

CANDY CLUB HOLDINGS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED

DECEMBER 31, 2016 AND 2015 (UNAUDITED)

CANDY CLUB HOLDINGS, INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED
DECEMBER 31, 2016 AND 2015 (UNAUDITED)

CONTENTS

	Page
Independent Auditor's Report.....	1
Consolidated Balance Sheets.....	2
Consolidated Statements of Operations.....	3
Consolidated Statements of Stockholders' Deficit	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Candy Club Holdings, Inc. and Subsidiary

Report on the Audit of the Consolidated Financial Statements

We were engaged to audit the accompanying consolidated financial statements of Candy Club Holdings, Inc. and Subsidiary (the Company), which comprise the consolidated balance sheet as of December 31, 2016 and the consolidated statements of operations, stockholders' deficit and cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on conducting the audit in accordance with International Standards on Auditing (ISAs). Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

We were not appointed as auditors of the Company until after December 31, 2017, and thus did not observe the counting of physical inventories at the beginning and end of the year ended December 31, 2016. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at December 31, 2016 and 2015 which are stated in the balance sheets at \$1,792,253 and \$932,687, respectively. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories, and the elements making up the consolidated balance sheets and the consolidated statements of operations, stockholders' deficit and cash flows.

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these consolidated financial statements.

Emphasis of Matter

We draw attention to Note 13 to the consolidated financial statements which describes that the consolidated financial statements have been prepared on a going concern basis. Our opinion is not qualified in respect of this matter.

Other Matter

The accompanying consolidated financial statements include prior year comparative information as of and for the year ended December 31, 2015. The comparative information reflects management's internal records and has not been audited or reviewed.

Green Hasson & Janks LLP

November 14, 2018
Los Angeles, California

CANDY CLUB HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

	December 31	
	2016	2015 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash	\$ 115,246	\$ 619,225
Restricted Cash	869,619	-
Inventory	1,792,253	932,687
Prepaid Expenses and Other Current Assets	196,455	213,976
TOTAL CURRENT ASSETS	2,973,573	1,765,888
NON-CURRENT ASSETS:		
Property and Equipment (Net)	70,639	47,087
Intangible Assets (Net)	118,031	194,845
TOTAL NON-CURRENT ASSETS	188,670	241,932
TOTAL ASSETS	\$ 3,162,243	\$ 2,007,820
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts Payable	\$ 1,325,673	\$ 614,925
Accrued Expenses and Other Liabilities	494,018	340,016
Deferred Revenue	343,248	343,747
Convertible Notes Payable to Stockholders	1,140,616	-
Current Maturities of Notes Payable to Stockholders	505,320	406,571
TOTAL CURRENT LIABILITIES	3,808,875	1,705,259
NON-CURRENT LIABILITIES:		
Notes Payable to Stockholders	303,921	809,241
TOTAL NON-CURRENT LIABILITIES	303,921	809,241
TOTAL LIABILITIES	4,112,796	2,514,500
STOCKHOLDERS' EQUITY (DEFICIT):		
Common Stock - \$0.00001 Par Value, 125,000,000 (2016) and 49,300,000 (2015) Shares Authorized; 12,128,601 Shares Issued and Outstanding	121	121
Common Stock - Additional Paid-In Capital	190,141	-
Convertible Preferred Series Seed Stock - \$0.00001 Par Value, 15,062,640 Shares Authorized, Issued and Outstanding	151	151
Convertible Preferred Series Seed Stock: Additional Paid-In Capital	1,496,075	1,496,075
Convertible Preferred Series Seed 1 Stock - \$0.00001 Par Value, 18,127,218 Shares Authorized and 16,723,442 Issued and Outstanding	167	167
Convertible Preferred Series Seed 1 Stock: Additional Paid-In Capital	3,759,264	3,759,264
Convertible Preferred Series A Stock - \$0.0001 Par Value, 67,733,288 Shares Authorized; 61,612,223 Shares Issued and Outstanding in 2016	6,161	-
Convertible Preferred Series A Stock: Additional Paid-In Capital	6,153,563	-
Accumulated Deficit	(12,556,196)	(5,762,458)
TOTAL STOCKHOLDERS' DEFICIT	(950,553)	(506,680)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 3,162,243	\$ 2,007,820

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

CANDY CLUB HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31			
	2016		2015 (Unaudited)	
	Amount	% of Net Sales	Amount	% of Net Sales
NET SALES	\$ 6,233,843	100.0	\$ 2,753,152	100.0
COST OF SALES	3,441,254	55.2	1,867,137	67.8
GROSS PROFIT	2,792,589	44.8	886,015	32.2
OPERATING EXPENSES:				
Selling	4,827,869	77.4	2,526,654	91.8
General and Administrative	4,632,115	74.3	2,811,023	102.1
TOTAL OPERATING EXPENSES	9,459,984	151.7	5,337,677	193.9
LOSS FROM OPERATIONS	(6,667,395)	(106.9)	(4,451,662)	(161.7)
OTHER EXPENSES:				
Interest Expense	126,343	2.0	53,501	1.9
NET LOSS	<u>\$ (6,793,738)</u>	<u>(108.9)</u>	<u>\$ (4,505,163)</u>	<u>(163.6)</u>

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

CANDY CLUB HOLDINGS INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
Years Ended December 31, 2016 and 2015 (Unaudited)

