Consolidated Financial Statements

For the 3 months ended March 31, 2019

UNAUDITED

PotNetworkHolding.com

DiamondCBD.com

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BALANCE SHEET (in $000)	Mar. 31, 2019	Dec. 31, 2018
Assets		
Current Assets		
Cash/Bank Balances	$ 562	$ 584
Advances and Accounts Receivable	$ 4,442	$ 4,630
Total Current assets	$ 5,004	$ 5,214
TOTAL ASSETS	$ 5,004	$ 5,214
Liabilities		
Current Liabilities		
Payables	$ 131	$ 469
Total Current Liabilities	$ 131	$ 469
Other Liabilities		
Loan from 3rd Party with interest	$ 39	$ 38
Notes Payable	$ 3,652	$ 3,574
Total other liabilities	$ 3,691	$ 3,612
Total Liabilities	$ 3,822	$ 4,081
Stockholders' Equity		
Common: Authorized 1,000,000,000 shares, $ .00001 par value; and 569,364,712 Issued and outstanding	$ 3,169	$ 3,169
Preferred Stock Class A Authorized - 50,000 shares, $ .00001 Par value; and 34,289 Issued and outstanding	$ -	$ 0
Retained Earnings	$ (1,986)	$ (2,037)
Total Stockholders' Equity	$ 1,183	$ 1,132
Total Liabilities & Equity	$ 5,004	$ 5,214

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

Previous period numbers are regrouped

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INCOME STATEMENT (In $000s, except per-share data)	Quarter Ended Mar. 31, 2019	Quarter Ended Mar. 31, 2018
Revenue		
Sales	$ 6,183	$ 6,284
Cost of goods sold	$ 3,636	$ 3,772
Gross profit	$ 2,547	$ 2,512
Operating expenses		
Research and development	$ -	$ -
Sales & Marketing	$ 2,174	$ 2,084
General & Administrative Expenses	$ 244	$ 231
Total operating expenses	$ 2,418	$ 2,315
Financing expenses		
Interest Exp	$ 78	$ 4
Total financing expenses	$ 78	$ 4
Total Expenses	$ 2,496	$ 2,319
Profit (Loss) before Income Tax	$ 51	$ 193
Provision for Income Tax	$ -	$ -
Net Profit (Loss)	$ 51	$ 193
Earnings per share	$ 0.0003	$ 0.0000
Basic and diluted	$ 0.0003	$ 0.0000
Basic and diluted weighted average common shares outstanding	626,656,621	569,920,485

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

CASH FLOWS STATEMENT	Quarter Ended	Quarter Ended
	Mar. 31, 2019	Mar. 31, 2018
Operations		
Net Income (Loss)	$ 51	$ 193
Adjustments to reconcile net income (loss)		
Advances & Accounts Receivable	$ 562	$ 608
Other Assets		$ (37)
Payable	$ (338)	$ (40)
Third Party Loan	$ 1	$ (4)
Notes Payable	$ 78	$ 298
Total Adjustments to reconcile net income (loss)	$ 302	$ 825
Net cash from the current year operations	$ 353	$ 1,018
Investing		
Common Stock	$ -	$ (75)
Preferred A Stock		$ 0
Additional Capital	$ -	$ (975)
Net cash provided by investing activities	$ -	$ (1,050)
Financing		
Net cash provided by financing activities	$ -	$ -
Net change in cash and cash equivalents	$ 353	$ (32)
Cash and cash equivalents, beginning of period	$ 209	$ 241
Cash and cash equivalents, end of period	$ 562	$ 209

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

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STOCKHOLDERS' EQUITY (in $000)	Shares	Amount	Additional Paid-in Capital	Surplus (Deficit)
Common Stock as on Dec. 31, 2016	297,389,288	$ 88	$ 263	$ (2,635)
Triangular Merger				$ (54)
Shares Issued - Restricted	309,322,614			
Shares Issued - Free	121,000,000	$ 363		
Shares Issued - Reserve	(157,791,417)			
Net Profit (Loss)				$ 302
Common Stock as on Dec. 31, 2017	569,920,485	$ 451	$ 263	$ (2,280)
Shares Issued	215,444,227	$ 2,718	$ (263)	
Shares Cancelled	(216,000,000)			
Net Profit (Loss)				$ 243
Common Stock as on Dec. 31, 2018	569,364,712	$ 3,169	$ -	$ (2,037)
Shares Issued	57,291,909		$ -	
Net Profit (Loss)				$ 51
Common Stock as on Mar. 31, 2019	626,656,621	$ 3,169	$ -	$ (1,986)

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

Notes on accounts to the financial statements
for the first quarter, 2019

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

PotNetwork Holdings, Inc. is a publicly traded holding company trading under the symbol "POTN". The Company website is www.potnetworkholding.com.

