

GREEN 2 BLUE ENERGY CORP.

Condensed Interim Consolidated Financial Statements

March 31, 2019

(Expressed in Canadian dollars)

(Unaudited)

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these consolidated financial statements.

GREEN 2 BLUE ENERGY CORP.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	March 31, 2019 \$	June 30, 2018 \$
Assets		
Current assets		
Cash	24,963	766,483
Accounts receivable (Note 5)	192,273	227,263
Due from related parties (Note 11)	5,533	–
Inventory (Note 6)	146,710	165,650
Prepaid expenses	175,733	168,862
	545,212	1,328,258
Non-current assets		
Property and equipment (Note 7)	1,440,020	832,291
Land and Building (Note 8)	89,712	–
Total assets	2,074,944	2,160,549
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,354,535	847,204
Loans payable (Note 9)	224,813	120,193
Due to related parties (Note 11)	15,204	12,281
Current portion of obligations under finance lease (Note 10)	403,608	82,896
	1,968,386	1,062,574
Non-current liabilities		
Subscriptions received on convertible debentures (Note 15)	270,471	–
Obligations under finance lease (Note 10)	29,209	262,538
Total liabilities	2,268,066	1,325,112
Shareholders' equity		
Share capital (Note 12)	10,111,193	10,033,693
Share-based payment reserve	1,520,317	1,394,112
Deficit	(11,823,927)	(10,567,259)
Accumulated other comprehensive loss	(1,649)	(30,201)
Total Green 2 Blue Energy Corp. shareholders' equity	194,066	830,345
Non-controlling interest	944	5,092
Total shareholders' equity	(193,122)	835,437
Total liabilities and shareholders' equity	2,074,944	2,160,549

Going concern (Note 1)

Commitments (Note 17)

Subsequent events (Note 20)

Approved and authorized for issuance by the Board of Directors on May 30, 2019:

/s/ "Slawomir Smulewicz"

Slawomir Smulewicz, Director

/s/ "Andrew Lee"

Andrew Lee, Director

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

GREEN 2 BLUE ENERGY CORP.

Condensed Interim Consolidated Statements of Comprehensive Loss

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	Three Months Ended March 31, 2019 \$	Three Months Ended March 31, 2018 \$	Nine Months Ended March 31, 2019 \$	Nine Months Ended March 31, 2018 \$
Sales	594,245	419,384	1,292,087	809,963
Cost of sales	547,823	284,723	1,050,097	620,350
Gross profit	46,422	134,661	241,990	189,613
Operating Expenses				
Consulting and management fees (Note 11)	-	135,451	153,100	450,451
Depreciation	16,419	1,474	29,423	4,059
Foreign exchange (gain) loss	104,623	19,343	(116)	24,692
General and administrative	342,582	289,116	1,002,252	583,893
Professional fees (Note 11)	47,888	8,154	70,003	91,231
Share-based compensation (Note 13)	-	387,367	126,205	613,626
Travel	16,067	45,520	39,695	48,548
Wages and benefits	851	5,599	5,972	6,200
Total operating expenses	488,423	889,024	1,426,534	1,822,700
Net loss before other income (expense)	(442,001)	(754,363)	(1,184,544)	(878,724)
Other income (expense)				
Listing expense	-	-	-	(534,198)
Other income	19,651	28,783	24,048	28,783
Interest income (expense)	(54,116)	(7,813)	(100,320)	(14,990)
Total other income (expense)	(34,465)	20,965	(76,272)	(520,405)
Net loss for the period	(476,466)	(733,398)	(1,260,816)	(2,153,492)
Less: net loss attributable to the non-controlling interest	(2,621)	(7,147)	(4,148)	(10,427)
Net loss attributable to shareholders of Green 2 Blue Energy Corp.	(473,845)	(726,251)	(1,256,668)	(2,143,065)
Foreign currency translation	71,747	(16,239)	28,552	(82,337)
Comprehensive loss attributable to shareholders Green 2 Blue Energy Corp.	(402,098)	(742,490)	(1,228,116)	(2,225,402)
Basic and diluted loss attributable to Green 2 Blue Energy Corp.	(0.01)	(0.01)	(0.01)	(0.04)
Weighted average number of common shares outstanding used in the calculation of net loss attributable to Green 2 Blue Energy Corp. per common share basic and diluted				
	92,065,567	68,742,508	91,714,062	57,060,084

