

Condensed Interim Consolidated Financial Statements of

**BENCHMARK BOTANICS INC.**

For the three and six months ended June 30, 2019 and 2018

(Expressed in Canadian dollars)

(Unaudited)

# **BENCHMARK BOTANICS INC.**

**(the "Company")**

## **Condensed Interim Consolidated Financial Statements**

**Three and Six Months ended June 30, 2019 and 2018**

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying condensed interim consolidated financial statements of Benchmark Botanics Inc. have been prepared by, and are the responsibility of, the Company's management.

Benchmark Botanics Inc.'s independent auditors have not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

August 28, 2019

**Benchmark Botanics Inc.**Condensed Interim Consolidated Statements of Financial Position  
(Expressed in Canadian Dollars)

	Note	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
		\$	\$
<b>Current Assets</b>			
Cash		7,602,007	328,112
GST receivable		8,239	83,049
Other receivables		-	41,651
Biological assets	4	117,589	33,992
Inventory	5	762,255	587,395
Loan receivable	6	1,722,729	-
Prepaid expenses and deposits	7	63,165	76,467
		10,275,984	1,150,666
Right of use assets	3(b)	191,386	-
Property and equipment	8	4,979,519	5,011,740
		15,446,889	6,162,406
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		161,572	357,150
Lease liabilities due within one year	3(b)	85,332	-
		246,904	357,150
Lease liabilities	3(b)	129,634	-
		376,538	357,150
<b>Equity</b>			
Share capital	10	29,434,755	17,815,099
Warrants reserve	10	506,667	506,667
Share subscriptions	10	-	80,000
Stock options reserve	10	2,189,272	1,732,466
Deficit		(17,060,343)	(14,328,976)
		15,070,351	5,805,256
		15,446,889	6,162,406

NATURE AND CONTINUANCE OF OPERATIONS (Note 1)  
COMMITMENTS (Note 14)  
SUBSEQUENT EVENTS (Note 15)

Approved on behalf of the Board:

"George Dorin"  
Director

"William Ying"  
Director

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

## Benchmark Botanics Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

For the three and six months ended June 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

	Note	Three Months Ended June 30, 2019	June 30, 2018	Six Months Ended June 30, 2019	June 30, 2018
		\$	\$	\$	\$
Revenue		134,844	-	134,844	-
Inventory production costs expensed to cost of sales		49,481	-	49,481	-
Gross profit before fair value adjustments		85,363	-	85,363	-
Fair value changes in biological assets included in inventory sold and other inventory charges		73,105	-	73,105	-
Unrealized gain on changes in fair value of biological assets	4	(59,267)	(265,837)	(187,129)	(265,837)
Gross profit		71,525	265,837	199,387	265,837
Expenses					
Consulting fees	9	117,020	153,550	275,950	291,550
Depreciation		65,339	79,710	130,357	129,083
Depreciation on right of use assets	3(b)	21,852	-	43,704	-
Director fees		23,875	13,000	46,750	26,550
Insurance		29,936	4,904	56,167	9,587
Interest on lease liabilities	3(b)	6,943	-	17,021	-
Management fees	9	124,224	122,500	248,724	244,000
Marketing expenses		50,140	84,097	111,542	111,368
Office and general		105,092	129,086	183,245	176,275
Professional fees		69,024	82,752	107,146	141,991
Rent	9	11,097	40,652	11,097	57,253
R&D		1,121	-	6,595	-
Salaries and benefits	9	407,798	270,410	831,462	461,464
Share-based compensation	10	216,152	205,245	603,129	386,336
Supplies		1,351	6,861	21,008	34,127
Utilities		15,827	28,714	25,141	37,102
Travel and entertainment		163,452	206,839	214,842	284,349
		1,430,243	1,428,320	2,933,880	2,391,035
Loss from continuing operations		(1,358,718)	(1,162,483)	(2,734,493)	(2,125,198)
Other income (expense)					
Interest income	6	19,255	-	22,729	-
Loss on write-off of deposit		-	(500,000)	-	(500,000)
		19,255	(500,000)	22,729	(500,000)
Net loss and comprehensive loss		(1,339,463)	(1,662,483)	(2,711,764)	(2,625,198)
Loss per common share – basic and diluted					
Basic		(\$0.009)	(\$0.012)	(\$0.018)	(\$0.019)
Diluted		(\$0.007)	(\$0.009)	(\$0.014)	(\$0.015)
Weighted average number of common shares					
Basic		146,569,351	138,097,974	150,432,007	137,653,102
Diluted		186,782,684	178,311,307	190,645,340	177,866,435

