

Vapen MJ Ventures Corporation
Condensed Consolidated Interim Financial Statements
June 30, 2019
(Expressed in U.S. Dollars)

Vapen MJ Ventures Corporation

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VAPEN MJ VENTURES CORPORATION

Condensed Consolidated Interim Statements of Financial Position

(Expressed in U.S. Dollars)

(Unaudited)

| | As at June 30, 2019 | As at December 31, 2018 |
|--|------------------------|----------------------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 5,215,568 | \$ 3,393,567 |
| Accounts receivable (Note 4) | 18,036,291 | 13,206,458 |
| Subscriptions receivable | - | 233,250 |
| Inventory (Note 5) | - | 73,973 |
| Prepaid deposits and other receivables (Note 6) | 1,508,961 | 263,507 |
| | <u>24,760,820</u> | <u>17,170,755</u> |
| Due from related parties (Note 11) | 2,181,785 | 2,181,785 |
| Right-of-use asset (Note 10) | 526,479 | - |
| Property, plant and equipment (Note 7) | 4,291,152 | 4,081,645 |
| | <u>\$ 31,760,236</u> | <u>\$ 23,434,185</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Payables and accrued liabilities (Notes 8, 11) | \$ 943,000 | \$ 899,707 |
| Notes payable – current portion (Notes 9, 11) | 909,250 | 1,098,695 |
| Income tax payable | 205,172 | 649,379 |
| Lease liability – current portion (Note 10) | 80,887 | - |
| | <u>2,138,309</u> | <u>2,647,781</u> |
| Deferred tax liabilities | 4,399,655 | 3,624,095 |
| Lease liability – non-current portion (Note 10) | 693,214 | - |
| Notes payable – non-current portion (Notes 9, 11) | 122,375 | 161,734 |
| | <u>7,353,553</u> | <u>6,433,610</u> |
| Shareholders' equity | | |
| Subordinate and multiple voting shares | 8,968,735 | 4,150,351 |
| Subordinate voting shares – subscription receivable | - | 50,000 |
| Special warrants | - | - |
| Special warrants – subscriptions receivable | - | 183,250 |
| Stock option reserve | 189,453 | - |
| Warrant reserve | 89,628 | 89,628 |
| Accumulated other comprehensive income | 35,834 | 4,091 |
| Retained earnings | 15,123,033 | 12,523,255 |
| | <u>24,406,683</u> | <u>17,000,575</u> |
| | <u>\$ 31,760,236</u> | <u>\$ 23,434,185</u> |

Nature of operations and going concern (Note 1)

Subsequent events (Note 16)

Approved on August 20, 2019 on behalf of the Board of Directors:

