HAENEP SOURCE, LLC

Financial Statements
(Expressed in United States dollars)

For the year ended December 31, 2015
and for the period from formation on April 23, 2014
to December 31, 2014

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Independent Auditors’ Report

To the Unitholders of Haenep Source, LLC:

We have audited the accompanying balance sheets of Haenep Source, LLC as of December 31, 2015 and 2014, and the related statements of operations and comprehensive loss, changes in members' deficiency, and cash flows for the years then ended. Haenep Source, LLC’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Haenep Source, LLC is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Haenep Source, LLC’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Haenep Source, LLC as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on Haenep Source, LLC's ability to continue as a going concern.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
December 16, 2016

HAENEP SOURCE, LLC
(expressed in United States dollars)

Balance Sheets

As at December 31,		**2015**		**2014**
ASSETS				
Current assets				
Cash	**$**	**75,885**	$	67,836
Trade and other receivables, net of allowance for doubtful accounts $nil (2014 - $nil)		**48,259**		35,337
Prepaid expenses and deposits		**25,214**		6,661
Inventory *(note 3)*		**496,937**		203,871
Total Current Assets		**646,295**		313,705
Non-current assets				
Due from related party *(note 8)*		**-**		4,035
Equipment *(note 4)*		**36,408**		25,579
Intangible assets *(note 5)*		**7,125**		7,250
TOTAL ASSETS	**$**	**689,828**	$	350,569
LIABILITIES AND MEMBERS' DEFICIENCY				
Current liabilities				
Accounts payable *(note 8)*	**$**	**720,204**	$	293,780
Accrued liabilities		**23,192**		-
Deferred revenue		**94,405**		-
Due to related party *(note 8)*		**7,924**		-
Notes payable to related parties *(note 6)*		**354,154**		364,476
Loan payable *(note 7)*		**108,288**		-
		1,308,167		658,256
Members' Deficiency				
Members capital *(2,000 and 2,000 authorized as at December 31, 2015 and 2014, respectively; 2,000 and 2,000 issued and outstanding as at December 31, 2015 and 2014, respectively).*		**-**		-
Contributed surplus *(note 6)*		**101,306**		-
Accumulated deficit		**(719,645)**		(307,687)
Total Member's Deficiency		**(618,339)**		(307,687)
TOTAL LIABILITIES AND MEMBERS' DEFICIENCY	**$**	**689,828**	$	350,569

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

Going Concern *(Note 1)*
Subsequent Events *(Note 12)*

Approved by the Board:

Signed "Jason Golec"

Director

HAENEP SOURCE, LLC
(expressed in United States dollars)

Statements of Operations and Comprehensive Loss
For the year ended December 31, 2015 and for the period from formation on April 23, 2014 to December 31, 2014

	2015	2014
Revenues *(note 8)*	**$ 2,125,277**	$ 707,125
Cost of Goods Sold *(notes 3 & 8)*	**1,549,120**	642,518
Gross Profit	**$ 576,157**	$ 64,607
Operating Expenses:		
Salaries and Wages *(note 8)*	**$ 363,424**	$ 60,511
Professional Fees	**233,049**	51,999
Advertising and Promotion	**88,931**	132,277
General and Administrative	**103,385**	60,588
Travel and Entertainment	**55,394**	54,899
Depreciation and amortization *(notes 4 & 5)*	**16,367**	-
Bad debt expense *(note 8)*	**32,422**	-
Write-off of prepaid expense	**50,045**	-
Total Operating Expenses	**$ 943,017**	$ 360,274
Net Loss from operations before interest expense	**$ (366,860)**	$ (295,667)
Interest expense	**45,098**	12,020
Net and Comprehensive Loss	**$ (411,958)**	$ (307,687)

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

HAENEP SOURCE, LLC
(expressed in United States dollars)

Statements of Changes in Members' Deficiency
For the year ended December 31, 2015 and for the period from formation on April 23, 2014 to December 31, 2014

