# BENCHMARK BOTANICS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2019

## MANAGEMENT DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the Company provides a discussion and analysis of the financial condition and results of operations to enable a reader to assess material changes in the financial condition and results of operations as at and for the years ended December 31, 2019 and 2018. The MD&A should be read in conjunction with the audited consolidated financial statements and notes thereto ("Financial Statements") of the Company as at and for the years ended December 31, 2019 and 2018.

The accompanying Financial Statements include the accounts of the Company and its wholly owned subsidiary, Potanicals Green Growers Inc. located in Peachland, BC. All inter-company balances and transactions have been eliminated on consolidation.

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts included in this MD&A are in Canadian dollars, except where otherwise specified and per unit basis.

The Company operates at the following locations:

Head office and corporate: 3600 Lysander Lane Suite 400, Richmond, British Columbia

Registered and Records office: 3600 Lysander Lane Suite 400, Richmond, British Columbia

Production facility: 4715 Paradise Valley Dr, Peachland BC V0H 1X3

This MD&A has been prepared as of April 28, 2020.

### Non-IFRS Measures

This MD&A refers to certain non-IFRS measures. These measures are not recognized under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as a supplement to those IFRS measures to provide additional information regarding the Company's results of operations from management's perspective. Accordingly, non-IFRS measures should not be considered a substitute for, or superior to, the financial information prepared and presented in accordance with IFRS. All non-IFRS measures presented in this MD&A are reconciled to their closest reported IFRS measure.

### LEGAL NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A may contain "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this MD&A and Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation. Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events and include, but are not limited to, the Company and its operations, its projections or estimates about its future business operations, its planned expansion activities, the adequacy of its financial resources, future economic performance. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "intends" and "estimates". By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section "Risk Factors" as well as those factors detailed from time to time in the Company's interim and annual financial statements and management's discussion and analysis of those statements, all of which are filed and available for review under the Company's profile on SEDAR at www.sedar.com and CSE website at www.thecse.ca. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made. Readers are advised to consider such forward-looking statements considering the risks set forth in the Risks section of this MD&A. The Company does not undertake to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws.

## BUSINESS OVERVIEW

Benchmark Botanics Inc. (the "Company" or "Benchmark") was incorporated under the Business Corporation Act of Alberta on November 23, 2009. On November 2, 2017, the Company acquired Potanicals Green Growers Inc. ("Potanicals") through a reverse acquisition transaction.

Potanicals, a wholly owned subsidiary of the Company, is a British Columbia company and a licensed producer of medical marijuana under the *Cannabis Act* (Canada) and its relevant regulations (the "**Cannabis Act**"), which came into force on October 17, 2018. Potanicals has a production facility in Peachland, British Columbia. The facility is located at 4715 Paradise Valley Dr, Peachland BC V0H 1X3. The facility is situated on two contiguous land plots that total 20 acres. The land which houses the Facility has been zoned for the production and distribution of large-scale medical marijuana.

Benchmark through Potanicals, cultivates and produces pharmaceutical grade medical and recreational cannabis, it has multi licenses under the Cannabis Act and its regulations (formerly 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. On July 26, 2019, the Company has received a sales license from Health Canada. The Company has received its second cultivation license, effective November 29, 2019, from Health Canada for the Company's investment in a greenhouse operation located in Pitt Meadows, BC.

The Company carries out its principal activities of cultivating and harvesting cannabis from its first facility in Peachland, BC., a 12,700 square foot indoor facility ("Peachland Cannabis Complex"). The Company utilizes advanced cultivation methods and has established significant partnerships in the cannabis industry within Canada and overseas.

On August 30, 2018, the Company entered into an Earn-in and Shareholders' Agreement to acquire and develop a four-acre greenhouse facility (the "The Pitt Meadows Greenhouse Operations") into a licensed medical cannabis cultivation operation. The Pitt Meadows Greenhouse Operations will be Benchmark's primary cultivation facility when completed. Located on a 5-acre property, the Pitt Meadows Greenhouse Operations will have a total of 174,240 sq. ft.