"Jason T. Nguyen" , Director"Robert J. 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 ending | | Six months ending | |
|---|---------------------|-------------------|--------------------|---------------------|
| | June 30, 2019 | June 30, 2018 | June 30, 2019 | June 30, 2018 |
| REVENUES | | | | |
| Management fees | \$ 1,200,000 | \$ 1,200,000 | \$ 2,400,000 | \$ 2,400,000 |
| Professional services | 1,794,628 | 1,708,213 | 3,274,246 | 3,615,713 |
| Product sales | 3,268,566 | 1,531,208 | 6,497,454 | 2,435,755 |
| Equipment leasing | 193,581 | 111,784 | 545,003 | 339,006 |
| Property leasing | 240,000 | 120,000 | 480,000 | 280,000 |
| | 6,696,775 | 4,671,205 | 13,196,703 | 9,070,474 |
| COST OF SALES | | | | |
| Cost of goods sold | 1,893,090 | 1,114,810 | 3,618,755 | 2,144,322 |
| Salaries, wages, and contractors (Note 11) | 1,515,906 | 1,205,090 | 2,919,476 | 2,163,083 |
| Property and equipment leasing, utilities, and property taxes | 20,268 | 67,176 | 41,182 | 105,208 |
| Amortization (Notes 7, 10) | 187,411 | 19,392 | 365,785 | 126,027 |
| | 3,616,675 | 2,406,468 | 6,945,198 | 4,538,640 |
| Gross Profit | 3,080,100 | 2,264,737 | 6,251,505 | 4,531,834 |
| OPERATING EXPENSES | | | | |
| Advertising and promotion | 372,517 | 300,356 | 564,977 | 572,686 |
| Amortization (Notes 7,10) | 34,755 | 21,255 | 68,987 | 42,367 |
| Bank charges and interest | 16,085 | 8,293 | 35,789 | 13,529 |
| Insurance | 22,723 | 12,225 | 48,907 | 25,046 |
| Office and general | 210,632 | 66,142 | 275,229 | 104,405 |
| Professional and consulting fees | 311,080 | 171,954 | 507,750 | 251,365 |
| Rent, property taxes, and utilities | 48,531 | 38,834 | 70,307 | 70,825 |
| Repairs and maintenance | 162,702 | 98,213 | 244,462 | 203,724 |
| Research and development | 8,897 | 38,839 | 45,459 | 92,282 |
| Share-based payments (Notes 11, 12) | 122,060 | - | 189,453 | - |
| Salaries, wages, and commissions (Note 11) | 113,484 | 90,969 | 234,155 | 180,657 |
| Travel, training, and meals and entertainment | 144,730 | 108,570 | 266,400 | 245,453 |
| | (1,568,196) | (955,650) | (2,551,875) | (1,802,339) |
| Net income before tax | 1,511,904 | 1,309,087 | 3,699,630 | 2,729,495 |
| Income tax expense | (332,842) | (333,257) | (859,151) | (683,667) |
| Net income after taxes | 1,179,062 | \$ 975,830 | \$2,840,479 | \$ 2,045,828 |
| Other comprehensive income | \$ 26,619 | \$ - | \$ 31,743 | \$ - |
| Total comprehensive income | \$1,205,681 | \$ 975,830 | \$2,872,222 | \$ 2,045,828 |
| Basic and diluted income per common share | \$ 0.02 | \$ 1.18 | \$ 0.04 | \$ 1.67 |
| Weighted average number of common shares outstanding | 77,493,635 | 828,302 | 75,783,648 | 1,227,185 |

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 | | | | Number of special warrants | Special warrants | 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 | | | | | | | | | |
| 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) | - | - | - | - | - | - |
| Issuance of shares | - | 50,000 | - | - | - | - | - | (50,000) | - | - | - | - | - |
| Private placement | 6,148,665 | 4,585,134 | - | - | - | - | - | - | - | - | - | - | 4,585,134 |
| Conversion of special warrants | 1,000,000 | 183,250 | 0 | - | (1,000,000) | (183,250) | - | - | - | - | - | - | - |
| Share-based compensation | - | - | - | - | - | - | - | - | 189,453 | - | - | - | 189,453 |
| Cumulative catch-up adjustment of recognition of right-of-use assets | - | - | - | - | - | - | - | - | - | - | - | (240,701) | (240,701) |

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)

| | | | | | | | | | | | | | | |
|---|------------|--------------|---------|-------|---|------|------|------|------|-----------|-----------|-----------|---------------|---------------|
| Other comprehensive income for the period | - | - | - | - | - | - | - | - | - | - | - | 31,743 | - | 31,743 |
| Net income for the period | - | - | - | - | - | - | - | - | - | - | - | - | 2,840,479 | 2,840,479 |
| Balance at June 30, 2019 | 18,674,626 | \$ 8,968,716 | 625,287 | \$ 19 | - | \$ - | \$ - | \$ - | \$ - | \$ 68,433 | \$ 93,396 | \$ 35,834 | \$ 15,123,033 | \$ 24,406,883 |

| | 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 | - | - | - | - | - | - | - | - | - | \$ 2,045,828 | \$ 2,045,828 |
| Balance at June 30, 2018 | 2,000 | \$ 20 | - | \$ - | - | \$ - | \$ - | \$ - | \$ - | \$ 10,820,521 | \$ 10,820,541 |