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

## Benchmark Botanics Inc.

Condensed Interim Consolidated Statements of Changes in Equity

For the three and six months ended June 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

	Number of Common Shares	Share Capital	Warrants Reserve	Share Subscriptions Received (Receivable)	Stock Options Reserve	Deficit	Total
		\$	\$	\$		\$	\$
Balance, December 31, 2017	137,234,080	15,645,220	-	(12,988)	601,840	(8,251,467)	7,982,605
Share subscriptions received	-	-	-	12,988	-	-	12,988
Stock option exercised	1,513,894	553,944	-	-	(247,622)	-	306,322
Stock option cancelled	-	-	-	-	22,141	-	22,141
Share-based compensation	-	-	-	-	364,195	-	364,195
Comprehensive loss for the period	-	-	-	-	-	(2,625,198)	(2,625,198)
<b>Balance, June 30, 2018</b>	<b>138,747,974</b>	<b>16,199,164</b>	<b>-</b>	<b>-</b>	<b>740,554</b>	<b>(10,876,665)</b>	<b>6,063,053</b>
Balance, December 31, 2018	142,028,927	17,815,099	506,667	80,000	1,732,466	(14,328,976)	5,805,256
Impact of adopting IFRS 16 (Note 3 (b))	-	-	-	-	-	(19,603)	(19,603)
Restated balance as at January 1, 2019	142,028,927	17,815,099	506,667	80,000	1,732,466	(14,348,579)	5,785,653
Share issued for cash	28,250,000	11,300,000	-	-	-	-	11,300,000
Stock option exercised	866,667	319,656	-	-	(146,323)	-	173,333
Share-based compensation	-	-	-	-	603,129	-	603,129
Share subscriptions repayment	-	-	-	(80,000)	-	-	(80,000)
Comprehensive loss for the period	-	-	-	-	-	(2,711,764)	(2,711,764)
<b>Balance, June 30, 2019</b>	<b>171,145,594</b>	<b>29,434,755</b>	<b>506,667</b>	<b>-</b>	<b>2,189,272</b>	<b>(17,060,343)</b>	<b>15,070,351</b>

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

## Benchmark Botanics Inc.

Condensed Interim Consolidated Statements of Cash Flows  
For the six months ended June 30, 2019 and 2018  
(Unaudited)  
(Expressed in Canadian Dollars)

	2019	2018
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(2,711,764)	(2,625,198)
Items not involving cash:		
Fair value changes in biological assets included in inventory sold	73,105	73,105
Unrealized gain on changes in fair value of biological assets	(187,129)	(265,837)
Depreciation	174,061	129,083
Interest accrual on loan receivable	(22,729)	-
Share-base compensation	603,129	386,336
	(2,022,567)	(2,375,616)
Changes in non-cash working capital balances:		
GST receivable	74,810	(25,243)
Other receivable	41,651	-
Biological assets	(212,268)	-
Inventory	67,835	(126,545)
Prepaid expenses	13,302	(1,085)
Accounts payable and accrued liabilities	(195,578)	(37,366)
Cash used in operating activities	(2,281,575)	(2,565,855)
<b>INVESTING ACTIVITY</b>		
Loan receivable	(1,700,000)	-
Acquisition of property and equipment	(98,136)	(88,103)
Cash used in investing activities	(1,798,136)	(88,103)
<b>FINANCING ACTIVITIES</b>		
Proceeds from share subscriptions	11,473,333	319,310
Subscriptions repayment	(80,000)	-
Payment on lease liabilities	(39,727)	-
Cash provided by financing activities	11,353,606	319,310
Change in cash during the period	7,273,895	(2,334,648)
Cash, beginning of period	328,112	3,457,702
Cash, end of period	7,602,007	1,123,054
Supplemental cash flow information:		
Cash paid for interest	21,285	-
Cash paid for income taxes	-	-