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

GREEN 2 BLUE ENERGY CORP.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	Common Shares		Share-based Payment Reserve \$	Subscription Subscribed \$	Deficit \$	Accumulated Other Comprehensive Income (Loss) \$	Non-controlling Interest \$	Total Shareholders' Equity (Deficit) \$
	Number	Amount \$						
Balance, June 30 2017	47,000,002	1,659,637	376,846	–	(3,002,013)	(43,327)	383	(1,008,474)
Equity issued per reverse takeover of Green 2 Blue Energy Corp.	6,570,400	657,040	(247,793)	291,120	–	–	–	700,367
Issuance of units for cash	18,046,700	2784,920	–	(291,120)	–	–	–	2,493,800
Issuance of units for finder's fee	146,800	14,680	–	–	–	–	–	14,680
Share issuance costs	–	(153,574)	59,994	–	–	–	–	(93,580)
Shares issued on exercise of options	2,185,000	255,250	–	–	–	–	–	255,250
Shares issued on exercise of warrants	1,908,500	407,272	(216,422)	–	–	–	–	190,850
Subscriptions received	–	–	–	18,750	–	–	–	18,750
Share-based compensation	–	–	613,626	–	–	–	–	613,626
Net loss	–	–	–	–	(2,143,065)	–	(10,427)	(2,153,492)
Foreign currency translation loss	–	–	–	–	–	(82,337)	–	(82,337)
Balance, March 31, 2018	75,827,402	5,625,225	586,251	18,750	(5,145,078)	(125,664)	(10,044)	949,440
Balance, June 30, 2018	91,290,567	10,033,693	1,394,112	–	(10,567,259)	(30,201)	5,092	835,437
Issuance of shares upon exercise of warrants	775,000	77,500	–	–	–	–	–	77,500
Share-based compensation	–	–	126,205	–	–	–	–	126,205
Net loss for the period	–	–	–	–	(1,256,668)	–	(4,148)	(1,260,816)
Foreign currency translation	–	–	–	–	–	28,552	–	28,552
Balance, March 31, 2019	92,065,567	10,111,193	1,520,317	–	(11,823,927)	(1,649)	944	(193,122)

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

GREEN 2 BLUE ENERGY CORP.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	Nine Months Ended March, 31 2019 \$	Nine Months Ended March 31, 2018 \$
Operating activities		
Net loss	(1,260,816)	(2,153,492)
Items not affecting cash:		
Depreciation	104,020	4,059
Non-cash listing expense	–	534,198
Share-based compensation	126,205	613,626
Changes in non-cash operating working capital:		
Accounts receivable	34,990	(205,014)
Inventory	18,940	(300,864)
Prepaid expenses	(6,871)	(127,979)
Accounts payable and accrued liabilities	478,158	19,213
Due to related parties	50,666	3,367
Net cash used in operating activities	(454,708)	(1,612,866)
Investing activities		
Cash acquired upon recapitalization	–	5,459
Sale of property and equipment	324,993	–
Purchase of property and equipment	(1,103,239)	(130,892)
Net cash used in investing activities	(778,246)	(125,433)
Financing activities		
Repayment of finance lease obligations	(15,168)	(25,734)
Convertible debt subscriptions received	270,471	–
Proceeds from warrants exercised	77,500	–
Proceeds from loan payable	104,620	1,841
Repayment of loans payable	–	(71,812)
Proceeds from units subscribed	–	18,750
Proceeds from units issued	–	2,861,000
Net cash provided by financing activities	437,423	2,784,045
Effects of exchange rate changes on cash	54,011)	(43,629)
Change in cash	(741,520)	1,002,097
Cash, beginning of period	766,483	38,958
Cash, end of period	24,963	1,041,055

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

GREEN 2 BLUE ENERGY CORP.

Notes to the Condensed Interim Consolidated Financial Statements

Nine Months Ended March 31, 2019 and 2018

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

1. Corporate Information

Green 2 Blue Energy Corp (the “Company”) was incorporated on October 9, 2014 in British Columbia under the Business Corporations Act. The Company was previously engaged in the business of mineral exploration and the acquisition of mineral property assets in Ontario through its subsidiary, Brigadier. The Company has since terminated all of its mineral property interests.

On January 16, 2017, the Company entered into a Share Exchange Agreement with G2BE Canada Inc. (“G2BE”), a private British Columbia company incorporated on May 30, 2014 for a reverse-takeover transaction whereby the Company would acquire all of the issued and outstanding common shares in the capital of G2BE (the “Transaction”).