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)

| | Six months ended | |
|--|-------------------------|----------------------|
| | June 30, 2019 | June 30, 2018 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income for the six months | \$2,840,479 | \$2,045,828 |
| Items not affecting cash: | | |
| Amortization | 434,772 | 168,394 |
| Deferred tax liabilities | 775,560 | 588,148 |
| Share based compensation | 189,453 | - |
| Foreign translation adjustment | 31,743 | - |
| Interest and accretion on leases | 29,933 | - |
| Non-cash working capital item changes: | | |
| Accounts receivable | (4,829,833) | (1,204,402) |
| Inventory | 73,973 | 24,287 |
| Other receivables | (1,245,454) | (203,249) |
| Payables and accrued liabilities | 43,293 | 232,400 |
| Income tax payable | (444,207) | 95,519 |
| Subscription receivable | 183,250 | - |
| Net cash provided by (used in) operating activities | <u>(1,917,038)</u> | <u>1,746,925</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of property, plant and equipment | (589,591) | (630,020) |
| Net cash used in investing activities | <u>(589,591)</u> | <u>(630,020)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Lease payments made | (77,700) | - |
| Notes payable | (228,804) | 545,436 |
| Private placement | 4,585,134 | 12,494 |
| Due from shareholders | - | (186,404) |
| Due from related party | - | (1,195,895) |
| Subscriptions received | 50,000 | - |
| Net cash provided by (used in) financing activities | <u>4,328,630</u> | <u>(823,969)</u> |
| Net change in cash during the six months | 1,822,001 | 292,936 |
| Cash (bank indebtedness), beginning of the period | 3,393,567 | (174,241) |
| Cash, end of the period | <u>\$5,215,568</u> | <u>\$118,695</u> |
| Cash paid for | | |
| Interest | \$ 65,729 | \$ 32,427 |
| 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

June 30, 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 June 30, 2019, the Company had working capital of \$22,622,511 and retained earnings of \$15,123,033. 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

June 30, 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 six months ended June 30, 2019 were approved and authorized for issue by the Board of Directors on August 20, 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

June 30, 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.

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

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

June 30, 2019

(Expressed in U.S. Dollars)

(Unaudited)

lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED...)

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:

| | June 30, 2019 | | December 31, 2018 | |
|-------------------|---------------|------------|-------------------|--------------|
| Total receivables | \$ | 18,036,291 | \$ | 27,579,457 |
| Allowance | | - | | (14,372,999) |
| | \$ | 18,036,291 | \$ | 13,206,458 |

5. INVENTORY

Inventory consists of various types of low-pressure liquid gas held in X-Tane, LLC. The inventory balance as at June 30, 2019 was \$nil (December 31, 2018 - \$73,973).

6. PREPAID DEPOSITS AND OTHER RECEIVABLES

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

| | June 30, 2019 | | December 31, 2018 | |
|-------------------|---------------|-----------|-------------------|---------|
| Vendor deposits | \$ | 1,246,675 | \$ | 255,914 |
| Prepaid Expense | | 131,121 | | - |
| Loan Receivable | | 130,000 | | - |
| Employee advances | | 1,165 | | 7,593 |
| | \$ | 1,508,961 | \$ | 263,507 |

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

June 30, 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 | - | 65,965 | 418,052 | 92,749 | 12,825 | 589,591 |
| Balance at June 30, 2019 | \$ 340,779 | \$ 1,277,161 | \$ 1,869,229 | \$ 2,393,202 | \$ 94,610 | \$ 5,974,981 |
| 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 | - | 41,154 | 117,417 | 212,119 | 9,394 | 380,084 |
| Balance at June 30, 2019 | \$ - | \$ 165,773 | \$ 573,058 | \$ 920,490 | \$ 24,508 | \$ 1,683,829 |
| Net Book Value | | | | | | |
| December 31, 2018 | \$ 340,779 | \$ 1,086,577 | \$ 995,536 | \$ 1,592,082 | \$ 66,671 | \$ 4,081,645 |
| June 30, 2019 | \$ 340,779 | \$ 1,111,388 | \$ 1,296,171 | \$ 1,472,712 | \$ 70,102 | \$ 4,291,152 |

Construction in progress of \$11,106 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 six months ended June 30, 2019 - \$324,177 (2018 - \$106,635) was included in the cost of sales and \$55,907 (2018 - \$21,112) was included in operating expense.

