

GREEN 2 BLUE ENERGY CORP.
(formerly Brigade Resource Corp.)

Condensed Interim Consolidated Financial Statements

December 31, 2017 and 2016

(Expressed in Canadian dollars)

(Unaudited)

The accompanying unaudited interim financial statements have been prepared by Management of Green 2 Blue Energy Corp. and have not been reviewed by the Company's auditors

GREEN 2 BLUE ENERGY CORP.
(formerly Brigade Resource Corp.)

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

	December 31, 2017 \$	June 30, 2017 \$
Assets		
Current assets		
Cash	78,682	38,958
Accounts receivable (Note 5)	359,441	74,096
Due from related parties (Note 10)	32,046	19,585
Inventory (Note 6)	202,789	10,974
Prepaid expenses	42,548	22,774
Total current assets	715,506	166,387
Non-current assets		
Property and equipment (Note 7)	292,290	322,235
Total assets	1,007,796	488,622
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	1,178,759	712,065
Current portion of loans payable (Note 8)	184,696	300,309
Due to related parties (Note 10)	2,384	2,384
Current portion of obligations under finance lease (Note 9)	107,440	81,206
Total current liabilities	1,473,279	1,095,964
Non-current liabilities		
Loans payable (Note 8)	–	118,106
Obligations under finance lease (Note 9)	247,507	283,026
Total liabilities	1,720,786	1,497,096
Shareholders' deficit		
Share capital	3,462,847	1,659,637
Share-based payment reserve	355,312	376,846
Deficit	(4,418,827)	(3,002,013)
Accumulated other comprehensive loss	(109,425)	(43,327)
Total Green 2 Blue Energy Corp. shareholders' deficit	(710,093)	(1,008,857)
Non-controlling interest	(2,897)	383
Total shareholders' deficit	(712,990)	(1,008,474)
Total liabilities and shareholders' deficit	1,007,796	488,622
Going concern (Note 2(d))		
Commitments (Note 15)		
Subsequent events (Note 19)		

Approved and authorized for issuance by the Board of Directors on March 1, 2018:

/s/ "Slawomir Smulewicz"

Slawomir Smulewicz, Director

/s/ "Michael Young"

Michael Young, Director

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

GREEN 2 BLUE ENERGY CORP.
(formerly Brigade Resource Corp.)

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

	Three Months Ended December 31, 2017 \$	Three Months Ended December 31, 2016 \$	Six Months Ended December 31, 2017 \$	Six Months Ended December 31, 2016 \$
Sales	228,755	24,351	390,579	24,351
Cost of sales	(194,945)	(20,091)	(335,627)	(20,091)
Gross profit	33,810	4,260	54,952	4,260
Operating Expenses				
Consulting and management fees (Note 10)	285,000	106,630	315,000	106,630
Depreciation	2,335	23,263	2,585	47,197
Foreign exchange (gain) loss	(42,171)	1,589	5,349	–
General and administrative	178,326	50,551	294,777	92,382
Listing expense	–	–	534,198	–
Professional fees	58,677	18,583	83,077	23,816
Share-based payments	226,259	–	226,259	–
Travel	6,028	13,138	6,028	17,816
Wages and benefits	243	6,738	601	15,215
Total operating expenses	714,697	220,492	1,467,874	303,056
Net loss before other income (expense)	(680,887)	(216,232)	(1,412,922)	(298,796)
Other income (expense)				
Accretion of discount on convertible debt	–	(17,767)	–	(22,073)
Change in fair value of derivative liabilities	–	22,153	–	26,085
Interest income (expense)	672	(21,672)	(7,172)	(31,166)
Total other income (expense)	672	(17,286)	(7,172)	(27,154)
Net loss for the period	(680,215)	(233,518)	(1,420,094)	(325,950)
Less: net loss attributable to the non-controlling interest	2,517	547	3,280	889
Net loss attributable to Green 2 Blue Energy Corp.	(677,698)	(232,971)	(1,416,814)	(325,061)
Foreign currency translation adjustments	(80,998)	25,589	(66,098)	11,927
Comprehensive loss attributable to Green 2 Blue Energy Corp.	(758,696)	(207,382)	(1,482,912)	(313,134)
Basic and diluted loss attributable to Green 2 Blue Energy Corp.	(0.01)	(0.05)	(0.03)	(0.07)
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				
	59,849,570	4,696,957	51,345,856	4,514,478

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

GREEN 2 BLUE ENERGY CORP.
(formerly Brigade Resource Corp.)