	Common Stock			Series Seed Convertible Preferred Stock			Series Seed 1 Convertible Preferred Stock			Series A Convertible Preferred Stock			Stockholders' Deficit
	Number of Shares	Amount	Additional Paid in Capital	Number of Shares	Amount	Additional Paid in Capital	Number of Shares	Amount	Additional Paid in Capital	Number of Shares	Amount	Additional Paid in Capital	
BALANCE AT													
JANUARY 1, 2015 (UNAUDITED)													
Issuance of Series Seed 1 Convertible Preferred Stock	-	\$ -	-	15,062,640	\$ 151	\$ 1,496,075	-	\$ -	-	-	\$ -	-	\$ 239,052
(Net of Closing Costs of \$103,774)	-	-	-	-	-	-	16,723,442	167	3,759,264	-	-	-	3,759,431
Common Stock Issuance	12,128,601	121	-	-	-	-	-	-	-	-	-	-	(121)
Net Loss	-	-	-	-	-	-	-	-	-	-	-	(4,505,163)	(4,505,163)
BALANCE AT													
DECEMBER 31, 2015 (UNAUDITED)													
Stock Option Expense	12,128,601	121	-	15,062,640	151	1,496,075	16,723,442	167	3,759,264	-	-	(5,762,458)	(506,680)
Issuance of Seed A Convertible Preferred Stock	-	-	190,141	-	-	-	-	-	-	-	-	-	190,141
(Net of Closing Costs of \$131,279)	-	-	-	-	-	-	-	-	-	61,612,223	6,161	6,453,563	-
Net Loss	-	-	-	-	-	-	-	-	-	-	-	(6,793,738)	(6,793,738)
BALANCE AT													
DECEMBER 31, 2016	12,128,601	\$ 121	\$ 190,141	15,062,640	\$ 151	\$ 1,496,075	16,723,442	\$ 167	\$ 3,759,264	61,612,223	\$ 6,161	\$ 6,453,563	\$ (12,556,196)
													\$ (950,553)

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

CANDY CLUB HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (6,793,738)	\$ (4,505,163)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Stock Option Expense	190,141	-
Depreciation and Amortization	195,846	109,566
(Increase) Decrease in:		
Inventory	(859,566)	(600,287)
Prepaid Expenses and Other Current Assets	17,521	(172,086)
Increase (Decrease) in:		
Accounts Payable	710,748	414,915
Accrued Expenses and Other Liabilities	154,002	319,039
Deferred Revenue	(499)	343,747
NET CASH USED IN OPERATING ACTIVITIES	(6,385,545)	(4,090,269)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Acquisitions of Property and Equipment	(59,259)	(52,678)
Development of Software	(83,325)	(261,366)
NET CASH USED IN INVESTING ACTIVITIES	(142,584)	(314,044)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted Cash	(869,619)	-
Principal Payments on Long - Term Debt	(406,571)	(34,188)
Proceeds from Long - Term Debt	1,140,616	1,250,000
Cash Received on Issuance of Stock (Net)	6,159,724	3,759,431
NET CASH PROVIDED BY FINANCING ACTIVITIES	6,024,150	4,975,243
NET INCREASE (DECREASE) IN CASH	(503,979)	570,930
Cash - Beginning of the Year	619,225	48,295
CASH - END OF YEAR	\$ 115,246	\$ 619,225
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid During the Year for:		
Interest	\$ 95,086	\$ 53,501

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015 (UNAUDITED)

NOTE 1 - NATURE OF OPERATIONS

The consolidated financial statements include the accounts of Candy Club Holdings, Inc. (Holdings) and its wholly-owned subsidiary, Candy Club, LLC (Candy Club), (collectively, the Company). Holdings was incorporated in Delaware on March 26, 2015 and is the sole member of Candy Club, a single member Limited liability Company formed on March 19, 2014. The Company is an e-commerce business that sells subscriptions for monthly deliveries of boxes of premium candy. Customers sign up for monthly or prepaid subscriptions and receive boxes of candies on a monthly basis. The boxes contain various types of candies including gummies, chocolates, and other sweets.

NOTE 2 - BASIS OF PREPARATION

(a) STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issue by the Board of Directors on November 14, 2018.

(b) BASIS OF MEASUREMENT

The consolidated financial statements, except for the cash flow information, have been prepared on an accruals basis and are based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(c) CURRENCY OF PRESENTATION

The consolidated financial statements are presented in United States dollars.

(d) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Holdings and its wholly-owned subsidiary, Candy Club. All significant intercompany accounts and transactions have been eliminated on consolidation.

(e) COMPARATIVE 2015 AMOUNTS

The consolidated financial statements include prior year comparative information as of and for the year ended December 31, 2015. As noted throughout these consolidated financial statements, the comparative information reflects management's internal records and has not been subject to an audit, review or compilation.

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015 (UNAUDITED)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) MANAGEMENT'S USE OF ESTIMATES

The preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) requires management to use certain estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses during the reporting period. Although management believes its estimates are appropriate, changes in assumptions utilized in preparing such estimates could cause these estimates to change sometime in the future.

(b) CASH

The Company maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk regarding cash.

(c) RESTRICTED CASH

Pursuant to the executed agreements of several convertible notes payable to stockholders (Notes), \$869,619, was held in escrow and classified as restricted cash as of December 31, 2016. This amount is being held in escrow until all funds for all Notes have been received into escrow. The full amount was released to the Company in January 2017.

(d) INVENTORY

Inventory is valued at the lower of cost or net realizable value on a weighted average cost basis.

(e) INTANGIBLE ASSETS

Intangible assets consist of both purchased internally developed software and website/domain names.