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

# Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Benchmark Botanics Inc. (the "Company") was incorporated on November 23, 2009 under the Business Corporation Act of Alberta. On November 2, 2017, the Company acquired Potanicals Green Growers Inc. ("Potanicals") through a reverse acquisition transaction. The Company's common shares are trading as a Tier 2 Industrial Issuer on the Canadian Securities Exchange ("CSE") under the symbol "BBT". Potanicals was incorporated on February 7, 2014 under the British Columbia Business Corporation Act. The address of the Company's principal place of business is 4715 Paradise Valley Drive, Peachland, BC. The Company's head office and mailing address is 6111 London Road Suite 105, Richmond, BC.

The Company's principal business is the production of marijuana licensed under the *Cannabis Act (Canada)* and its relevant regulations (the "Cannabis Act"), which came into force on October 17, 2018. On October 13, 2017, the Company obtained a license to produce medical marijuana under the Access to Cannabis for Medical Purposes Regulations (the "ACMPR"). On May 29, 2018, the Company amended its licence to produce cannabis oil. On September 28, 2018, the Company obtained a licence to sell cannabis under the ACMPR. Subsequent to the period end, the Company has received a sales license from Health Canada, effective July 26, 2019 (note 15).

These condensed interim consolidated financial statements (the "interim consolidated financial statements") have been prepared on the basis of accounting principals applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. As at June 30, 2019, the Company has an accumulated deficit of \$17,060,343 and has generated negative cash flows from operations. For the six months ended June 30, 2019, the Company incurred a net loss of \$2,711,764 (June 30, 2018 – \$2,625,198). During the six months ended June 30, 2019, the majority of the equity financing raised by the Company has been used to increase working capital and to fund expenses. All these factors raise significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing, successfully generating profits and cash flows from producing and distributing medical marijuana.

These interim consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these interim consolidated financial statements. Management's plans to meet the Company's current and future obligations are to generate revenue from sales, raise equity capital through prospectus and private placements, rely on the financial support of its shareholders and parties related to the current shareholders, as well as explore other sources of financing that may be available to the Company.

## 2. BASIS OF PRESENTATION

### a) Statement of compliance

These interim consolidated financial statements are in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. These interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2018 and 2017.

The interim consolidated financial statements were authorized for issue by the Board of Directors on August 28, 2019.

### b) Basis of measurement

The interim consolidated financial statements have been prepared on the historical cost basis except for financial instruments carried at fair value where changes are recorded through profit or loss.

These interim consolidated financial statements are presented in Canadian dollars which is the functional currency of the Company and its subsidiaries.

### c) Basis of consolidation

The interim consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiary Potanicals Green Growers Inc. All significant intercompany transactions and balances have been eliminated on consolidation.

## Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### a) Use of estimates and judgments

The preparation of the interim consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which affect the application of accounting policies and the reported amounts of assets, liabilities and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Significant estimates include:

- Estimating the stage of growth of the biological assets, the cannabis plants, up to the point of harvest, the expected future yields from the cannabis plants, their values during the growth cycle, costs to convert the harvested cannabis to finished goods, their sales price and net realizable value;
- Determining the useful lives of property and equipment; and
- Estimating the value of variables used to calculate the fair value of share-based payment transactions.

Critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the interim consolidated financial statements include the following:

- The evaluation of the Company's ability to continue as going concern (see Note 1);
- The determination of write-off in the carrying costs of inventory;
- the recognition and valuation of impairment of property and equipment; and
- income tax and estimates about timing, likelihood and reversal of temporary differences between accounting and tax basis of the assets and liabilities.

#### b) Adoptions of new accounting pronouncements

##### Accounting standards effective for annual periods beginning on or after January 1, 2019

**IFRIC 23 *Uncertainty over income tax treatments*** - IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, Income taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 will be effective for the Company's fiscal year beginning on January 1, 2019, with earlier application permitted. The Company will adopt this interpretation as of its effective date. The Company has performed a preliminary analysis and has not assessed any significant impact to the Company's future results and financial position as a result of the adoption of this standard.

**IFRS 16 *Leases*** - IFRS 16 supersedes IAS 17 *Leases* and requires how leases will be recognized, measured, presented and disclosed. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. For leases where the Company is the lessee, it recognizes a right-of-use asset and a lease liability for its office premises leases previously classified as operating leases. The Company chose to adopt the modified retrospective approach on transition to IFRS 16 on January 1, 2019, and has chosen not to restate comparative information in accordance with the transitional provisions in IFRS16. As a result, the comparative information continues to be presented in accordance with the Company's previous accounting policies.

On adoption of IFRS 16, the Company recognized lease liabilities on office premises which had previously been classified as operating lease under IAS 17. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rates applies to the lease liabilities on January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 15% per annum. The details of the lease liabilities recognized as at January 1, 2019 are as follow. The weighted average lease term remaining as at January 1, 2019 is approximately 3.3 years.

## Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2019 and 2018  
(Unaudited)  
(Expressed in Canadian Dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### b) Adoptions of new accounting pronouncements (continued)

	As at January 1, 2019
	\$
Operating lease commitment disclosed as at December 31, 2018	209,712
Discount of future commitments as at January 1, 2019	(23,314)
Extension options reasonably certain to exercise	68,295
Lease liabilities recognized as at January 1, 2019	254,693

#### Right-of-use assets

The following is the continuity of the cost and accumulated depreciation of right-of-use assets (office premises leases) as at and for the period ended June 30, 2019:

	June 30, 2019
	\$
<b>Cost</b>	
Balance, January 1, 2019 and June 30, 2019	235,090
<b>Accumulated depreciation</b>	
Balance, January 1, 2019	-
Depreciation	43,704
Balance, June 30, 2019	43,704
Carrying amount as at June 30, 2019	191,386

#### Lease liabilities

The following is the continuity of lease liabilities as at and for the period ended June 30, 2019:

	June 30, 2019
	\$
<b>Cost</b>	
Balance, January 1, 2019	254,693
Lease payments	(56,748)
Interest expense on lease liabilities	17,021
Balance, June 30, 2019	214,966
Less: current portion	85,332
Lease liabilities – non current	129,634

## Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

### 4. BIOLOGICAL ASSETS

As at June 30, 2019 and December 31, 2018, the Company's biological assets consisted of cannabis plants. The changes in the carrying value of the biological assets are as follow:

	June 30, 2019	December 31, 2018
	\$	\$
Balance, beginning	33,992	-
Acquired biological assets	-	33,384
Unrealized gain on changes in fair value of biological assets	187,129	424,259
Production costs capitalized	212,268	143,254
Harvested cannabis transferred to inventory	(315,800)	(566,905)
Balance, ending	117,589	33,992

As of June 30, 2019, the weighted average fair value less cost to complete and cost to sell was \$5.00 per gram (December 31, 2018 - \$5.00 per gram).

Biological assets are valued in accordance with IAS 41 and are presented at their fair values less costs to sell up to the point of harvest. The Company's biological assets are primarily cannabis plants, and because there is no actively traded commodity market for plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data (Level 3).