The Company prides itself on growing only the highest quality cannabis that meets and exceeds the requirements of the most stringent regulatory environments in the world. Benchmark vigorously follows industry best practices for cultivating, harvesting, curing, trimming and packaging. It uses only the highest quality seeds, nutrients and the state-of-the-art growing techniques in all production processes.

Benchmark's common shares are listed on the Canadian Securities Exchange ("CSE") under the symbol "BBT".

## INVESTMENT IN 1139000 B.C. LTD

As at December 31, 2019, the investment represents an approximate 25% ownership in 1139000 B.C. Ltd. ("1139000"), a company incorporated in British Columbia, Canada. 1139000 has licensed medical cannabis cultivation operations in Pitt Meadows British Columbia, Canada.

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

The existing shareholders of 1139000 will earn their initial 75% ownership interest in 1139000 by financing all the costs and expenses relating to the purchase, design, construction and upgrading of the Facility to meet the requirements of a licensed cultivation and production facility under the Cannabis Act.

The Company will earn its initial 25% ownership interest in 1139000 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 1139000's shareholders an additional 26% ownership interest in 1139000 when the Facility reaches a Commercial Stage as defined by the Agreement. The Company will pay for the additional 26% ownership interest 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 1139000 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 1139000 for any loss resulting from the disposition of the Facility.

As at December 31, 2019, Benchmark obtained approval for extending its licence for cultivation and production of medical cannabis to the Facility, and has earned its initial 25% ownership interest in 1139000.

## STRATEGY

Benchmark is positioned to provide partnership opportunities and acquisition offers to licensed producers and ancillary businesses within the global cannabis industry. The Company's current focus is to accelerate its business growth and expansion plans by entering joint ventures, acquiring greenhouses, developing exclusive partnerships with North American cannabis companies, setting up GMP standard practices, creating alliances throughout the cannabis space with doctors, scientists, pharmacies, retail, partnering with micro-growers ; exploring hemp farmers for CBD extraction and fiber markets etc., and pursuing import and export contracts under the Cannabis Act.

### Restrictions on Business Activities in the United States

The Company currently does not engage in or invest in any commercial activities related to the cultivation, distribution or possession of cannabis in the U.S.

## RECENT DEVELOPMENTS AND SUBSEQUENT EVENTS

<u>Developments occurring during the year ended December 31, 2019:</u>

1. **Definitive Investment Cooperation Agreement with China-based Zhejiang Yatai Pharmaceutical Co., Ltd.**

   On May 27, 2019, the companies signed a definitive investment cooperation agreement, whereby the parties agreed to set up a new joint venture company in Canada. The company name will be YATAI & BBT Biotech Ltd. ("Yatai BBT"). The new company will have a share capital of $14 million CAD, of which Zhejiang Yatai Pharmaceutical Co., Ltd. ("Zhejiang Yatai") will invest $7 million CAD cash, accounting for 50% of the new company's share capital; The Company will cause its wholly-owned subsidiary Potanicals, to use its existing Health Canada issued license to apply for a license for property to be acquired by the new company (the "Facility") for cannabis cultivation, processing, and sale thereon and in exchange the Company will receive 25% of the new company's share capital (with a deemed value of $3.5 million CAD); and Rippington Investment ("RI") will invest $3.5 million CAD, accounting for the remaining 25% of the new company's share capital. RI is a private company incorporated under the *Business Corporations Act* (British Columbia).

As of December 31, 2019, Zhejiang Yatai has made their CAD$7 million investment into Yatai BBT. The Company is still in the process of applying for the license and has therefore not received an ownership interest in Yatai BBT.

Objective of the Agreement

The objective of the Investment Cooperation Agreement is to explore business opportunities in the Cannabis industry, subject to compliance with Canadian Cannabis and Hemp Regulations and Act, to become involved in cultivation, manufacture, processing, and marketing of high CBD (cannabidiol) cannabis products; the cultivation and R&D of medical cannabis; and the extraction, isolation, and purification of high-CBD cannabis oil for commercial production; and any other activities as approved by the Board of Directors. Future products from the joint venture company may also be marketed, sold and distributed in countries and jurisdictions where cannabis products are legal.

