

**Yellow Stem Tech Inc.**

**Condensed Interim Consolidated Financial Statements**

**For the six months ended October 31, 2022**

**YELLOW STEM TECH INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
(Stated in Canadian Dollars)

| <b>As at</b>                        | <b>October 31,<br/>2022</b> | <b>April 30,<br/>2022</b> |
|-------------------------------------|-----------------------------|---------------------------|
| <b>Assets</b>                       |                             |                           |
| <b>Current</b>                      |                             |                           |
| Cash                                | \$ 83,361                   | \$ 270,100                |
| Amounts receivable                  | 10,898                      | 2,014                     |
| Prepaid expenses (note 1)           | 80,040                      | 4,350                     |
| Total Current Assets                | 174,299                     | 276,464                   |
| <b>Non-Current assets</b>           |                             |                           |
| Fixed assets                        | 3,688                       | 4,609                     |
| Deposit (note 1)                    | 672,893                     | 672,893                   |
| <b>Total Assets</b>                 | <b>\$ 850,880</b>           | <b>\$ 953,966</b>         |
| <b>Liabilities</b>                  |                             |                           |
| <b>Current</b>                      |                             |                           |
| Trade and other payables (note 9)   | \$ 113,199                  | \$ 96,141                 |
| Advances payable (note 4)           | 373,520                     | 373,520                   |
| <b>Total Liabilities</b>            | <b>486,719</b>              | <b>469,661</b>            |
| <b>Equity</b>                       |                             |                           |
| Share capital (note 5)              | 4,932,645                   | 4,852,605                 |
| Reserves (note 5)                   | 90,860                      | 90,860                    |
| Accumulated deficit                 | (4,659,344)                 | (4,459,160)               |
| <b>Total Equity</b>                 | <b>364,161</b>              | <b>484,305</b>            |
| <b>Total Liabilities and Equity</b> | <b>\$ 850,880</b>           | <b>\$ 953,966</b>         |

Basis of Preparation and Going Concern (note 2)  
Subsequent Event (note 10)

APPROVED ON BEHALF OF THE DIRECTORS:

“Robert Eadie”  
Robert Eadie, Director

“Gary Arca”  
Gary Arca, Director

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

**YELLOW STEM TECH INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND**  
**COMPREHENSIVE LOSS**  
(Stated in Canadian Dollars)

|   | For the three months ended<br>October 31, |                     | For the six months ended<br>October 31, |                     |
|---|---|---------------------|---|---------------------|
|   | 2022                                      | 2021                | 2022                                    | 2021                |
| <b>Expenses:</b>  |   |                     |   |                     |
| Audit and accounting fees (note 9)                                      | \$ 9,180                                  | \$ 10,214           | \$ 29,442                               | \$ 13,214           |
| Foreign exchange loss (gain)  | 240                                       | (4)                 | 1,094                                   | 99                  |
| Legal and corporate services  | 22,993                                    | -                   | 34,116                                  | 3,916               |
| Management and consulting fees (note 9)                                 | 16,500                                    | 16,500              | 33,000                                  | 33,000              |
| Office, rent and administration (note 9)                                | 10,014                                    | 8,992               | 17,479                                  | 23,241              |
| Research and development (note 3)                                       | -   | 310,734             | -                                       | 310,734             |
| Shareholder communication and marketing                                 | 5,068                                     | 2,703               | 21,169                                  | 4,386               |
| Transfer agent and filing fees  | 5,178                                     | 4,519               | 23,585                                  | 6,769               |
| Travel and accommodations   | 38,520                                    | -                   | 40,299                                  | -                   |
| <b>Total expenses</b>   | <b>107,693</b>                            | <b>353,658</b>      | <b>200,184</b>                          | <b>395,359</b>      |
| <b>Total loss and comprehensive loss for the period</b>                 | <b>\$ (107,693)</b>                       | <b>\$ (353,658)</b> | <b>\$ (200,184)</b>                     | <b>\$ (395,359)</b> |
| <b>Basic and diluted loss per share for the period</b>                  | <b>\$ (0.00)</b>                          | <b>\$ (0.03)</b>    | <b>\$ (0.00)</b>                        | <b>\$ (0.03)</b>    |
| <b>Weighted average shares outstanding – basic and diluted - Note 6</b> | <b>46,701,501</b>                         | <b>12,081,001</b>   | <b>44,472,076</b>                       | <b>12,081,001</b>   |