The valuation of biological assets is based on a market approach where fair value at the point of harvest is estimated based on selling prices less the costs to sell at harvest. For in process biological assets, the fair value at point of harvest is adjusted based on the stage of growth.

During the six months ended June 30, 2019, the Company's biological assets produced 65,619 grams of dried cannabis (December 31, 2018 – 113,398 grams).

As of June 30, 2019, the biological assets strains at the flowering phase were on average 85% complete and strains at vegetative state on average 60% complete. As of June 30, 2019, it was estimated that the Company's biological assets would yield approximately 25,000 grams of medical cannabis when harvested.

The significant unobservable inputs and their range of values are noted in the table below:

Unobservable Inputs	Range	Sensitivity
Estimated Yield per Plant – varies by strain and is obtained through historical growing results (trailing 6-months moving average) or grower estimate if historical results are not available.	25 grams/plant to 165 grams/plant	A slight increase in the estimated yield per plant would result in a significant increase in fair value, and vice versa.
Listed Selling Price of Dry Cannabis – varies by strain and is obtained through listed selling prices or estimated selling prices if historical results are not available.	\$5 to \$8/gram	A slight increase in the estimated selling price per strain would result in a significant increase in fair value, and vice versa.

The Company estimates the average grow cycle of plants up to the point of harvest is approximately twelve weeks. The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected the gain or loss on biological assets in future periods.

### 5. INVENTORY

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	\$	\$
Dry cannabis	760,120	566,905
Supplies and consumables	2,135	20,490
Total	762,255	587,395

For the six months ended June 30, 2019, the Company sold 24,517g dried cannabis of to a supplier.

## Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

### 6. LOAN RECEIVABLE

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Loan receivable from 1139000 B.C. Ltd. (Note 13)	1,700,000	-
Add: Accrued interest	22,729	-
Loan receivable	1,722,729	-

The loan is due on demand. The loan accrues interest at 8% per year with a due date as at June 30, 2020, calculated and accrued quarterly and payable all at due date. Refer to Note 13 for details.

### 7. PREPAID EXPENSES

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	\$	\$
Prepaid expenses and deposit	42,805	8,554
Prepaid insurance	20,360	67,913
	63,165	76,467

### 8. PROPERTIES AND EQUIPMENT

	Land	Plant	Leasehold Improvements	Production and Other Equipment	Computer Equipment and Software	Furniture and Fixtures	Motor Vehicle	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>								
Balance, December 31, 2018	1,887,644	1,943,022	33,900	1,012,068	146,315	188,555	68,992	5,280,496
Additions	52,300	22,426	-	12,076	5,564	5,770	-	98,136
Balance, June 30, 2019	1,939,944	1,965,448	33,900	1,024,144	151,879	194,325	68,992	5,378,632
<b>Accumulated Depreciation</b>								
Balance, December 31, 2018	-	76,723	12,712	98,836	65,155	13,605	1,725	268,756
Charge for the period	-	38,973	5,650	45,812	18,926	17,633	3,363	130,357
Balance, June 30, 2019	-	115,696	18,362	144,648	84,081	31,238	5,088	399,113
<b>Net book value</b>								
December 31, 2018	1,887,644	1,866,299	21,188	913,232	81,160	174,950	67,267	5,011,740
June 30, 2019	1,939,944	1,849,752	15,538	879,496	67,798	163,087	63,904	4,979,519

## Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

### 9. RELATED PARTY BALANCES AND TRANSACTIONS

The Company has identified its directors and senior officers as its key personnel. No post-employment benefits, other long-term benefits or termination benefits were made during the six months ended June 30, 2019 and 2018. Short-term key management and director compensation consists of the following:

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
	\$	\$
Salaries	166,800	25,000
Management fees	249,000	244,000
Director fees	46,750	26,550
Consulting fees	36,000	18,000
Share compensation expenses	325,545	156,113
	824,095	469,663

#### Related party balances and transactions

- a) As of January 2, 2019, one of the Company's significant shareholders had provided the Company with a revolving loan up to a total amount of \$3,000,000, bearing no interest. The principal has no specific repayment term and needs to be paid on demand.