## 2. Private Placement

On June 6, 2019, the Company closed a 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 (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.

## 3. The Second Cultivation license received from Health Canada

The Company through its wholly-owned subsidiary and licensed producer Potanicals received its second cultivation license, effective November 29, 2019, from Health Canada for the Company's joint venture greenhouse operations located in Pitt Meadows, BC.

## 4. Cannabis Sales License Received from Health Canada

Potanicals 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 later this year.

**5. Cannabis Supply Agreement with British Columbia**

In September, Potanicals signed a Licensed Producer Supply Agreement for non-medical cannabis with the Province of British Columbia. Benchmark has signed an agreement with the BC Liquor Distribution Branch (BCLDB), the sole, wholesale distributor of non-medical cannabis for British Columbia (BC) that will operate standalone and public retail stores, and provide online sales.

**6. Extraction Facility under Construction**

On July 10, 2019, the Company entered into a purchase agreement with a construction company for the construction of a 10,000 sq. ft. extraction indoor facility, which is located in the Company's Peachland Cannabis Complex.

<u>Developments occurring subsequent to December 31, 2019:</u>

- **$1.7M private placement closed**

Subsequent to December 31, 2019, the Company closed a non-brokered private placement financing (the "Private Placement") of 3,400,000 units (each, a "Unit") at a price of $0.50 per Unit for total gross proceeds of $1,700,000. Each Unit is comprised of one common share of the Company and one common share purchase warrant ("Warrant"). Each Warrant can be exercisable into one share at a price of $1.20 for a period of 24 months from the closing date of the Private Placement.

- **Acquisition of a Cannabis R&D company**

On February 28, 2020, the Company entered into a share purchase agreement (the "Agreement") with shareholders of 1187349 B.C. Ltd. ("1187349") for the acquisition of 51% of the issued and outstanding share capital of 1187349 for the purchase price of $510,000 (the "Purchase Price"). 1187349 is a company located in British Columbia that holds a cannabis research and development licence issued from Health Canada under The Cannabis Act. Pursuant to the Agreement, the Company will pay the Purchase Price to the shareholders of 1187349 by issuing 563,636 common shares of the Company at a deemed price of $0.55 per share for a deemed aggregate value of $310,000, and promissory notes with a total amount of $200,000. As of filing date, the transaction has not been closed.

## SELECTED ANNUAL INFORMATION

The following selected financial data with respect to the Company's financial condition and results of operations has been derived from the audited consolidated financial statements of the Company for the years ended December 31, 2019, 2018 and 2017, prepared in accordance with IFRS. The selected financial data should be read in conjunction with those audited consolidated financial statements and the notes thereto.

| | Year Ended December 31, 2019 | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|---|
| **Balance Sheet:** | | | |
| Total assets | 14,959,903 | 6,162,406 | 8,503,279 |
| Total long-term liabilities | 88,147 | - | - |
| **Operations:** | | | |
| Net loss and comprehensive loss | (3,698,409) | (6,077,509) | (4,437,847) |
| Basic and diluted loss per share | (0.02) | (0.04) | (0.11) |
| Dividend per share | - | - | - |

## Summary of Quarterly Results

The following table presents selected financial information from continuing operations for the most recent eight quarters:

| | Q4 2019 Dec-31 | Q3 2019 Sep-30 | Q2 2019 Jun-30 | Q1 2019 Mar-31 | Q4 2018 Dec-31 | Q3 2018 Sep-30 | Q2 2018 Jun-30 | Q1 2018 Mar-31 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 117,410 | - | 134,844 | - | - | - | - | - |
| Gross profit before fair value adjustments | 63,043 | - | 85,363 | - | - | - | - | - |
| Fair value changes in biological assets included in inventory sold and other inventory charges | (279,953) | - | (73,105) | | | | | |
| Unrealized gain on changes in fair value of biological assets | (35,101) | 160,499 | 59,267 | 127,862 | 33,992 | 124,430 | 265,837 | - |
| Operating expenses | 1,265,484 | 1,397,452 | 1,420,243 | 1,503,637 | 1,867,845 | 1,620,438 | 1,428,320 | 962,715 |
| Loss from operations | (1,531,993) | (1,226,953) | (1,358,718) | (1,375,775) | (1,833,853) | (1,496,008) | (1,162,483) | (962,715) |
| Other (income) expenses | (1,721,577) | (50,724) | (19,255) | (3,474) | 122,450 | - | 500,000 | - |
| Net income (loss) | 189,584 | (1,176,229) | (1,339,463) | (1,372,301) | (1,956,303) | (1,496,008) | (1,662,483) | (962,715) |
| Earnings (loss) per share - basic | 0.001 | (0.008) | (0.009) | (0.010) | (0.014) | (0.011) | (0.012) | (0.007) |
| Weighted average number of shares - Basic | 171,545,594 | 154,993,506 | 146,569,351 | 142,576,705 | 140,784,569 | 139,627,322 | 138,747,974 | 137,234,080 |

### *Financial Results – Highlights for the year ended December 31, 2019*

- Net loss for the year ended December 31, 2019 was $3,698,409, compared to a net loss of $6,077,509 for the year ended December 31, 2018. The decrease in net loss for the year ended December 31, 2019 is due to the decrease in operating expenses of $292,502 and increase in other income of $2,417,480.

- EBITDA before gain on acquisition of associate, share-based compensation expenses, write-off of deposit, write-off of inventory, loss on equity investments and unrealized gain on changes in fair value of biological assets ("Adjusted EBITDA") for the year ended December

31, 2019 decreased to a negative $4,036,501 from a negative $4,167,722 for the year ended December 31, 2018.

- At December 31, 2019, the Company had working capital of $1,746,964 (December 31, 2018 - $793,516).

## RESULTS OF OPERATIONS

The following table sets forth consolidated statements of operations, which is expressed in Canadian dollars, except share and per share amounts, for the indicated periods.

| | Three-Month Period Ended (Unaudited) | | **Year Ended (Audited)** | |
|---|---|---|---|---|
| | **12/31/2019** | **12/31/2018** | **12/31/2019** | **12/31/2018** |
| Revenue | **117,410** | - | **252,254** | - |
| Gross profit before fair value impacts in cost of sales | **48,545** | - | **133,908** | - |
| Goss profit | **(266,509)** | 33,992 | **93,377** | 424,259 |
| Gross margin | (227%) | - | 39.6% | - |
| Operating expenses | **1,265,484** | 1,867,845 | **5,586,816** | 5,879,318 |
| Loss from operations | **(1,531,993)** | (1,833,853) | **(5,493,439)** | (5,455,059) |
| Other income (expense) | **1,795,030** | (122,450) | **1,795,030** | (622,450) |
| Net income (loss) | **189,584** | (1,956,303) | **(3,698,409)** | (6,077,509) |
| EBITDA | **306,782** | (1,887,314) | **(3,309,030)** | (5,813,263) |
| Adjusted EBITDA | **(934,137)** | (1,423,596) | **(4,036,501)** | (4,167,722) |
| Earnings (Loss) per share | | | | |
| Basic | **0.001** | (0.014) | **(0.023)** | (0.043) |
| Diluted | **0.001** | (0.014) | **(0.023)** | (0.043) |
| Weighted average number of shares | | | | |
| Basic | **171,545,594** | 140,784,569 | 159,039,796 | 139,126,358 |
| Diluted | **171,545,594** | 146,413,301 | 159,039,796 | 141,213,300 |

### *Revenue*

| | Three-Month Period Ended (Unaudited) | | **Year Ended (Audited)** | |
|---|---|---|---|---|
| | **12/31/2019** | 12/31/2018 | **12/31/2019** | 12/31/2018 |
| Revenue | **117,410** | - | **252,254** | - |
| Excise taxes | **16,477** | - | **16,477** | - |
| Net revenue | **100,933** | - | **235,777** | - |

Total revenue for the three months ended December 31, 2019 was $84,490 (2018 - $nil) from retail sales for the adult-use market in Canada and $32,920 from sale of clones. The total quantity of cannabis sold during the three months ended December 31, 2019 was 14,520 grams (2018 – nil) at an average sale price of $5.82.

