Unaudited Interim Financial Statements

Bhang Corporation

For the Three and Six Month Periods Ended June 30, 2019 and 2018
(Stated in United States Dollars)

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NOTICE TO READER

The accompanying unaudited condensed interim financial statements have been prepared by the Company's management and the Company's independent auditors have not performed a review of these interim financial statements.

Bhang Corporation

Unaudited Interim Statements of Financial Position
(Stated in United States Dollars)

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Assets		
Current Assets		
Cash	$ 322,280	$ 490,970
Accounts receivable, net (note 20(c))	674,227	655,164
Inventory (note 6)	1,059,964	55,950
Marketable securities (note 8)	877,232	590,637
Deferred transaction costs	2,678,361	2,119,103
Prepaid expenses	629,193	1,683,016
Contract asset	142,922	101,234
Promissory notes receivable (note 10)	330,674	-
	6,714,853	5,696,074
Property and equipment (note 9)	401,258	182,176
Right-of-use assets (note 11)	353,571	-
Investment in Joint Venture (note 7)	156,477	158,647
Deposit	15,515	18,515
	$ 7,641,674	$ 6,055,412
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 2,094,299	$ 594,016
Deferred revenue	150,000	184,715
Short-term advances (note 15)	225,000	-
Current portion of lease liabilities (note 14)	73,030	-
Promissory notes payable (note 16)	858,470	-
	3,400,799	778,731
Lease Liabilities (note 14)	289,902	-
	3,690,701	778,731
Shareholders' Deficit		
Share capital (note 17)	8,054,130	7,704,130
Treasury shares (note 17)	(325,000)	(325,000)
Share subscriptions payable (note 17(x))	1,000,000	1,000,000
Accumulated deficit	(4,778,157)	(3,102,449)
	3,950,973	5,276,681
	$ 7,641,674	$ 6,055,412

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

Approved on behalf of the Board

Signed "Scott Van Rixel ", Director

Signed "Stephen Gledhill ", Director

Bhang Corporation

Unaudited Interim Statements of Operations
For the three and six month periods ended June 30
(Stated in United States Dollars)

	Three Months Ended		Six Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Revenue				
Product sales (note 19(ii))	$ 937,118	$ 29,665	$ 2,322,022	$ 173,511
Licensing (note 19(ii and iii))	216,344	214,546	428,688	359,022
Other (note 19(ii))	1,590	13,628	5,706	27,453
	1,155,052	257,839	2,756,416	559,986
Cost of Sales	1,167,960	38,904	2,340,008	122,050
Gross Profit	(12,908)	218,935	416,408	437,936
Expenses				
Wages and salaries (note 19(iv))	480,329	86,925	772,380	187,999
Sales and marketing	636,754	81,898	921,080	145,303
Professional fees	236,692	84,393	338,105	125,653
General and administrative (note 22)	152,572	104,854	341,655	181,649
Share-based compensation	-	72,957	-	145,913
Bad debts (recoveries)	-	-	(49,495)	30,825
	1,506,347	431,027	2,323,725	817,342
Loss before the Undernoted	(1,519,255)	(212,092)	(1,907,317)	(379,406)
Interest Expense (note 19(i))	(28,650)	(12,500)	(37,539)	(25,000)
Interest Expense on Lease Liabilities (note 14))	(7,467)	-	(15,277)	-
Unrealized Gain (Loss) on Marketable Securities (note 8)	(249,244)	(35,679)	286,595	(35,679)
Share of Loss of Joint Venture (note 7)	-	-	(2,170)	(17,100)
Net Loss	$ (1,804,616)	$ (260,271)	$ (1,675,708)	$ (457,185)
Loss per Share - basic and diluted	$ (12.87)	$ (2.33)	$ (11.98)	$ (4.21)
Weighted Average Number of Common Shares Outstanding - basic and diluted	140,272	111,646	139,860	108,703

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

Bhang Corporation

Unaudited Interim Statements of Changes in Shareholders' Deficit
Expressed in United States Dollars

	Share Capital Shares	Share Capital Amount	Treasury Shares	Contributed Surplus	Share Subscriptions Payable	Accumulated Deficit	Total
Balance - January 1, 2018	101,266	$ 664,206	$ (325,000)	$ 777,461	$ -	$ (1,563,841)	$ (447,174)
Proceeds from issuance of common shares (note 17(iv))	2,570	500,000	-	-	-	-	500,000
Issued for services rendered (notes 17(v), (vi) and (ix))	10,098	1,968,946	-	-	-	-	1,968,946
Share subscriptions received (note 17(x))	-	-	-	-	1,000,000	-	1,000,000
Issued pursuant to conversion of note payable							
Issuance costs (note 17(ix))	-	(90,000)	-	-	-	-	(90,000)
Net loss	-	-	-	-	-	(457,185)	(457,185)
Balance - June 30, 2018	113,934	$ 3,043,152	$ (325,000)	$ 777,461	$ 1,000,000	$ (2,021,026)	$ 2,474,587
Balance - January 1, 2019	139,444	$ 7,704,130	$ (325,000)	$ -	$ 1,000,000	$ (3,102,449)	$ 5,276,681
Share subscriptions received (note 17(xi))	1,422	350,000	-	-	-	-	350,000
Net loss	-	-	-	-	-	(1,675,708)	(1,675,708)
Balance - June 30, 2019	140,866	$ 8,054,130	$ (325,000)	$ -	$ 1,000,000	$ (4,778,157)	$ 3,950,973

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

Bhang Corporation

Unaudited Interim Cash Flow Statements
For the six month periods ended June 30
Expressed in United States Dollars