This Company was previously known as:

- SND Auto Group, Inc. until 3-2017
- PotNetwork Holdings, Inc. until 5-2016
- United Treatment Centers, Inc. until 7-2015
- Element Trading Holdings, Inc. until 3-2014
- United Treatment Centers, Inc. until 10-2013
- MyMedicalCD, Ltd. until 6-2008
- Interactive Solutions Corp. until 11-2004
    - State of incorporation changed from Nevada to Wyoming in 11-2004
- Araldica Wineries Ltd. until 2-2000
- H P Capital Corp. until 9-1996

The Company has six (6) wholly-owned subsidiaries:

- First Capital Venture Co., a Florida corporation which has as its wholly-owned subsidiary, Diamond CBD, Inc., a Delaware corporation. First Capital Venture Co. was acquired by the Company on January 31, 2017.
- PotNetwork Media Group, Inc., a Nevada corporation, the owner and operator of www.Potnetwork.com as a digital business magazine focusing on the cannabis industry, which was acquired under a stock purchase agreement.
- Blockchain Crypto Technology, Corp., a Colorado corporation, an early stage cryptocurrency mining company.
- Grinder Distribution, Inc., a Florida corporation, a distributor of herbal grinders.
- PNH Holdings, Inc., an inactive Colorado corporation
- SND Auto Group, Inc., an inactive Colorado corporation

Since the acquisition of First Capital Venture Co., the focus of the Company has been the development of the business of Diamond CBD, Inc. SND Auto Group Inc. became dormant in October 2016. All other subsidiaries are in early development stage. Hence, the financial statements reflect principally the business results of Diamond CBD business.

Diamond CBD, Inc. focuses on the research, development, and multinational marketing of premium hemp extracts that contain a broad range of cannabinoids and natural hemp derivatives.

Diamond CBD's 94-page catalog can be found in http://catalog.diamondcbd.com.

Since January 31, 2017, Diamond CBD's business has become the primary business of this Company.

In February 2018, the Company reversed ab initio the March 17, 2017 holding company reorganization. As a result, the Company re-assumed its prior name, PotNetwork Holdings, Inc. (with an "s" on Holding), while remaining a Colorado corporation. None of the acquisitions or the share capital structure was affected.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- **BASIS OF PRESENTATIONS:** The statements were prepared following generally accepted accounting principles of the United States of America which were consistently applied.
- **USE OF ESTIMATES:** Management uses estimates and assumptions in preparing these financial statements in accordance with U.S. generally accepted accounting principles. 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.
- **REVENUE RECOGNITION – DIAMOND CBD BUSINESS**
  - Sales are recorded when the sale proceeds are credited to the bank account.
  - Revenue is recognized when the title, ownership and risk of loss transfers, which occurs usually on the date of shipment
  - At the year end, the sales invoices are reviewed to comply with the matching principle of considering the expenses and revenues of the same year. Such book entries are reversed in the following year.
  - For online sales, merchandise is not shipped unless and until the customer pays for it.
  - For orders received over the phone, the merchandise will not ship unless and until the customer pays for it.
  - Sales on credit terms are exceptional and require the customer to establish credit.
  - Revenue transactions represent the actual merchandise shipped to the customers as drop shipments.
  - The revenue recorded in the books is net of sales and other taxes collected on behalf of governmental authorities.
  - The revenue includes shipping and handling costs which are generally included in the sale invoices.
  - Provision for discounts, when applicable, are stated in the sales invoice and used to determine the net of sales for each such invoice.
  - Returns are accounted as a reduction of sales when the returns are authorized.
    - The customers enjoy free returns of unopened items within 15 days of purchase.