Total revenue for the year ended December 31, 2019 was $252,254 (2018 - $nil) from sales of dried cannabis to a licensed producer, retail sales for the adult-use market in Canada and sales of clones. The total quantity of cannabis sold during the year ended December 31, 2019 was 39,037 grams (2018 – nil) at an average sale price of $5.62.

***Cost of Sales***

Inventory production costs expensed to cost of sales consists of two main categories:

- *Production costs.* These costs are capitalized to biological assets as costs directly attributable to growing the plants to the point of harvest, transferred to inventory upon harvest and recognized in cost of sales when the inventory is sold. These costs include direct costs such as director labor, nutrients, soil, and seeds, as well as other indirect costs such as utilities, an allocation of indirect labor, and depreciation of equipment used in the growing process.

- *Processing costs.* These costs are capitalized to inventory and then recognized in cost of sales when the inventory is sold. These costs represent post-harvest costs incurred to bring harvested cannabis to its saleable condition, which include drying and curing, testing and packaging, and overhead allocation.

Inventory production costs expensed to cost of sales during the year ended December 31, 2019 were $101,869, as compared to $nil in the same period of last year.

Fair value adjustments consist of two main categories:

- *Unrealized Change in Fair Value of Biological Assets.* This line item represents the effect of the non-cash fair value adjustments of biological assets produced in the period, excluding capitalized production costs.

- *Realized Fair Value Adjustments on Inventory Sold.* This line item represents the effect of the non-cash fair value adjustments capitalized to inventory being recognized in the statement of operations as the corresponding inventory is sold and realizable value adjustment to inventory.

During the year ended December 31, 2019, the Company reported an unrealized gain on the changes in fair value of its biological assets of $312,527 (2018 - $424,259). This represents the change in the carrying value of the Company's medical cannabis plants at the point of harvest. The Company commenced the process of growing medical cannabis in January 2018.

*Gross profit before fair value impacts in cost of sales (non-IFRS measure)*

Gross margin before fair value impacts in cost of sales for the three months and year ended December 31, 2019 was $48,545 and $133,908 (2018 - $nil), respectively, or 41.3% and 56.8% of net revenue respectively.

***Expenses***

| | Three-Month Period Ended (Unaudited) | | Year Ended (Unaudited) | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| Amortization of tangible assets | 112,635 | 68,989 | 309,514 | 262,246 |
| Depreciation on right of use assets | 1,194 | - | 58,140 | - |
| Sales and marketing expenses | 144,583 | 150,882 | 341,072 | 291,051 |
| General and administration | 910,437 | 1,274,714 | 3,993,484 | 3,876,671 |
| Share-based compensation | 96,635 | 375,260 | 884,606 | 1,449,350 |
| Operating expenses | 1,265,484 | 1,867,845 | 5,586,816 | 5,879,318 |

The $602,361 decrease in operation expenses for the three months ended December 31, 2019 compared to the same period of last year was mainly due to:

- The decrease of $364,277 in general and administration expenses discussed below; and

- Share-based compensation expense decreased to $96,635 for the three months ended December 31, 2019 from $375,260 for the year ended December 31, 2018.

  Share-based compensation expense was incurred due to the compensation package granted to senior executives, employees, directors and consultants under the Company's stock option incentive plan. All of the options are exercisable in accordance with the terms of the Company's Stock Option Plan.

For the year ended December 31, 2019, operating expenses slightly decreased $292,502 compared with the same period of last year. The decrease was mainly due to the followings:

- Share-based compensation expense decreased $564,744 to $884,606 for the year ended December 31, 2019 from $1,449,350 for the year ended December 31, 2018; and

- $ 116,813 increase in general and administration expenses discussed below.

*General and administrative expenses*

For the three months ended December 31, 2019 compared to the same period last year, the decrease of $364,277 in general and administration expenses include $181,798 in professional fees, $77,791 in office and general expenses, $32,296 in travel expenses, and $120,000 in trade mark fees, offset by the increases of $50,000 in management fees, $10,000 in director fees and $16,451 in rent.