	Member's Capital							
	Units	**Amount**		**Contributed Surplus**		**Accumulated Deficit**		**Total**
Balance, April 23, 2014 (date of formation)	**2,000**	**-**	**$**	**-**	**$**	**-**	**$**	**-**
Net loss	-	-		-		(307,687)		(307,687)
Balance, December 31, 2014	**-**	-		-		(307,687)		(307,687)
Related party debt forgiveness *(note 6)*				101,306		-		101,306
Net loss	-	-		-		(411,958)		(411,958)
Balance, December 31, 2015	**2,000**	**-**	**$**	**101,306**	**$**	**(719,645)**	**$**	**(618,339)**

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

Statements of Cash Flows
For the year ended December 31, 2015 and for the period from formation on April 23, 2014 to December 31, 2014
(expressed in United States dollars)

	2015	2014
Cash flow generated used in operating activities		
Net loss for the period	**$ (411,958)**	$ (307,687)
Item not affecting cash		
Depreciation and amortization	**16,367**	-
Accrued interest	**25,425**	8,823
Net changes in non-cash working capital items		
Accounts receivable	**(12,922)**	(35,387)
Prepaid expenses	**(18,553)**	(6,611)
Inventory	**(293,066)**	(203,871)
Accounts payable and accrued liabilities	**449,916**	293,780
Deferred revenue	**94,105**	-
	(150,686)	(250,953)
Cash flow used in investing activities		
Acquisition of equipment	**(24,321)**	(25,579)
Acquisition of intangible assets	**(2,750)**	(7,250)
	(27,071)	(32,829)
Cash flow from financing activities		
Loans received from related parties	**89,547**	351,618
Issuance of bank loan, net of repayments	**96,259**	-
	185,806	351,618
Increase in cash	**8,049**	67,836
Cash, beginning of period	**67,836**	-
Cash, end of period	**$ 75,885**	$ 67,836

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

1. NATURE OF BUSINESS AND GOING CONCERN

Nature of the business

Haenep Source, LLC ("Haenep Source" or the "Company"), is a limited liability company formed in the State of California. It was incorporated on April 23, 2014. The Company's head office is located at 27576 Commerce Center Drive, Suite 114, Temecula, California.

At the date of these financial statements, the Company was owned 50% by General Hemp, LLC and 50% by GQ International, Inc. (the "Members") and is engaged in the distribution of legal Hemp based products under the names Holy Grail, and The Cannabis Lifestyle Company (see *note 12* for subsequent events). They are also in the business of developing specific product lines and in supporting existing and future products of related affiliate companies under common control.

To date, the Company has not yet realized sustainable profitable operations resulting in an accumulated deficit of $719,645 at December 31, 2015 (December 31, 2014 – $307,687). As at December 31, 2015, the Company had cash of $75,885 (December 31, 2014 - $67,836) to settle current liabilities of $1,308,178 (December 31, 2014 - $658,256). To date, the Company's cash flow requirements have been met through proceeds from notes payable issued to a related party and a bank loan. In order to meet future expenditures and cover operating expenses, the Company will need to raise additional financing. There is no assurance that financing will continue to be available to the Company. These factors cast significant doubt about the Company's ability to continue as a going concern.

These financial statements have been prepared on the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These accompanying financial statements of the Company have been prepared following generally accepted accounting principles in the United States ("US GAAP"), and are expressed in United States dollars ("US dollars"), unless otherwise noted.

b) Basis of presentation

The financial statements have been prepared on a historical cost basis except for certain financial instruments that have been measured at fair value.

c) Significant accounting estimates and judgments

The preparation of these financial statements requires management to make judgments and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgments and estimates. The financial statements include judgments and estimates which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences

2. BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Significant accounting estimates and judgments (continued)

Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods when the revision affects both current and future periods.

Significant assumptions about the future and other sources of judgments and estimates that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Allowance for Bad Debts
The Company establishes an appropriate provision for uncollectible or doubtful accounts. Estimates of recoverable amounts are based on management's best estimate of a customer's ability to settle its obligations, and actual amounts received may be affected by various factors, including industry conditions and changes in individual customer financial conditions. To the extent that actual losses on uncollectible accounts differ from those estimated in the Company's provision, both accounts receivable and net earnings will be affected.

