Condensed Interim Consolidated Financial Statements of

# BENCHMARK BOTANICS INC.

For the three and nine months ended September 30, 2019 and 2018

(Expressed in Canadian dollars)

(Unaudited)

# BENCHMARK BOTANICS INC.

## (the "Company")

### Condensed Interim Consolidated Financial Statements

### Three and Nine Months ended September 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.

November 29, 2019

## Benchmark Botanics Inc.

Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

| | Note | September 30, 2019 (Unaudited) | December 31, 2018 (Audited) |
|---|---|---|---|
| | | $ | $ |
| **Current Assets** | | | |
| Cash | | 3,540,697 | 328,112 |
| GST receivable | | 101,996 | 83,049 |
| Other receivables | | 32,955 | 41,651 |
| Biological assets | 4 | 106,180 | 33,992 |
| Inventory | 5 | 1,050,705 | 587,395 |
| Loan receivable | 6 | 3,183,453 | - |
| Prepaid expenses and deposits | 7 | 199,988 | 76,467 |
| | | 8,215,974 | 1,150,666 |
| Right of use assets | 3(b) | 139,406 | - |
| Property and equipment | 8 | 6,255,177 | 5,011,740 |
| | | 14,610,557 | 6,162,406 |
| **Current Liabilities** | | | |
| Accounts payable and accrued liabilities | | 296,108 | 357,150 |
| Lease liabilities due within one year | 3(b) | 71,886 | - |
| | | 367,994 | 357,150 |
| Lease liabilities | 3(b) | 83,599 | - |
| | | 451,593 | 357,150 |
| **Equity** | | | |
| Share capital | 10 | 29,582,289 | 17,815,099 |
| Warrants reserve | 10 | 506,667 | 506,667 |
| Share subscriptions | 10 | - | 80,000 |
| Stock options reserve | 10 | 2,306,580 | 1,732,466 |
| Deficit | | (18,236,572) | (14,328,976) |
| | | 14,158,964 | 5,805,256 |
| | | 14,610,557 | 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 nine months ended September 30, 2019 and 2018
(Unaudited)
(Expressed in Canadian Dollars)

| | Note | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| Revenue | | - | - | 134,844 | - |
| Inventory production costs expensed to cost of sales | | - | - | 49,481 | |
| Gross profit before fair value adjustments | | - | - | 85,363 | - |
| Fair value changes in biological assets included in inventory sold and other inventory charges | | - | - | 73,105 | - |
| Unrealized gain on changes in fair value of biological assets | 4 | (160,499) | (124,430) | (347,628) | (390,267) |
| Gross profit | | 160,499 | 124,430 | 359,886 | 265,837 |
| Expenses | | | | | |
| Consulting fees | 9 | 156,660 | 162,850 | 432,610 | 454,400 |
| Depreciation | | 66,522 | 64,174 | 196,879 | 193,257 |
| Depreciation on right of use assets | 3(b) | 13,242 | - | 56,946 | - |
| Director fees | | 23,875 | 13,446 | 70,625 | 39,996 |
| Insurance | | 25,052 | 3,504 | 81,219 | 13,091 |
| Interest on lease liabilities | 3(b) | 1,335 | - | 18,356 | - |
| Management fees | 9 | 124,776 | 124,500 | 373,500 | 368,500 |
| Marketing expenses | | 84,947 | 28,801 | 196,489 | 140,169 |
| Office and general | | 139,164 | 80,747 | 322,409 | 294,124 |
| Professional fees | | 13,559 | 67,463 | 120,705 | 209,454 |
| Rent | 9 | 3,406 | 34,468 | 14,503 | 91,721 |
| R&D | | - | 40,725 | 6,595 | 40,725 |
| Salaries and benefits | 9 | 443,653 | 190,114 | 1,275,115 | 651,578 |
| Share-based compensation | 10 | 184,842 | 687,754 | 787,971 | 1,074,090 |
| Supplies | | 18,215 | 3,709 | 39,223 | 37,836 |
| Utilities | | 5,547 | - | 30,688 | - |
| Travel and entertainment | | 82,657 | 118,183 | 297,499 | 402,532 |
| | | 1,387,452 | 1,620,438 | 4,321,332 | 4,011,473 |
| Loss before other income (expense) | | (1,226,953) | (1,496,008) | (3,961,446) | (3,621,206) |
| Other income (expense) | | | | | |
| Interest income | 6 | 50,724 | - | 73,453 | - |
| Loss on write-off of deposit | | - | - | - | (500,000) |
| | | 50,724 | - | 73,453 | (500,000) |
| Net loss and comprehensive loss | | (1,176,229) | (1,496,008) | (3,887,993) | (4,121,206) |
| Loss per common share – basic | | ($0.008) | ($0.011) | ($0.023) | ($0.030) |
| Weighted average number of common | | | | | |
| Basic | | 154,993,506 | 139,627,322 | 171,337,047 | 138,186,799 |