For the year ended December 31, 2019, general and administrative expenses were $3,993,484 compared to $3,876,671 for the year ended December 31, 2018, an increase of $116,813.

The increase of $116,813 in general and administrative expenses was primarily due to $562,531 increase in salary and wages, $40,629 increase in director fees, $21,326 increase in office and general expenses, $55,000 increase in management fees and $77,965 increase in insurance expenses, offset by the $270,547 decrease in professional fees, $37,964 decrease in consulting fees, $60,767 decrease in rent, $120,000 decrease in trade mark fee, and $137,329 decrease in travel and entertainment expenses

Salary and wages amounted to $1,605,528 for the year ended December 31, 2019 compared to $1,042,997 for the year ended December 31, 2018. The increase was a result of hiring additional personnel to enhance the Company's management, productions and administration team in line with the increase in business activities.

Management fees increased to $548,000 for the year ended December 31, 2019 from $493,000 for the year ended December 31, 2018. Management fees consisted of fees paid to the Company's senior officers. The Company has identified its directors and senior officers as its key management personnel.

***Other income and expenses***

For the year ended December 31, 2019, other expenses included interest income of $142,422, a gain on the acquisition of associate of $1,677,430, and a loss on equity investment of $24,822.

The Company recognized a gain of $1,677,430 on the acquisition of its 25% ownership interest of 1139000 B.C. Ltd. on December 6, 2019.

As of December 31, 2019, the Company had a loan receivable from 1139000 B.C. Ltd., an associate of the Company, in the amount of $3,660,000. The loan accrues interest at 8% per year with a due date of December 31, 2020. Interest is calculated and accrued quarterly and payable all at the due date. As of December 31, 2019, $142,422 interest income was accrued (2018 - $nil)

For the year ended December 31, 2019, the Company accrued a loss of $24,822 from investment in an equity investee (2018 - $nil).

For the year ended December 31, 2018, other expenses included a write-off of deposit of $500,000 and an inventory impairment of $122,450.

On March 5, 2018, the Company entered into a purchase and sale contract for the purchase of a greenhouse production centre for purchase price of $13,500,000. The Company paid a non-refundable deposit of $500,000. The Company did not make an additional $500,000 non-refundable deposit that was due on June 15, 2018 for extension of the completion date from June 1 to July 16, 2018, resulting in the forfeiture of the $500,000 non-refundable deposit to the vendor during the year ended December 31, 2018.

### *Income Taxes*

Benchmark and its subsidiary did not accrue any income taxes for years ended December 31, 2019 and 2018 as no taxable income was generated.

### *Net Loss and Comprehensive Loss*

For the year ended December 31, 2019, net loss was $3,698,409, being the selling, general and administrative expenses of $5,586,816, offset by the gross profit of $93,377 and other income of $1,795,030 which was comprised of interest income of $142,422, gain of acquisition of associate of $1,677,430, and loss on equity investments $24,822.

For the year ended December 31, 2018, net loss and comprehensive loss was $6,077,509, being the selling, general and administrative expenses of $5,879,318, other expenses of $622,450 which was comprised of the write-off of deposit of $500,000 and the write-off of inventory of $122,450, offset by the unrealized gain on changes in fair value of biological assets of $424,259.

## Adjusted EBITDA Reconciliation (Non-IFRS Measure)

A reconciliation of Adjusted EBITDA to net income, the most comparable financial measure, is presented in the following table.