  - Free return labels are provided, meaning that the Company pays for the shipping cost for the returns by the customers.
  - The customers can easily initiate the returns online in the Company website.
  - Experienced professional staff reviews the selling price on an ongoing basis.
  - Exceptions are reviewed and approved by the manager.
  - Sales return is insignificant and hence no reserves are provided.
- Trade promotions such as sale prices, coupons, etc. are offered to the customers on various occasions as part of marketing and sales promotion. In all such cases, sales are recorded net of trade promotions, which is generally incurred at the time of sale. Most of the arrangements are for a year or less. Expected payouts are not estimated and hence accounted as and when incurred.
- Most of the sales are charged to the customers' credit cards. Though there is a delay of 10 business days to receive the credit to the Company's bank account, the sales are accounted as revenue based on the charge to the customers' credit card but recorded as receivable. Also, this Company is subjected to 10% reserve for 90 days.

➢ **CASH AND CASH EQUIVALENTS:** Cash equivalents include short-term, highly liquid investments with maturities of three months or less at the time of acquisition and the balance cash in hand and the balance in bank accounts.

➢ **PROPERTY AND EQUIPMENT:** Property and equipment are stated at the written-down value [that is, after deducting depreciation from the cost]. This Company adapted the depreciation rates as provided in the IRS publications, using the Modified Accelerated Cost Recovery System (MACRS). Computers and office equipment are considered as 5-year property. Office furniture and fixtures are 7-year property in MACRS and apply the 200% declining balance method over a GDS recovery period. Wherever possible, section 179 depreciation is also applied. However, the accumulated depreciation shall not exceed the actual cost at any point of time. As on the date of the financial statement, the Company does not hold any assets.

➢ **INTANGIBLE ASSETS**

- **Initial Measurement:** Intangible asset acquisitions in which the consideration given is cash are measured by the amount of cash paid, which generally includes the transaction costs of the asset acquisition. However, if the consideration given is not in the form of cash (that is, in the form of noncash assets, liabilities incurred, or equity interests issued), measurement is based on either the cost which shall be measured based on the fair value of the consideration given or the fair value of the assets (or net assets) acquired, whichever is clearer and, thus, more reliably measurable.
- **Subsequent Measurement:** The Company accounts for its intangible assets under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification Subtopic ("ASC") 350-30-35 "Intangibles-- Goodwill and Other--General Intangibles Other than Goodwill-Subsequent Measurement". Under this method the Company is required to test an indefinite-lived intangible asset for impairment on at least an annual basis. This is done by comparing the asset's fair value with its carrying amount. If the carrying amount

exceeds the asset's fair value, the difference in those amounts is recognized as an impairment loss.

- ASC 350 requires capitalizing any money spent on product development and product improvement. During the current year, money spend on product development is very little and is not significant.

➢ **FINANCIAL INSTRUMENTS:** For certain of the Company's financial instruments, including cash, accrued expenses and short-term debt, the carrying amounts approximate their fair values due to their short maturities. We adopted ASC Topic 820, "Fair Value Measurements and Disclosures", which requires disclosure of the fair value of financial instruments held by the Company. ASC Topic 825, "Financial Instruments," defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The carrying amounts reported in the balance sheets for current liabilities qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of valuation hierarchy are defined as follows:

Level 1: Valuations consist of unadjusted quoted prices in active markets for identical assets and liabilities and has the highest priority;

Level 2: Valuations rely on quoted prices in markets that are not active or observable inputs over the full term of the asset or liability;

Level 3: Valuations are based on prices or third party or internal valuation models that require inputs that are significant to the fair value measurement and are less observable and thus have the lowest priority.

➢ **Investments in subsidiaries:** The March 17, 2017 reorganization is referred as holding Company reorganization. The Company did not make any payment in cash or check in connection with the reorganization. First Capital Venture Co., the parent of Diamond CBD, Inc. is now the wholly owned subsidiary. The entire amount of current year profit is attributable to the business generated by this wholly owned subsidiary. As required under ASC 810, consolidated accounts are presented in this financial statement.

➢ **Redemption Right:** In 2017, this Company signed convertible promissory notes for $1,200,000. The convertible note has the redemption right, which reads as, "Notwithstanding any provision contained herein to the contrary including the conversion rights as set forth in this section, the Company shall be entitled, at any time prior to the expiration of five days from any notice of conversion, to repay this Note in full, plus interest, minus the credit accorded from prior payments, including from prior conversions, and avoid any further Note conversion and thus avoid the issuance of any additional shares of PotNetwork Holdings, Inc." By this clause, no derivative liability exists. Further, these convertible promissory notes are exchanged for Common Stock Purchase Warrant, as mentioned supra.