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 nine months ended September 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 |
| Shares issued for cash, net | 2,666,667 | 1,380,975 | 479,025 | - | - | - | 1,860,000 |
| Stock option exercised | 1,813,894 | 565,332 | - | - | (199,010) | - | 366,322 |
| Stock option cancelled | - | - | - | - | 46,564 | - | 46,564 |
| Share-based compensation | - | - | - | - | 1,027,526 | - | 1,027,526 |
| Comprehensive loss for the period | - | - | - | - | - | (4,121,206) | (4,121,206) |
| Balance, September 30, 2018 | 141,714,641 | 17,591,527 | 479,025 | - | 1,476,920 | (12,372,673) | 7,174,799 |
| | | | | | | | |
| 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 | 1,266,667 | 467,190 | - | - | (213,857) | - | 253,333 |
| Stock option forfeited | - | - | - | - | (191,458) | - | (191,458) |
| Share-based compensation | - | - | - | - | 979,429 | - | 979,429 |
| Refund of share subscriptions received | - | - | - | (80,000) | - | - | (80,000) |
| Comprehensive loss for the period | - | - | - | - | - | (3,887,993) | (3,887,993) |
| Balance, September 30, 2019 | 171,545,594 | 29,582,289 | 506,667 | - | 2,306,580 | (18,236,572) | 14,158,964 |

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 nine months ended September 30, 2019 and 2018
(Unaudited)
(Expressed in Canadian Dollars)

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| OPERATING ACTIVITIES | | |
| Net loss for the period | (3,887,993) | (4,121,206) |
| Items not involving cash: | | |
| Fair value changes in biological assets included in inventory sold | 73,105 | - |
| Unrealized gain on changes in fair value of biological assets | (347,628) | (390,267) |
| Depreciation | 253,825 | 194,433 |
| Interest accrual on loan receivable | (73,453) | - |
| Share-base compensation | 787,971 | 1,074,090 |
| | (3,194,173) | (3,242,950) |
| Changes in non-cash working capital balances: | | |
| GST receivable | (18,947) | - |
| Other receivable | 8,696 | (68,980) |
| Biological assets | (318,649) | - |
| Inventory | 57,674 | (265,704) |
| Prepaid expenses and deposits | (123,521) | (8,737) |
| Accounts payable and accrued liabilities | (61,042) | (191,921) |
| Cash used in operating activities | (3,649,962) | (3,778,292) |
| INVESTING ACTIVITY | | |
| Loan receivable | (3,110,000) | - |
| Acquisition of property and equipment | (1,440,316) | (145,044) |
| Cash used in investing activities | (4,550,316) | (145,044) |
| FINANCING ACTIVITIES | | |
| Proceeds from share issuance | 11,553,333 | 2,226,322 |
| Subscriptions received (repayment) | (80,000) | 12,988 |
| Payment on lease liabilities | (60,470) | - |
| Cash provided by financing activities | 11,412,863 | 2,239,310 |
| Change in cash during the period | 3,212,585 | (1,684,026) |
| Cash, beginning of period | 328,112 | 3,457,702 |
| Cash, end of period | 3,540,697 | 1,773,676 |
| Supplemental cash flow information: | | |
| Cash paid for interest | - | - |
| Cash paid for income taxes | - | - |

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

## 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.

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 September 30, 2019, the Company has an accumulated deficit of $18,236,572 and has generated negative cash flows from operations. For the nine months ended September 30, 2019, the Company incurred a net loss of $3,887,993 (September 30, 2018 – $4,121,206). During the nine months ended September 30, 2019, the majority of the equity financing raised by the Company has been used to purchase property and equipment, 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 November 29, 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.

