	$	12,336,283
Cost of Sales		(4,115,141)		(47,677)		(4,162,818)
Operating expenses		(1,721,654)		(68,468)		(1,790,122)
Income tax expense		(1,617,644)		-		(1,617,644)
Net income	$	4,835,462	$	(69,763)	$	4,765,699
Assets	$	7,964,102	$	277,124	$	8,241,226
Liabilities	$	3,573,456	$	289	$	3,573,745

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, 2017		December 31, 2016
Net income for the year before taxes	**$**	**5,635,766**	$	6,383,343
Federal statutory tax rate		**34%**		34%
State statutory tax rate		**4.9%**		4.9%
Expected income tax expense at statutory rate	**$**	**2,098,421**	$	2,376,774
Permanent differences		**-**		(37,370)
Change in tax rates		**(569,887)**		(721,760)
Income tax expense	**$**	**1,528,534**	$	1,617,644
Income tax expense consists of:				
Current income tax expense		**348,890**		142,989
Deferred tax expense		**1,179,644**		1,474,655
	$	**1,528,534**	$	1,617,644

(Expressed in U.S. Dollars)

16. INCOME TAXES *(CONTINUED…)*

Significant components of the Company's future tax liabilities, after applying enacted corporate income tax rates, are as follows:

		December 31, 2017		December 31, 2016
Deferred tax liabilities	**$**	**2,654,299**	$	1,474,655

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

17. SUBSEQUENT EVENTS

Subsequent to year end, on November 20, 2018, the Company changed its authorized number of shares to the following:

- 100,000,000 Class A Common shares with a par value of $0.01, and
- 100,000,000 Class B Common shares with a par value of $0.01.

On December 21, 2018, the Company re-organized its share structure, by cancelling the 2,000 Class A Common shares outstanding, and issuing in their place 2,596,300 Class A Common Shares, and 625,287 Class B Common shares. Each Class B Common share is convertible into 100 Class A Common share.

The Company completed a private placement of 4,799,161 shares valued at CDN$1.00 per share for total proceeds of $3,551,370.

On December 31, 2018, the Company completed a share exchange with Calyx Growth Corporation (formerly Fabula Exploration Inc.) ("Calyx") whereby Calyx acquired 100% of the issued and outstanding Class A and Class B common shares of the Company for an aggregate of 7,395,461 common shares and 625,287 of Class A common shares of Calyx. This transaction is considered a Reverse Take Over, where the shareholders of the Company have control over the resulting entity