On July 21, 2017, the Company completed the Acquisition with G2BE by issuing 47,000,002 common shares to the G2BE shareholders on the basis of one common share for every one G2BE common share. Upon completion of the Acquisition, the G2BE shareholders held approximately 87% of the issued and outstanding company shares of the Company. As the shareholders of G2BE hold a majority of the common shares of the Company and will continue its existing business, G2BE is considered to have acquired the Company on an accounting basis, and the transaction was accounted for as a reverse takeover.

Accordingly, the Company is now in the business of manufacturing, marketing, and distributing softwood pellets and shavings for consumer and industrial customers and arranging transactions between buyers and sellers of alternative energy products. The Company’s registered office is located at Suite 1080, 789 West Pender Street, Vancouver BC and the Company is listed on the Canadian Securities Exchange (the “Exchange”) under the symbol “GTBE.”

These interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at March 31, 2019, the Company had a negative cash flow from operations, and an accumulated deficit of \$11,823,927. Furthermore, the Company incurred a net loss of \$1,260,816 during the nine months ended March 31, 2019. To obtain future profitability, the Company will need to increase the volume of production and sales, and is reliant on the co-operation of creditors to pay outstanding amounts on a timely basis. These factors, among others, create substantial doubt as to the ability of the Company to continue as a going concern. Management believes that the proceeds from additional equity and debt financing activities that it is currently pursuing, combined with revenue that the Company expects to generate in subsequent periods, will provide the Company with sufficient working capital to satisfy its liabilities and commitments as they become due for the foreseeable future. There can be no assurances that sufficient equity or debt can be raised on a timely basis or on terms that are acceptable to the Company. These factors, however, indicate the existence of a material uncertainty that casts significant doubt on the ability of the Company to continue as a going concern or in its present form. These interim consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. Basis of Presentation

(a) Statement of Compliance and Principles of Consolidation

These interim consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. The interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended June 30, 2018, which have been prepared in accordance with IFRS as issued by the IASB. The Company uses the same accounting policies and methods of computation as in the annual consolidated financial statements.

The interim consolidated financial statements were authorized for issue by the Board of Directors on May 30, 2019.

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Notes to the Condensed Interim Consolidated Financial Statements

Nine Months Ended March 31, 2019 and 2018

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

2. Basis of Presentation (continued)

(a) Statement of Compliance and Principles of Consolidation (continued)

The interim consolidated financial statements include the accounts and results of operations of the Company and its wholly owned subsidiaries listed in the following table:

Name of Subsidiary	Place of Incorporation	Ownership Interest
G2BE Canada Inc. ("G2BE")	Canada	100%
G2BE Europe Ltd. ("G2BEEL")	Malta	100%
G2BE Poland Sp. z o.o. ("G2BE PL")	Poland	99% owned by G2BEEL
G2BE Production Sp. z o.o. ("G2BEP")	Poland	99.5% owned by G2BE PL
G2BE Zaklad 2 Sp. z o.o. („G2BE Z2")	Poland	99% owned by G2BE PL
G2BE Sino Limited ("G2BESL")	Hong Kong	65% owned by G2BE

(b) Basis of Measurement

These interim consolidated financial statements have been prepared on a historical cost basis, modified where applicable. In addition, these interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The interim consolidated financial statements are presented in Canadian dollars, except where otherwise indicated. The functional currency of each entity is measured using the currency of the primary economic environment in which the entity operates. The functional currency of the Company, G2BE, G2BEEL and G2BESL is Canadian dollars and G2BE PL, G2BEP and G2BE Z2 functional currency is Polish zloty ("PLN\$").

(c) Use of Estimates and Judgments

The preparation of these interim consolidated financial statements requires management to make certain estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the interim consolidated financial statements and reported amounts of expenses during the period. These estimates are, by their nature, uncertain. The impacts of such estimates are pervasive throughout the interim consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions, and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the reporting date that could result in a material adjustment to the carrying amounts of assets and liabilities.

Significant areas of estimation and judgment include the collectability of accounts receivable, useful life and recoverability of long-lived assets, measurement of provisions, valuation of inventory, fair value of derivative liabilities, fair value of share-based payments, application of the going concern assumption, and deferred income tax asset valuation allowances.