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

**YELLOW STEM TECH INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Stated in Canadian Dollars)

| <b>For the six months ended October 31,</b>                       | <b>2022</b>      | <b>2021</b>     |
|---|------------------|-----------------|
| <b>Cash provided by (used in):</b>                                |                  |                 |
| <b>Operating activities</b>                                       |                  |                 |
| Loss for the period   | \$ (200,184)     | \$ (395,359)    |
| Items not involving cash:   |                  |                 |
| Amortization  | 921              | 922             |
| Cash spent in operating activities before working capital changes | (199,263)        | (394,437)       |
| Change in non-cash working capital items                          |                  |                 |
| Amounts receivable  | (8,884)          | (1,689)         |
| Prepaid expenses and advances                                     | 4,350            | -               |
| Trade and other payables  | 17,058           | 326,622         |
| <b>Cash outflow for operating activities</b>                      | <b>(186,739)</b> | <b>(69,504)</b> |
| <b>Financing activities</b>                                       |                  |                 |
| Advances payable  | -                | 59,700          |
| <b>Cash inflow for financing activities</b>                       | <b>-</b>         | <b>59,700</b>   |
| <b>Total decrease in cash</b>                                     | <b>(186,739)</b> | <b>(9,804)</b>  |
| <b>Cash, beginning of period</b>                                  | <b>270,100</b>   | <b>12,348</b>   |
| <b>Cash, end of period</b>  | <b>\$ 83,361</b> | <b>\$ 2,544</b> |

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

**YELLOW STEM TECH INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)**  
(Stated in Canadian Dollars)

|                                   | <b>Number of<br/>Shares<br/>Outstanding</b> | <b>Share<br/>Capital</b> | <b>Reserves</b>  | <b>Accumulated<br/>Deficit</b> | <b>Total Equity<br/>(Deficiency)</b> |
|-----------------------------------|---|--------------------------|------------------|--------------------------------|--------------------------------------|
| Balance – April 30, 2021          | 12,081,001                                  | \$ 3,324,180             | \$ 83,660        | \$ (3,870,490)                 | \$ (462,650)                         |
| Loss for the period               | -   | -                        | -                | (395,359)                      | (395,359)                            |
| Balance – October 31, 2021        | 12,081,001                                  | 3,324,180                | 83,660           | (4,265,849)                    | (858,009)                            |
| Debt settlement                   | 8,002,500                                   | 400,125                  | -                | -                              | 400,125                              |
| Private placement                 | 23,950,000                                  | 1,187,500                | -                | -                              | 1,187,500                            |
| Share issuance costs              | -   | (59,200)                 | 7,200            | -                              | (52,000)                             |
| Loss for the period               | -   | -                        | -                | (193,311)                      | (193,311)                            |
| Balance – April 30, 2022          | 44,033,501                                  | 4,852,605                | 90,860           | (4,459,160)                    | 484,305                              |
| Enigma share issuance (note 5)    | 2,668,000                                   | 80,040                   | -                | -                              | 80,040                               |
| Loss for the period               | -   | -                        | -                | (200,184)                      | (200,184)                            |
| <b>Balance – October 31, 2022</b> | <b>46,701,501</b>                           | <b>\$ 4,932,645</b>      | <b>\$ 90,860</b> | <b>\$ (4,659,344)</b>          | <b>\$ 364,161</b>                    |

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

**YELLOW STEM TECH INC.**  
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
For the six months ended October 31, 2022 and 2021  
(Stated in Canadian Dollars)

**Note 1**     **Corporate Information**

Yellow Stem Tech Inc. (the “Company”) was incorporated as Hemp for Health Inc. on October 1, 2018 under the *Business Corporations Act* of British Columbia and is listed on the Canadian Securities Exchange (the “CSE”) under the trading symbol “YY”. Until recently, the Company was in the business of growing, processing, packaging and selling hemp-based products in Europe through a wholly-owned Italian subsidiary, Hemp For Health H4H s.r.l. (“H4Hsrl”). The Company sold H4Hsrl, and effectively the hemp operations, for nominal value in March, 2022 (see Note 3).