Costs for self-initiated research and development activities are assessed whether they qualify for recognition as internally generated intangible assets. An intangible asset may only be recognized if technical as well as commercial feasibility can be demonstrated and cost can be measured reliably. It must also be probable that the intangible asset will generate future economic benefits and that it is clearly identifiable and allocable to a specific product. Further to meeting these criteria, only such costs that relate solely to the development phase of a self-initiated project are capitalized. Any costs that are classified as part of the research phase of a self-initiated project are expensed as incurred. If the research phase cannot be clearly distinguished from the development phase, the respective project related costs are treated as if they were incurred in the research phase only. The Company has capitalized certain development costs incurred for internally generated internal use software.

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **December 31, 2016 and 2015 (UNAUDITED)**

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) INTANGIBLE ASSETS (continued)

Costs that are directly associated with identifiable and unique computer software products controlled by the Company and that will probably generate economic benefits exceeding costs beyond one year are recognized as intangible assets. Subsequently computer software is carried at cost less any accumulated amortization and any accumulated impairment losses. Expenditure, which enhances or extends the performance of computer software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of the computer software. Costs associated with maintenance of computer software programs are charged to the profit or loss of the year in which they were incurred. Computer software costs are amortized using the straight line method over their estimated useful lives, not exceeding a period of three years. Amortization commences when the computer software is available for use and is included within administrative expenses.

Amortization has been provided by using the straight-line method over the estimated useful lives of the assets as follows:

Website/Domain Name	5 Years
Computer Software	2 Years

(f) PROPERTY AND EQUIPMENT

Property and equipment are carried at cost, net of accumulated depreciation. Depreciation has been provided by using the straight-line method over the estimated useful lives of the assets as follows:

Computer Equipment	2 Years
Furniture and Fixtures	4 Years
Production Equipment	5 Years

The cost of maintenance and repairs is charged to operations as incurred while renewals and betterments are capitalized.

(g) IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No such impairment losses have been recognized during the years ended December 31, 2016 and 2015.

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **December 31, 2016 and 2015 (UNAUDITED)**

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) FINANCIAL ASSETS - LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the consolidated balance sheet date. These are classified as non-current assets. The Company's loans and receivables consist of "prepaid expenses and other current assets" in the consolidated balance sheets.

The Company assesses at the consolidated balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the profit or loss.

(i) TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015 (UNAUDITED)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) PROVISIONS

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(k) BORROWINGS

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings, using the effective interest method, unless they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalized as part of the cost of that asset.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment and amortized over the period of the facility to which it relates.

Borrowing costs are interest and other costs that the Company incurs in connection with the borrowing of funds, including interest on borrowings, amortization of discounts or premium relating to borrowings, amortization of ancillary costs incurred in connection with the arrangement of borrowings, finance lease charges and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowings are classified as current liabilities, unless the Company has an unconditional right to defer the settlement of the liability for at least twelve months after the consolidated balance sheet date.

(l) REVENUE RECOGNITION

Sales are recognized at the time the product is delivered to the customer, the amount of the sale can be measured reliably, and collection is probable.

(m) ADVERTISING

The Company expenses advertising costs as they are incurred. Total advertising costs incurred during the years ended December 31, 2016 and 2015 was \$2,947,718 and \$1,480,732, respectively.

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015 (UNAUDITED)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) SHIPPING AND HANDLING COSTS

The Company includes shipping and handling fees billed to customers in net sales. Shipping and handling costs are expensed as incurred and included in cost of sales.

(o) INCOME TAXES

Income taxes are provided based on income reported in the financial statements adjusted for transactions that do not enter into the computation of income taxes payable.

Deferred income taxes are recognized for the tax consequences of “temporary differences” by applying currently enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred income taxes of a change in tax rates is recognized in the year that includes the enactment date.

A valuation allowance is provided against deferred income tax assets when their estimated realization is uncertain.

In accordance with the accounting pronouncement, IAS 12 - Income Taxes, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood of being realized. Changes in recognition or measurement are reflected in the year in which the change in judgment occurs.

The Company is no longer subject to U.S. Federal income tax examinations by tax authorities for the years before 2014 and state examinations for the years before 2013.

The Tax Cuts and Jobs Act of 2017 (“TCJA”) was signed into law on December 22, 2017. The TCJA includes significant changes to the U.S. corporate tax system, including a Federal corporate tax rate reduction from 35% to 21%, limitations on certain deductions, and the transition of U.S. international taxation from a worldwide tax system to a territorial tax system. IFRS 12, Income Taxes, requires the re-measurement of the existing deferred tax assets and liabilities at the new tax rate and that the Company record the change in the period of enactment as a component of income tax expense from continuing operations.

(p) DEFERRED REVENUE

The Company records deferred revenue when cash is collected from customers in advance of delivery for multi-month subscription contracts.

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015 (UNAUDITED)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with the applicable accounting standards. The Company accounts for stock-based awards issued to employees and non-employees by recognizing compensation expense related to the fair value of the options over the requisite service period of the awards. Determining the fair value of options at the grant date requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise, the associated volatility and the expected dividends. Judgment is also required in estimating the amount of stock-based awards expected to be forfeited prior to vesting. The fair value of each stock option is estimated on the date of grant using the Black-Scholes option pricing model.

Assumptions are determined at the time of grant. Grants of stock options during the years ended December 31, 2016 and 2015 were valued using the following assumptions:

Expected Volatility	70% to 100%
Dividend Yield	0%
Risk-Free Interest Rate	3.5%
Expected Terms in Years	4.00
Forfeitures	0%

Expected Volatility - There is no active external or internal market for the Company's shares; therefore, the Company estimated the expected volatility of its stock with reference to the prices from historical equity issuances and comparable public companies.