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Notes to the Condensed Interim Consolidated Financial Statements

Nine Months Ended March 31, 2019 and 2018

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

2. Basis of Presentation (continued)

(c) Use of Estimates and Judgments (continued)

The Company's policy for property and equipment requires judgment in determining whether the present value of future expected economic benefits exceeds capitalized costs. The policy requires management to make certain estimates and assumptions about future economic benefits related to its operations. Estimates and assumptions may change if new information becomes available. If information becomes available suggesting that the recovery of capitalized cost is unlikely, the capitalized cost is written off to the consolidated statement of operations.

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

(d) Restatement

Certain comparative amounts for the prior period have been restated to conform with the basis of presentation in the current year. Such restatement had no effect on shareholders' equity.

3. Accounting Policies Implemented on July 1, 2018

The Company has adopted new accounting standard IFRS 9 – *Financial Instruments*, effective for annual periods beginning on or after January 1, 2018. The adoption of IFRS 9 did not result in any changes to the classification, measurement or carrying amounts of the Company's existing financial instruments on transition date. The new standard brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 – *Financial instruments: recognition and measurement*. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The Company continues to classify and measure its financial instruments at fair value through profit or loss with changes in fair value recognized in profit or loss as they arise ("FVTPL"), unless restrictive criteria regarding the objective and contractual cash flows of the instrument are met for classifying and measuring at either amortized cost or fair value through other comprehensive income. Cash and cash equivalents, and trade receivables continue to be recorded at FVTPL. Trade and other payables are classified and measured as financial liabilities, initially at FVTPL, and subsequently at amortized cost using the effective interest rate method.

The Company has adopted new accounting standard IFRS 15 *Revenue from Contracts with Customers*, effective for annual periods beginning on or after January 1, 2018 using the cumulative effective basis, with no restatement of the comparative period. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers.

The Company principally generates revenue from the production and sale of residential and commercial wood pellets. The Company has reviewed its sources of revenue from the sale of products using the guidance found in IFRS 15 and determined that there are no material changes to the timing and measurement of the Company's revenue from these sources as compared to the previous standards

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Notes to the Condensed Interim Consolidated Financial Statements

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4. Accounting Standards Issued But Not Yet Effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for annual periods beginning after January 1, 2019 or later periods.

On January 13, 2016, the IASB published a new standard, IFRS 16, *Leases*, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently assessing the impact of the new standard including the optional exemptions available. The recognition of all leases on balance sheet is expected to increase the assets and liabilities on the Consolidated Statement of Financial Position upon adoption. The increase primarily relates to property leases currently accounted for as operating leases. The Company does not intend to early adopt the standard.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

5. Accounts Receivable

	March 31, 2019	June 30, 2018
Trade accounts receivable	\$ 61,905	\$ 54,295
GST and VAT receivable	130,628	172,968
	\$ 192,273	\$ 227,263

6. Inventory

	March 31, 2019	June 30, 2018
Raw materials	\$ 108,506	8,134
Work in progress	–	60,328
Finished goods	38,204	97,188
	\$ 146,710	165,650

During the nine months ended March 31, 2019, the Company recognized \$549,717 of inventory in cost of sales (2018 - \$318,430).

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Notes to the Condensed Interim Consolidated Financial Statements

Nine Months Ended March 31, 2019 and 2018

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

7. Property and Equipment

	Assets Under Construction \$	Vehicles \$	Furniture and Fixtures \$	Technical Equipment and Machinery \$	Total \$
Cost:					
Balance, June 30, 2018	630,686	8,139	8,617	519,519	1,166,961
Additions	648,397	84,655	16,479	312,066	1,061,597
Dispositions	(324,756)	(237)	–	–	(324,993)
Balance, March 31, 2019	954,327	92,557	25,096	831,585	1,903,565
Accumulated depreciation:					
Balance, June 30, 2018	–	2,023	2,642	355,067	359,732
Additions	–	6,987	3,502	89,631	100,120
Balance, March 31, 2019	–	9,010	6,144	444,698	459,852
Foreign exchange					
Balance, June 30, 2018	(10,754)	127	3,086	32,603	25,062
Balance, March 31, 2019	(15,648)	(4,472)	(2,800)	19,227	(3,693)
Carrying amounts:					
Balance, June 30, 2018	619,932	6,243	9,061	197,055	832,291
Balance, March 31, 2019	938,679	79,075	16,152	406,114	1,440,020

During the nine months ended March 31, 2019, included in cost of sales was amortization of \$21,464 (2018 - \$13,768). At March 31, 2019, advances for construction of \$160,806 was included in assets under construction.