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

	Common Shares		Subscriptions	Share-based		Accumulated		Total
	Number	Amount	Received in	Payment	Deficit	Other	Non-controlling	Shareholders'
		\$	Advanced	Reserve	\$	Comprehensive	Interest	Deficit
			\$	\$		Income (Loss)	\$	\$
						\$		\$
Balance, June 30, 2016	4,332,000	1,304,137	–	376,846	(2,160,069)	(9,846)	784	(488,148)
Issuance of common shares for cash	1,296,000	–	–	–	–	–	–	–
Issuance of common shares for finder's fee	96,400	–	–	–	–	–	–	–
Issuance of common for settlement of notes payable	846,000	–	–	–	–	–	–	–
Issuance of common shares of G2BE Canada Inc. for cash	–	62,370	–	–	–	–	–	62,370
Issuance of common shares of G2BE Canada Inc. for conversion of related party debt	–	186,500	–	–	–	–	–	186,500
Issuance of common shares of G2BE Canada Inc. for conversion of debt	–	106,630	–	–	–	–	–	106,630
Net loss	–	–	–	–	(325,061)	–	(889)	(325,950)
Foreign currency translation gain	–	–	–	–	–	11,927	–	11,927
Balance, December 31, 2016	6,570,400	1,659,637	–	376,846	(2,485,130)	2,081	(105)	(446,671)
Balance, June 30, 2017	6,570,400	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.	47,000,002	657,040	291,120	(247,793)	–	–	–	700,367
Issuance of units for cash	11,461,700	1,146,170	(291,120)	–	–	–	–	855,050
Issuance of units for finder's fee	146,800	14,680	–	–	–	–	–	14,680
Share issuance costs	–	(14,680)	–	–	–	–	–	(14,680)
Share-based compensation	–	–	–	226,259	–	–	–	226,259
Net loss	–	–	–	–	(1,416,814)	–	(3,280)	(1,420,094)
Foreign currency translation loss	–	–	–	–	–	(66,098)	–	(66,098)
Balance, December 31, 2017	65,178,902	3,462,847	–	355,312	(4,418,827)	(109,425)	(2,897)	(712,990)

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

GREEN 2 BLUE ENERGY CORP.
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Condensed Interim Consolidated Statements of Cash Flows
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	Six Months Ended December 31, 2017 \$	Six Months Ended December 31, 2016 \$
Operating activities		
Net loss	(1,420,094)	(325,950)
Items not affecting cash:		
Accretion of discount on convertible debt	–	22,073
Change in fair value of derivative liabilities	–	(26,085)
Depreciation	2,585	47,197
Non-cash listing expense	534,198	–
Share-based compensation	226,259	–
Changes in non-cash operating working capital:		
Accounts receivable	(275,143)	(76,110)
Inventory	(137,412)	(6,199)
Prepaid expenses	(19,774)	(12,133)
Accounts payable and accrued liabilities	372,931	(5,053)
Due to related parties	(12,461)	166,928
Net cash used in operating activities	(728,911)	(215,332)
Investing activities		
Cash acquired upon recapitalization	5,459	–
Purchase of property and equipment	(18,551)	–
Net cash used in investing activities	(13,092)	–
Financing activities		
Repayment of finance lease obligations	(25,734)	(3,151)
Proceeds from loans payable	–	152,737
Repayment of loans payable	(30,501)	(24,898)
Proceeds from convertible debt	–	20
Repayment of convertible debt	–	(2,033)
Proceeds from common shares issued	–	62,370
Proceeds from units issued	855,050	–
Net cash provided by financing activities	798,815	185,045
Effects of exchange rate changes on cash	(17,088)	29,455
Change in cash	39,724	(832)
Cash, beginning of period	38,958	5,244
Cash, end of period	78,682	4,412

Supplemental Cash Flow Information (Note 17)

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

GREEN 2 BLUE ENERGY CORP.