The loan balance, including principal in the amount of \$2,728,300, was paid back on June 6, 2019 when the Company completed its private placement of equity.

- b) During the six months ended June 30, 2019, the Company incurred \$21,000 (June 30, 2018 - \$18,120) in rental expenses to a director the Company, which was included in the depreciation on right of use assets (Note 3(b)).

The above transactions were entered into in the normal course of operations and were recorded at their exchange amounts established and agreed to between the related parties. The balances are non-interest bearing, unsecured and have no fixed terms of repayment.

### 10. SHARE CAPITAL

#### **Common Shares Issued and Outstanding**

At June 30, 2019, there were 171,145,594 issued and fully paid common shares (December 31, 2018 - 142,028,927)

On June 6, 2019, the Company has closed its non-brokered private placement financing (the "Private Placement") of 28,250,000 units (each, a "Unit") at a price of \$0.40 per Unit for a total gross proceeds of \$11,300,000. Each Unit is comprised of one common share of the Company (each, a "Share") and one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant shall be exercisable into one Share at a price of \$1.00 for a period of 24 months from the closing date of the Private Placement.

During the six months ended June 30, 2019, there were 866,667 shares issued on exercise of stock options for total proceeds of \$173,333.

No shares were issued during the six months ended June 30, 2018.

#### **Escrow Shares**

As at June 30, 2019, the Company has 16,728,300 of its common shares held in escrow (December 31, 2018 \$21,704,400). Of this amount, 4,976,100 of the common shares will be released every 6 months thereafter until November 2, 2020.

## Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

### 10. SHARE CAPITAL (continued)

#### Common Shares Issued and Outstanding (continued)

##### Stock Options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Canadian Security Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Such options will be exercisable for a period of up to five years from the date of grant.

The status of the stock options is summarized as follows:

	Number of Options	Exercise Price
Outstanding, December 31, 2018	9,563,333	
Exercised on January 4, 2019	(566,667)	\$0.20
Granted on January 24, 2019	1,050,000	\$0.45
Stock options forfeited	(700,000)	\$0.60
Exercised on May 13, 2019	(300,000)	\$0.20
	9,046,666	

The following table summarizes the stock options outstanding and exercisable as at June 30, 2019:

Number of options	Outstanding		Exercisable
	Weighted average exercise price	Weighted average remaining contractual life in years	Number of options
5,166,666	\$0.20	3.36	2,666,666
1,880,000	\$0.60	4.11	626,667
950,000	\$0.48	4.30	316,667
1,050,000	\$0.45	4.57	350,000
9,046,666	\$0.34	3.63	3,960,000

On November 7, 2017, the Company granted an aggregate of 8,700,000 stock options to directors, officers, employees and consultants of the Company. These stock options have an exercise price of \$0.20 and an expiry date of November 6, 2022. All of the options will vest over a two year period with 1/3 of the stock options vesting immediately on the date of grant; 1/3 to vest one year thereafter and 1/3 to vest two years thereafter; such that all of the stock options are fully vested on November 6, 2019. During the six months ended June 30, 2019, the Company recognized share-based payments of \$121,399 (June 30, 2018 - \$386,336) related to these stock options.

On August 9, 2018, the Company granted an aggregate of 2,580,000 stock options to directors, officers, employees and consultants of the Company. These stock options have an exercise price of \$0.60 and an expiry date of August 8, 2023. All of the options will vest over a two-year period with 1/3 of the stock options vesting immediately on the date of grant; 1/3 to vest one year thereafter and 1/3 to vest two years thereafter; such that all of the stock options are fully vested on August 9, 2020. During the six months ended June 30, 2019, the Company recognized share-based payments of \$166,573 (2018 - \$nil) related to these stock options.