Provisions for Inventory
Management makes estimates of the future customer demand for the Company's products when establishing appropriate provisions for inventory. In making these estimates, management considers product life of inventory and the profitability of recent sales of inventory. In many cases, product sold by the Company turns over quickly and inventory on-hand values are lower, thus reducing the risk of material misstatement. Management ensures that systems are in place to highlight and properly value inventory that may be approaching "best before" dates. To the extent that actual losses on inventory differ from those estimated, both inventory and net earnings will be affected.

Financial instruments

The Company estimates the fair value of financial instruments using the available market information and valuation methods. Considerable judgment is required in estimating fair value. Accordingly, the estimates of fair value may not be indicative of the amounts the Company could realize in a current market exchange.

The Company follows FASB ("Paragraph 820-10-35-37") to measure the fair value of its financial instruments. US GAAP establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three (3) broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three (3) levels of fair value hierarchy are described below:

Level 1 - Quoted prices in active markets for identical assets or liabilities;

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 - Unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

2. BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. The notes payable are classified as Level 2 financial liabilities.

As of December 31, 2015 and December 31, 2014, the carrying value of accounts receivable, accounts payable, accrued expenses, notes payable and loan payable approximated fair value due to the short-term nature of these instruments.

Inventory

Inventory is valued at the lower of cost and net realizable value with cost being determined on a first-in, first-out basis. Net realizable value represents the anticipated selling price less all further costs necessary to complete the sale. The cost of finished goods inventory consists of raw materials and the cost to convert the raw materials to saleable products. Conversion costs include labour and overhead costs.

Equipment and depreciation

Equipment is carried at cost less accumulated depreciation and any impairment in value. The initial cost of equipment is comprised of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated using the straight-line method over the estimated useful lives of the property and equipment as follows:

Equipment	3 years

The useful lives and depreciation methods are reviewed periodically to ensure that the period and methods of depreciation are consistent with the expected pattern of economic benefits from property and equipment.

Depreciation of equipment commences when the equipment is available for use and when the equipment is in the necessary location and condition to be capable of operating in the manner intended by management.

Website Development Costs

Website development costs consist of costs incurred to develop internet websites to earn revenue through direct online sales with respect to the Company's business operations. Costs are capitalized and are amortized over their estimated useful life commencing when the internet website has been completed. The Company ceased capitalizing website development costs and began amortizing the capitalized costs over their useful life of three years upon the commercial launch of the website in April 2015.

2. BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

A United States limited liability company with multiple members may elect to be treated as a corporation under the Federal income tax laws. As of the date of this report, the Company has not made such an election and is continuing to be treated as a partnership with flow-through taxation to the members of the Company. The Company is not itself liable for income tax. As a result, no provision for income taxes has been recorded in the Company. Each Member will generally be required to include, in computing his or her income or loss for tax purposes for a taxation year, his or her share of the income or loss for tax purposes (including taxable capital gains or allowable capital losses) for each fiscal year of the Company.

Member Capital

Member units are classified as equity. Incremental costs directly attributable to the issuance of units are recognized as a deduction from equity.

Revenue recognition

Revenue is recognized when it is earned: specifically, when products are shipped to or picked up by customers, there is clear evidence that an arrangement exists, amounts to be received are fixed or determinable and the ability to collect is reasonably assured. At these points, the risks and rewards of ownership have transferred to the buyer, revenue can be reliably measured and it is probable that the economic benefits will flow to the Company. Sales returns and allowances are treated as reductions to revenue and are provided for based on historical experience and current estimates.

Loss per unit

Basic loss per unit is computed by dividing the net loss attributable to members by the weighted-average number of units outstanding during the year.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing the performance of the operating segments. The Company operates and reports its results as one operating segment.

Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an overflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company had no material provisions at December 31, 2015 and 2014.

2. BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09: Revenue from Contracts with Customers. The standard outlines a five-step model for revenue recognition with the core principle being that a company should recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. Companies can choose to apply the standard using either the full retrospective approach or a modified retrospective approach. Under the modified approach, financial statements will be prepared for the year of adoption using the new standard but prior periods presented will not be adjusted. Instead, companies will recognize a cumulative catch-up adjustment to the opening balance of retained earnings. This new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company has not yet made a determination as to the method of application (full retrospective or modified retrospective). It is too early to assess whether the impact of the adoption of this new guidance will have a material impact on the Company's results of operations or financial position.