	2019	2018
Cash provided by (used in)		
Operating Activities		
Net income (loss)	$ (1,675,708)	$ (457,185)
Adjustment for non-operating items included in net income (loss):		
Interest income	(5,674)	-
Interest expense	37,539	25,000
Interest expense on lease liabilities	15,277	-
Adjustments for non-cash items in net income (loss):		
Amortization of property and equipment	24,243	3,877
Amortization of right of use assets	42,349	-
Bad debt expense (recovery)	(49,495)	30,825
Share of loss of joint venture	2,170	17,100
Unrealized loss (gain) on marketable investments	(286,595)	35,679
Loss on foreign exchange	12,197	-
Share-based compensation	-	145,913
	(1,883,697)	(198,791)
Changes in non-cash balances related to operations (note 23)	1,244,389	(901,917)
Net cash used in operating activities	(639,308)	(1,100,708)
Investing Activities		
Investment in Joint Venture	-	(14,165)
Deferred transaction costs	(334,065)	(43,162)
Promissory notes receivable	(325,000)	-
Purchase of property and equipment	(243,325)	(63,247)
Repayment of lease liabilities	(48,265)	-
Net cash used in investing activities	(950,655)	(120,574)
Financing Activities		
Short-term debt	225,000	-
Proceeds from issuance of common shares	350,000	500,000
Cash held in trust	-	1,988,390
Repayment of other liabilities	-	(1,406,155)
Share subscriptions payable	-	1,000,000
Share issuance costs	-	(90,000)
Promissory notes payable	846,273	-
Interest	-	(25,000)
Net cash provided by financing activities	1,421,273	1,967,235
Change in cash	(168,690)	745,953
Cash - beginning of period	490,970	155,557
Cash - end of period	$ 322,280	$ 901,510
Supplemental cash flow disclosure		
Interest paid	$ -	$ (25,000)
Common shares issued for services rendered	$ -	$ 1,968,946

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

1. Nature of Operations

Bhang Corporation, (the "Company"), was incorporated on August 26, 2010, pursuant to NRS Chapter 78 of the State of Nevada in the United States of America, as Bhang Chocolate Company, Inc. The name of the corporation was amended on May 6, 2014 to Bhang Corporation. The Company's registered office is located at 6815 Biscayne Boulevard, #103, Miami, Florida, 33138, USA.

The Company, through its partners and licensees, produce and distribute cannabis-infused products that are distributed worldwide.

2. Basis of Presentation

a) Statement of Compliance

The Company's unaudited condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These condensed interim financial statements were approved and authorized for issuance by the Board of Directors on August 29, 2019.

b) Basis of Measurement

The condensed interim financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair value as described herein.

c) Functional and Presentation Currency

The Company's functional currency is the United States ("U.S.") dollar and these financial statements are presented in U.S. dollars.

3. Significant Accounting Policies

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

a) Cash

Cash includes cash on hand and deposits with reputable financial institutions.

b) Inventory

Inventory is valued at the lower of cost and net realizable value. Manufactured inventory and work-in-progress includes an allocation of production overhead, which is based on normal operating capacity. The Company reviews inventories for obsolete, redundant and slow moving goods and any such inventories identified are written down to net realizable value.

3. Significant Accounting Policies (continued)

c) Revenue

Revenue is recognized by the Company in accordance with IFRS 15, *Revenue from Contracts with Customers*.Through application of the standard, the Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

In order to recognize revenue under IFRS 15, the Company applies the following five (5) steps:

- Identify a customer along with a corresponding contract;
- Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to a customer;
- Determine the transaction price the Company expects to be entitled to in exchange for services to a customer;
- Allocate the transaction price to the performance obligation(s) in the contract;
- Recognize revenue when or as the Company satisfies the performance obligation(s).

Under IFRS 15, revenues from the sale product are generally recognized at a point of time when control of the goods have been transferred to the customer. Payment is typically due upon transferring the goods to the customer or within a specified time period permitted under the Company's credit policy.

Under IFRS 15, licensing revenue has two components that are recognized at different times. Revenue related to minimum monthly amounts are recognized over the time of the license. Revenue related to royalties are recognized during the period in which the underlying sales occur.

Revenue is recognized upon the satisfaction of the performance obligation. For product sales the Company satisfied its performance obligation and transfers control upon delivery and acceptance by the customer and in some circumstances, at that time of shipment from the Company's supplier to the customer. With respect to licensing revenue, the Company satisfies its performance obligation over the term of the underlying agreement.

The Company records revenue when it has transferred the risks and rewards of ownership of the goods to the purchaser, when it has no continuing managerial involvement over the goods, when it is probable the Company will receive the consideration, and when it can reliably measure the amount of revenue and costs associated with the transaction.

The Company will present a contract asset on the statement of financial position when the Company has satisfied its performance obligation and recognized the associated revenue before the consideration is paid or before payment is due. The contract asset represents the right to consideration in exchange for the use of items under license by the licensee. The Company will present a contract liability on the statement of financial position if the licensee has paid consideration, or if the Company has a right or consideration that is unconditional, before the use of the items under license by the license has occurred.

3. Significant Accounting Policies (continued)

d) Cost of goods sold

Cost of goods sold includes the cost of packaged goods and finished products sold during the period, as well as associated freight and shipping costs, and inventory write-downs during the period.

e) Foreign currency transactions

i) Transactions and balances

Transactions in foreign currencies are initially recorded in the Company's functional currency at the rate in effect on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the Company's functional currency spot rate of exchange in effect at the reporting date. Non-monetary assets and liabilities are measured at historical cost in a foreign currency and are translated using the exchange rates as at the date of initial transaction. All exchange differences are recognized in the statement of comprehensive income.

ii) Translation of operations

The Company's functional currency is the same as its presentation currency.

f) Impairment of trade and other receivables

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, financial condition of the customer, and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful debts is established based on specific situations and overall industry conditions.

g) Accounts Payable and Accrued Liabilities

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle this obligation are both probable and able to be reliably measured.

h) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3. Significant Accounting Policies (continued)

i) Property and Equipment

Property and equipment are stated at cost less accumulated amortization and accumulated impairment losses, if any. Costs include borrowing costs for assets that require a substantial period of time to become ready for use.