Dividend Yield - The Company has not and does not intend to pay dividends.

Risk-Free Interest Rate - The Company applies the risk-free interest rate based on the US Treasury yield in effect at the time of the grant.

Expected Term in Years - The expected term is based upon the Company's consideration of the historical life of options, the vesting period of the option granted and the contractual period of the option granted.

Forfeitures - Stock-based compensation expense recognized in the statement of operations is based on awards ultimately expected to vest, reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience and the Company elected to estimate forfeitures at 0%.

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015 (UNAUDITED)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) NEW ACCOUNTING PRONOUNCEMENTS

(i) **IFRS 15 *Revenue from Contracts with Customers***

IFRS 15 *Revenue from Contracts with Customers*, issued in May 2014, presents new requirements for the recognition of revenue, replacing IAS 18 *Revenue* and IAS 11 *Construction Contracts* in addition to several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detailed under existing IFRS, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchases options, and other common complexities. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management has begun to assess the impact of IFRS 15 but is not yet in a position to provide a reasonable financial estimate of the effect. For the Company, IFRS 15 will be effective for the year ending December 31, 2018.

(ii) **IFRS 9 *Financial Instruments***

In July 2014, the IASB issued IFRS 9 *Financial Instruments*, which replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard introduces extensive changes to guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provide new guidance on the application of hedge accounting and amends some the disclosure requirements of IFRS 7 *Financial Instruments: Disclosures* including adding disclosures on credit risk management and impairment. For the Company, IFRS 9 will be effective for the year ending December 31, 2018.

(iii) **IFRS 16 *Leases***

In January 2016, IASB issued IFRS 16 *Leases*, which replaces IAS 17 *Leases* and is intended to improve financial reporting for leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the consolidated balance sheets the assets and liabilities for the rights and obligations created by those leases. IFRS 16 will also require disclosures to help consolidated financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and providing additional information about the amounts recorded in the consolidated financial statements. For the Company, IFRS 16 will be effective for the year ending December 31, 2019.

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015 (UNAUDITED)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) SUBSEQUENT EVENTS

The Company has evaluated events and transactions occurring subsequent to the consolidated balance sheet date of December 31, 2016, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through November 14, 2018, the date these consolidated financial statements were available to be issued. No such material events or transactions were noted to have occurred, except as otherwise noted within the notes to these consolidated financial statements.

NOTE 4 - INVENTORY

Inventory consists of the following at December 31:

	2016	2015 (Unaudited)
Raw Materials - Candy	\$ 187,476	\$ 148,399
Raw Materials - Packaging	288,681	149,013
Finished Goods	1,316,096	635,275
TOTAL INVENTORY	\$ 1,792,253	\$ 932,687

NOTE 5 - INTANGIBLE ASSETS

Intangible assets consist of the following as of December 31:

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
2016:			
Website/Domain Name	\$ 20,202	\$ (10,472)	\$ 9,730
Computer Software	347,958	(239,657)	108,301
TOTAL	\$ 368,160	\$ (250,129)	\$ 118,031
2015 (Unaudited):			
Website/Domain Name	\$ 20,202	\$ (6,420)	\$ 13,782
Computer Software	264,633	(83,570)	181,063
TOTAL	\$ 284,835	\$ (89,990)	\$ 194,845

Amortization expense charged to operations was \$160,139 and \$80,303 for the years ended December 31, 2016 and 2015, respectively.

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015 (UNAUDITED)

NOTE 5 - INTANGIBLE ASSETS (continued)

The following presents the movement in the net book value of intangible assets:

	January 1			December 31
	Net Book			Net Book
	Value	Additions	Amortization	Value
2016:				
Website/Domain Name	\$ 13,782	\$ -	\$ (4,052)	\$ 9,730
Computer Software	181,063	83,325	(156,087)	108,301
TOTAL INTANGIBLE ASSETS	\$ 194,845	\$ 83,325	\$ (160,139)	\$ 118,031
2015 (Unaudited):				
Website/Domain Name	\$ 13,782	\$ -	\$ -	\$ 13,782
Computer Software	-	261,366	(80,303)	181,063
TOTAL INTANGIBLE ASSETS	\$ 13,782	\$ 261,366	\$ (80,303)	\$ 194,845

Estimated amortization expense for each of the next 2 years is as follows:

Years Ending December 31

2017	\$ 94,980
2018	23,051

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2016	2015 (Unaudited)
Computer Equipment	\$ 61,236	\$ 42,746
Furniture and Fixtures	51,921	13,480
Production Equipment	11,827	11,827
TOTAL PROPERTY AND EQUIPMENT	124,984	68,053
Less: Accumulated Depreciation	(54,345)	(20,966)
NET PROPERTY AND EQUIPMENT	\$ 70,639	\$ 47,087

Depreciation expense charged to operations for the years ended December 31, 2016 and 2015 was \$35,707 and \$25,212, respectively. Purchases of property and equipment during the years ended December 31, 2016 and 2015 was \$59,259 and \$52,678, respectively. The disclosure of annual activity for each class of property and equipment was omitted as it was not material to these consolidated financial statements.