| | Three Months Ended December 31 | | Years Ended December 31 | |
|---|---|---|---|---|
| | **2019 (Unaudited)** | **2018 (Unaudited)** | **2019 (Unaudited)** | **2018 (Unaudited)** |
| Net income (loss) | 189,584 | - 1,956,303 | - 3,698,409 | - 6,077,509 |
| Add | | | | |
| Depreciation | 112,635 | 68,989 | 309,514 | 262,246 |
| Depreciation on right of use assets | 1,194 | - | 58,140 | - |
| Interest accretion on lease liabilities | 3,369 | - | 21,725 | - |
| **EBITDA** | **306,782** | **- 1,887,314** | **- 3,309,030** | **- 5,815,263** |
| Fair value changes in biological assets included in inventory sold and other inventory charges | 279,953 | - | 353,058 | - |
| Unrealized (gain) loss on changes in fair value of biological assets | 35,101 | - 33,992 | - 312,527 | - 424,259 |
| Gain on acquisition of associate | - 1,677,430 | - | - 1,677,430 | - |
| Write-off of deposit | - | 122,450 | - | 500,000 |
| Write-off of inventory | - | - | - | 122,450 |
| Loss on equity investment | 24,822 | - | 24,822 | - |
| Share-based compensation expenses | 96,635 | 375,260 | 884,606 | 1,449,350 |
| **Adjusted EBITDA** | - 934,137 | - 1,423,596 | - 4,036,501 | - 4,167,722 |

Adjusted earnings before interest, tax, depreciation and amortization ("**Adjusted EBITDA**") is used by management as a supplemental measure to review and assess operating performance and trends on a comparable basis. Adjusted EBITDA is defined as net income or loss, excluding interest expense, income tax expense or recovery, depreciation and amortization, share-based payments, unrealized change in the fair value of biological assets, fair value changes in biological assets included in inventory sold, write-off of deposit, write-off of inventory and listing expenses.

The Company believes that Adjusted EBITDA provides a useful tool for assessing the comparability between periods of its ability to generate cash from operations. See *"Results of Operations – Adjusted EBITDA Reconciliation (Non-IFRS Measure)"* for a reconciliation of Adjusted EBITDA to its closest reported IFRS measure.

## LIQUIDITY AND CAPITAL RESOURCES

Cash totaled $875,347 as at December 31, 2019, as compared to $328,112 as at December 31, 2018.

### *Cash used in operating activities*

For the year ended December 31, 2019, cash used in operating activities was $4,767,610 compared to cash used in operating activities of $5,098,459 for the quarter ended December 31, 2018.

### *Cash used in investing activities*

For the year ended December 31, 2019 cash used in investing activities was $6,080,788 compared to cash used in investing activities of $361,941 for the year ended December 31, 2018. Cash used in investing activities during the period ended December 31, 2019 mainly relates to the loan receivable from 1139000 of $3,660,000 (2018 - $nil) and the acquisition of property and equipment of $2,289,218 (2018 - acquisition of property and equipment $361,941).

Loan receivable was the loan made to 1139000 B.C. Ltd., an associate of the Company. The Company entered into an Earn-in and Shareholders' Agreement (the "Agreement") with 1139000. The Company will earn its initial 25% ownership interest in 1139000 by obtaining Health Canada's approval to extend its license 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 1139000's shareholders an additional 26% ownership interest in 1139000 when the Facility reaches a Commercial Stage as defined by the Agreement. As of December 31, 2019, the Company held 25% of interest in 1139000.

The loan accrues interest at 8% per year with a due date as at December 31, 2020, calculated and accrued quarterly and payable all at due date.

As at December 31, 2019, net property, plant and equipment was $6,822,975, an increase of $1,811,235 from $5,011,740 as at December 31, 2018. Increase in property, plant and equipment is mainly due to the addition of plant, machinery and equipment of $2,145,275 as part of Potanicals' production facilities, offset by the depreciation expenses of $334,040.

***Cash provided by financing activities***

For the year ended December 31, 2019, cash generated from financing activities was $11,395,633 compared to cash generated from financing activities of $2,330,810 for the year ended December 31, 2018. The increase was mainly a result of $11,553,333 in proceeds from the issuance of shares compared to $2,237,822 in proceeds from the issuance of shares for the year ended December 31, 2018.

During the year ended December 31, 2019, there were 1,266,667 shares issued on the exercise of stock options for total proceeds of $253,333.

On June 6, 2019, the Company closed a non-brokered private placement financing for total gross proceeds of $11,300,000.

For the year ended December 31, 2018, cash generated from financing activities was $386,322. These proceeds resulted from the exercise of stock options.

On September 5, 2018, the Company completed a non-brokered private placement for net proceeds of $1,851,500.