Amortization is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. Amortization begins when an asset is available for use, meaning that it is in the location and condition necessary for it to be used in the manner intended by management. The estimated useful lives, residual values and method of amortization are reviewed at each period end, with the effect of any changes in estimated useful lives and residual values accounted for on a prospective basis.

Amortization is calculated applying the following useful lives:

Computer equipment	3 years on a straight line basis
Office furniture and equipment	5 years on a straight line basis
Trade equipment	5 years on a straight line basis
Leasehold improvements	3 years on a straight line basis

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be reasonable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs of disposal and their value in use. Fair value is the price at which the asset could be bought or sold in an orderly transaction between market participants. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

3. Significant Accounting Policies (continued)

j) Financial Instruments

IFRS 9 Financial Instruments ("IFRS 9") replaced IAS 39, Financial Instruments: recognition and measurement. IFRS 9 includes guidelines on classification and measurement of financial instruments, a new expected credit/loss model for calculating impairment on financial assets and new general hedging requirements.

IFRS 9 permits entities to elect into an irrevocable option for equity instruments to report changes in fair value in other comprehensive income.

On initial recognition, a financial asset is classified as fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI"), or amortized cost.

i) Financial assets classified at fair value through profit and loss

Financial assets are classified as FVTPL if the asset is an equity investment, if the Company has not elected to classify the equity investment as FVOCI, or if the Company's business model for holding the investment is achieved other than by both collecting contractual cash flows and by selling the assets.

FVTPL assets are initially recorded at fair value with realized gains and losses on disposition and subsequent changes in fair value recorded in net income. Directly attributable transaction costs are reported in net income as incurred.

ii) Financial assets other than assets at fair value through profit and loss

Financial assets that are managed to collect contractual cash flows consisting of principal and interest on specified dates are subsequently measured at amortized cost.

Financial assets recorded at amortized cost are measured at initial cost plus interest calculated using the effective interest rate method net of cumulative repayments and cumulative impairment losses. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred substantially all the risks and rewards of the asset. The Company assessed at each reporting date whether objective evidence that a financial asset is impaired exists. For financial assets deemed to be impaired, the impairment provision is based on the expected loss.

iii) Cash and Cash equivalents

Cash and cash equivalents include deposits in banks, balances of cash held, and highly liquid investments with original maturities of three months or less, which are readily convertible into known amounts of cash and are not subject to a significant risk of changes in value.

3. Significant Accounting Policies (continued)

j) Financial Instruments (continued)

iv) Non-derivative financial liabilities

Non-derivative financial liabilities are recognized initially on the date the Company becomes a party to the contractual obligations of the financial instrument. All non-derivative financial liabilities are recognized initially at fair value along with directly attributable transaction costs. Subsequent to initial measurement, non-derivative financial liabilities are measured at amortized cost using the effective interest rate method.

v) Derivative financial instruments - warrants and options

A financial derivative such as warrants or options that will be settled with the Company's own equity instruments will be classified as an equity instrument if the derivative is to acquire a fixed number of the Company's own equity instruments for a fixed amount of Canadian dollars.

A financial derivative will be considered a financial liability at fair value through profit or loss if it's to acquire either a variable number of equity instruments and the options/warrants were not offered pro-rata to all existing owners of the case class of non-derivative equity instruments.

Classification and measurement of financial statements is dependent on the entity's business model for managing the financial assets and related contractual cash flows. IFRS 9 retains most of the requirements of IAS 39 related to classification and measurement of financial liabilities.

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

Asset/Liability	Classification	Subsequent Measurement
Cash	FVTPL	FVTPL
Marketable securities	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Promissory note receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Note payable	Other financial liabilities	Amortized cost
Other liabilities	Other financial liabilities	Amortized cost
Lease liabilities	Other financial liabilities	Amortized cost
Short-term advances	Other financial liabilities	Amortized cost
Promissory notes payable	Other financial liabilities	Amortized cost

k) Impairment of Financial Assets

An impairment loss in respect of a financial asset measured at amortized cost, such as accounts receivable and other receivable, 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 an allowance account against the corresponding asset.

3. Significant Accounting Policies (continued)

l) Impairment of Long-lived Assets

For all long-lived assets, except for intangible assets with indefinite useful lives and intangible assets not yet available for use, the Company reviews its carrying amount at the end of each reporting period to determine whether there is any indication that those assets have suffered an impairment loss. Where such impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of fair value less costs of disposal and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statement of operations.

Impairment losses may be reversed in a subsequent period where the impairment no longer exists or has decreased. The carrying amount after a reversal must not exceed the carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized. A reversal of impairment loss is recognized in profit or loss.

m) Cost of private placement financing

Costs incurred with respect to raising capital through private placements are charged against the equity proceeds raised. Costs incurred with respect to the issuance of convertible debentures are recognized against the liability and equity components of the convertible debentures. Issuance costs allocated to the liability component are amortized over the term of the convertible debenture and accrete to the principal amount at maturity or at the expected timing of principal repayment, whichever is earlier. The accretion, amortization of issuance costs and the interest paid are expensed within finance expenses on the statement of comprehensive loss.

n) Share-Based Compensation

Share-Based Payment Transactions

Transactions with non-employees that are settled in equity instruments of the Company are measured at the fair value of the services rendered. In situations where the fair value of the goods or services received by the entity as consideration cannot be reliably measured, transactions are measured at fair value of the equity instruments granted. The fair value of the share based payments is recognized together with a corresponding increase in equity over a period that services are provided or goods are received.