## 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 adopted 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.

(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 | 24,126 |
| Lease liabilities recognized as at January 1, 2019 | 210,524 |

**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 September 30, 2019:

| | September 30, 2019 |
|---|---|
| **Cost** | $ |
| Balance, January 1, 2019 and September 30, 2019 | 196,352 |
| **Accumulated depreciation** | |
| Balance, January 1, 2019 | - |
| Depreciation | 56,946 |
| Balance, September 30, 2019 | 56,946 |
| Carrying amount as at September, 2019 | 139,406 |

**Lease liabilities**

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

| | September 30, 2019 |
|---|---|
| **Cost** | $ |
| Balance, January 1, 2019 | 210,524 |
| Lease payments | (73,395) |
| Interest expense on lease liabilities | 18,356 |
| Balance, September 30, 2019 | 155,485 |
| Less: current portion | 71,886 |
| Lease liabilities – non current | 83,599 |

(Expressed in Canadian Dollars)

## 4. BIOLOGICAL ASSETS

As at September 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:

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| | $ | $ |
| Balance, beginning | 33,992 | - |
| Acquired biological assets | - | 33,384 |
| Unrealized gain on changes in fair value of biological assets | 347,628 | 424,259 |
| Production costs capitalized | 318,650 | 143,254 |
| Harvested cannabis transferred to inventory | (594,090) | (566,905) |
| Balance, ending | 106,180 | 33,992 |

As of September 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 basing 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 nine months ended September 30, 2019, the Company's biological assets produced 118,801 grams of dried cannabis (December 31, 2018 – 113,398 grams).

As of September 30,2019, the biological assets strains at the flowering phase were on average 90% complete and strains at vegetative state on average 10% complete. As of September 30, 2019, it was estimated that the Company's biological assets would yield approximately 24,900 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

| | September 30, 2019 (Unaudited) | December 31, 2018 (Audited) |
|---|---|---|
| | $ | $ |
| Dry cannabis | 1,038,409 | 566,905 |
| Supplies and consumables | 12,296 | 20,490 |
| Total | 1,050,705 | 587,395 |

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

(Expressed in Canadian Dollars)

## 6. LOAN RECEIVABLE

| | September 30, 2019 (Unaudited) | December 31, 2018 (Audited) |
|---|---|---|
| Loan receivable from 1139000 B.C. Ltd. (Note 13) | 3,110,000 | - |
| Add: Accrued interest | 73,453 | - |
| Loan receivable | 3,183,453 | - |

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 (Note 13).

## 7. PREPAID EXPENSES AND DEPOSITS

| | September 30, 2019 (Unaudited) | December 31, 2018 (Audited) |
|---|---|---|
| | $ | $ |
| Prepaid expenses and deposit | 66,943 | 8,554 |
| Prepaid insurance | 133,045 | 67,913 |
| | 199,988 | 76,467 |

## 8. PROPERTIES AND EQUIPMENT

| | Land | Plant | Building under Development | Leasehold Improvement | Production and Other Equipment | Computer Equipment and Software | Furniture and Fixtures | Motor Vehicle | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **Cost** | | | | | | | | | |
| 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 | 4,200 | 20,057 | 1,298,565 | - | 68,589 | 5,564 | 7,223 | 36,117 | 1,440,315 |
| Balance, September 30, 2019 | 1,891,844 | 1,963,079 | 1,298,565 | 33,900 | 1,080,657 | 151,879 | 195,778 | 105,109 | 6,720,811 |
| **Accumulated Depreciation** | | | | | | | | | |
| Balance, December 31, 2018 | - | 76,723 | - | 12,712 | 98,836 | 65,155 | 13,605 | 1,725 | 268,756 |
| Charge for the period | - | 58,503 | - | 8,475 | 69,501 | 28,413 | 26,490 | 5,496 | 196,878 |
| Balance, September 30, 2019 | - | 135,226 | - | 21,187 | 168,337 | 93,568 | 40,095 | 7,221 | 465,634 |
| **Net book value** | | | | | | | | | |
| December 31, 2018 | 1,887,644 | 1,866,299 | - | 21,188 | 913,232 | 81,160 | 174,950 | 67,267 | 5,011,740 |
| September 30, 2019 | 1,891,844 | 1,827,853 | 1,298,565 | 12,713 | 912,320 | 58,311 | 155,683 | 97,888 | 6,255,177 |