**Change of Business (“COB”)**

During the period ending October 31, 2022, the Company completed the COB and changed its name to “Yellow Stem Tech Inc”. The Company entered into a binding letter of agreement to engage a third party to host cryptocurrency mining activities on behalf of the Company.

Pursuant to an asset purchase agreement and an operating agreement, both dated March 18, 2022, the Company engaged Enigma Data Technologies LLC, a Delaware based company ( “Enigma”) to initially source and acquire 150 Siacoin mining rigs for the aggregate purchase price of \$672,893 (US\$525,000) (paid). The Company has engaged Enigma to set-up, host and operate the cryptocurrency mining activities in exchange for 2,668,000 shares of the Company, valued at fair value on date of issue of \$0.03 per share, or \$80,040, which has been recorded as a prepaid to be expensed once the mining rigs have been placed in operation. The Company will be responsible for ongoing operating costs, to be at an all-in cost of US\$0.055 per kilowatt hour per mining rig.

The above transactions resulted in a COB for the Company and required CSE and shareholder approval which was completed on June 17, 2022. In conjunction with the COB, the Company changed its name to “Yellow Stem Tech Inc” and on June 20, 2022, the Company’s common shares commenced trading on the CSE under the trading symbol “YY”.

The registered address and the Company’s corporate office and principal place of business is 750 – 580 Hornby Street, Vancouver, British Columbia, Canada.

On December 2, 2021, the Company’s outstanding common shares were consolidated on the basis of two existing shares for one new share. All share, per share, and warrant amounts have been retroactively restated.

**Note 2**     **Basis of Preparation and Going Concern**

a) **Statement of Compliance**

These unaudited condensed interim consolidated financial statements for the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

**YELLOW STEM TECH INC.**

Notes to the Condensed Interim Consolidated Financial Statements

October 31, 2022

(Stated in Canadian Dollars) - Page 2

**Note 2     Basis of Preparation and Going Concern – (cont'd)**

a) Statement of Compliance – (cont'd)

These unaudited condensed interim consolidated financial statements, for the six month period ended October 31, 2022, have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting, and do not include all the information required for full annual financial statement. For summary of significant accounting policies, see note 3 of the Company’s April 30, 2022 audited annual financial statements.

These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company’s April 30, 2022 audited annual financial statements.

The financial statements were authorized for issue by the Board of Directors on December 22, 2022.

b) Basis of Measurement and Going Concern

The unaudited condensed consolidated financial statements have been prepared on a historical cost basis, except for cashflow information. The preparation of unaudited condensed consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 of the Company’s April 30, 2022 audited annual financial statements.

The Company has not generated revenue from operations and incurred a loss of \$200,184 during the period ended October 31, 2022. While the Company has been successful in obtaining the necessary financing through the issuance of common shares in the past, there is no assurance it will be able to raise funds in this manner in the future. As at October 31, 2022, the Company had \$83,361 in cash, a working capital deficiency of \$312,420 and no long-term debt.

These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. These financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of operations, and at amounts different from those in the accompanying consolidated financial statements.

## **YELLOW STEM TECH INC.**

Notes to the Condensed Interim Consolidated Financial Statements

October 31, 2022

(Stated in Canadian Dollars) - Page 3

### **Note 2      Basis of Preparation and Going Concern – (cont'd)**

#### c) Basis of Consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its subsidiary, which is controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from the entity's activities. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposal or loss of control.

The Company's wholly-owned subsidiary, H4Hsrl, carried out its operations in Italy during the year ended April 30, 2022, before it was sold in March 2022. All intra-group transactions, balances, income and expenses were eliminated, in full, on consolidation. All expenses are included in the related expense categories, including office and administration.