No expense is recognized for awards that do not ultimately vest.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of loss per share.

3. Significant Accounting Policies (continued)

n) Share-Based Compensation (continued)

Share Issuance Costs

Costs incurred in connection with the issuance of share capital are netted against the proceeds received net of tax. Costs related to the issuance of share capital and incurred prior to issuance are recorded as deferred share issuance costs and subsequently netted against proceeds when they are received.

o) Warrants

The Company uses the Black-Scholes Model to calculate the value of warrants issued as part of the Company's public and/or private placements. The Black-Scholes Model requires six key inputs to determine a value for a warrant: risk-free interest rate, exercise price, market price at date of issuance, expected yield, expected life, and expected volatility. Certain of the inputs are estimates, which involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. Proceeds from unit placements, net of issuance costs, are allocated between common shares and warrants issued according to their relative fair value.

p) Income Taxes

No provision for federal or state income taxes in included in the Company's financial statements because the tax effects of the Company's income or loss are passed on to the shareholders.

q) Leases

IFRS 16 Leases ("Leases") was issued in January 2016 and replaces IAS 17 Leases. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. If the lease was classified as a finance lease, a lease liability was included on the statement of financial position. In applying IFRS 16, for all leases, the Company:

i) Recognizes right-of-use assets and lease liabilities in the statement of financial position, intially measured at the present value of the future lease payments;

ii) Recognizes depreciation of right-of-use assets and interest expense on lease liabilities in the statements of income and comprehensive income;

ii) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

On January 1, 2019, the Company adopted IFRS 16. As such, the Company reviewed all leases and assessed whether these contracts is or contains a lease. The Company has accounted for its leases upon adoption of IFRS 16 using a modified retrospective approach whereby it recognizes a lease liability and a right-of-use asset at the date of initial application, being January 1, 2019. The lease liability is measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate. The Company has measure the right-of-use asset at an amount equal to the lease liability.

3. Significant Accounting Policies (continued)

r) Investment in Joint Venture

Joint ventures are all entities over which the Company has joint control. The Company's investments in the joint ventures is accounted for using the equity method and is initially recognized at cost. Accounting policies the joint venture have been adjusted where necessary to ensure consistency with the policies adopted by the Company.

The Company assesses annually where there is any objective evidence that its interest in its joint venture impaired. If impaired, the carrying value of the Company's share of the underlying assets of the joint venture is written down to its estimated recoverable amount (being the higher of fair value less costs of the disposal or the value in use) and charged to the consolidated statement of loss and comprehensive loss. If the financial statements of an associate are prepared on a date different from that used by the Company, adjustments are made for the effects of significant transactions or events that occur between the date and the date of these financial statements.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The most significant judgments include those related to the ability of the Company to continue as a going concern, the determination of when property, plant, and equipment are available for use, and impairment of its financial and non-financial assets. The most significant estimates and assumptions include those related to the recoverability of accounts receivable, the useful life of property and equipment and the inputs used the determination of the fair value of warrants issued.

5. Liquidity and Capital Resources

The Company has incurred significant losses and has deficiencies in both working capital and shareholders' equity. The Company’s management continues to finance its cash needs through promissory notes, and the issuance of share capital. If management is unsuccessful in its efforts to generate profitable operations and/or continue to receive financial support, the Company may not be able to continue as a going concern. The ability of the Company to continue as a going concern and to meet its obligations will be dependent upon successful sales of product and a return to successful operations and cash flows as well as the potential issuance of share capital. The accompanying financial statements do not reflect any adjustment that might result from the outcome of this uncertainty.

Expressed in United States Dollars

6. Inventory

As of June 30, 2019 and December 31, 2018, the Company's inventory included the following:

	June 30, 2019	December 31, 2018
Finished goods for resale	$ 870,185	$ 54,700
Raw materials	150,000	1,250
Packaging and supplies	39,779	-
	$ 1,059,964	$ 55,950

7. Investment in Joint Venture

During the year ended December 31, 2016, the Company and another party formed a joint venture with the purpose of developing, manufacturing, marketing, selling and/or distribution of co-branded and newly branded cannabis flower and cannabis-infused products. As at June 30, 2019 and December 31, 2018, the Company held 500,000 of the outstanding 1,000,000 membership units. As at June 30, 2019, the Company had contributed capital, net of the Company's share of the losses of the joint venture, of $156,477 (December 31, 2018 - $158,647) to the joint venture.

Presented below is the summarized statement of financial position of CB Productions LLC, as of June 30, 2019 and December 31, 2018.

	June 30, 2019	December 31, 2018
Cash and cash equivalents	$ 347	$ 186
Other current assets	148,837	153,337
Total current assets	149,184	153,523
Non-current assets	-	-
Net assets	149,184	153,523

	June 30, 2019	December 31, 2018
Revenue from continuing operations	-	-
Net loss	$ (4,339)	$ (33,857)

8. Marketable Securities

During the year ended December 31, 2018, the Company received 124,922 common shares of CannaRoyalty Corp. as a payment for licensing fees in the amount of $505,582. As at June 30, 2019, the fair value of the shares was $877,232 (December 31, 2018 - $590,637). Accordingly, the Company has recorded an unrealized gain on the shares in the amount of $286,595 during the six months ended June 30, 2019 (2018 - unrealized loss of $35,679).