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Notes to the Condensed Interim Consolidated Financial Statements
Six Months Ended December 31, 2017 and 2016
(Unaudited – Prepared by Management)
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1. Corporate Information

Green 2 Blue Energy Corp (Formerly Brigade Resource 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 (the “Acquisition”) 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.

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 the 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 415, 1040 West Georgia Street, Vancouver BC.

2. Basis of Presentation

(a) Statement of Compliance and Principles of Consolidation

These interim consolidated 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, 2017, 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.

These interim consolidated financial statements include the accounts of the Company and its subsidiaries: (i) G2BE Canada Inc. (“G2BE”), a private British Columbia company incorporated on May 30, 2014; 100% owned by the Company; (ii) Green 2 Blue Energy Europe Sp. z.o.o. (“G2BE Europe”), incorporated in Poland in October 2014 and 99.5% owned by G2BE; and (iii) G2BE Poland Sp z o.o. (“G2BE Poland”), incorporated in Poland and owned 99% by the G2BE Europe.

All significant intercompany transactions have been eliminated on consolidation.

(b) Basis of Measurement

These interim consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars. The Company and G2BE’s functional currency is Canadian dollars. G2BE Europe and G2BE Poland’s functional currency is Polish zloty.

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2. Basis of Presentation (continued)

(c) Use of Estimates and Judgments (continued)

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 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 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.

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.

(c) Going Concern

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 December 31, 2017, the Company had a negative cash flow from operations, had a working capital deficit of \$757,773, and had an accumulated deficit of \$4,418,827. Furthermore, the Company incurred a net loss of \$1,416,814 during the six months ended December 31, 2017. To obtain future profitability, the Company will need to increase the volume of production and sales, and is reliant on the co-operation on 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 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 can be raised on a timely basis or on terms that are acceptable to the Company. These factors, current market conditions, and inability to secure new assets to date, 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 consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

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3. Recent Accounting Pronouncements

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for annual periods beginning after July 1, 2016, or later periods.

The following new IFRSs that have not been early adopted in these interim consolidated financial statements will not have a material effect on the Company's future results and financial position:

- i) IFRS 9, *Financial Instruments* (New; to replace IAS 39 and IFRIC 9);
- ii) IFRS 16, *Leases* (New).

In addition, IFRS 15, *Revenue from Contracts with Customers* is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company intends to adopt IFRS 15 and the clarifications in its consolidated financial statements for the annual period beginning on July 1, 2018. The Company has commenced an assessment of the potential impact of IFRS 15 on its consolidated financial statements and expects to provide disclosure of the qualitative and quantitative analysis in the third quarter of fiscal 2018.

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.

4. Share Exchange Agreement

The Company and G2BE entered into a share exchange agreement dated January 17, 2017 (the "Transaction"), pursuant to which the Company acquired all of the issued and outstanding capital stock, being 47,000,002 common shares, of G2BE in consideration for the issuance of 47,000,002 common shares of the Company. Upon closing of the Transaction on July 21, 2017, the Company had 53,570,402 common shares outstanding, and the former shareholders of G2BE held 87% of the Company's common shares. Accordingly, G2BE is considered to have acquired the Company with the transaction being accounting for as a reverse takeover of the Company by G2BE shareholders (the "RTO").

As consideration for the outstanding shares of G2BE, the Company issued 47,000,002 common shares to G2BE shareholders with an estimated fair value of \$657,040. As a result of the RTO, the consolidated statement of financial position has been adjusted for the elimination of the Company's share capital, reserves and accumulated deficit within shareholders' equity, and a listing expense of \$534,198 has been recognized. This reflects the difference between the estimated fair value of G2BE shares to the Company's shareholders less the fair value of net assets of the Company acquired. The total purchase price was allocated to the net assets of the Company as follows:

Purchase Price	
47,000,002 common shares	\$ 657,040
Total Purchase Price	\$ 657,040
Allocation of Purchase Price	
Cash	\$ 5,459
Loan receivable	200,944
Taxes recoverable	10,202
Accounts and accrued liabilities	(93,763)
Charge related to public company listing	534,198
	\$ 657,040

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5. Accounts Receivable

	December 31, 2017 \$	June 30, 2017 \$
Trade accounts receivable	261,438	33,259
GST and VAT receivable	98,003	40,837
	<u>359,441</u>	<u>74,096</u>