The condensed interim consolidated financial statements are presented in Canadian dollars ("CDN"), which is the functional currency of the Company and its subsidiary.

### **Note 3      Italian Hemp Operations**

Payments to farmers are fully expensed to research and development as the Company was testing plant strains and has had no significant revenue. During the year ended April 30, 2022, research and development costs were \$420,175 (including VAT taxes due to uncertainty of recovery), with respect to planting in 2022, including seedling costs crop costs from the farmers. Any revenue realized were credited against the research and development costs as realized.

The Company sold H4Hsrl and all Italian hemp operations in March, 2022 for a nominal value to dispose of all Italian assets and liabilities, the right to recover Italian VAT taxes and any outstanding Italian liabilities, and is currently in the process of transferring ownership.

### **Note 4      Advances Payable**

During the year ending April 30, 2022, the CEO and director of the Company advanced 260,000 Euros (\$373,520) to the Company's Italian subsidiary, H4Hsrl, on behalf of the Company to pay certain crop costs and administrative expenses of H4Hsrl. These advances are non-interest bearing and are due on demand.

### **Note 5      Share Capital and Reserves**

#### a) Common share issuances

The Company is authorized to issue an unlimited number of no par value common shares, issuable in series. The holders of common shares are entitled to one vote per share at meetings of the Company and to receive dividends, which may be declared from time-to-time. To date, equity financings have provided the main source of financing. No



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Notes to the Condensed Interim Consolidated Financial Statements

October 31, 2022

(Stated in Canadian Dollars) - Page 4

### **Note 5      Share Capital and Reserves – (cont'd)**

#### a) Common share issuances – (cont'd)

dividends have been declared by the Company since its inception. All shares are ranked equally with regard to the Company's residual net assets.

#### Enigma

The Company has engaged Enigma of the mining rigs to set-up, host and operate the cryptocurrency mining activities in exchange for 2,668,000 shares of the Company. The shares were valued at \$0.03, or \$80,040, the fair market value on June 29, 2022, the date of issue (see note 1).

#### Consolidation

On December 2, 2021, the Company's outstanding common shares were consolidated on the basis of two existing shares for one new share (the "Consolidation"). All share, per share, and warrant amounts have been retroactively restated.

#### Financings

The Company completed a financing in two tranches to raise a total of \$1,197,500 in gross proceeds as follows:

- On December 9, 2021, the Company closed Tranche 1 of its non-brokered private placement, raising \$672,500 in gross proceeds through the issuance of 13,450,000 units at a price of \$0.05 per unit. Each unit consists of one share and one-half of one common share purchase warrant, with each whole warrant entitling the holder to purchase one common share of the Company at a price of \$0.10 per share for a period of 2 years, provided that in the event the closing price of the Company's shares is equal to or greater than \$0.20 per share for 30 consecutive trading days at any time following four months after the date of closing, the Company may, by notice to the warrant holders, reduce the remaining exercise period of the warrants to not less than 30 days following the date of such notice.
- Aggregate compensation of \$52,000 and 520,000 finders' warrants (having the same general terms as the warrants forming part of the units) was paid by the Company as finders' fees, valued at \$7,200 using the Black Scholes method. Assumptions used in the model were a stock price and exercise price of \$0.10, no dividend, a 2 year expected life, a 100% volatility and a risk free rate of 0.95%
- On February 2, 2022, the Company closed the final tranche of its non-brokered private placement, with the final tranche raising \$525,000 through the issuance of 10,500,000 units at a price of \$0.05 per unit. Each unit has the same terms as Tranche 1 above. No finders' fees were payable in this final tranche.

