

Vapen MJ Ventures Corporation
Condensed Consolidated Interim Financial Statements
March 31, 2019
(Expressed in U.S. Dollars)

Vapen MJ Ventures Corporation

Table of contents

Condensed Consolidated Interim Statements of Financial Position	3
Condensed Consolidated Interim Statements of Income and Comprehensive Income	4
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity	5
Condensed Consolidated Interim Statements of Cash Flows	6
Notes to Condensed Consolidated Interim Financial Statements	7 - 20

VAPEN MJ VENTURES CORPORATION
Condensed Consolidated Interim Statements of Financial Position
(Expressed in U.S. Dollars)
(Unaudited)

	As at March 31, 2019	As at December 31, 2018
ASSETS		
Current assets		
Cash	\$ 2,147,391	\$ 3,393,567
Accounts receivable (Note 4)	15,764,444	13,206,458
Subscriptions receivable	-	233,250
Inventory (Note 5)	101,495	73,973
Prepaid deposits and other receivables (Note 6)	601,373	263,507
	<u>18,614,703</u>	<u>17,170,755</u>
Due from related parties (Note 11)	2,181,785	2,181,785
Right-of-use asset (Note 10)	553,823	-
Property, plant and equipment (Note 7)	4,284,796	4,081,645
	<u>\$ 25,635,107</u>	<u>\$ 23,434,185</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Payables and accrued liabilities (Notes 8, 11)	\$ 1,025,057	\$ 899,707
Notes payable – current portion (Notes 9, 11)	909,250	1,098,695
Income tax payable	144,526	649,379
Lease liability – current portion (Note 10)	77,566	-
	<u>2,156,399</u>	<u>2,647,781</u>
Deferred tax liabilities	4,127,513	3,624,095
Lease liability – non-current portion (Note 10)	721,004	-
Notes payable – non-current portion (Notes 9, 11)	136,383	161,734
	<u>7,141,299</u>	<u>6,433,610</u>
Shareholders' equity		
Subordinate and multiple voting shares (Note 12)	4,200,351	4,150,351
Subordinate voting shares – subscription receivable	-	50,000
Special warrants	183,250	-
Special warrants – subscriptions receivable	-	183,250
Stock option reserve (Note 12)	67,393	-
Warrant reserve	89,628	89,628
Accumulated other comprehensive income	9,215	4,091
Retained earnings	13,943,971	12,523,255
	<u>18,493,808</u>	<u>17,000,575</u>
	<u>\$ 25,635,107</u>	<u>\$ 23,434,185</u>

Nature of operations and going concern (Note 1)
Subsequent events (Note 16)

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

“Jason Nguyen”, Director

“Robert Brilon”, Director

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

VAPEN MJ VENTURES CORPORATION

Condensed Consolidated Interim Statements of Income and Comprehensive Income

(Expressed in U.S. Dollars)

(Unaudited)

	Three months ended March 31, 2019	Three months ended March 31, 2018
REVENUES		
Management fees	\$ 1,200,000	\$ 1,200,000
Professional services	1,479,618	1,907,500
Product sales	3,228,888	904,547
Equipment leasing	351,422	227,222
Property leasing	240,000	160,000
	<u>6,499,928</u>	<u>4,399,269</u>
COST OF SALES		
Cost of goods sold	1,725,665	1,029,512
Salaries, wages, and contractors (Note 11)	1,403,570	957,993
Property and equipment leasing, utilities, and property taxes	20,914	38,032
Amortization (Notes 7,10)	178,374	106,635
	<u>(3,328,523)</u>	<u>(2,132,172)</u>
	3,171,405	2,267,097
OPERATING EXPENSES		
Advertising and promotion	192,460	272,330
Amortization (Notes 7,10)	34,232	21,112
Bank charges and interest	19,704	5,236
Insurance	26,184	12,821
Office and general	64,597	38,263
Professional and consulting fees	196,670	79,411
Rent, property taxes, and utilities	21,776	31,991
Repairs and maintenance	81,760	105,511
Research and development	36,562	53,443
Share-based payments (Notes 11, 12)	67,393	-
Salaries, wages, and commissions (Note 11)	120,671	89,688
Travel, training, and meals and entertainment	121,670	136,883
	<u>(983,679)</u>	<u>(846,689)</u>
Net income before tax	<u>2,187,726</u>	<u>1,420,408</u>
Income tax expense	(526,309)	(350,410)
Net income after taxes	<u>\$ 1,661,417</u>	<u>\$ 1,069,998</u>
Other comprehensive income	\$ 5,124	\$ -
Total comprehensive income	<u>\$ 1,666,541</u>	<u>\$ 1,069,998</u>
Basic and diluted income per common share	<u>\$ 0.02</u>	<u>\$ 535</u>
Weighted average number of common shares outstanding	<u>75,054,661</u>	<u>2,000</u>