Expressed in United States Dollars

9. Property and Equipment

	Computer Equipment	Office Equipment	Trade Equipment	Leasehold Improvements	Total
Cost					
Balance - January 1, 2018	$ 805	$ 2,688	$ 91,757	$ 5,174	$ 100,424
Additions	8,121	35,017	140,251	-	183,389
Disposals	-	-	-	-	-
Balance - December 31, 2018	8,926	37,705	232,008	5,174	283,813
Additions	711	2,983	239,811	-	243,505
Disposals	-	-	-	-	-
Balance - June 30, 2019	$ 9,637	$ 40,688	$ 471,819	$ 5,174	$ 527,318
Accumulated Amortization					
Balance - January 1, 2018	$ 154	$ -	$ 78,481	$ 5,174	$ 83,809
Amortization for the year	669	2,976	14,183	-	17,828
Balance -December 31, 2018	823	2,976	92,664	5,174	101,637
Amortization for the period	1,604	4,017	18,802	-	24,423
Disposals	-	-	-	-	-
Balance - June 30, 2019	$ 2,427	$ 6,993	$ 111,466	$ 5,174	$ 126,060
Net Book Value					
As at December 31, 2018	$ 8,103	$ 34,729	$ 139,344	$ -	$ 182,176
As at June 30, 2019	$ 7,210	$ 33,695	$ 360,353	$ -	$ 401,258

Expressed in United States Dollars

10. Promissory Notes Receivable

During the six month period ended June 30, 2019, the Company advanced $225,000 in exchange for a promissory note. The promissory note bears interest at a rate of 5% per annum, with the interest and principal due and payable on July 12, 2019. If any amount payable pursuant to the promissory note is not paid as of the maturity date of July 12, 2019, such overdue amount shall bear interest at a rate of 18% per annum from July 12, 2019 until such amount is paid in full. As at June 30, 2019, the Company had accrued interest income of $4,007.

During the six month period ended June 30, 2019, the Company advanced 100,000 in exchange for a promissory note. The promissory note bears interest at a rate of 10% per annum, with the interest and principal due and payable on June 15, 2019. If any amount payable pursuant to the promissory note is not paid as of the maturity date of June 15, 2019, such overdue amount shall bear interest at a rate of 10% per annum, or the maximum amount permitted to be charged under applicable law from June 15, 2019 until such amount is paid in full. As at June 30, 2019, the Company had accrued interest income of $1,667 and the principal and accrued interest remained unpaid.

11. Right-of-Use Assets

	Land and Buildings
Balance, January 1, 2019	$ -
Additions	395,920
Amortization for period	(42,349)
Balance June 30, 2019	$ 353,571

12. Note Payable

During the year ended December 31, 2015, the Company issued a note payable in a principal amount of $1,000,000. The note was non-interest bearing and payable on demand. During the year ended December 31, 2017, the note was purchased by the Company's CEO. The Company amended the note such that only monthly payments of interest at a rate of 5% per annum were to commence January 1, 2017 for a period of two years, following which interest would continue to accrue at a rate of 5% with principal and accrued interest due December 31, 2024. No prepayment penalty and no conversion rights are available unless authorized by the Company's Board of Directors at a future date. During the year ended December 31, 2018, the note payable was converted into 4,064 common shares of the Company (see note 17(vii)).

Expressed in United States Dollars

13. Other Liability

During the year ended December 31, 2014, the Company entered into a Cannabis Brands Cooperative Agreement ("the Agreement") with another party pursuant to which the other party made aggregate payments of $1,500,000 towards its acquisition of an ownership interest in the Company. During the year ended December 31, 2014, the Company declared the Agreement to be in default as a result of the other party's inability to make all of the payments contemplated in the Agreement. The other party, shortly thereafter, declared the Agreement to be rescinded and initiated a claim against the Company for repayment of the $1,500,000. During the year ended December 31, 2017, the Company entered into an investment agreement to issue 10,000 common shares for gross proceeds of $2,000,000 (see note 17(i)), the proceeds of which were deposited into escrow. During the year ended December 31, 2018, the funds held in escrow were used to pay outstanding principal and accrued interest and other costs in full satisfaction of a Judgement dated December 29, 2016 as issued by the United States District Court for the Northern District of California.

As at December 31, 2017, accounts payable and accrued liabilities included accrued interest of $593,845 related to this debt.

14. Lease Liabilities

The Company has entered into two leases for office space. In order to calculate the present value of the future lease payments, the Company has used a discount rate of 8% which represents its current borrowing rate. Prior to the adoption of IFRS 16, these leases were accounted for as operating leases. Changes to the Company's lease liabilities for the six months ended June 30, 2019 are as follows:

	Land and Buildings
Balance, January 1, 2019	$ -
Additions	395,920
Interest expense	15,277
Lease payments	(48,265)
	362,932
Less: current portion	(73,030)
Balance June 30, 2019	$ 289,902

15. Short-Term Advances

During the six month period ended June 30, 2019, the Company borrowed $112,500 from a shareholder of the Company pursuant to a loan agreement. The outstanding principal and a balloon interest payment of $10,000 were payable on May 20, 2019. As at June 30, 2019, accounts payable and accrued liabilities includes $10,000 of accrued interest related to this debt. As at June 30, 2019, the principal and accrued interest remained unpaid.

During the six month period ended June 30, 2019, the Company borrowed $112,500 pursuant to a loan agreement. The outstanding principal and a balloon interest payment of $10,000 were payable on May 22, 2019. As at June 30, 2019, accounts payable and accrued liabilities includes $4,333 of accrued interest related to this debt. As at June 30, 2019, the principal and accrued interest remained unpaid.