**YELLOW STEM TECH INC.**

Notes to the Condensed Interim Consolidated Financial Statements

October 31, 2022

(Stated in Canadian Dollars) - Page 5

**Note 5      Share Capital and Reserves – (cont'd)**a) Common share issuances – (cont'd)Debt Settlement

During the year ended April 30, 2022, the Company issued 8,002,500 post-consolidated shares in full settlement of outstanding debt in the aggregate amount of \$400,125, representing \$59,625 in fees and \$340,500 in advances owing. Included in this were 1,452,500 shares issued to officers and directors for outstanding fees and advances of \$72,625.

b) Warrants

A summary of the Company's outstanding share purchase warrants at October 31, 2022, April 30, 2022 and April 30, 2021 is as follows:

|                                  | Number of warrants | Weighted average exercise price |
|----------------------------------|--------------------|---------------------------------|
| Balance, April 30, 2021          | 4,381,900          | \$ 0.60                         |
| Warrants expired                 | (4,079,400)        | 0.60                            |
| Warrants granted                 | 12,495,000         | 0.10                            |
| Balance, April 30, 2022          | 12,797,500         | 0.11                            |
| Warrants expired                 | (302,500)          | 0.60                            |
| <b>Balance, October 31, 2022</b> | <b>12,495,000</b>  | <b>\$ 0.10</b>                  |

A summary of the Company's outstanding share purchase warrants is presented below:

| Number of Warrants | Exercise Price | Expiry Date      |
|--------------------|----------------|------------------|
| 7,245,000          | \$0.10         | December 9, 2023 |
| 5,250,000          | \$0.10         | February 2, 2024 |
| <b>12,495,000</b>  | <b>\$0.10</b>  |                  |

During the period ending October 31, 2022, 302,500 warrants expired unexercised.

c) Share-Based Payments

The Company's Board has adopted a Stock Option Plan available to eligible directors, officers, employees and consultants to acquire up to 10% of common shares then outstanding (the "Plan"). Under the Plan, options may be granted by the Board at an option price in accordance with regulatory policy for a maximum term of 10 years. No amounts are paid or payable by the recipient on receipt and the options are not dependent on any performance-based criteria. Share purchase options will vest at the discretion of the Company and in accordance with regulatory policy. No share purchase options have been granted in prior periods and none were granted during the period ended October 31, 2022.

**YELLOW STEM TECH INC.**

Notes to the Condensed Interim Consolidated Financial Statements

October 31, 2022

(Stated in Canadian Dollars) - Page 6

**Note 6**     **Loss Per Share**

The denominator for the calculation of loss per share, being the weighted average number of common shares for the period ended October 31, 2022 and 2021 is as follows:

| <b>For the period ending October 31,</b>            | <b>2022</b>       | 2021       |
|---|-------------------|------------|
| Issued and outstanding, beginning of the period     | <b>44,033,501</b> | 12,081,001 |
| Weighted average shares issued during the period    | <b>438,575</b>    | -          |
| Basic and diluted weighted average number of shares | <b>44,472,076</b> | 12,081,001 |

**Note 7**     **Capital Management**

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in equity as capital. 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. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

**Note 8**     **Financial Instruments**

As at October 31, 2022, the Company's financial instruments consist of cash, amounts receivable, advances payable, and trade and other payables. The fair value of the Company's amounts receivable, advances payable, and trade and other payables approximate their carrying value, which is the amount on the statements of financial position, due to their short-term maturities or ability of prompt liquidation. The Company's cash is carried at FVTPL, where fair value is calculated in accordance with level 1 of the fair value hierarchy.

a) **Currency Risk**

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. At October 31, 2022, US dollar amounts were converted at a rate of \$1.364 Canadian dollars to \$1 US. A 10% increase or decrease in the US dollar exchange may increase or decrease loss for the period by approximately \$203.

b) **Interest Rate Risk**

The Company's cash earns interest at a variable interest rate. Because of the nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of October 31, 2022. Future cash flows from interest income on cash will be affected by interest rate fluctuations. Interest rate risk consists of two components, i) to the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the

**YELLOW STEM TECH INC.**

Notes to the Condensed Interim Consolidated Financial Statements

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(Stated in Canadian Dollars) - Page 7

**Note 8      Financial Instruments – (cont'd)**b) Interest Rate Risk – (cont'd)

Company is exposed to interest rate cash flow risk; and ii) To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's exposure to interest rate fluctuations is minimal.

c) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk with respect to its cash, the balance of which at October 31, 2022 is \$83,361 (April 30, 2022 – \$270,100). As at that date, cash was held at a chartered Canadian financial institution and the Company does not consider the risks to be significant.