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

VAPEN MJ VENTURES CORPORATION

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Expressed in U.S. Dollars)

(Unaudited)

	Share Capital						Subscriptions receivable – special warrants	Subscriptions receivable – voting shares	Stock option reserve	Warrant reserve	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
	Number of subordinate voting shares	Amount – subordinate voting shares	Number of multiple voting shares	Amount - multiple voting shares	Number of special warrants	Special warrants							
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
Payment of special warrants	-	-	-	-	-	183,250	(183,250)	-	-	-	-	-	-
Private placement	-	50,000	-	-	-	-	-	(50,000)	-	-	-	-	-
Share-based compensation	-	-	-	-	-	-	-	-	67,393	-	-	-	67,393
Cumulative catch-up adjustment of recognition of right-of-use assets	-	-	-	-	-	-	-	-	-	-	-	(240,701)	(240,701)
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	5,124	-	5,124
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	1,661,417	1,661,417
Balance at March 31, 2019	11,525,961	\$ 4,200,332	625,287	\$ 19	1,000,000	\$ 183,250	\$ -	\$ -	\$ 67,393	\$ 89,628	\$ 9,215	\$ 13,943,971	\$ 18,493,808

	Share Capital				Number of special warrants	Subscriptions receivable – special warrants	Subscriptions receivable – voting shares	Warrant reserve	Accumulated other comprehensive income	Retained earnings (deficit)	Total shareholders' equity
	Number of subordinate voting shares	Amount – subordinate voting shares	Number of multiple voting shares	Amount - multiple voting shares							
Balance at December 31, 2017	2,000	\$ 20	-	\$ -	-	\$ -	\$ -	\$ -	\$ -	\$ 8,774,693	\$ 8,774,713
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	-
Net income for the period	-	-	-	-	-	-	-	-	-	\$ 1,069,998	\$ 1,069,998
Balance at March 31, 2018	2,000	\$ 20	-	\$ -	-	\$ -	\$ -	\$ -	\$ -	\$ 9,844,691	\$ 9,844,711

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

VAPEN MJ VENTURES CORPORATION
Condensed Consolidated Interim Statements of Cash Flows
(Expressed in U.S. Dollars)
(Unaudited)

	Three months ended March 31, 2019	Three months ended March 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the three months	\$ 1,661,417	\$ 1,069,998
Items not affecting cash:		
Amortization	212,606	127,747
Deferred tax liabilities	503,418	306,614
Share based compensation	67,393	-
Foreign translation adjustment	5,124	(5,087)
Non-cash working capital item changes:		
Accounts receivable	(2,557,986)	(61)
Inventory	(27,522)	68,775
Other receivables	(337,866)	(555,289)
Payables and accrued liabilities	125,350	127,147
Income tax payable	(504,853)	49,796
Lease liability	(23,298)	-
Net cash provided by (used in) operating activities	<u>(876,217)</u>	<u>1,189,639</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(388,413)	(501,487)
Net cash used in investing activities	<u>(388,413)</u>	<u>(501,487)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Due from shareholders	-	(186,404)
Loans receivable	-	(570,928)
Notes payable	(214,796)	531,659
Subscriptions received	233,250	-
Net cash provided by (used in) financing activities	<u>18,454</u>	<u>(225,673)</u>
Net change in cash during the three months	(1,246,176)	462,479
Cash (bank indebtedness), beginning of the period	3,393,567	(174,241)
Cash, end of the period	\$ 2,147,391	\$ 288,238
Cash paid for		
Interest	\$ 28,438	\$ 7,848
Taxes	\$ 527,744	\$ -

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

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2019

(Expressed in U.S. Dollars)

(Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

The condensed consolidated financial statements represent the consolidated accounts of Vapen MJ Ventures Corporation, 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 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) (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 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.