On August 27, 2014 the FASB issued a new financial accounting standard on going concern, Update 2014-15, “Presentation of Financial Statements – Going Concern (subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” The standard provides guidance about management’s responsibility to evaluate whether there is substantial doubt about the organization’s ability to continue as a going concern. The amendments in this update apply to all companies. They become effective in the annual period ending after December 15, 2016, with early application permitted. The Company is currently evaluating the impact of this accounting standard.

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”. This standard is intended to define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. Under U.S. GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, U.S. GAAP lacks guidance about management’s responsibility to evaluate whether there is substantial doubt about the organization’s ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization’s management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial position and results of operations.

(expressed in United States dollars)

2. BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements (continued)

In July 2015, the FASB issued ASU No. 2015-11, "*Simplifying the Measurement of Inventory*." Under this ASU, inventory will be measured at the "lower of cost and net realizable value" and options that currently exist for "market value" will be eliminated. The ASU defines net realizable value as the "estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation." No other changes were made to the current guidance on inventory measurement. ASU 2015-11 is effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the impact of the accounting update on our interim condensed consolidated financial statements.

In November 2015, the FASB released ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"). ASU 2015-17 simplifies the presentation of deferred income taxes by deferred tax assets and liabilities be classified as noncurrent on the balance sheet. ASU 2015-17 is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. The guidance may be adopted prospectively or retrospectively and early adoption is permitted. Adoption of this guidance is not expected to have any effect on the Company's consolidated financial statements. We are currently evaluating the impact of the accounting update on our interim condensed consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU requires entities to measure equity investments, except those accounted for under the equity method of accounting or those that result in consolidation of the investee, at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. The guidance will be effective prospectively for annual periods beginning after December 15, 2017, including interim periods within those fiscal years with early adoption permitted. The Company is currently evaluating the new guidance; however, as the Company accounts for one of its investments under the equity method and the other under the cost method as it does not have a readily determinable fair value, the Company does not expect it to have a material impact on its interim condensed consolidated financial statements.

3. INVENTORY

	December 31, 2015	December 31, 2014
Raw materials and consumables	**$ 65,511**	$ 74,854
Finished goods	**431,426**	129,017
Total	**$ 496,937**	$ 203,871

As at December 31, 2015, the Company charged a total of $1,497,250 of inventory to cost of sales (December 31, 2014 - $612,851).

(expressed in United States dollars)

4. EQUIPMENT

		December 31, 2015		December 31, 2014
Production equipment - cost	**$**	**49,900**	$	25,579
Accumulated depreciation		**(13,492)**		-
Net book value – December 31, 2015	**$**	**36,408**	$	25,579

Depreciation for the year ended December 31, 2015 is $13,492 (December 31, 2014 – $nil).

5. INTANGIBLE ASSETS

		December 31, 2015		December 31, 2014
Website development - cost	**$**	**10,000**	$	7,250
Accumulated depreciation		**(2,875)**		-
Net book value – December 31, 2015	**$**	**7,125**	$	7,250

Amortization for the year ended December 31, 2015 is $2,875 (December 31, 2014 - $nil).

The following is a summary of the expected amortization expense, assuming no future additions, for each of the give years following December 31, 2015:

		Amount
2016	$	2,875
2017		2,875
2018		1,375
2019		-
2020		-
Total	**$**	**7,125**

6. NOTES PAYABLE TO RELATED PARTIES

		December 31, 2015		December 31, 2014
Notes payable to Medical Marijuana Inc. (i)	**$**	**157,295**	$	251,176
Notes payable to General Hemp LLC (ii)		**196,859**		113,300
Total notes payable	**$**	**354,154**		364,476

6. NOTES PAYABLE TO RELATED PARTIES - CONTINUED

(i) Promissory notes to Medical Marijuana Inc.

Throughout fiscal 2014, the Company secured loans totaling $251,176 from Medical Marijuana Inc. and HempMeds, entities related to the Company by common control. The loans bear interest at 8% per annum payable upon maturity of the loans. The loans have no set maturity date but it is intended that they will be negotiated upon becoming publicly listed. Given the uncertainty of this date the Company had recognized the entire balance as current.