8. Land and Buildings

	Total \$
Cost:	
Balance, June 30, 2018	–
Additions	93,612
Balance, December 31, 2018	93,612
Accumulated depreciation:	
Balance, June 30, 2018	–
Additions	3,900
Balance, December 31, 2018	3,900
Carrying amounts:	
Balance, June 30, 2018	–
Balance, December 31, 2018	89,712

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Notes to the Condensed Interim Consolidated Financial Statements

Nine Months Ended March 31, 2019 and 2018

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

8. Land and Buildings (continued)

On June 19, 2018, the Company exercised its option to purchase its leased premises and buildings in Rzeczenica, Poland, that was negotiated at time of signing the original lease in November 2016 with the court appointed receiver Seeger-Dach Sp. z o.o. (“Seeger-Dach”). The Company will pay Seeger-Dach a cash payment of \$670,000 (PLN \$1,903,494) plus applicable Value Added Tax (“VAT”). The Property Purchase agreement includes 17 acres of land, all buildings, and existing infrastructure. Closing will not occur until the Company has received its VAT opinion from the Polish courts and tax authority. As at March 31, 2019, the transaction has not yet closed.

9. Loans Payable

- (a) As at March 31, 2019, the Company owed \$1,743 (PLN\$5,000) (June 30, 2018 - \$1,758 (PLN\$5,000)) to an unrelated third party, which is unsecured, bears interest at 10% per annum, and was due on July 31, 2016.
- (b) As March 31, 2019, the Company owed \$97,661 (PLN\$280,000) (June 30, 2018 - \$63,273 (PLN\$180,000)), which is secured by 600,000 shares of the Company that were pledged by a shareholder, bears interest at 4.81% per annum, and was due on July 31, 2018.
- (c) As at March 31, 2019, the Company owed \$54,733 (PLN\$156,923) (June 30, 2018 - \$55,162 (PLN\$156,923)), which is secured by 600,000 shares of the Company that were pledged by a shareholder, bears interest at 4.81% per annum, and was due on July 31, 2018.
- (d) As at March 31, 2019, the Company owed \$69,758 (PLN\$200,000) (June 20, 2018 - \$Nil), secured by a shareholder guarantee, bears interest at 6% annually and is due by December 31, 2019.

10. Obligations Under Finance Lease

The Company entered into an agreement to lease machinery used in the production of pellets. The equipment lease is classified as a finance lease. The interest rate underlying the obligation in the finance lease is 26% per annum. The Company ceased making payments in September, 2017. On March 31, 2019, the Company owed \$396,427 (PLN 1,088,546) and entered into a settlement agreement to purchase the equipment for \$257,566 as described in Note 16(a). At March 31, 2019, the Company had classified the total amount owing on the lease as current.

The Company entered into an agreement to lease machinery used in the production of pellets. The equipment lease is classified as a finance lease. The interest rate underlying the obligation in the finance lease is 2% per annum.

The following is a schedule by years of future minimum lease payments under the remaining finance lease together with the present value of the net minimum lease payments as of March 31, 2019:

Year ending June 30:	\$
2019	2,234
2020	8,937
2021	8,937
2022	8,937
2023	8,937
2024	2,979
Net minimum lease payments	40,959
Residual value	520
Less: amount representing interest payments	(5,291)
Present value of net minimum lease payments	36,189
Less: current portion	(6,980)
Non-current portion	29,209

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Nine Months Ended March 31, 2019 and 2018

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

11. Related Party Transactions

- (a) As at March 31, 2019, the Company was owed \$5,533 (PLN\$15,864) (June 30, 2018 – owed \$8,201 (PLN\$23,330) to the President of G2BE Europe. The amount owed is unsecured, non-interest bearing, and due on demand.
- (b) As at March 31, 2019, the Company owed \$23,192 (June 30, 2018 – \$2,384 and \$1,696 (PLN\$4,826) to the President of the Company. The amount owing is unsecured, non-interest bearing, and due on demand.
- (c) As at March 31, 2019, the Company owed \$45,288 (June 30, 2018 – \$Nil) to the former Chief Financial Officer of the Company and a company controlled by the Chief Financial Officer of the Company. The amount owing is unsecured, non-interest bearing, and due on demand.
- (d) During the nine months ended March 31, 2019, the Company recorded management and consulting fees of \$46,500 (2018 - \$114,375 and share-based compensation of \$104,068) to a company controlled by the President of the Company and the wife of the President of the Company.
- (e) During the nine months ended March 31, 2019, the Company recorded management fees of \$75,600 (2018 - \$91,500 and share-based compensation of \$104,068) to a company controlled by the former Chief Financial Officer of the Company.
- (f) During the nine months ended December 31, 2018, the Company recorded consulting fees of \$20,000 (2018 - \$nil) and share-based compensation of \$8,873(2018-\$Nil) to a former Director of the Company.