On October 19, 2018, the Company granted an aggregate of 950,000 stock options to directors and officer of the Company. These stock options have an exercise price of \$0.48 and an expiry date of October 18, 2023. All of the options will vest over a two-year period with 1/3 of the stock options vesting immediately on the date of grant; 1/3 to vest one year thereafter and 1/3 to vest two years thereafter; such that all of the stock options are fully vested on October 18, 2020. During the six months ended June 30, 2019, the Company recognized share-based payments of \$95,759 (2018 - \$nil) related to these stock options.

## Benchmark Botanics Inc.

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(Unaudited)

(Expressed in Canadian Dollars)

### 10. SHARE CAPITAL (continued)

#### Stock Options (continued)

On January 24, 2019, the Company granted 600,000 stock options to a director and 450,000 stock options to an employee of the Company. These stock options have an exercise price of \$0.45 and an expiry date of January 23, 2024. All of the options will vest over a two-year period with 1/3 of the stock options vesting immediately on the date of grant; 1/3 to vest one year thereafter and 1/3 to vest two years thereafter; such that all of the stock options are fully vested on January 23, 2021. During the six months ended June 30, 2019, the Company recognized share-based payments of \$219,398 (2018 - \$nil) related to these stock options.

The weighted average fair value at grant date of the stock options granted during the six months ended June 30, 2019 was \$0.38 (June 30, 2018 - \$0.17) per option. The fair value was determined using the Black-Scholes option-pricing model using the following weighted average assumptions:

	2019	2018
Expected volatility	125%	125%
Risk-free interest rate	1.86%	1.61%
Dividend yield	-	-
Expected life of options	5.0 years	5.0 years
Stock price on grant date	\$0.45	\$0.20
Forfeiture rate	-	-

#### Warrants

A summary of the changes in warrants is presented below:

	Number of warrants	Weighted Average Exercise Price
Balance at December 31, 2018	2,666,667	\$1.20
Warrants issued	28,500,000	\$1.00
Balance at June 30, 2019	31,166,667	\$1.20

Pursuant to the private placement closed on September 10, 2018, the Company issued 2,666,667 common share purchase warrants at fair value of \$506,667. Each warrant is exercisable into a common share of the Company at an exercise price of \$1.20 per common share for a period of two years, expiring on September 9, 2020.

Pursuant to the private placement closed on June 6, 2019, the Company issued 28,500,000 common share purchase warrants at fair value of \$nil. Each warrant is exercisable into a common share of the Company at an exercise price of \$1.00 per common share for a period of two years, expiring on June 5, 2020.

### 11. FINANCIAL INSTRUMENTS

#### Fair values

The Company's financial instruments include cash, other receivables, loan receivables and accounts payable. The carrying amounts of these financial instruments are a reasonable estimate of their fair values because of their current nature.

The following table summarizes the carrying values of the Company's financial instruments:

	June 30, 2019	December 31, 2018
	\$	\$
Financial assets at fair value through profit or loss (i)	7,602,007	328,112
Financial assets at amortized cost (ii)	1,722,729	41,651
Financial liabilities at amortized cost (iii)	145,008	286,074

- (i) Cash
- (ii) Other receivables and loan receivables
- (iii) Accounts payable

## Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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### 11. FINANCIAL INSTRUMENTS (continued)

The Company classifies its fair value measurements in accordance with the three level fair value hierarchy as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3 – Inputs that are not based on observable market data

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash				
June 30, 2019	7,602,007	-	-	7,602,007
December 31, 2018	328,112	-	-	328,112

#### *Interest Rate and Credit Risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. Management evaluates credit risk on an ongoing basis. The primary sources of credit risk for the Company arise from its financial assets consisting of cash and loan receivable. The carrying value of these financial assets represents the Company's maximum exposure to credit risk. To minimize credit risks the Company only holds its cash with chartered Canadian financial institutions. As at June 30, 2019 and December 31, 2018, the Company has no financial assets that are past due or impaired due to credit risk defaults.