8. PAYABLES AND ACCRUED LIABILITIES

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

| | June 30, 2019 | December 31, 2018 |
|-------------------------------|-------------------|-------------------|
| Trade payables (Note 11) | \$ 244,805 | \$ 214,998 |
| Credit card payable | 122,528 | 203,604 |
| Interest payable | 4,854 | 2,931 |
| Sales tax payable | 13,254 | 3,859 |
| Insurance payable | 5,843 | 9,251 |
| Payroll liabilities | 64,497 | 5,406 |
| Finder fee payable | - | 18,325 |
| Accrued liabilities (Note 11) | 487,219 | 441,333 |
| | \$ 943,000 | \$ 899,707 |

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

June 30, 2019

(Expressed in U.S. Dollars)

(Unaudited)

9. NOTES PAYABLE

Current notes payable are made up of the following:

| | June 30, 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:

| | June 30, 2019 | December 31, 2018 |
|---|--------------------------|----------------------|
| Maturing in December 2021 with an interest rate of 3.65% per annum | \$ 28,173 | \$ 33,506 |
| Maturing on September 20, 2022 with an interest rate of 13% per annum, from related parties (Note 11) | - | 3,171 |
| Maturing on March 31, 2023 with an interest rate of 13% per annum, from related parties (Note 11) | 28,480 | 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). | 65,722 | 69,847 |
| | \$ 122,375 | \$ 161,734 |

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 June 30, 2019 | \$ 776,698 | \$ 207,100 | \$ 983,798 |
| Accumulated Amortization | | | |
| Balance at December 31, 2018 | \$ 332,871 | \$ 69,760 | \$ 402,631 |
| Amortization | 41,608 | 13,080 | 54,688 |
| Balance at June 30, 2019 | \$ 374,479 | \$ 82,840 | \$ 457,319 |
| Net Book Value | | | |
| December 31, 2018 | \$ 443,827 | \$ 137,340 | \$ 581,167 |
| June 30, 2019 | \$ 402,219 | \$ 124,260 | \$ 526,479 |

VAPEN MJ VENTURES CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements

June 30, 2019

(Expressed in U.S. Dollars)

(Unaudited)

10. LEASES (CONTINUED...)

Of the total amortization expense during the six months ended June 30, 2019 - \$41,608 was included in the cost of sales and \$13,080 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 13% and a weighted average lease term of 8.58 years.

Lease Liability

| | June 30, 2019 |
|---------------------------------------|---------------|
| Lease liability – current portion | \$ 80,887 |
| Lease liability – non-current portion | 693,214 |
| Total | \$ 774,101 |

During the six months ended June 31, 2019, income of \$360,000 from subleasing right-of-use assets was included in property leasing.

Interest expense on lease liabilities during the six months ended June 30, 2019 was \$25,003. Of the total, \$37,841 was included in the cost of sales and \$16,633 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.

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11. RELATED PARTY TRANSACTIONS (CONTINUED...)

Remuneration attributed to key management personnel for the three months ended June 30, 2019 and 2018 is summarized as follows:

| | June 30, 2019 | June 30, 2018 |
|--|--------------------------|--------------------------|
| Share-based payments (Note 12) | \$ 3,670 | \$ - |
| Salaries and wages included in cost of sales | 189,171 | 157,298 |
| Salaries, wages and commissions included in operating expenses | 9,956 | 8,279 |
| | <u>\$ 202,797</u> | <u>\$ 165,577</u> |

Remuneration attributed to key management personnel for the six months ended June 30, 2019 and 2018 is summarized as follows:

| | June 30, 2019 | June 30, 2018 |
|--|--------------------------|--------------------------|
| Share-based payments (Note 12) | \$ 29,404 | \$ - |
| Salaries and wages included in cost of sales | 334,038 | 292,125 |
| Salaries, wages and commissions included in operating expenses | 17,581 | 15,375 |
| | <u>\$ 351,619</u> | <u>\$ 307,500</u> |

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 June 30, 2019 and 2018 is summarized as follows:

| | June 30, 2019 | June 30, 2018 |
|--|--------------------------|--------------------------|
| Salaries and wages included cost of sales | \$ 37,644 | \$ 14,911 |
| Salaries, wages and commissions included in operating expenses | 1,981 | 785 |
| | <u>\$ 39,625</u> | <u>\$ 15,696</u> |

Remuneration attributed to other related parties for the six months ended June 30, 2019 and 2018 is summarized as follows:

| | June 30, 2019 | June 30, 2018 |
|--|--------------------------|--------------------------|
| Salaries and wages included cost of sales | \$ 70,207 | \$ 19,471 |
| Salaries, wages and commissions included in operating expenses | 3,695 | 1,025 |
| | <u>\$ 73,902</u> | <u>\$ 20,496</u> |

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11. RELATED PARTY TRANSACTIONS (CONTINUED...)