16. Promissory Notes Payable

During the six month period ended June 30, 2019, the Company issued a promissory note to a shareholder in the principal amount of CAD$300,000 bearing interest at a rate of 8% per annum. The outstanding principal and interest are payable April 12, 2020. As at June 30, 2019, the fair value of the principal is $229,235 and accounts payable and accrued liabilities includes $3,922 of accrued interest related to this debt.

During the six month period ended June 30, 2019, the Company issued a promissory note to a shareholder in the principal amount of CAD$300,000 bearing interest at a rate of 8% per annum. The outstanding principal and interest are payable May 14, 2020. As at June 30, 2019, the fair value of the principal is $229,235 and accounts payable and accrued liabilities includes $2,353 of accrued interest related to this debt.

During the six month period ended June 30, 2019, the Company issued a promissory note in the aggregate principal amount of $200,000 with an additional fee of $10,000. The aggregate amount of $210,000 is non-interest bearing until the maturity date of July 11, 2019. If any amount payable pursuant to the promissory note is unpaid as of July 11, 2019, such overdue amount shall bear interest at a rate of 8% per annum from the July 11, 2019 until such amount is paid in full. As at June 30, 2019, accounts payable and accrued liabilities includes $6,667 of accrued interest related to this debt.

During the six month period ended June 30, 2019, the Company issued a promissory note in the aggregate principal amount of $200,000 with an additional fee of $10,000. The aggregate amount of $210,000 is non-interest bearing until the maturity date of August 17, 2019. If any amount payable pursuant to the promissory note is unpaid as of July 18, 2019, such overdue amount shall bear interest at a rate of 8% per annum from the July 18, 2019 until such amount is paid in full. If any amount payable pursuant to the promissory note is unpaid as of August 17, 2019, the Company is to pay a late fee of $10,000. As at June 30, 2019, accounts payable and accrued liabilities includes $4,333 of accrued interest related to this debt.

Expressed in United States Dollars

17. Share Capital

The Company is authorized to issue up to 200,000 common shares with a par value of $0.01 per share.

The following table summarizes the changes to the issued and outstanding common shares for the year ended December 31, 2018 and the three months ended March 31, 2019.

	Number of Common Shares	Amount	Treasury Shares Amount
Balance, January 1, 2018	101,266	664,206	(325,000)
Common shares issued for cash (iv)	2,851	591,692	-
Common shares issued to an employee (v)	3,000	588,030	-
Common shares issued to service providers (vi)	8,598	1,672,741	-
Common shares issued to service providers (ix)	9,500	1,848,225	-
Common shares issued pursuant to exercise of warrants (viii)	10,165	3,277,461	-
Common shares issued pursuant to conversion of note payable (vii)	4,064	1,000,000	-
Share issuance costs (i and ix)	-	(1,938,225)	-
Balance, December 31, 2018	139,444	7,704,130	(325,000)
Common shares issued for cash (xi)	1,422	350,000	-
Balance, June 30, 2019	140,866	$ 8,054,130	$ (325,000)

i) During the year ended December 31, 2014, the Company repurchased 20,000 common shares from its shareholders as repayment for aggregate advances made to the shareholders in the amount of $1,300,000. During the year ended December 31, 2017, the Company re-issued the 10,000 common shares from treasury for aggregate consideration of $2,000,000 pursuant to an Investment Agreement. In connection with the Investment Agreement, the Company paid legal fees of $90,000 during the year ended December 31, 2018.

17. Share Capital (continued)

ii) On December 17, 2017, the Company issued 2,500 common shares for aggregate consideration of $250,000.

iii) In connection with the issuance of 10,000 common shares from treasury as disclosed above, the Company issued, to an individual for services rendered in connection with the issuance, 5,000 common shares and 10,165 warrants for shares of the Company's common stock as disclosed in note 15. The fair value of the common shares of $1,000,000 and the fair value of the warrants of $777,461 have been recorded as a reduction of the proceeds of the financing.

iv) During the year ended December 31, 2018, the Company issued 2,851 common shares for aggregate cash consideration of $591,692.

v) During the year ended December 31, 2018, the Company issued 3,000 common shares to an employee in connection with an employment agreement. Of the estimated fair value of the common shares of $588,030, $291,825 has been expensed as share-based compensation during the year ended December 31, 2018, while the balance of $296,205 had been recorded as share-based expense during the year ended December 31, 2017 and was included in accounts payable and accrued liabilities as at that date.

vi) During the year ended December 31, 2018, the Company issued 8,598 common shares to various service providers in connection with the transaction disclosed in note 25(e). The estimated fair value of these shares of $1,672,41 has been included in deferred transaction costs as at December 31, 2018.

vii) During the year ended December 31, 2018, the Company issued 4,064 common shares of the Company upon conversion of the note payable disclosed in note 12.

viii) During the year ended December 31, 2018, the Company issued 10,165 common shares of the Company for gross proceeds of $2,500,000 pursuant to the exercise of warrants. Upon exercise of the warrants, the fair value of the warrants of $777,461, was re-allocated from contributed surplus to share capital.

ix) During the year ended December 31, 2018, the Company issued 9,500 common shares of the Company to service providers for services rendered in connection with the exercise of the warrants disclosed in note 17(viii) above. The estimated fair value of the shares of $1,848,225 has been recorded as a share issuance cost.

x) During the year ended December 31, 2018, the Company received proceeds of $1,000,000 for the subscription of 5,000 common shares from treasury. As at June 30, 2019 and December 31, 2018, the common shares had yet to be issued.

xi) During the six months ended June 30, 2019, the Company received proceeds of $350,000 for the subscription of 1,422 common shares of the Company.