Liquidity risk arises from the excess of financial obligations over available financial assets due at any point in time. Additional cash requirements could be met with the issuance of additional share capital; however, there is no assurance the Company will be able to raise funds in this manner in the future. As at October 31, 2022, the Company was holding cash of \$83,361 (April 30, 2022 – \$270,100).

**Note 9      Related Party Transactions**

The following is a summary of charges incurred by the Company with related parties for the period ended October 31, 2022 and 2021:

| <u>Period ended October 31,</u> | <u>2022</u>      | <u>2021</u>      |
|---------------------------------|------------------|------------------|
| Audit and accounting            | \$ -             | \$ 3,000         |
| Management fees                 | <b>33,000</b>    | 33,000           |
| Office and administration       | <b>16,500</b>    | 16,416           |
| <b>Total</b>                    | <b>\$ 49,500</b> | <b>\$ 52,416</b> |

During the six months ended October 31, 2022, the Company incurred fees and operational expenses totalling \$49,500 (October 31, 2021: \$52,416) from companies controlled by an officer and director of the Company and by another officer and director. As of October 31, 2022, the Company had amounts payable to officers and directors, and companies with directors in common of \$45,000 (April 30, 2022: \$8,363).

During the year ended April 30, 2022, \$83,855 in amounts payable for fees, expenses and advances were forgiven as debts to the Company. Included in these amounts was \$64,629 of amounts owing to officers and directors and companies controlled by officers and directors which included amounts payable for fees and advances.

## **YELLOW STEM TECH INC.**

Notes to the Condensed Interim Consolidated Financial Statements

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(Stated in Canadian Dollars) - Page 8

### **Note 10    Subsequent Event**

#### Worldwide Distribution Rights to Sweet Poison Spirits

The Company has entered into a Product Distribution Agreement (the Distribution Agreement”) with Sweet Poison Spirits S de RL de CV, a Mexican company headquartered in Guadalajara, Mexico, and Sweet Poison Spirits LLC, a California limited liability corporation headquartered in San Diego, California (collectively, “Sweet Poison”). The Distribution Agreement grants the Company the worldwide distribution rights to Sweet Poison’s premium Tequila and Mezcal products under the “Sweet Poison” brand names for an initial period of ten years, renewable for a further ten years and beyond.

In consideration of the rights and licences granted by Sweet Poison, the Company will issue to the shareholders of Sweet Poison 5,000,000 common shares (the “Shares”) at a deemed price of US\$0.20 per share, subject to resale restrictions as follows:

- (i) 25% of the Shares will become free-trading four months following the date of issuance (“Closing”);
- (ii) 25% of the Shares will become free-trading 12 months following Closing;
- (iii) 25% of the Shares will become free-trading 18 months following Closing; and
- (iv) the remaining 25% of the Shares will become free-trading 24 months following Closing.

Concurrent with the Distribution Agreement, the Company also entered into an agreement (the “Option Agreement”) with the shareholders of Sweet Poison, whereby the Company was granted the option to acquire all of the shares of Sweet Poison subject to the Company fulfilling its obligations under the Distribution Agreement. The terms of the Option Agreement include:

- (i) The option price is US\$1,000,000, exercisable by the Company at any time after 24 months from the date of the Option Agreement and prior to 36 months;
- (ii) The option price will be payable as to US\$400,000 in cash and US\$600,000 in common shares of the Company (based on a share price of \$0.20 per share for the first tranche, and the following tranches at the volume weighted average price per share for the 10 trading days prior to issue) in three equal tranches over 18 months from exercise of the option.

Subject to regulatory policies, the Company will pay Finder’s Fees of 10% on each of the Sweet Poison transactions, such Finder’s Fees payable in the form of shares at a deemed price of US\$0.20 per share.

Closing under the Distribution Agreement is subject to all necessary regulatory approvals, including the Canadian Securities Exchange.