NOTE 3 - GOING CONCERN

The financial statements are prepared assuming that the Company will continue as a going concern, which contemplates, among other things, the realization of assets and the satisfaction of liabilities in the normal course of business.

Since PotNetwork Holdings, Inc. has no uncertainties as on the balance sheet date, the financial statements need no adjustments.

Since Diamond CBD's business originated in 2015, it is considered as a business with limited operating history. Hence, this business is subject to all risks inherent in a developing business enterprise. Continued success depends on the problems, difficulties, complications, and delays frequently encountered in the competitive and regulatory environment in which it operates.

Since the CBD business is a burgeoning industry, there are no established entities whose business model Diamond CBD can follow or build upon.

Regulatory risk: Hemp-based CBD is often confused with marijuana-based CBD which remains illegal under federal Law; although the Company maintains that its products are legal. Yet, this legal risk cannot be ignored.

Although Diamond CBD does not sell any marijuana-based CBD products, its products could be treated as being illegal by federal/state authorities and by consumers.

The Company is involved in a highly competitive industry where it may compete with numerous other companies who offer alternative methods or approaches, who may have far greater resources, more experience, and personnel perhaps more qualified than the Company does. Such resources, experience and personnel may provide a substantial competitive advantage to the competition.

NOTE 4 - Deferred Tax Computation: The Company uses the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, "Income Taxes". Under this method, income tax expense is recognized for: (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available positive and negative evidence, it is more likely than not some portion or all the deferred tax assets will not be realized.

ASC Topic 740.10.30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740.10.40 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We have no material uncertain tax positions for any of the reporting periods presented.

There was no income tax expense during this quarter. However, the availability of a net operating loss carryforward and the associated deduction, is subject to complex and restrictive federal income tax provisions as codified by Internal Revenue Code section 172 and related Treasury Regulations, all of which are subject to change and the availability of which can never be free from doubt.

The components of the deferred tax assets and liabilities are as follows:

	31st Mar 2019	31st Dec 2018
Deferred tax assets:		
Net operating loss carryovers	$ 1,986,424	$ 2,037,105
Stock-based compensation	-	-
Other temporary differences	-	-
Total deferred tax assets	1,986,424	2,037,105
Valuation allowance	(1,986,424)	(2,037,105)
Net deferred tax asset	$ -	$ -

NOTE 5 - INVENTORY – DIAMOND CBD

This Company has arranged to buy the exact quantity from the suppliers, based on the customer orders and thereby has eliminated the need for holding inventory on hand at any point of time.

Otherwise, this Company values the inventory at the lower of cost or market.

NOTE 6 - COMMITMENTS AND CONTINGENCIES: There are no commitments and contingencies that exist at present, other than the legal disputes mentioned supra.

NOTE 7 – BUDGET & INTERNAL CONTROL PROCEDURES

- Internal control procedures for inventory and cash control are being developed and implemented on an ongoing basis to ensure higher levels of performances.
- Annual financial budget is reviewed by the Board of Directors.
- Quarterly variance reports are reviewed by the Board of Directors.

NOTE 8 - CAPITAL STOCK

- **Common Stock**: Authorized 1,000,000,000 shares, $.00001 par value; and 626,656,621 issued and outstanding as on the balance sheet date. Further, this Company is obligated to issue additional shares to the noteholders mentioned here below.

- **Class A preferred stock**: Authorized 50,000 shares, $ .00001 par value; and 34,289 Issued and outstanding as on the balance sheet date. Designation details are in Document # 20181127754 filed with the Secretary of State, Colorado on February 13, 2018.

NOTE 9 – Loan from Third Parties

				8%		8%	
				Interest		Interest	
				2018		2018 Q-1	
		Loan					
B	7/1/2016	$25,000	$28,000	$2,000	$30,000	$500	$30,500
C	7/1/2016	$7,000	$7,840	$560	$8,400	$140	$8,540
			$35,840	$2,560	$38,400	$640	$39,040

NOTE 10 – Notes Payable to Sign N Drive

- The original note was for $1,850,000 dated June 2, 2014.
- The annual interest was 8%. But the interest has been waived based on an agreement for a fixed conversion rate.
- 121 million shares of common stock were issued in 2017.
- 69,883,334 shares of common stock were issued in 2018.