Expressed in United States Dollars

18. Warrants

The following table summarizes the warrant activities for the year ended December 31, 2018 and the six months ended June 30, 2019:

	Number of Warrants	Weighted Average Exercise Price
Balance, January 1, 2017	-	$ -
Warrants granted	10,165	245.94
Balance, December 31, 2017	10,165	245.94
Warrants exercised	(10,165)	(245.94)
Balance, December 31, 2018 and June 30, 2019	-	$ -

On August 14, 2017, the Company issued 10,165 warrants in connection with the issuance of 15,000 common shares (see note 17(iii)). Each warrant entitles to holder to subscribe for one common share in the capital of the Company at an exercise price of $245.94 at any point until December 15, 2018.

The fair value of the warrants of $777,461 was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	1.220%
Expected life	1.33 years
Expected volatility	100%*

* Based on the volatility of comparable publicly traded companies

During the year ended December 31, 2018, these warrants were exercised resulting in the issuance of 10,165 common shares of the Company as disclosed in note 17(viii).

19. Related Party Transactions

During the six months ended June 30, 2019, the Company incurred the following related party transactions:

i) Interest of $Nil (2018 - $25,000) was paid to an officer and director in connection with the note payable disclosed in note 12.

ii) Rental income of $Nil (2018 - $1,500) and revenue of $Nil (2018 - $150,705) was recognized on product sales and licensing revenue to companies in which a director, officer and shareholder of the Company is a director, officer and shareholder. As at June 30, 2019, accounts receivable includes $Nil (December 31, 2018 - $386,394) owing from these companies. In addition, the Company paid consulting fees of $30,000 (2018 - $75,000), made purchases of $3,903 (2018 - $17,786) and paid rent of $Nil (2018 - $9,750) from companies in which a director, officer and shareholder of the Company is a director, officer and shareholder. As at June 30, 2019, accounts payable and accrued liabilities included $67,625 (December 31, 2018 - $15,000) owed to this company.

iii) Licensing and product sales revenue of $31,419 (2018 - $67,869) was recognized on sales to a company controlled by the sibling of the Company's President and CEO. As at June 30, 2019, accounts receivable included $96,952 (December 31, 2018 - $76,356) owing from this company. The Company also made purchases of $11,411 from this company (2018 - $Nil).

iv) Key Management Personnel consists of the President and CEO. The compensation paid or payable to key management for the six months ended June 30, 2019 includes salaries of $120,000 (2018 - $120,000).

As at June 30, 2019, accounts payable and accrued liabilities included $94,764 (December 31, 2018 - $46,864) payable to the Company's President and CEO. The amount is non-interest bearing and payable on demand.

The transactions are in the normal course of operations and are measured at the exchange amounts being the amounts agreed to by the parties.

20. Financial Instruments

i) Market Risk

a) Currency Risk

As at June 30, 2019 accounts payable and accrued liabilites included 474,083 Canadian Dollars and promissory notes payable included 600,000 Canadian Dollars. If the United States Dollar had weakened (strengthened) by 10% compared to the Canadian Dollar, net loss for the year would have been $82,071 higher (lower).

Expressed in United States Dollars

20. Financial Instruments (continued)

b) Interest Rate Risk

As at June 30, 2019 and December 31, 2018, the Company's exposure to interest rate risk would relate to short-term advances, but its interest rate risk is limited as the aforementioned financial instruments are fixed interest rate instruments.

c) Credit Risk

Credit risk is derived from cash and trade accounts receivable. The Company places its cash in deposit with major United States financial institutions. The Company has established a policy to mitigate the risk of loss related to granting customer credit.

The carrying amount of cash, cash held in trust and trade accounts receivable represents the Company's maximum exposure to credit risk, which amounted to $996,507 at June 30, 2019 (December 31, 2018 - $1,146,134). The allowance for doubtful accounts as at June 30, 2019 is $894,459 (December 31, 2018 - $943,954).

As at June 30, 2019 and December 31, 2018, the Company's trade accounts receivable were aged as follows:

	June 30, 2019	December 31, 2018
Current	$ 114,057	$ 41,785
1-30 days	75,868	7,161
31 days- 60 days	52,359	11,323
61 days-older	431,943	594,895
	$ 674,227	$ 655,164

d) Liquidity Risk

Liquidity risk represents the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities. The Company’s approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they become due. As at June 30, 2019, the Company has current assets of $6,714,853 (December 31, 2018 - $5,696,074) and current liabilities of $3,400,799 (December 31, 2018 - $778,731), which resulted in working capital of $3,314,054 (December 31, 2018 - $4,917,343).

As at June 30, 2019, the contractual maturities of the Company's accounts payable and accrued liabilities, lease liabilities, short-term advances and promissory notes payable occurs over the next three years are as follows:

	Year 1	Years 2 - 3
Accounts payable and accrued liabilities	$ 2,094,299	$ -
Lease liabilities	73,030	175,595
Short-term advances	225,000	-
Promissory notes payable	858,470	-
	$ 3,250,799	$ 175,595

20. Financial Instruments (continued)

e) Fair Values

The carrying amounts of the Company's cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair values because of the short-term nature of these items. The carrying amount of the Company's short-term debt approximates its fair value as its interest rate is close to market rates.

f) Fair Value Hierarchy

A number of the Company's accounting policies and disclosures require the measurement of fair valued for both financial and non-financial assets and liabilities. The Company has an established framework, which includes team members who have overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. When measuring the fair value of an asset or liability, the Company uses observable market data as far as possible. The Company regularly assesses significant unobservable inputs and valuation adjustments. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's cash and marketable securities are included in Level 1. During the three months ended June 30, 2019 and the year ended December 31, 2018, there were no transfers of amounts between levels.