During the year ended December 31, 2015 the Company reached an agreement with respect to the debt owed to HempMeds whereby $101,306 of the balance was forgiven resulting in a gain on related party debt forgiveness recorded in contributed surplus (December 31, 2014 - $nil). At the time of the transaction, the Company and HempMeds were considered to be related parties due to common control.

On December 9, 2015, the Company entered into an agreement with Medical Marijuana Inc., which is related to the Company by common control, whereby the parties offset $389,304 in related party accounts receivable against $381,878 in related party accounts payable (*note 8*). The remaining balance of $7,425 was applied against the outstanding note payable to Medical Marijuana Inc.

On December 9, 2015, the Company entered into a revised agreement to finalize the amount owing of $157,295 to Medical Marijuana, Inc. The loan now has a maturity date of November 15, 2016 and bears interest at 8% per annum payable upon maturity (*note 12*). At any time on or after the issuance date, this note shall be convertible in whole or in part, as mutually agreed by the two parties.

During the period ended December 31, 2015 the Company recognized $nil (December 31, 2014 - $7,770) in interest expense. Interest expense is recognized within notes payable.

(ii) Promissory notes to General Hemp LLC

On December 9, 2015, the Company entered into a forbearance agreement with General Hemp, LLC which is related to the Company by joint control. Maturity dates for loans totalling $182,410 with an original expiry date of November 15, 2015 have been extended to November 15, 2016 (*note 12*). The loans will continue to bear 8% interest per annum payable upon maturity. During the year ended December 31, 2015 the Company recognized $13,396 (December 31, 2014 - $1,053) in interest expense. Interest expense is recognized within notes payable.

(expressed in United States dollars)

7. LOAN PAYABLE

	December 31, 2015	December 31, 2014
Principal advance	**$ 135,021**	$ -
Interest	**12,029**	-
Payments	**(38,762)**	-
Total loans payable	**$ 108,288**	$ -

On October 12, 2015, the Company entered into a business loan agreement with a bank for proceeds of $135,021. Under the terms of the agreement, the Company makes daily payments until they receive payment in full for an aggregate amount of $193,079. The maturity of the loan is October 25, 2017. As at December 31, 2015, $108,288 remains outstanding. The calculated implied interest rate is 75.92%.

8. DUE TO RELATED PARTIES AND OTHER RELATED PARTY TRANSACTIONS

Related parties also include the Board of Directors, officers and close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

During fiscal 2015, total gross sales by the Company to HempMeds, which is related to the Company by common control, were $1,140,720 (December 31, 2014 – $456,881). As at December 31, 2015, accounts receivable from HempMeds was $nil *(note 6)* (December 31, 2014 – $nil).

During fiscal 2015 the Company recorded a bad debt expense of $32,422 (December 31, 2014 - $nil) related to related party accounts receivable.

During fiscal 2015, total purchases by the Company from HempMeds, which is related to the Company by common control, were $243,293 (December 31, 2014 – $337,965). As at December 31, 2015, accounts payable to HempMeds was $nil *(note 6)* (December 31, 2014 – $239,182).

As at December 31, 2015, the loan payable to GQ International, related by joint control, was $7,924 (December 31, 2014 - loan receivable from GQ International of $4,035). The loan is unsecured, non-interest bearing and has no specified terms of repayment.

During fiscal 2015, remuneration of key management was $113,000 (December 31, 2014 - $18,000). As at December 31, 2015, an amount payable of $29,287 is owing to a managing member (December 31, 2014 - $29,105), and is included in accounts payable.

9. MEMBERS' DEFICIENCY

The Company is governed by the terms and conditions of the Limited Liability Company Agreement ("the Agreement") dated April 23, 2014.

The Company shall be managed by its managing member and shall only admit new members with the unanimous written approval of all Members. Any additional parties shall obtain ownership and/or membership interests and will participate in the management, profits, losses and distributions of the Company on such terms as determined by the Members.

10. FINANCIAL INSTRUMENTS

Financial instruments of the Company consist of cash, accounts receivable, accounts payable and accrued liabilities, loans payable, due from (to) related party and notes payable to related parties. There are no significant differences between the carrying amounts of the items reported on the balance sheet and their estimated fair values. The Company's risk exposures and their impact on the Company's financial instruments are summarized below.