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015 (UNAUDITED)

NOTE 7 - NOTES PAYABLE TO STOCKHOLDERS

Notes Payable to Stockholders consists of the following:

	2016	2015 (Unaudited)
Note Payable - Stockholder; collateralized by substantially all assets of the Company; principal and interest payments in monthly installments of \$28,773 through June 2018; interest rate set at 12% fixed rate compounded monthly. Repaid in Full in June 2018.	\$ 447,656	\$ 720,911
Notes Payable - Stockholder; collateralized by substantially all assets of the Company; interest only payments in monthly installments of \$5,000 through April 1, 2016 with principal and interest payments in monthly installments of \$19,182 through September 2018; interest rate set at 12% fixed rate compounded monthly. Repaid in Full in September 2018.	361,585	494,901
TOTAL NOTES PAYABLE TO STOCKHOLDERS	809,241	1,215,812
Less: Current Maturities	(505,320)	(406,571)
LONG - TERM MATURITIES	<u>\$ 303,921</u>	<u>\$ 809,241</u>

Aggregate annual Notes Payable to Stockholders maturities are as follows:

Year Ending December 31

2017	\$ 505,320
2018	<u>303,921</u>
TOTAL NOTES PAYABLE TO STOCKHOLDERS	<u>\$ 809,241</u>

The notes payable to stockholders contain various covenants and restrictions including, but not limited to, providing timely reporting packages to the lenders.

Interest expense for the years ended December 31, 2016 and 2015 was \$91,578 and \$53,501, respectively.

NOTE 8 - CONVERTIBLE NOTES PAYABLE TO STOCKHOLDERS

On December 22, 2016, the Company entered into several convertible promissory notes (Notes) with certain Stockholders (Holder) totaling \$1,088,362 which are due on maturity at the earlier of the Notes' six month anniversary (June 22, 2017) or the Sale of the Company (as defined). Interest accrues on the unpaid principal balance at 12% per annum and is due on maturity. As of December 31, 2016, the outstanding balance of the Notes was \$1,140,616, including cumulative accrued interest of \$52,254.

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015 (UNAUDITED)

NOTE 8 - CONVERTIBLE NOTES PAYABLE TO STOCKHOLDERS (continued)

If the Company issues equity prior to maturity that yields total proceeds of at least \$1,000,000 (Qualified Financing), the outstanding principal and accrued interest on the Notes will automatically convert at the lowest price per share of the equity sold multiplied by 80%. If there is no Qualified Financing event prior to maturity, upon consent of the Holders of at least 50% of the outstanding principal amount of the Notes, then the outstanding amount and unpaid accrued interest shall convert into shares of Series A-1 Preferred stock. The number of shares to be issued will be computed by dividing the outstanding principal amount and accrued interest by \$0.04.

On initial recognition, the proceeds from the issuance of the Notes was allocated between the debt and the conversion equity feature using the residual method. Under this method, the Company first determined the fair value of the debt component by discounting the future stream of principal and interest payments at a prevailing market rate for a similar liability that did not contain the conversion feature. The carrying amount of the equity instrument was then determined by deducting the carrying amount of the debt from the proceeds of the Notes. The Company determined that the carrying amount of the equity instrument was not material to these consolidated financial statements, therefore the entire amount of the Notes totaling \$1,140,616 was recorded as debt. As of December 31, 2016, the Holders' intention was not to convert the Notes.

During the year ended December 31, 2017, the Company entered into a Qualified Financing which caused the Notes to convert into 439,242 shares of Series A-1 Convertible Preferred Stock at \$2.91 per share.

NOTE 9- INCOME TAXES

Deferred income tax assets are comprised of the following as of December 31:

	2016	2015 (Unaudited)
DEFERRED INCOME TAX ASSETS:		
Depreciation and Amortization	\$ 62,000	\$ 24,000
Stock Options	83,000	-
Net Operating Loss Carryforwards	4,765,000	1,911,000
GROSS DEFERRED INCOME TAX ASSETS	4,910,000	1,935,000
DEFERRED INCOME TAX LIABILITIES:		
Intangible Assets	(53,000)	(17,000)
State Taxes	(332,000)	(136,000)
GROSS DEFERRED INCOME TAX LIABILITIES	(385,000)	(153,000)
NET DEFERRED INCOME TAX ASSET BEFORE VALUATION ALLOWANCE	4,525,000	1,782,000
Less: Valuation Allowance	(4,525,000)	(1,782,000)
NET DEFERRED INCOME TAXES	\$ -	\$ -

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015 (UNAUDITED)

NOTE 9- INCOME TAXES (continued)

The difference between the U.S. statutory federal tax rate of 35% and the Company's effective rate is due to the effect of the net operating loss carryforwards, valuation allowance and state income taxes.

Despite management's confidence about the long-term profitability of the Company, there is uncertainty relating to the Company's profitability in the short-term. Therefore, a valuation allowance has been established against the net deferred income tax assets, which might not be realized. During the year ended December 31, 2016, the Company increased its valuation allowance by \$2,743,000. The valuation allowance as of December 31, 2016 totaled \$4,525,000. At December 31, 2016, the Company has approximately \$10,955,000 of federal and state net operating losses carried forward which begin to expire in 2035.

NOTE 10 - CAPITALIZATION

As of December 31, 2016 and 2015, the Company was authorized to issue 125,000,000 and 49,300,000 shares of Common Stock (CS), respectively. As of December 31, 2016 and 2015, the Company was authorized to issue 15,062,640 shares of Series Seed Convertible Preferred Stock (Series Seed) and 18,127,218 shares of Series Seed 1 Convertible Preferred Stock (Series Seed 1). As of December 31, 2016, the Company was authorized to issue 67,733,288 shares of Series A Convertible Preferred Stock (Series A). All classes of equity have a par value of \$0.00001, except for Series A with a par value of \$0.0001.