21. Segmented Information

The Company's only operating segment is the distribution and sale of cannabis-infused products. All property and equipment are located in the United States. All revenues were generated in the United States during the six months ended June 30, 2019 and 2018.

Expressed in United States Dollars

22. General and Administrative Expenses

General and administrative expenses for the three and six months ended June 30, 2019 and 2018 are as follows:

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Bank charges and interest	$ 3,071	$ 2,969	$ 10,475	$ 3,890
Business taxes	676	50	6,279	50
Consulting expenses	10,000	66,365	70,000	111,365
Depreciation and amortization	13,392	1,675	24,423	3,877
Depreciation of right-of-use assets	21,174	-	42,349	-
Dues, subscriptions and licences	311	6,871	2,831	7,521
Insurance	5,381	2,105	17,903	7,706
Occupancy	2,450	20,755	1,540	39,347
Office expense	34,731	1,193	79,352	1,920
Telephone	607	-	1,535	-
Product development	-	1,442	-	1,442
Loss (gain) on foreign exchange	12,197	-	12,197	-
Travel	48,582	1,429	72,771	4,531
	$ 152,572	$ 104,854	$ 341,655	$ 181,649

23. Changes in Non-cash Working Capital

The changes to the Company's non-cash working capital for the periods ended June 30, 2019 and 2018 are as follows:

	2019	**2018**
Accounts receivable	$ (50,283)	$ 55,949
Inventory	(1,004,014)	-
Deposits	3,000	-
Prepaid expenses	1,053,823	(173,669)
Accounts payable and accrued liabilities	1,237,551	(749,321)
Contract asset	(41,688)	(34,876)
Deferred revenue	46,000	-
	$ 1,244,389	$ (901,917)

Expressed in United States Dollars

24. Capital Disclosures

The Company includes equity, comprised of share capital, contributed surplus (including the fair value of equity instruments to be issued), and deficit, in the definition of capital.

The Company's objectives when managing capital are as follows:

(i) to safeguard the Company's assets and ensure the Company's ability to continue as a going concern; and

(ii) to raise sufficient capital to meet its general and administrative expenditures.

The Company manages its capital structure and makes adjustments based on the general economic conditions, the Company's short-term working capital requirements, and its planned capital requirements and strategic growth initiatives.

The Company's principal source of capital is from the issuance of common shares. In order to achieve its objectives, the Company expects to spend its working capital, when applicable, and raise additional funds as required.

The Company does not have any externally imposed capital requirements.

25. Commitments

a) The Company has commitments under operating leases for its facilities and commitments under finance lease for equipment. The minimum lease payments due are as follows:

Fiscal Year		Amount
2019	$	97,629
2020	$	101,174
2021	$	69,543

b) The Company entered into a Contract Services Agreement effective July 1, 2018 for consulting services costing $10,000 per month with one of the its shareholders.

c) The Company entered into an Exclusive Farming Wholesale Joint Venture and Purchase Agreement with a private coffee plantation in Honduras ("Seller") to acquire certain green coffee beans. The Joint Venture allows the Company to roast all green coffee beans at their Miami, Florida facility and share in the profits (85% Company, 15% Seller), and in the case of traditional coffee sales, beans, ground up coffee or any other coffee products sold. The seller requested a purchase advance of $30,000 to be paid in acceptable monthly increments to be completed by December 2018. The advance will be treated as a forward credit towards 2019 green coffee bean purchases.

25. Commitments (continued)

d) The Company entered into a Distribution Agreement with a newly single purpose entity in Israel, formed for this transaction. The purpose of the transaction is to distribute and market products through its distributor's retail channels and exclusive distributor rights in the United States, North America including Canada, South and Central America, and abroad if demand exists with approval from the Israel entity. The Company has agreed to bonus the Israel entity with 2,000 shares of Bhang stock for 5 years, to be issued on the anniversary date starting from the day the 1st machine becomes operational. The bonus only remains enforceable if this agreement remains active and no breach, termination, or cancellation has occurred.

e) The Company entered into a definitive agreement (the "Definitive Agreement") with Pele Mountain Resources Inc. ("Pele") pursuant to which Pele will acquire a 100% interest in the Company via a business combination transaction (the "Transaction"). Pele will acquire the 100% interest in the Company by way of a share exchange between the Pele and all of the shareholders of the Company, which will constitute a reverse takeover of Pele (the "Bhang Acquisition"). Pursuant to the Bhang Acquisition, the issued and outstanding shares of the Company will be exchanged for approximately 90,000,000 post-consolidated shares of Pele for a deemed anticipated price of CAD$0.50 per share, with a portion of the shares being allocated as multiple voting shares.

   As provided for in the Definitive Agreement, the Company shall continue funding Pele CAD$10,000 per month to meet Pele's working capital needs, as well as agreeing to be responsible for all of Pele's reasonable costs and expenses associated with the Transaction pending its completion.

   Subsequent to the period ended June 30, 2019, the Transaction closed and the Company became a wholly-owned subsidiary of Pele.

f) The Company entered into a consulting services agreement for the provision of public relations and marketing services in exchange for a guaranteed monthly fee of $7,000. The consulting services agreement has an initial term of three months, following which it will automatically renew on a month-by-month basis until terminated. Each party may terminate the consulting services agreement effective thirty days after delivery of written notice to the other party.

26. Subsequent Events

Subsequent to the period ended June 30, 2019:

a) The Company and another party formed a joint venture, of which the Company will hold a 51% ownership interest, with the purpose of producing, marketing, distributing and selling cannabidoil-infused and terpene-infused coffee products in the United States. Notwithstanding the Company's majority interest in the joint venture, all profits will be distributed on a 50/50 basis.

An addtional subsequent event is dislcosed in note 25(e).