12. Share Capital

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares without par value. The Company has not issued any preferred shares since inception.

Common Shares

The Company is authorized to issue an unlimited number of common shares without par value.

Issued during the six months ended December 31, 2018:

- (a) On August 15, 2018, the Company issued 50,000 shares of common stock upon the exercise of 50,000 share purchase warrants at \$0.10 per share for proceeds of \$5,000.
- (b) On September 27, 2018, the Company issued 37,50 shares of common stock upon the exercise of 37,500 share purchase warrants at \$0.10 per share for proceeds of \$3,750.
- (c) On November 7, 2018, the Company issued 37,500 shares of common stock upon the exercise of 37,500 share purchase warrants at \$0.10 per share for proceeds of \$3,750.
- (d) On November 9, 2018, the Company issued 650,000 shares of common stock upon the exercise of 650,000 share purchase warrants at \$0.10 per share for proceeds of \$65,000.

13. Stock Options

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each stock option may be no less than the greater of \$0.10 per share and the closing market price of the Company's shares on the trading day immediately preceding the date of grant of the option, less any applicable discount allowed by the stock exchange on which the shares are traded, as calculated on the date of grant.

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Notes to the Condensed Interim Consolidated Financial Statements

Nine Months Ended March 31, 2019 and 2018

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

13. Stock Options (continued)

The following table summarizes information about the stock options.

	Nine Months Ended March 31, 2019		Year Ended June 30, 2018	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding – beginning of period	6,615,000	0.15	–	–
Options of the Company at time of recapitalization	–	–	260,000	1.00
Granted	1,400,000	0.14	8,900,000	0.14
Exercised	–	–	(2,185,000)	0.12
Cancelled	(200,000)	0.37	(360,000)	0.04
Outstanding – end of period	7,815,000	0.14	6,615,000	0.15
Exercisable – end of period	7,815,000	0.14	6,615,000	0.15

The following table summarizes information about stock options outstanding and exercisable as at March 31, 2019.

Exercise Price	Expiry Date	Number of Options Outstanding and Exercisable	Number of Options Exercisable	Weighted Average Remaining Contracted Life (Years)
\$ 0.10	November 21, 2022	1,100,000	1,100,000	3.89
\$ 0.15	January 23, 2023	1,915,000	1,915,000	4.02
\$ 0.15	June 13, 2023	3,000,000	3,000,000	4.45
\$ 0.15	June 19, 2023	400,000	400,000	4.47
\$ 0.15	July 10, 2023	1,000,000	1,000,000	4.53
\$ 0.15	November 26, 2023	400,000	400,000	4.91
		7,815,000	7,815,000	4.30

Share-based compensation expense is determined using the Black-Scholes Option Pricing Model.

During the nine ended March 31, 2019, the Company recognized share-based compensation expense of \$126,205 (2018 - \$613,626) in share-based payment reserve.

The weighted average fair value of the options granted during the nine months ended March 31, 2019, was \$0.09 (2018 - \$0.09). Weighted average assumptions used in calculating the fair value of stock-based compensation expense are as follows:

	2019	2018
Risk-free rate	2.14%	1.65%
Dividend yield	nil%	nil%
Expected volatility	125%	140%
Weighted average expected life of the options (years)	5.00	5.00

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14. Common Share Purchase Warrants

The following table summarizes the continuity of common share purchase warrants (“warrants”):

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2018	32,007,165	\$ 0.27
Exercised	(775,000)	\$ 0.10
Balance, March 31, 2019	31,232,165	\$ 0.30

The following table summarizes information about warrants outstanding and exercisable at March 31, 2019:

Warrants Outstanding	Exercise Price	Expiry Date
7,012,500	\$0.20	November 10, 2019
875,000	\$0.20	November 24, 2019
2,187,400	\$0.20	December 12, 2019
6,890,600	\$0.35	March 7, 2020
14,266,665	\$0.35	October 16, 2019