Balances with related parties:

Due from related parties:

| | June 30, 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 |
| | <u>\$ 2,181,785</u> | <u>\$ 2,181,785</u> |

Due to related parties:

Amounts due to related parties as at June 30, 2019 and December 31, 2018 included the following:

- Included in payables and accrued liabilities as at June 30, 2019 is \$334,011 (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 June 30, 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 June 30, 2019 is \$94,202 (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 2023 – 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 six months period ended June 30, 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.
- 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 \$4,585,134 (CAD\$6,148,665).

Special warrants

On April 25, 2019, during the period ending June 30, 2019, 1,000,000 special warrants that were outstanding were automatically converted 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.

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

The following is a summary of warrant activities during the six ended June 30, 2019:

| | Number of Warrants | Weighted Average Exercise Price |
|--------------------------------|-----------------------|---------------------------------------|
| Outstanding, December 31, 2018 | 4,500,000 | \$ 0.42 |

As at June 30, 2019, the Company had the following share purchase warrants outstanding:

| Outstanding | Exercise Price | Remaining Life (Years) | Expiry Date |
|-------------|----------------|------------------------|-------------------|
| 2,500,000 | CAD\$0.25 | 0.47 | December 17, 2019 |
| 2,000,000 | CAD\$1.00 | 0.50 | December 31, 2019 |
| 500,000 | CAD\$0.25 | 0.48 | December 24, 2019 |
| 5,000,000 | \$0.42 | 0.48 | |

Stock options

As at June 30, 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 six months ended June 30, 2019:

| | Option Shares | Weighted Average Exercise Price CAD\$ |
|--------------------------------|------------------|--|
| Outstanding, December 31, 2018 | - | - |
| Granted | 1,109,000 | \$1.00 |
| Cancelled | 20,000 | \$1.00 |
| Outstanding, June 30, 2019 | 1,089,000 | \$1.00 |

As at June 30, 2019 the Company had the following stock options outstanding and exercisable:

| Outstanding | Exercisable | Exercise Price | Remaining Life (Years) | Expiry Date |
|-------------|-------------|----------------|---------------------------|-----------------|
| 889,000 | 100,000 | CAD\$1.00 | 9.52 | January 3, 2029 |
| 200,000 | - | CAD\$1.00 | 9.88 | May 13, 2029 |
| 1,089,000 | 100,000 | CAD\$1.00 | 9.58 | |

During the six-month period ended June 30, 2019, the Company issued 1,109,000 stock options with a fair value of \$280,970 or \$0.25 per option. During the six-month period ended June 30, 2019, \$142,677 was recorded as a share-based compensation expense based on the number of options vested during the period.

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12. SHARE CAPITAL (CONTINUED...)

| | Six months ended June 30, 2019 | Six months ended June 30, 2018 |
|--|-----------------------------------|-----------------------------------|
| Weighted average expected stock price volatility | 141% | 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 |

Special Advisory Warrants

The following is the summary of special advisory warrant activities during the six months ended June 30, 2019:

| | Warrants | Weighted Average Exercise Price CAD\$ |
|--------------------------------|-----------|--|
| Outstanding, December 31, 2019 | - | - |
| Granted | 1,000,000 | \$1.00 |
| Outstanding, June 30, 2019 | 1,000,000 | \$1.00 |

As at June 30, 2019 the Company had the following special advisory warrants outstanding and exercisable:

| Outstanding | Exercisable | Exercise Price | Remaining Life (Years) | Expiry Date |
|-------------|-------------|----------------|---------------------------|-------------------|
| 1,000,000 | - | CAD\$1.00 | 5.5 | December 31, 2024 |

During the six-month period ended June 30, 2019, the Company issued 1,000,000 special advisory warrants and recorded \$46,776 as a share-based compensation expense. The fair value of the warrants 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:

| | Six months ended June 30, 2019 | Six months ended June 30, 2018 |
|--|-----------------------------------|-----------------------------------|
| Weighted average expected stock price volatility | 100% | n/a |
| Weighted average expected option life (years) | 5.5 | 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.