As of December 31, 2016 and 2015, the Company had issued and outstanding 12,128,601 of CS, 15,062,640 shares of Series Seed and 16,723,442 shares of Series Seed 1. As of December 31, 2016, the Company had issued and outstanding 61,612,223 shares of Series A stock.

During the year ended December 31, 2016, the Company issued 61,612,223 shares of Series A stock for total consideration of \$6,291,003. The Company incurred stock issuance closing costs totaling \$131,279, which have been recorded directly in equity.

During the year ended December 31, 2015, the Company issued 16,723,442 shares of Series Seed 1 stock for total consideration of \$3,863,205. The Company incurred stock issuance closing costs totaling \$103,774, which have been recorded directly in equity. During the year ended December 31, 2015, the Company also issued 12,128,601 shares of CS for no consideration.

During the year ended December 31, 2015, in connection with obtaining the notes payable to stockholders, the Company issued certain warrants to purchase approximately 1,713,898, shares of Series Seed 1 stock (Warrants) to several existing stockholders. The Warrants are exercisable at a calculated exercise price of \$0.1 per share and expire beginning May 31, 2025 through September 15, 2025. The grant date fair value of the Warrants was calculated using the Black-Scholes model. As of December 31, 2016 and 2015, no warrants have been exercised and the warrants outstanding total 1,713,898. The Warrants expense was determined to be immaterial to these consolidated financial statements and therefore was not recorded.

The voting, dividend and liquidation rights of the CS holders are subject to and qualified by the rights, powers and preferences of the Preferred Stock (PS) holders. The CS holders are entitled to one vote for each share of CS held. Each holder of PS shall be entitled to cast the number of votes equal to the number of shares of CS into which the shares of PS held by such holder are convertible into CS.

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015 (UNAUDITED)

NOTE 10 - CAPITALIZATION (continued)

PS may be converted into CS at the discretion of the stockholder. The conversion ratio is determined by dividing the Initial Preferred Conversion Value (as defined) by the Preferred Conversion Price (as defined), plus certain other adjustments.

In the event of any liquidation, dissolution or winding up of the Company (Liquidation Event), the proceeds shall be paid first to Series A stockholders, second to Series Seed 1 stockholders, third to Series Seed stockholders and fourth to CS stockholders. The amount to be paid shall be equal to the original issue price (as defined) plus any dividends declared, but unpaid. For the purposes of determining the amount each PS holder is entitled to receive from a Liquidation Event, each holder of PS shall be deemed to have converted such holder's shares of PS into shares of CS immediately prior to the Liquidation Event.

Dividends declared are first to be paid to PS holders on a pro rata basis and then to CS holders. As of December 31, 2016 and 2015, there were no accrued dividends relating to PS.

NOTE 11 - STOCK OPTIONS

In 2015, the Company instituted an incentive stock option plan (the Plan) through which the Company has granted key employees and certain non-employees (Option holders) stock options to purchase the CS of the Company. Under the Plan, the Board of Directors is authorized to grant options to purchase CS. Option holders are eligible to receive incentive stock options ("ISOs"), which are limited to a maximum shares issuable. Non-employees may be granted non-statutory stock options ("NSOs"). The Board of Directors has the authority to set the exercise prices of all options granted based upon the fair market value of the CS on the grant date. The term of the options shall not exceed 4 years. The options vest over 4 years from the vesting commencement date, until they are fully vested, subject to the Option holder's continuous service with the Company. The Option holder has 3 months from their termination date to exercise their vested options and will be deemed to have forfeited their options in full at the end of that period. The options expire 4 years from the grant date. A summary of option activity for the year ended December 31, 2016 is presented below:

	Stock Options	Weighted Average Exercise Price	Average Remaining Contractual Life (Years)	Aggregate Grant Date Fair Value
Options Outstanding at January 1, 2016:				
Granted	3,953,100	\$ 0.12	3.25	\$ 201,608
Forfeited	21,577,600	0.12		970,992
Exercised	(2,600)	(0.12)		(133)
	-	-		-
OPTIONS OUTSTANDING AT DECEMBER 31, 2016	25,528,100	\$ 0.12	3.31	\$ 1,172,467
VESTED AND EXPECTED TO VEST AT DECEMBER 31, 2016	25,528,100	\$ 0.12	3.31	\$ 1,172,467
EXERCISABLE AT DECEMBER 31, 2016	-	\$ -	-	\$ -

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015 (UNAUDITED)

NOTE 11 - STOCK OPTIONS (continued)

A summary of option activity for the year ended December 31, 2015 (Unaudited) is presented below:

	Stock Options	Weighted Average Exercise Price	Average Remaining Contractual Life (Years)	Aggregate Grant Date Fair Value
Options Outstanding at January 1, 2015:	-	\$ -	-	\$ -
Granted	4,015,800	0.12		204,806
Forfeited	(62,700)	(0.12)		(3,198)
Exercised	-	-		-
OPTIONS OUTSTANDING AT DECEMBER 31, 2015	3,953,100	\$ 0.12	3.25	\$ 201,608
VESTED AND EXPECTED TO VEST AT DECEMBER 31, 2015	3,953,100	\$ 0.12	3.25	\$ 201,608
EXERCISABLE AT DECEMBER 31, 2015	-	\$ -	-	\$ -

The following summarizes information about stock options outstanding and exercisable at December 31, 2016:

Options Outstanding				Options Exercisable	
Exercise Price	Number of Units	Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Units	Weighted Average Exercise Price
\$ 0.12	25,528,100	3.31	\$ 0.12	-	\$ 0.12