#### *Currency Risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign currency exchange rates. The Company's functional currency is the Canadian dollar. All of the Company's financial instruments are denominated in Canadian dollars and all current operational activities occur within Canada. In management's opinion there is no significant foreign exchange risk to the Company.

#### *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company uses cash to settle its financial obligations as they fall due. The ability to do this relies on the Company collecting its other receivables in a timely manner and by maintaining sufficient cash on hand through equity financing.

The following are the contractual maturities of financial liabilities:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 3 years
June 30, 2019					
Accounts payable	145,008	145,008	145,008		
December 31, 2018					
Accounts payable	286,074	286,074	286,074	-	-

## Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited)

(Expressed in Canadian Dollars)

### 12. CAPITAL DISCLOSURES

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders through expansion correspondingly to the level of risk.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, sell assets, reduce debt or increase its debt. The Company is not subject to any externally imposed capital requirements.

### 13. INVESTMENT IN 1139000 B.C. LTD

On August 30, 2018, the Company entered into an Earn-in and Shareholders' Agreement (the "Agreement") with 1139000 B.C. Ltd. ("1139") and its shareholders to acquire and development a four acre greenhouse facility (the "Facility") into a licensed medical cannabis cultivation operations in Pitt Meadows, BC.

The 1139 existing shareholders will earn their initial 75% ownership interest in 1139 by financing all the costs and expenses relating to the purchase, design, construction and upgrading of the Facility into a facility that meets the requirements of a licensed cultivation and production of medical cannabis facility under ACMPR which was replaced by *Cannabis Act* (Canada) and its relevant regulations (the "Cannabis Act") effectively on October 17, 2018.

The Company will earn its initial 25% ownership interest in 1139 by obtaining Health Canada's approval to extend its licence for cultivation and production of medical cannabis under the Cannabis Act to the Facility. According to the Agreement, the Company will have the option to acquire from 1139's shareholders an additional 26% ownership interest in 1139 when the Facility reaches a Commercial Stage as defined by the Agreement. The Company will pay for the additional 26% at its fair value to be determined at the time when the option is exercised by issuance of the Company's common shares. If the Company is not successful in extending the licence for cultivation and production of medical cannabis to the Facility and 1139 commences the sale of the Facility within 90 days of the termination of the Agreement to an at arm's length buyer, the Company agreed to indemnify 1139 for the loss resulting from the disposition of the Facility.

As at June 30, 2019, the Company has not obtained approval for extending its licence for cultivation and production of medical cannabis under the Cannabis Act to the Facility, and has not yet earned its initial 25% ownership interest in 1139.

### 14. COMMITMENTS

- (a) On July 1, 2017, the Company entered into a lease agreement with a related party for office premises located in Richmond, BC. The Company agreed to pay annual rent of \$27,000 until the lease expires on June 30, 2020.
- (b) On November 29, 2017, the Company entered into a lease agreement for office premises located in Toronto, Ontario. The Company agreed to pay annual rent of \$20,000 from January 1, 2018 until the lease expires on December 31, 2020.
- (c) The Company has entered into consulting agreements with its key management personnel. These agreements do not have specific expiry dates.

### 15. SUBSEQUENT EVENT

- a) Cannabis Sales License Received from Health Canada

Subsequent to the period end, the Company, through its 100% owned subsidiary Potanicals, has received a sales license from Health Canada, effective July 26, 2019.

The license allows Benchmark to supply and sell finished cannabis products to provincial governments throughout Canada and through Canada's approved distribution and retail supply chain. Benchmark will be providing recreational and medical dried cannabis, capsules and other forms of cannabis products, as the Government of Canada makes more forms of the product legal for sale and consumption on October 17, 2019.