NOTE 11 – Notes Payable to Illiad Research & Trading, LP

- $1,400,000 was received on 10/31/2018
- $825,000 was received on 12/18/2018
- $1,125,000 was received on 2/17/2019
- The annual interest was 10%.
- $18,410 is the accrued interest for 2018
- $77,794 is the accrued interest for the current reporting period

NOTE 12 – Management Assertions on the 2 court cases regarding Convertible Promissory Notes of Predecessor

➢ Mammoth West Corporation [case# 17 CH 778, 19th Circuit Court of Lake County, IL] and Southridge Partners II Limited Partnership [case# 3:17-cv-01925, Connecticut] each filed a civil complaint about its convertible promissory note (each referred to as a "Note").

➢ In each instance, the Note was issued not by the Company, but by the Company's predecessor issuer, SND Auto Company Inc. (which predecessor issuer had changed its name before changing it back to SND Auto Group, Inc.). The Note was issued by SND Auto Company Inc., on June 13, 2016 and on July 18, 2016, respectively, for money paid to SND Auto Company Inc., at a time in which SND Auto Company Inc. was the public Company, operating in the automobile industry. However, on March 14, 2017, SND Auto Company Inc. formed the Company and engaged in a holding Company reorganization whereby the Company became the public entity while SND Auto Company Inc., became its subsidiary. The holding Company reorganization was an express condition of First Capital Venture Holdings Co., which is the parent Company to Diamond CBD, Inc. being acquired by the Company and thereby entering the CBD oil business. The acquisition would not have occurred without the holding Company reorganization. Following this acquisition and the holding Company reorganization, and following the Company becoming the public entity, the stock price increased significantly. In other words, the CBD oil company stock price (the Company, i.e., PotNetwork Holdings, Inc.) was much greater than the stock price of the automobile Company (SND Auto Company Inc.).

- The plaintiff invested in an automobile Company, not in the CBD oil business. Yet, plaintiff wants to convert its Note issued by the automobile company into shares of the CBD oil Company, which was not the maker of the Note.
- As of December 31, 2017, SND Auto Company Inc., not the Company, owed Mammoth West Corporation $7,280 and Southridge Partners II Limited Partnership $26,000, on the Notes, which obligations were never disputed by SND Auto Company Inc. (which SND Auto Group, Inc. agreed to pay each, in full).
- The Company has maintained that these were not debts of the Company, and the holding Company reorganization was engaged in to assure as much, not to avoid payment, but instead, to isolate this debt from the new CBD oil business, SND Auto Company Inc. being a separate and distinct legal entity with its own assets and debts.
- However, on February 7, 2018, the Company and its predecessor issuer, SND Auto Company Inc., unwound the March 14, 2017 holding Company reorganization.
- Because of that unwinding, Company's counsel agrees that the Company, the public entity, became liable for this SND Auto Group, Inc. Notes, but only as of the February 7, 2018 rewinding, not prior thereto.
- So, at this point, the dispute between the parties surrounds the conversion price.
- In each case, the terms of the Note entitle the plaintiff, as holder, to convert into shares of the maker's common stock.
- On March 28, 2017 and on April 24, 2017, the conversion notice in each case was issued, not to SND Auto Group, Inc., the maker, but to the Company, for shares of the Company's common stock.
- The terms of the Note entitle the plaintiff to payment in cash or in shares of the maker (SND Auto Group, Inc.), at a discount of 65% of the lowest trading price of the preceding 30 trading days.
- Instead, however, the plaintiff has throughout, sought to convert into shares of the Company, at a fraction of a penny per share, or approximately 2,700,000 shares in each instance (as opposed to approximately 56,000 shares in each instance), *of the Company*, based on *SND Auto Group, Inc.*'s share price, when SND Auto Group, Inc. was the public Company, and prior to the Company even being in existence, let alone being public.

- It is the Company's position that the Company only became obligated for the Note (which is the obligation of the maker, SND Auto Group, Inc.), upon the unwinding of the reorganization, or as of February 7, 2018, when the Company's stock price was considerably higher (and therefore obligated to issue far fewer shares in satisfaction of the conversion notice) than it was prior to the holding Company reorganization and the acquisition of First Capital Venture Holdings Co.
- The Company intends to vigorously defend against this claim. The Company is confident in its position.

NOTE 13 – SUBSEQUENT EVENTS AFTER MARCH 31, 2019

On May 7, 2019, the Company filed with the Secretary of State, Colorado, an amendment to its Articles of Incorporation, under Document # 20171182699. whereby it changed the designation provisions of its Series A Preferred Stock.