15. Convertible Debentures

The Company received subscriptions on a non-brokered private placement of unsecured convertible debentures, having a term of 36 months accruing interest at 10% per annum, accrued and paid annually. The holders of the debentures have the option to convert into common shares in \$5,000 increments at \$0.20 per share. The Company may force the conversion of the principal amount the then outstanding debentures at the conversion price on not less than 30 days’ notice should the daily volume weighted average trading price of the Company’s outstanding common shares on the Exchange be equal to or greater than \$0.40 per common share for any 10 consecutive trading days, subject to such mandatory conversion being permitted under the policies of the Exchange at the time of conversion.

The Company may pay finders’ fees in cash to certain qualified finders as determined by management of up to 5% of the gross proceeds raised pursuant to the debenture offering.

The first tranche of the offering was closed on April 30, 2019, with the Company receiving gross proceeds of \$303,000.

16. Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and equity comprised of issued share capital, and share-based payment reserve.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its board of directors, will balance its overall capital structure through new equity issuances or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company’s overall strategy with respect to capital risk management remains unchanged from the year ended June 30, 2018.

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17. Commitments

The Company had no significant commitments or contractual obligations with any parties respecting executive compensation, consulting arrangements, or other matters other than disclosed below. Management services provided are on a month-to-month basis.

- (a) The Company has entered into a lease for equipment until December 31, 2020. The Company ceased making payments in September 2017. On December 31, 2018, the Company owed \$396,427 (PLN 1,088,546) and entered into a settlement agreement. Pursuant to the agreement the Company agreed to purchase the equipment from the lessor for \$257,566 (PLN 707,250) to paid \$89,588 (PLDN 246,000) on January 14, 2019 and \$167,978 (PLN 461,250) on February 28, 2019. All amounts owed pursuant to the lease agreement will be settled in full following the second payment to the lessor. If the Company fails to make the payments specified in the settlement agreement, the Company must return the equipment to the lessor and any payments made will be applied against amounts owed under the lease agreement.

The Company paid the lessor \$89,588 (PLN 246,000) and the final payment was postponed to April 30, 2019 but has not been paid as yet.

- (b) On November 2, 2016, the Company entered into an agreement to lease equipment until August 1, 2020. The Company made an initial payment of \$5,855 (PLN\$16,718) and agreed to pay \$2,937 (PLN\$8,387) per month. The lease is secured by a cash deposit of \$21,014 (PLN\$60,000) together with a promissory note guaranteed by a shareholder of the Company.
- (c) On November 9, 2016, the Company entered into an agreement for the purchase of feed stock and sale wood pellets for an indefinite period. Pursuant to the agreement, the Company will purchase feed stock from the supplier and sell wood pellets to the supplier. The sale price of the wood pellets will be based on the purchase price of the feed stock and guarantees a fixed margin of production. The agreement may be terminated by either party with 3 months' notice.
- (d) Commencing on January 1, 2017, the Company entered into an agreement to lease property for an indefinite period in exchange for PLN 25,000 per month plus VAT and utilities. The lease is secured by equipment owned by the Company's subsidiary and a vehicle owned by a shareholder.
- (e) On October 29, 2018, the Company entered into an agreement to sell wood pellets at a price of EUR 148/MT until March 2019.
- (f) The Company has entered into a new lease for an automobile until July 16, 2020. The Company's future minimum lease payments for the automobile lease is as follows:

	\$
Fiscal year ending June 30, 2019	1,120
Fiscal year ending June 30, 2020	4,481
Fiscal year ending June 30, 2021	374
Total:	5,975

- (g) The Company has entered into a lease for equipment until October 31, 2023. The Company's future minimum lease payments for the existing equipment leases are as follows:

	\$
Fiscal year ending June 30, 2019	2,234
Fiscal year ending June 30, 2020	8,937
Fiscal year ending June 30, 2021	8,937
Fiscal year ending June 30, 2022	8,937
Fiscal year ending June 30, 2023	8,937
Fiscal year ending June 30, 2024	2,979
Total:	40,959

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17. Commitments (continued)