The following summarizes information about stock options outstanding and exercisable at December 31, 2015 (Unaudited):

Options Outstanding				Options Exercisable	
Exercise Price	Number of Units	Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Units	Weighted Average Exercise Price
\$ 0.12	3,953,100	3.25	\$ 0.12	-	\$ 0.12

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015 (UNAUDITED)

NOTE 11 - STOCK OPTIONS (continued)

The following table summarizes the number and weighted average grant date fair value of unvested stock options for the year ended December 31, 2016:

	Stock Options	Weighted Average Grant Date Fair Value
Unvested at January 1, 2016	3,614,334	\$ 0.05
Granted	21,577,600	0.05
Vested	(3,714,944)	(0.05)
Forfeited	(2,031)	(0.05)
UNVESTED AT DECEMBER 31, 2016	21,474,959	\$ 0.05

The following table summarizes the number and weighted average grant date fair value of unvested stock options for the year ended December 31, 2015 (Unaudited):

	Stock Option	Weighted Average Grant Date Fair Value
Unvested at January 1, 2015	-	\$ -
Granted	4,015,800	0.05
Vested	(338,766)	(0.05)
Forfeited	(62,700)	(0.05)
UNVESTED AT DECEMBER 31, 2015	3,614,334	\$ 0.05

The Company's option valuation model requires input of highly subjective assumptions. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing model does not necessarily provide a reliable single measure of the fair value of its stock options.

During the year ended December 31, 2016, the Company recorded stock-based compensation expense totaling \$190,141. The stock-based compensation expense for the year ended December 31, 2015 was not considered to be material to these consolidated financial statements therefore was not recorded. As of December 31, 2016 and 2015, there was approximately \$982,355 and \$201,608, respectively, of total unrecognized compensation cost related to non-vested stock-based compensation arrangements under the Plan. The unrecognized compensation cost related to non-vested stock-based compensation is expected to be recognized over a weighted average period of 3.31 years.

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015 (UNAUDITED)

NOTE 12 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

The Company leases its office facility in El Segundo, California, under a non-cancelable operating lease, which expired in June 2018. The lease required base monthly rentals starting at \$12,100 and increasing to \$12,460 by June 2017 and \$12,840 by June 2018. Rental expense for the years ended December 31, 2016 and 2015 was \$133,858 and \$94,715, respectively. Total future minimum lease payments under this lease are as follows for the years succeeding December 31, 2016:

Fiscal Years Ending December 31

2017	\$	147,720
2018		<u>100,820</u>
TOTAL	\$	<u>248,540</u>

On August 1, 2018, the Company entered into a new lease in, Los Angeles, California, with a 5 year term. The lease requires base monthly rentals of \$15,353 with an annual increase in rentals of 3.5%.

(b) FULFILLMENT AGREEMENT

The Company entered into an agreement with a third party fulfillment provider located in Utah and Indiana, in the United States of America, that has been extended and matures in August 2020. The fulfillment provider receives, repackages and stores the Company's inventory. In addition, the fulfillment provider performs an annual inventory count, and picks, packs and ships customer orders.

(c) LEGAL PROCEEDINGS

In the ordinary course of conducting its business, the Company may become involved in various lawsuits. Some of these proceedings may result in judgments being assessed against the Company which, from time to time, may have an impact on its consolidated operations or consolidated financial position. The Company does not believe that these proceedings individually, or in the aggregate, are material to its business operations or financial condition.

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015 (UNAUDITED)

NOTE 13 - GOING CONCERN

The Company has incurred recurring annual losses that have resulted in an accumulated deficit of \$12,556,196 and \$5,762,458 as of December 31, 2016 and 2015, respectively. The directors have reviewed the cash flow requirements of the Company for the next 12 months and recognize that the ability of the Company to continue as a going concern is dependent upon the success of several fundraising initiatives. As described in the Notes to the consolidated financial statements, management has been able to obtain financial support in the past from investors, and believes that it can continue to obtain additional equity and/or debt finance to adequately fund the future operations and obligations of the Company. These conditions indicate a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. Despite the material uncertainty related to the ability of the Company to continue as a going concern, the consolidated financial statements have been prepared on a going concern basis. Accordingly, they do not include adjustments relating to the recoverability and classification of assets, or the amount and classification of liabilities that might be necessary should the Company not continue as a going concern.

NOTE 14 - SUBSEQUENT EVENTS

(a) EQUITY AND DEBT

During the year ended December 31, 2017, the Company entered into several convertible promissory notes (2017 Notes) with certain stockholders totaling \$1,008,075 which were due on maturity at the earlier of the 2017 Notes' six month anniversary or the Sale of the Company (as defined). Interest accrued on the unpaid principal balance at 12% per annum and is due on maturity.

In April 2017, the Company executed a Reverse Stock Split (as defined), whereby each share of Series Seed, Series Seed 1 and Series A stock was automatically converted and reconstituted into 0.01 shares of Series A stock and each of the Company's CS was automatically converted and reconstituted in 0.01 shares of CS.

In April 2017, the Company also issued 950,928 shares of Series A-1 stock for total consideration of \$3,427,564, net of stock issuance closing costs totaling \$41,700, recorded directly in equity. The consideration comprised of cash totaling \$1,841,872 (net of \$41,700 stock issuance closing costs) and conversion of notes payable totaling \$1,278,833, plus a premium on conversion and extinguishment of debt totaling \$306,859, recorded in the statement of operations in 2017. The debt was converted to Series A-1 stock at the fair value of Series A-1 stock on the date of conversion which resulted in the loss on extinguishment.