Credit risk

Financial instruments that could expose the Company to credit risk are primarily cash and accounts receivable (see concentration risk below). The Company has deposited its cash in financial institutions with good reputations, and management considers the risk of losses to be negligible. The Company's cash is not subject to any external restrictions.

Concentration risk

The Company sells its products primarily to HempMeds, which is related to the Company by common control (*see note 6)*. During the year ended December 31, 2015, approximately 39% (December 31, 2014 – 70%) of the Company's revenues was attributable to two customers. As at December 31, 2015, approximately 88% (December 31, 2014 – 74%) of the Company's accounts receivable was attributable to two customers.

The Company has no prior history of bad debts and as such, management believes that the credit risk in relation to accounts receivable is low. As at December 31, 2015, the Company had $51,053 (December 31, 2014 - $6,662) of overdue accounts receivable (over 60 days outstanding). During the year ended December 31, 2015, management recorded an allowance of $32,422 (December 31, 2014 - $nil).

Liquidity risk

The Company is exposed to liquidity risk. Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's future liquidity is dependent on factors such as the ability to generate cash from operations and raise money through debt or equity financing (see note 1).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk arising from fluctuations in interest rates received on its cash balance. Fluctuations in market interest rates do not have a significant impact on the Company's results of operations due to the short-term nature of interest bearing cash. Notes payable to related parties and the loan payable have fixed interest rates and therefore do not result in significant interest rate risk.

12. SUBSEQUENT EVENTS

On January 27, 2016, the Company entered into a consulting agreement with Mindshare Holdings, Inc. Upon execution of the agreement, the Company irrevocably issued 9.5% membership interest in the Company. These units shall be exchanged for common stock in any successor companies, and ultimately the parent company and shall be exchanged at $0.02, resulting in the issuance of 4,750,000 shares of common stock upon completion of its going public transaction (the Transaction). The Company also issued a convertible promissory note for a principal amount of $50,000 to Mindshare Holdings Ltd. The loan will bear interest of 8% per annum payable upon maturity on January 27, 2017. The convertible promissory note is convertible in whole or in part into common shares of the maker's successor company and/or parent company, solely at the option of the holder, at $0.10 per share.

On January 28, 2016, the Company entered into a consulting agreement with Malcolm Scott Purdy. Upon execution of the agreement, the Company irrevocably issued 9.5% membership interest in the Company. These units shall be exchanged for common stock in any successor companies, and ultimately the parent company and shall be exchanged at $0.02, resulting in the issuance of 4,750,000 shares of common stock upon completion of the Transaction. The Company also issued a convertible promissory note for a principal amount of $100,000 to Malcolm Scott Purdy. The loan will bear interest of 8% per annum payable upon maturity on January 28, 2017. The convertible promissory note is convertible in whole or in part at any time, as mutually agreed by the maker and holder.

On February 27, 2016, the Company entered into a consulting agreement with Hermosa Capital Management Inc. Upon execution of the agreement, the Company irrevocably issued 9.5% membership interest in the Company. These units shall be exchanged for common stock in any successor companies, and ultimately the parent company and shall be exchanged at $0.02, resulting in the issuance of 4,750,000 shares of common stock upon completion of the Transaction.

On March 2, 2016, the Company entered into a consulting agreement with 1020771 B.C. LTD., upon execution of the agreement, the Company irrevocably issued 4.5% membership interest in the Company. These units shall be exchanged for common stock in any successor companies, and ultimately the parent company and shall be exchanged at $0.02, resulting in the issuance of 2,250,000 shares of common stock upon completion of the Transaction.