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13. CAPITAL MANAGEMENT (*CONTINUED...*)

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 June 30, 2019, the Company was dependent on one major customer from its consulting business segment (Note 15). The majority (\$17,649,576) of the Company's accounts receivable are from this customer.

The Company is of the opinion that it is not exposed to significant credit risk from this customer as at June 30, 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 June 30, 2019, the Company had cash and accounts receivable of \$23,251,859 to settle its current liabilities of \$2,138,309. Management believes the Company has sufficient funds to support ongoing operating expenditures and meet its liabilities as they fall due.

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

Market risk

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

a) Interest rate risk

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

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

b) Price risk

The Company is not exposed to significant price risk as it does not 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 June 30, 2019, the Company had \$2,173,650 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 \$217,365 in other comprehensive income.

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 June 30, 2019:

| | Services and products relating to the medical marijuana field | Liquid gas sales | Total |
|---------------------|--|-----------------------------|---------------|
| Sales | \$ 6,644,571 | \$ 52,204 | \$ 6,696,775 |
| Cost of Sales | (3,582,510) | (34,165) | (3,616,675) |
| Operating expenses | (1,340,764) | (200,813) | (1,541,577) |
| Income tax expense | (332,842) | - | (332,842) |
| Net income / (loss) | \$ 1,388,455 | \$ (182,774) | \$ 1,205,681 |
| Assets | \$ 31,694,132 | \$ 66,104 | \$ 31,760,236 |
| Liabilities | \$ 6,974,717 | \$ 45,994 | \$ 7,353,553 |

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15. SEGMENT INFORMATION (CONTINUED...)**As at, and for the six months ended June 30, 2019:**

| | Services and products relating to the medical marijuana field | | Liquid gas sales | | Total |
|--------------------|--|----|-----------------------------|----|---------------|
| Sales | \$ 13,103,854 | \$ | 92,849 | \$ | \$ 13,196,703 |
| Cost of Sales | (6,851,397) | | (93,801) | | (6,945,198) |
| Operating expenses | (2,314,164) | | (205,968) | | (2,520,132) |
| Income tax expense | (859,151) | | - | | (859,151) |
| Net income | \$ 3,079,142 | \$ | (206,920) | \$ | \$ 2,872,222 |
| Assets | \$ 31,694,132 | \$ | 66,104 | \$ | \$ 31,760,236 |
| Liabilities | \$ 6,974,717 | \$ | 45,994 | \$ | \$ 7,353,553 |

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 June 30, 2018:

| | Services and products relating to the medical marijuana field | | Liquid gas sales | | Total |
|--------------------|--|----|-----------------------------|----|--------------|
| Sales | \$ 4,382,178 | \$ | 289,027 | \$ | \$ 4,671,205 |
| Cost of Sales | (2,215,760) | | (190,708) | | (2,406,468) |
| Operating expenses | (944,078) | | (11,572) | | (955,650) |
| Income tax expense | (333,257) | | - | | (333,257) |
| Net income | \$ 889,083 | \$ | 86,747 | \$ | \$ 975,830 |

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15. SEGMENT INFORMATION (CONTINUED...)**For the six months ended June 30, 2018:**

| | Services and products relating to the medical marijuana field | Liquid gas sales | Total |
|--------------------|--|-----------------------------|--------------|
| Sales | \$ 8,471,553 | \$ 598,921 | \$ 9,070,474 |
| Cost of Sales | (4,169,006) | (369,634) | (4,538,640) |
| Operating expenses | (1,761,417) | (40,922) | (1,802,339) |
| Income tax expense | (683,667) | - | (683,667) |
| Net income | \$ 1,857,463 | \$ 188,365 | \$ 2,045,828 |

16. SUBSEQUENT EVENTS

On July 12, 2019, the Company's shares opened for quotation on the OTCQX® Best Market, under the symbol "VAPNF". The Company's trading on the OTCQX Market comes as a result of an application and due diligence process including meeting certain financial metrics. The Company met the criteria and specifically having several years of audited profitable operations.