These condensed consolidated interim 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 March 31, 2019, the Company had working capital of \$16,458,304 and retained earnings of \$13,943,971. Management has assessed that this working capital is sufficient for the Company to continue as a going concern beyond one year.

These condensed consolidated interim 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 unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34 ‘Interim Financial Reporting’ using accounting policies consistent with the IFRS issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). These condensed consolidated interim financial statements follow the same accounting policies and methods of applications as the most recent annual consolidated financial statements of the Company. These condensed consolidated interim financial statements do not contain all of the information required for full annual financial statements. Accordingly, these unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s December 31, 2018 annual consolidated financial statements.

b) Basis of Preparation

These condensed consolidated interim 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 condensed consolidated interim financial statements, unless otherwise specified, are presented in U.S. dollars.

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2019

(Expressed in U.S. Dollars)

(Unaudited)

2. BASIS OF PRESENTATION (*CONTINUED...*)

c) **Basis of Consolidation**

The condensed consolidated financial statements include consolidated accounts of Vapen MJ Ventures Corporation, 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 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 condensed consolidated interim financial statements of the Company for the three months ended March 31, 2019 were approved and authorized for issue by the Board of Directors on May 30, 2019.

e) **Significant Accounting Judgements and Estimates**

The preparation of the Company's condensed consolidated interim 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 condensed consolidated interim 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.

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.

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2019

(Expressed in U.S. Dollars)

(Unaudited)

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

These condensed consolidated interim financial statements follow the same accounting policies and methods of applications as the most recent annual consolidated financial statements of the Company. These condensed consolidated interim financial statements do not contain all of the information required for full annual financial statements. Accordingly, these unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's December 31, 2018 annual consolidated financial statements.

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2019

(Expressed in U.S. Dollars)

(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED...)

Standards newly adopted

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 Company choose to apply the effect of changes retrospectively with the cumulative effect of initially applying the standards recognized at the date of initial application which is January 1, 2019 (Note 10).

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.

4. ACCOUNTS RECEIVABLES

The Company’s accounts receivables consist of the following:

	March 31, 2019		December 31, 2018	
Total receivables	\$	15,764,444	\$	27,579,457
Allowance		-		(14,372,999)
	\$	15,764,444	\$	13,206,458

5. INVENTORY

Inventory consists of various types of low-pressure liquid gas held in X-Tane, LLC. The amount of inventory recognized as an expense during the three months ended March 31, 2019 was \$70,939 (March 31, 2018 - \$188,564).

6. PREPAID DEPOSITS AND OTHER RECEIVABLES

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

	March 31, 2019		December 31, 2018	
Vendor deposit	\$	594,817	\$	255,914
Employee advances		6,556		7,593
	\$	601,373	\$	263,507

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2019

(Expressed in U.S. Dollars)

(Unaudited)

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Equipment and machinery	Leasehold improvements	Automobile	Total
Cost						
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
Additions	-	93,482	282,106	-	12,825	388,413
Balance at March 31, 2019	\$ 340,779	\$ 1,304,678	\$ 1,733,283	\$ 2,300,453	\$ 94,610	\$ 5,773,803
Accumulated Amortization						
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	708,371	15,114	1,303,745
Amortization	-	20,541	54,769	105,415	4,537	185,262
Balance at March 31, 2019	\$ -	\$ 145,160	\$ 510,410	\$ 813,786	\$ 19,651	\$ 1,489,007
Net Book Value						
December 31, 2018	\$ 340,779	\$ 1,086,577	\$ 995,536	\$ 1,592,082	\$ 66,671	\$ 4,081,645
March 31, 2019	\$ 340,779	\$ 1,159,518	\$ 1,222,873	\$ 1,486,667	\$ 74,959	\$ 4,284,796

Construction in progress of \$67,080 is included in building and will begin to be amortized at the completion of construction, when the completed assets are put into use by the Company.