6. Inventory

	December 31, 2017 \$	June 30, 2017 \$
Raw materials	128,516	10,974
Finished goods	74,273	–
	<u>202,789</u>	<u>10,974</u>

7. Property and Equipment

	Assets Under Construction \$	Forklift \$	Furniture and Fixtures \$	Technical Equipment and Machinery \$	Total \$
Cost:					
Balance, June 30, 2017	25,046	3,705	2,760	548,266	579,777
Foreign currency translation adjustments	824	112	–	17,211	18,147
Additions	1,906	–	–	16,645	18,551
Balance, December 31, 2017	27,776	3,817	2,760	582,122	616,475
Accumulated depreciation:					
Balance, June 30, 2017	–	1,254	690	259,558	261,502
Foreign currency translation adjustments	–	45	–	5,650	5,695
Additions	–	259	276	56,453	56,988
Balance, December 31, 2017	–	1,558	966	321,661	324,185
Carrying amounts:					
Balance, June 30, 2017	25,046	2,451	2,070	292,668	322,235
Balance, December 31, 2017	27,776	2,259	1,794	260,461	292,290

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8. Loans Payable

- (a) As at December 31, 2017, the Company owed \$nil (June 30, 2017 - \$25,000) to an unrelated third party, which is unsecured, bears interest at the greater of \$2,500 or 10% per annum, and due on demand.
- (b) As at December 31, 2017, the Company owed \$1,805 (PLN\$5,000) (June 30, 2017 - \$1,754 (PLN\$5,000)) to an unrelated third party, which is unsecured, bears interest at 10% per annum, and was due on July 31, 2016.
- (c) As at December 31, 2017, the Company owed \$9,030 (PLN\$25,000) (June 30, 2017 - \$8,763 (PLN\$25,000)) to an unrelated third party, which is unsecured, bears interest at 10% per annum, and was due on October 31, 2017.
- (d) As at December 31, 2017, the Company owed \$37,601 (PLN\$104,100) (June 30, 2017 - \$57,524 (PLN\$164,100)) to the President of G2BE Europe, which is unsecured, bears interest at 5% per annum, and was due on December 31, 2017.
- (e) As at December 31, 2017, the Company owed \$nil (PLN\$25,000) (June 30, 2017 - \$8,763 (PLN\$25,000)) to the President of G2BE Europe, which is unsecured, bears interest at 5% per annum, and was due on December 31, 2017.
- (f) As at December 31, 2017, the Company owed \$14,563 (PLN\$40,318) (June 30, 2017 - \$14,133 (PLN\$40,318)) to the President of G2BE Europe, which is unsecured, bears interest at 5% per annum, and was due on December 31, 2017.
- (g) As at December 31, 2017, the Company owed \$65,016 (PLN\$180,000) (June 30, 2017 - \$63,105 (PLN\$180,000)) to an unrelated third party, which is secured by 600,000 shares of the Company that were pledged by a shareholder, bears interest at 4.81% per annum, and due on July 31, 2018.
- (h) As at December 31, 2017, the Company owed \$56,681 (PLN\$156,923) (June 30, 2017 - \$55,001 (PLN\$156,923)) to an unrelated third party, which is secured by 600,000 shares of the Company that were pledged by a shareholder, bears interest at 4.81% per annum, and due on July 31, 2018.

9. 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 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 December 31, 2017:

Year ending June 30:	\$
2018	80,859
2019	107,802
2020	107,802
2021	53,901
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Net minimum lease payments	350,364
Residual value	54,383
Less: amount representing interest payments	(49,800)
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Present value of net minimum lease payments	354,947
Less: current portion	(107,440)
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Non-current portion	247,507
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10. Related Party Transactions