On March 3, 2016, the Company entered into a consulting agreement with Pilcher Enterprises, upon execution of the agreement, the Company irrevocably issued 2% membership interest in the Company. These units shall be exchanged for common stock in any successor companies, and ultimately the parent company and shall be exchanged at $0.02, resulting in the issuance of 1,000,000 shares of common stock upon completion of the Transaction

On March 3, 2016, the Company entered into a consulting agreement with NEU Ideas Upon execution of the agreement, the Company irrevocably issued 4.4% membership interest in the Company. These units shall be exchanged for common stock in any successor companies, and ultimately the parent company and shall be exchanged at $0.02, resulting in the issuance of 2,200,000 shares of common stock upon completion of the Transaction

On March 3, 2016, the Company entered into a consulting agreement with Allison Kern Upon execution of the agreement, the Company irrevocably issued 0.1% membership interest in the Company. These units shall be exchanged for common stock in any successor companies, and ultimately the parent company and shall be exchanged at $0.02, resulting in the issuance of 50,000 shares of common stock upon completion of the Transaction

12. SUBSEQUENT EVENTS - CONTINUED

On March 31, 2016, the Company entered into a consulting agreement with Allison Kern Upon execution of the agreement, the Company irrevocably issued 9.5% membership interest in the Company. These units shall be exchanged for common stock in any successor companies, and ultimately the parent company and shall be exchanged at $0.02, resulting in the issuance of 4,750,000 shares of common stock upon completion of the Transaction

On April 28, 2016 the company entered into an Exchange and Release agreement with General Hemp, whereby General Hemp sold its membership interest in the Company. A total of $100,000 of the loans were repaid, with the remaining principal balance of $82,410 due on November 15, 2016.

On May 3, 2016, the Company entered into an Amended and Restated Limited Liability Company Agreement in which Cat’s Meow Trust and Villa Nicole each purchased 10% of the Joint Venture for $50,000 each.

On May 3, 2016, the Company also issued a convertible promissory note for a principal amount of $25,000 to Villa Nicole Family Trust. The loan will bear interest of 5% per annum payable monthly, with the principal, and any unpaid interest payable upon maturity on May 3, 2018.The convertible promissory note is convertible in whole or in part at any time, as mutually agreed by the maker and holder.

On May 3, 2016, the Company also issued a convertible promissory note for a principal amount of $25,000 to Cat’s Meow Trust. The loan will bear interest of 5% per annum payable monthly, with the principal, and any unpaid interest payable upon maturity on May 3, 2018. The convertible promissory note is convertible in whole or in part at any time, as mutually agreed by the maker and holder.

On July 11, 2016, the Company sold $92,950 of future sales to New Era Lending, LLC for proceeds of $65,000. Under the terms of the agreement, the Company pays a certain percentage of its daily receipts to New Era Lending, LLC, until they receive payment in full of the purchased amount. The Company accounts for this transaction as a loan, with a calculated implied interest rate of 76.12%.

On July 12, 2016, the Company sold $219,000 of future sales to Nextwave Enterprises, LLC for proceeds of $150,000. Under the terms of the agreement, the Company pays a certain percentage of its daily receipts to Nextwave Enterprises, LLC, until they receive payment in full of the purchased amount. The Company accounts for this transaction as a loan, with a calculated implied interest rate of 91.25%.

On September 27, 2016 the Company issued a convertible promissory note for a principal amount of $20,000 to Jason Golec (Director of the Company). The loan will bear interest of 8% per annum payable upon maturity on September 27, 2016. The convertible promissory note is convertible in whole or in part into common shares of the maker’s successor company and/or parent company, solely at the option of the holder, at $0.047 per share.

On October 1, 2016, the Company issued a convertible promissory note for a principal amount of $25,000 to Villa Nicole Family Trust. The loan will bear interest of 8% per annum payable upon maturity on October 10, 2017. The convertible promissory note is convertible in whole or in part into common shares of the maker’s successor company and/or parent company, solely at the option of the holder, at $0.0475 per share.

12. SUBSEQUENT EVENTS - CONTINUED

On October 1, 2016, the Company issued a convertible promissory note for a principal amount of $25,000 to Cat's Meow Trust. The loan will bear interest of 8% per annum payable upon maturity on October 10, 2017. The convertible promissory note is convertible in whole or in part into common shares of the maker's successor company and/or parent company, solely at the option of the holder, at $0.0475 per share.

The Company issued two loans to Medical Marijuana Inc. and General Hemp, LLC both having a maturity date of November 15, 2016 (*note 6*). Subsequent to period end, both loans are in default. The Company is renegotiating the terms of the loans for conversion into common stock upon completion of the Transaction.