Of the total amortization expense during the three months ended March 31, 2019 - \$157,570 (2018 - \$106,635) was included in the cost of sales and \$27,692 (2018 - \$21, 112)) was included in operating expense.

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2019

(Expressed in U.S. Dollars)

(Unaudited)

8. PAYABLES AND ACCRUED LIABILITIES

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

	March 31, 2019	December 31, 2018
Trade payables (Note 11)	\$ 231,349	\$ 214,998
Credit card payable	165,721	203,604
Interest payable	3,207	2,931
Sales tax payable	3,859	3,859
Insurance payable	2,182	9,251
Payroll liabilities	24,565	5,406
Finder fee payable	-	18,325
Accrued liabilities (Note 11)	594,174	441,333
	\$ 1,025,057	\$ 899,707

9. NOTES PAYABLE

Current notes payable are made up of the following:

	March 31, 2019	December 31, 2018
Loan from related parties with an interest rate of 13% per annum (Note 11)	\$ -	\$ 14,445
Maturing on October 1, 2019 with an interest rate of 12% per annum.	182,250	182,250
Maturing on January 5, 2020 with an interest rate of 15% per annum.	175,000	350,000
Maturing on February 1, 2020 with an interest rate of 12% per annum.	272,000	272,000
Maturing on March 1, 2020 with an interest rate of 12% per annum.	280,000	280,000
	\$ 909,250	\$ 1,098,695

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

	March 31, 2019	December 31, 2018
Maturing in December 2021 with an interest rate of 3.65% per annum	\$ 30,852	\$ 33,506
Maturing on September 20, 2022 with an interest rate of 13% per annum, from related parties (Note 11)	3,171	3,171
Maturing on March 31, 2023 with an interest rate of 13% per annum, from related parties (Note 11)	31,564	54,434
Maturing in 2024, with an interest rate of 13% per annum, from related parties. (Note 11).	-	776
Maturing in 2026, with an interest rate of 13% per annum, from related parties. (Note 11).	70,796	69,847
	\$ 136,383	\$ 161,734

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2019

(Expressed in U.S. Dollars)

(Unaudited)

10. LEASES**Right-of-use assets**

The Company has 2 lease agreements for its leased premises, with the term of the leases ending on April 30, 2024.

	Building #1	Building #2	Total
Cost			
Balance at December 31, 2018 and March 31, 2019	\$ 776,698	\$ 207,100	\$ 983,798
Accumulated Amortization			
Balance at December 31, 2018	\$ 332,871	\$ 69,760	\$ 402,631
Amortization	20,804	6,540	27,344
Balance at March 31, 2019	\$ 353,675	\$ 76,300	\$ 429,975
Net Book Value			
December 31, 2018	\$ 443,827	\$ 137,340	\$ 581,167
March 31, 2019	\$ 423,023	\$ 130,800	\$ 553,823

Of the total amortization expense during the three months ended March 31, 2019 - \$20,804 was included in the cost of sales and \$6,540 was included in operating expense.

Lease on transition

The adjustment to record the cumulative effect of the initial application of the new accounting policy on January 1, 2019 was:

	Total
Right-of-use assets	\$ 983,798
Accumulated depreciation	(402,631)
Lease liability	(821,868)
Adjustment to retained earnings	\$ 240,701

The fair value of the lease liabilities was estimated using level 2 inputs on the date of the lease agreements using the Company's incremental borrowing rate of 14% and a weighted average lease term of 8.58 years.

Lease Liability

	March 31, 2019
Lease liability – current portion	\$ 77,566
Lease liability – non-current portion	721,004
Total	\$ 798,570

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2019

(Expressed in U.S. Dollars)

(Unaudited)

10. LEASES (CONTINUED...)

During the three months ended March 31, 2019, income of \$180,000 from subleasing right-of-use assets was included in property leasing.