- (a) As at December 31, 2017, the Company was owed \$16,118 (PLN\$44,625) (June 30, 2017 - \$19,585 (PLN\$55,872)) from the President of G2BE Europe. The amount owed is unsecured, non-interest bearing, and due on demand.
- (b) As at December 31, 2017, the Company owed a loan payable of \$14,563 (PLN\$40,318) (June 30, 2017 - \$14,133 (PLN\$14,133)) to the President of G2BE Europe. Refer to Note 8(f).
- (c) As at December 31, 2017, 2017, the Company owed a net amount of \$67,352 (June 30, 2017 - \$9,179) to the President of the Company and a company controlled by the President of the Company, of which \$80,896 (June 30, 2017 - \$6,795) was included in accounts payable and accrued liabilities. The amount owing is unsecured, non-interest bearing, and due on demand.
- (d) As at December 31, 2017, the Company owed \$52,701 (June 30, 2017 - \$67) to the Chief Financial Officer of the Company and a company controlled by the Chief Financial Officer of the Company, of which \$52,701 (June 30, 2017 - \$67) was included in accounts payable and accrued liabilities. The amount owing is unsecured, non-interest bearing, and due on demand.
- (e) As at December 31, 2017, the Company owed \$30,208 (June 30, 2017 - \$nil) to a Director of the Company, of which \$30,208 (June 30, 2017 - \$nil) was included in accounts payable and accrued liabilities. The amount owing is unsecured, non-interest bearing, and due on demand.
- (f) During the six months ended December 31, 2017, the Company recorded management fees of \$75,000 (2016 - \$nil) and share-based compensation of \$44,364 (2016 - \$nil) to a company, which is controlled by the President of the Company.
- (g) During the six months ended December 31, 2017, the Company recorded management fees of \$60,000 (2016 - \$nil) and share-based compensation of \$44,364 (2016 - \$nil) to a company, which is controlled by the Chief Financial Officer of the Company.
- (h) During the six months ended December 31, 2017, the Company recorded consulting fees of \$30,000 (2016 - \$nil) and share-based compensation of \$44,364 (2016 - \$nil) to Director of the Company.
- (i) During the six months ended December 31, 2017, the Company recorded professional fees of \$2,000 (2016 - \$nil) and share-based compensation of \$8,873 (2016 - \$nil) to Director of the Company.

11. 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, 2017:

- (a) On July 21, 2017, the Company issued 47,000,002 common shares with a fair value of \$657,040 to the G2BE shareholders upon closing of the Transaction as described in Note 4.
- (b) On November 10, 2017, the Company closed a non-brokered private placement offering (the "Financing") of 10,436,700 units (the "Units") at a price of \$0.10 per Unit for gross proceeds of \$1,043,670. Each Unit consists of one common share and one transferable common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.10 per share for a period of 12 months from the closing of the Financing and thereafter at a price of \$0.20 per share until 24 months from the closing of the Financing. In connection with the Financing, the Company issued 146,800 Units with a fair value of \$0.10 per share as finder's fees.

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11. Share Capital (continued)

- (c) On November 24, 2017, the Company closed a non-brokered private placement offering (the “Financing”) of 1,025,000 units (the “Units”) at a price of \$0.10 per Unit for gross proceeds of \$102,500. Each Unit consists of one common share and one transferable common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.10 per share for a period of 12 months from the closing of the Financing and thereafter at a price of \$0.20 per share until 24 months from the closing of the Financing.

12. 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.

The following table summarizes information about the stock options.

	Six Months Ended December 31, 2017		Year Ended June 30, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding – beginning of period	260,000	\$ 1.00	260,000	\$ 1.00
Granted	2,550,000	0.10	–	–
Outstanding – end of period	2,810,000	\$ 0.18	260,000	\$ 1.00
Exercisable – end of period	2,810,000	\$ 0.18	260,000	\$ 1.00

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2017.

Exercise Price	Expiry Date	Number of Options Outstanding	Number of Options Exercisable	Weighted Average Remaining Contracted Life (Years)
\$ 1.00	May 31, 2020	160,000	160,000	2.42
\$ 1.00	October 28, 2020	100,000	100,000	2.83
\$ 0.10	November 21, 2022	2,550,000	2,550,000	4.89
		2,810,000	2,810,000	4.68

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12. Stock Options (continued)

Share-based compensation expense is determined using the Black-Scholes Option Pricing Model. During the six months ended December 31, 2017, the Company recognized share-based compensation expense of \$226,259 (2017 - \$nil) in share-based payment reserve. The weighted average fair value of the options granted during the six months ended December 31, 2017, was \$0.09 (2016 - \$nil). Weighted average assumptions used in calculating the fair value of stock-based compensation expense are as follows:

	2017	2016
Risk-free rate	1.65%	nil%
Dividend yield	nil%	nil%
Volatility factor of the expected market price of the Company's common shares	140%	nil%
Weighted average expected life of the options (years)	5.00	nil

13. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2017	2,238,400	\$ 0.10
Issued	11,608,500	0.10
Exercised	–	–
Expired	–	–
Balance, December 31, 2017	13,846,900	\$ 0.10

The following table summarizes information about warrants outstanding and exercisable at December 31, 2017:

Warrants Outstanding	Exercise Price	Expiry Date
11,608,400	\$0.10	November 10, 2019
2,238,400	\$ 0.10*	December 12, 2019

* Exercisable at \$0.10 per share to December 12, 2018, and thereafter at \$0.20 per share to December 12, 2019.

14. 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, 2017.

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15. 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's future minimum lease payments for the equipment leases are as follows:

	\$
Fiscal year ending June 30, 2018	80,851
Fiscal year ending June 30, 2019	107,802
Fiscal year ending June 30, 2020	107,802
Fiscal year ending June 30, 2021	53,901
Total:	350,356

- (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 \$6,039 (PLN\$16,718) and agreed to pay \$3,029 (PLN\$8,387) per month. The lease is secured by a cash deposit of \$21,672 (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) Commencing on January 1, 2017, the Company entered into an agreement for the purchase of electricity for the period of one year. Pursuant to the agreement, the Company will purchase an estimated total of 4000 MWh at a price of PLN\$210.90/MWh.
- (f) The Company has entered into a 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, 2018	2,320
Fiscal year ending June 30, 2019	4,641
Fiscal year ending June 30, 2020	4,641
Fiscal year ending June 30, 2021	387
Total:	11,989

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16. 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 Company categorizes its financial assets and liabilities measured at the fair value into one of three different levels depending on the observation of the inputs used in the measurement.

	Fair Value Measurements Using			Balance, December 31, 2017 \$
	Quoted prices in active	Significant other	Significant	
	markets for identical	observable	unobservable	
	instruments (Level 1)	inputs (Level 2)	inputs (Level 3)	
	\$	\$	\$	
Cash	78,682	–	–	78,682

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:

	December 31, 2017	June 30, 2017
Customer A	91%	77%
Customer B	4%	14%

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

	2017	2016
Customer A	84%	0%

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16. 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 \$23,000 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. Significant balances as expressed in Polish zloty are as follows:

	December 31, 2017 PLN\$	June 30, 2017 PLN\$
Cash	26,647	38,658
Accounts receivable	938,376	184,559
Due from related parties	88,721	55,872
Inventory	561,431	–
Prepaid expenses	97,810	44,372
Accounts payable and accrued liabilities	(2,473,559)	(1,244,442)
Loans payable	(511,341)	(628,207)
Obligations under finance lease	(982,688)	(1,039,053)
Net Polish zloty liabilities	(2,254,603)	(2,588,241)

(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.

	Carrying amount \$	Contractual cash flows \$	1 year or less \$	1 -5 Years \$
As at December 31, 2017				
Trade and other payables	1,178,759	1,178,759	1,178,759	–
Obligations under finance lease	354,947	354,947	134,754	220,193
	1,533,706	1,533,706	1,313,513	220,193

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17. Supplemental Cash Flow Information

	December 31, 2017 \$	December 31, 2016 \$
Non-cash investing and financing activities:		
Shares issued to settle debt	–	106,630
Shares issued to settle related party debt	–	186,500
Supplemental disclosures:		
Interest paid	6,380	–
Income taxes paid	–	–

18. 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 \$
December 31, 2017			
Property and equipment	1,794	290,496	292,290
	Canada \$	Poland \$	Total \$
June 30, 2017			
Property and equipment	2,070	320,165	322,235

All of the Company's revenue during the six months ended December 31, 2017 and 2016, was generated in Poland.

19. Subsequent Events

- (a) On January 5, 2018, the Company granted 2,750,000 stock options to certain directors, officers and consultants, exercisable on or before January 5, 2023, at an exercise price of \$0.15 per common share.
- (b) Subsequent to December 31, 2017, a total of 71,000 warrants were exercised at \$0.10 per share.
- (c) Subsequent to December 31, 2017, a total of 1,350,000 stock options were exercised at \$0.10 per share and a total of 635,000 stock options were exercised at \$0.15 per share.