(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 nine months ended September 30, 2019 and 2018. Short-term key management and director compensation consists of the following:

| | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|
| | $ | $ |
| Salaries | 250,200 | 75,000 |
| Management fees | 373,500 | 368,500 |
| Director fees | 70,625 | 39,996 |
| Consulting fees | 54,000 | 27,000 |
| Share compensation expenses | 442,703 | 286,232 |
| | 1,191,028 | 796,728 |

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 nine months ended September 30, 2019, the Company incurred $31,500 (September 30, 2018 - $27,180) 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 September 30, 2019, there were 171,545,594 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 total gross proceeds of $11,300,000. Each Unit is comprised of one common share of the Company and one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant can 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 nine months ended September 30, 2019, there were 1,266,667 shares issued on exercise of stock options for total proceeds of $253,333 (September 30, 2018 - $366,322).

### Escrow Shares

As at September 30, 2019, the Company has 15,978,300 of its common shares held in escrow (December 31, 2018 $21,704,400). Of this amount, 5,426,100 of the common shares will be released every 6 months thereafter until November 2, 2020.

(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 | (1,340,000) | $0.60 |
| Exercised on May 13, 2019 | (300,000) | $0.20 |
| Exercised on August 6, 2019 | (400,000) | $0.20 |
| Granted on September 3, 2019 | 500,000 | $0.45 |
| | 8,506,666 | |

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

| Outstanding | | | Exercisable |
|---|---|---|---|
| Number of options | Weighted average exercise price | Weighted average remaining contractual life in years | Number of options |
| 4,566,666 | $0.20 | 3.10 | 2,733,333 |
| 1,440,000 | $0.60 | 3.86 | 960,000 |
| 950,000 | $0.48 | 4.05 | 316,667 |
| 1,050,000 | $0.45 | 4.32 | 350,000 |
| 500,000 | $0.43 | 4.93 | 166,667 |
| 8,506,666 | $0.34 | 3.59 | 4,526,666 |

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 nine months ended September 30, 2019, the Company recognized share-based payments of $114,833 (September 30, 2018 - $494,698) 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 nine months ended September 30, 2019, the Company recognized share-based payments of $172,548 (September 30, 2018 - $532,828) 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 nine months ended September 30, 2019, the Company recognized share-based payments of $163,998 (September 30, 2018 - $nil) related to these stock options.

(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 nine months ended September 30, 2019, the Company recognized share-based payments of $269,294 (September 30, 2018 - $nil) related to these stock options.

On September 3, 2019, the Company granted 500,000 stock options to a consultant of the Company. These stock options have an exercise price of $0.43 and an expiry date of September 2, 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 September 2, 2021. During the nine months ended September 30, 2019, the Company recognized share-based payments of $67,298 (September 30, 2018 - $nil) related to these stock options.

The weighted average fair value at grant date of the stock options granted during the nine months ended September 30, 2019 was $0.38 (September 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 | $0.44 | $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 | 28,250,000 | $1.00 |
| Balance at September 30, 2019 | 30,916,667 | $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:

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| | $ | $ |
| Financial assets at fair value through profit or loss (i) | 3,540,697 | 328,112 |
| Financial assets at amortized cost (ii) | 3,216,408 | 41,651 |
| Financial liabilities at amortized cost (iii) | 283,844 | 286,074 |

**11. FINANCIAL INSTRUMENTS (continued)**

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

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 date

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 | | | | |
| September 30, 2019 | 3,540,697 | - | - | 3,540,697 |
| 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 September 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 |
|---|---|---|---|---|---|
| September 30, 2019 | | | | | |
| Accounts payable | 283,844 | 283,844 | 283,844 | | |
| December 31, 2018 | | | | | |
| Accounts payable | 286,074 | 286,074 | 286,074 | - | - |

## 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 September 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) On July 10, 2019, the Company entered into a purchase agreement with a construction company which provides the goods and services for construction of an extraction building. The total purchase price is $1,650,000, of which $1,150,000 was paid during the three months ended September 30, 2019.

(d) The Company has entered into consulting agreements with its key management personnel. These agreements do not have specific expiry dates.

## 15. SUBSEQUENT EVENT

a) On November 2, 2019, 5,426,100 of the common shares were released from escrow (Note 10).