Interest expense on lease liabilities during the three months ended March 31, 2019 was \$25,003. Of the total, \$19,225 was included in the cost of sales and \$5,778 was included in operating expense.

11. 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 three months ended March 31, 2019 and 2018 is summarized as follows:

	March 31, 2019	March 31, 2018
Share-based payments (Note 12)	\$ 25,809	\$ -
Salaries, wages and commissions included in operating expenses	7,625	7,096
Salaries and wages included in cost of sales	144,868	134,827
	\$ 178,302	\$ 141,923

Other related parties

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

Remuneration attributed to other related parties for the three months ended March 31, 2019 and 2018 is summarized as follows:

	March 31, 2019	March 31, 2018
Salaries and wages included cost of sales	\$ 32,562	\$ 4,560
Salaries, wages and commissions included in operating expenses	1,714	240
	\$ 34,276	\$ 4,800

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2019

(Expressed in U.S. Dollars)

(Unaudited)

11. RELATED PARTY TRANSACTIONS (CONTINUED...)

Balances with related parties:

Due from related parties:

	March 31, 2019	December 31, 2018
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	1,328,383
	\$ 2,181,785	\$ 2,181,785

Other amounts due from related parties as at March 31, 2019 and December 31, 2018 included the following:

- Included in payables and accrued liabilities as at March 31, 2019 is \$332,207 (December 31, 2018 - \$290,167) 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 accrued salary. (Note 8).
- Included in short-term loans payable as at March 31, 2019 is \$nil (December 31, 2018 - \$14,445) 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 March 31, 2019 is \$105,531 (December 31, 2018: \$128,228) 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).

12. SHARE CAPITAL

The Company is authorized to issue the following shares:

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

During the three months period ended March 31, 2019:

- The Company received \$50,000 for subordinate voting shares that were issued during the year ended December 31, 2018.
- The Company received \$183,250 for special warrants that were issued during the year ended December 31, 2018.

Special warrants

As of March 31, 2019, the Company has 1,000,000 special warrants outstanding. These warrants are convertible into 1,000,000 units, with each unit consisting of one (1) subordinated voting share and one-half of one (½) subordinated voting share purchase warrant. Each whole purchase warrant entitles 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. These special warrants were converted subsequent to the period end (Note 15).

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2019

(Expressed in U.S. Dollars)

(Unaudited)

12. SHARE CAPITAL (CONTINUED...)**Share purchase warrants**

The following is a summary of warrant activities during the three months ended March 31, 2019:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2018 and March 31, 2019	4,500,000	\$ 0.44

As at March 31, 2019, the Company had the following share purchase warrants outstanding:

Outstanding	Exercise Price	Remaining Life (Years)	Expiry Date
2,500,000	CAD\$0.25	0.72	December 17, 2019
2,000,000	CAD\$1.00	0.75	December 31, 2019
4,500,000	\$0.44	0.73	

Stock options

As at March 31, 2019, the Company had a stock-based compensation plan. The plan provides for the granting of awards in the form of incentive and nonqualified stock options, stock appreciation rights, shares of restricted common stock, bonus stock in lieu of obligations, or other stock-based awards to employees, directors and independent contractors who provide valuable service to the Company. Options are granted at the market price of the common stock on the date the grant and have a maximum ten-year term. The stock options for directors typically vest over a 24-month period from the date of grant. The stock options for employees and independent contractors typically vest over a 36-month period from the date of grant.

The following is the summary of the stock option activities during the three months ended March 31, 2019:

	Option Shares	Weighted Average Exercise Price CAD\$
Outstanding, December 31, 2018	-	-
Granted	909,000	\$1.00
Cancelled	10,000	\$1.00
Outstanding, March 31, 2019	899,000	\$1.00

As at March 31, 2019 the Company had the following stock options outstanding and exercisable:

Outstanding	Exercisable	Exercise Price	Remaining Life (Years)	Expiry Date
899,000	100,000	CAD\$1.00	9.8	January 3, 2029

During the period ended March 31, 2019, the Company issued 909,000 stock options with a fair value of \$170,073 or \$0.19 per option. During the period ended March 31, 2019, \$67,393 was recorded as a share-based compensation expense based on the number of options vested during the period.