In September 2017, the Company issued 11,079,031 of Series B stock for total consideration of \$4,027,871, net of stock issuance closing costs totaling \$53,590, recorded directly in equity. The consideration comprised of a note receivable from related party of \$500,000, cash totaling \$2,231,273 (net of \$53,590 stock issuance closing costs) and conversion of notes payable totaling \$1,028,804, plus a premium on conversion and extinguishment of debt totaling \$267,794, recorded in the statement of operations in 2017. The debt was converted to Series B stock at the fair value of Series B stock on the date of conversion which resulted in the loss on extinguishment.

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **December 31, 2016 and 2015 (UNAUDITED)**

NOTE 14 - SUBSEQUENT EVENTS (continued)

(a) EQUITY AND DEBT (continued)

During May and June, 2018, the Company entered into several convertible promissory notes (2018 Notes) with certain Stockholders and investors (2018 Holders) totaling \$2,267,000.

2018 Notes totaling \$1,542,000 (Tranches A&B) were due on maturity at the earlier of August 7, 2018 or a Qualified Financing event (as defined). Interest is accrued on the unpaid principal balance at 12% per annum and is due on maturity. If the Company issues equity prior to maturity that yields total proceeds of at least \$1,000,000 (Qualified Financing), the outstanding principal and accrued interest of the 2018 Notes totaling \$1,122,773 (Tranche A) as of June 30, 2018, will automatically convert at the lowest price per share of the equity sold multiplied by 50%. For the rest of these 2018 Notes, the outstanding principal and accrued interest on the Notes totaling \$419,227 (Tranche B) as of June 30, 2018, will automatically convert at the lowest price per share of the equity sold. Tranches A&B, are subordinated to all existing secured senior indebtedness. Except as noted above, with respect to an automatic conversion, none of the outstanding principal or accrued interest on Tranches A&B may be prepaid in whole or in part prior to the Maturity Date without the prior written consent of the Investors holding at least 80% of the principal amount of Tranches A&B.

In addition, 2018 Notes totaling \$725,000 (Australian Notes) were due on maturity at the earlier of June 2020 or a Qualified Financing event and bear no interest. If the Company issues equity prior to maturity that yields total proceeds of at least \$5,000,000, the outstanding principal and accrued interest of the Australian Notes will automatically convert at the Conversion Price (as defined). The Conversion Price shall be equal to the lesser of: (a) the price implied by a pre-money valuation of the Company of \$8,000,000 at the time of the conversion; or (b) the price at which Shares in the Company are offered pursuant to an equity raise.

There have been no payments on the 2018 Notes during 2018. The 2018 Notes are secured by substantially all the assets of the Company.

During the six months ended June 30, 2018, the Company issued 150,716 of Series B stock for total consideration of \$41,602, net of stock issuance closing costs totaling \$18,108 recorded directly in equity. The consideration comprised of a note receivable from related party of \$25,253 and cash totaling \$34,608 (net of \$18,108 stock issuance closing costs)

During July 2018, the Company entered into several convertible promissory notes (Additional Australian Notes) with certain investors totaling approximately \$1,132,000. These notes are due on maturity at the earlier of June 2020 or a Qualified Financing event and bear no interest. If the Company issues equity prior to maturity that yields total proceeds of at least \$5,000,000, the outstanding principal and accrued interest of these Notes will automatically convert at the Conversion Price (as defined). The Conversion Price shall be equal to the lesser of: (a) the price implied by a pre-money valuation of the Company of \$8,000,000 at the time of the conversion; or (b) the price at which Shares in the Company are offered pursuant to an equity raise.

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015 (UNAUDITED)

NOTE 14 - SUBSEQUENT EVENTS (continued)

(a) EQUITY AND DEBT (continued)

During August 2018, both Tranches A and B convertible notes converted into 7,466,578 shares of CS at per share prices of \$0.18 and \$0.36, respectively.

During October 2018, all the Company's issued and outstanding convertible preference shares were converted into 13,118,216 shares of CS.

During November 2018, all of the Company's outstanding shares of CS were transferred to a new company formed in Australia (Parent), such that the Company became a wholly-owned subsidiary of the Parent.

During November 2018, all of the Australian Notes were settled in full through a conversion into 17,744,881 shares of the Company's Parent at a per share price of approximately \$0.1.

(b) INITIAL PUBLIC OFFERING (IPO)

During November 2018, the Company's Parent was in the process of applying for an IPO on the Australian Securities Exchange (ASX).

NOTE 15 - FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, and interest rate risk. These risks arise from the normal course of operations and all transactions are undertaken to support the Company's ability to continue as a going concern. Risk management is carried out by management under policies approved by the Board of Directors. The Company's overall risk management program seeks to minimize potential adverse effects on the Company's financial performance.

(a) CREDIT RISK

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations and arises principally from the Company's receivables from customers. The carrying amount of the financial assets represents the maximum credit exposure. At the reporting date, no material credit risk exposure existed in relation to potential customer failure to meet contractual obligations.

CANDY CLUB HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **December 31, 2016 and 2015 (UNAUDITED)**

NOTE 15 - FINANCIAL RISK MANAGEMENT (continued)

(b) LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach in managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, by continuously monitoring actual and budgeted cash flows. As of December 31, 2016, the Company faces no material liquidity risk and is able to meet all of its current financial obligations as they become due and payable.

(c) INTEREST RATE RISK

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents held with registered US financial institutions. The Company considers this risk to be immaterial. The interest on the Notes Payable to Stockholders is not subject to cash flow interest rate risk as this instrument bears interest at a fixed rate.