- (h) The facility lease agreement is currently for a period of two years, whereby the lease payments for the first 6 months are set at PLN 20,000 (or Cdn\$6,976) per month, PLN 25,000 (or Cdn\$8,720) for the next three months, PLN 28,000 (or Cdn\$9,766) for the next three months and PLN 37,000 (or Cdn\$12,905) per month for the remainder of the term. All existing equipment including pellet machines, a drum dryer, hammer mill and full production line are included in the Agreement. The Company has entered into a new lease of a facility until October 31, 2020. The Company's future minimum lease payments for the automobile lease is as follows:

	\$
Fiscal year ending June 30, 2019	24,415
Fiscal year ending June 30, 2020	141,260
Fiscal year ending June 30, 2021	51,621
Total:	217,296

- (i) On January 7, 2019, G2BE Canada Inc. received a lawsuit on the lack of payment for services with the registered office in Poznan, Poland. The amount of the claim is PLN 20,000 (or Cdn\$7,284).

18. Financial Instruments and Risk Management

The Company is exposed in varying degrees to a variety of financial instrument and related risks. Those risks and management's approach to mitigating those risks are as follows:

(a) Fair Values

The fair values of other financial instruments, which include accounts receivable, accounts payable and accrued liabilities, loans payable, amounts due from and to related parties, and obligations under finance lease, approximate their carrying values due to the relatively short-term maturity of these instruments.

(b) 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's exposure to credit risk is in its cash and accounts receivables. Cash is held with major banks in Canada, which are high credit quality financial institutions as determined by rating agencies. The carrying amount of financial assets represents the maximum credit exposure.

Accounts receivable consists of trade receivables and input tax credits. The following table represents the customers that represented 10% or more of total trade receivables as of:

	March 31, 2019	June 30, 2018
Customer A	77%	37%
Customer B	-	19%
Customer C	-	20%
Customer D	-	10%

The following table represents the customers that represented 10% or more of total revenue for the nine months ended March 31:

	2019	2018
Customer A	45%	88%
Customer B	17%	

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18. Financial Instruments and Risk Management (continued)

(c) Currency Risk

The Company's functional currencies are the Canadian dollar and Polish zloty. Currency risk is the risk that the fair value of the Company's financial instruments will fluctuate because of changes in foreign currency exchange rates. The Company's head office and some operating expenses are denominated in Canadian dollars. The Company's revenue and a large portion of operating expenses are denominated in Polish zloty. If the Polish zloty depreciates compared to the Canadian dollar, revenue would decrease in Canadian dollars. A 10% change in the foreign currency exchange rate would have an approximate impact of \$41,000 on net loss. The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts to offset foreign currency payables where possible. Management relies on the natural hedge created by this matching process and thus has chosen not to otherwise hedge its foreign exchange risk.

(d) Interest Rate Risk

The Company's exposure to interest rate risk relates to its ability to earn interest income on cash balances at variable rates and its short-term term deposits at prescribed market rates. The fair value of the Company's cash is not significantly affected by changes in short-term interest rates. The income earned from the bank accounts and short-term term deposits is subject to movements in interest rates.

(e) Liquidity and Funding Risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available capital in order to meet its liquidity requirements. Management maintains sufficient cash to satisfy short-term liabilities in highly liquid investments.

Funding risk is the risk that market conditions will impact the Company's ability to raise capital through equity markets under acceptable terms and conditions.

19. Segmented Information

The Company has one operating segment which is manufacturing, marketing, and distributing softwood pellets and shavings for consumer and industrial customers. The Company has operations in Canada and Poland. The geographic distribution of non-current assets is as follows:

	Canada	Poland	Total
March 31, 2019			
Property and equipment	\$ 1,104	\$ 1,528,628	\$ 1,529,732
June 30, 2018			
Property and equipment	\$ 1,518	\$ 830,773	\$ 832,291

All of the Company's revenue during the nine months ended March 31, 2019 and 2018, was generated in Poland.

20. Subsequent Events

The following items have not previously been disclosed:

- (a) On April 26, 2019, the Company announced a non-brokered private placement of up to 15,000,000 units of the Company at a price of \$0.05 per unit. Each unit will consist of one common share and one-half of one warrant. Each warrant will entitle the holder to purchase one additional common share at a price of \$0.10 for a period of eighteen months from the closing of the offering.

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20. Subsequent Events (continued)

- (b) On May 15, 2019, the Company announced that it had received conditional approval from the Exchange to amend the terms of an aggregate of 16,483,100 warrants subject to warrant holds approval issued pursuant to non-brokered private placements that closed December 16, 2016, November 10, 2017, November 24, 2017 and March 7, 2018.