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2019

(Expressed in U.S. Dollars)

(Unaudited)

The fair value of the option granted during the period was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three months ended March 31, 2019	Three months ended March 31, 2018
Weighted average expected stock price volatility	150%	n/a
Weighted average expected option life (years)	10	n/a
Risk-free interest rate	2.05%	n/a
Rate of expected dividends	0%	n/a

13. 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 period.

14. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The fair value of the Company's accounts receivable, prepaid deposits and 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 carrying amount of the amount due from related parties approximates its fair value. The Company's cash is measured at fair value under the fair value hierarchy based on Level 1 quoted prices in active markets for identical assets or liabilities. The fair value of the lease liability was determined using the level 2 inputs as discussed in Note 10.

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

Credit risk

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 March 31, 2019, the Company was dependent on one major customer from its consulting business segment (Note 15). The majority (\$15,290,614) of the Company's accounts receivable are from this customer.

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2019

(Expressed in U.S. Dollars)

(Unaudited)

14. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (*CONTINUED...*)

The Company is of the opinion that it is not exposed to significant credit risk from this customer as at March 31, 2019 as it continues to collect accounts receivable routinely. 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.

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 13. As at March 31, 2019, the Company had cash and accounts receivable of \$17,911,835 to settle its current liabilities of \$2,156,399. 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 March 31, 2019, the Company had \$189,264 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 \$19,000 in other comprehensive income.

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2019

(Expressed in U.S. Dollars)

(Unaudited)

15. SEGMENT INFORMATION

The Company operates in the United 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.

Segment information over these two operating segments is as follows:

As at, and for the three months ended March 31, 2019:

	Services and products relating to the medical marijuana field		Liquid gas sales		Total
Sales	\$ 6,459,284	\$	40,644	\$	6,499,928
Cost of Sales	(3,257,584)		(70,939)		(3,328,523)
Operating expenses	(978,524)		(5,155)		(983,679)
Income tax expense	(526,309)		-		(526,309)
Net income	\$ 1,696,867	\$	(35,450)	\$	1,661,417
Assets	\$ 25,382,747	\$	252,360	\$	25,635,107
Liabilities	\$ 7,100,696	\$	40,603	\$	7,141,299

As at December 31, 2018:

	Services and products relating to the medical marijuana field		Liquid gas sales		Total
Assets	\$ 23,066,756	\$	367,429	\$	23,434,185
Liabilities	\$ 6,414,052	\$	19,558	\$	6,433,610

For the three months ended March 31, 2018:

	Services and products relating to the medical marijuana field		Liquid gas sales		Total
Sales	\$ 4,089,375	\$	309,894	\$	4,399,269
Cost of Sales	(1,953,246)		(178,926)		(2,132,172)
Operating expenses	(817,339)		(29,350)		(846,689)
Income tax expense	(350,410)		-		(350,410)
Net income	\$ 968,380	\$	101,618	\$	1,069,998

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2019

(Expressed in U.S. Dollars)

(Unaudited)

16. SUBSEQUENT EVENTS

On April 25, 2019, 1,000,000 Special Warrants were automatically converted into 1,000,000 units. Each unit consisting of one (1) subordinated voting share and one-half of one ($\frac{1}{2}$) 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.

On May 3, 2019, the Company's prospectus dated April 30, 2019 was receipted by the British Columbia Securities Commission.

On May 13, 2019, the Company's shares were listed on the Canadian Securities Exchange with the trading symbol, VAPN.

On May 13, 2019, the Company announced the granting of 200,000 stock options to certain employees and consultants. The options are exercisable at CDN\$1.00 per share and expire on May 13, 2029.

On May 13, 2019, the Company announced that it had reserved a total of 1,000,000 special warrants exercisable at a price of CDN\$1.00 per share. The warrants will be offered to consultants and advisors to the Company.

On May 22, 2019, the Company closed a private placement of 6,148,665 common shares at a price of CAD\$1.00 per share for a total of CAD\$6,148,665.