## COMMITMENTS

(a) On July 1, 2017, the Company entered into a lease agreement with a related party for office premises located in Richmond, BC. On December 31, 2018, the agreement was amended, and the Company agreed to pay annual rent of $42,000 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 for construction of an extraction building. The total purchase price is $1,650,000, of which $1,312,500 was paid during the year ended December 31, 2019.

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

(e) On May 27, 2019, the Company entered into an Investment Cooperation Agreement with Zhengjiang Yatai Pharmaceutical Co., Ltd. and Rippington Investment Inc. to establish Yatai & BBT Biotech Ltd. Pursuant to the agreement, the Company will receive 3,500,000 shares, representing 25% of the initial issued shares, by causing its wholly-owned subsidiary, Potanicals Green Growers to use its existing Health Canada issued license to apply for a license for a facility for cannabis cultivation, processing, and sale. As at December 31, 2019, the Company is still in the process of applying for the license and has therefore not received an ownership interest in Yatai & BBT Biotech Ltd.

## OFF-BALANCE SHEET ARRANGEMENTS

As at the date of this MD&A, the Company had no material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company.

## TRANSACTIONS WITH RELATED PARTIES

The Company has identified its directors and senior officers as its key management personnel. No post-employment benefits, other long-term benefits or termination benefits were made during the years ended December 31, 2019 and 2018. Short-term key management compensation consists of the following:

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Share-based payments | 484,656 | 720,893 |
| Salaries | 389,125 | 240,533 |
| Management fees | 528,000 | 493,000 |
| Consulting fees | 72,000 | 63,750 |
| Director fees | 93,500 | 52,871 |
| Rent | 42,000 | 37,490 |

Related party balances and transactions

a) During the year ended December 31, 2019, the Company incurred $42,000 (2018 - $37,490) in rental expenses to a director of the Company.

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.

## FINANCIAL INSTRUMENTS

*Fair values*

The Company's financial instruments include cash, restricted cash, accounts receivable other receivables, due from associate, loan receivable, 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:

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Financial assets at fair value through profit or loss (i) | 909,847 | 328,112 |
| Financial assets at amortized cost (ii) | 3,972,225 | 41,651 |
| Financial liabilities at amortized cost (iii) | 327,188 | 286,074 |

(i) Cash and restricted cash
(ii) Accounts receivables, other receivable, due from associate and loan receivable
(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 and restricted cash | | | | |
| December 31, 2019 | 909,847 | - | - | 909,847 |
| 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 other receivables. 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 December 31, 2019 and 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 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. As of December 31, 2019, the Company had cash of $875,347 (December 31, 2018: $328,112). As of December 31, 2019, the Company had working capital of $1,746,964 (December 31, 2018 - $793,516 working capital).

The following are the contractual maturities of financial liabilities:

| | Carrying Amount | Contractual Cash Flows | Within 1 year | Within 2 years | Within 3 years and over |
|---|---|---|---|---|---|
| December 31, 2019 | | | | | |
| Accounts payable | 327,188 | 327,188 | 327,188 | - | - |
| December 31, 2018 | | | | | |
| Accounts payable | 286,074 | 286,074 | 286,074 | - | - |

## CRITICAL ACCOUNTING 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;
- 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.

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. In addition, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

## CHANGE IN ACCOUNTING POLICIES

The following standards became effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The nature and impact of each new standard is described below:

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 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. The cumulative effect of initial adoption of IFRS 16 includes recognition of a lease liability of $182,484, right of use assets of $160,843 and an adjustment of $21,641 to the Company's accumulated deficit as at January 1, 2019.

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.

| | 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 | (3,914) |
| Lease liabilities recognized as at January 1, 2019 | 182,484 |

### 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 year ended December 31, 2019:

| **Cost** | $ |
|---|---|
| Balance, January 1, 2019 and September 30, 2019 | 160,843 |
| **Accumulated depreciation** | |
| Balance, January 1, 2019 | - |
| Depreciation | 58,140 |
| Balance, December 31, 2019 | 56,946 |
| Carrying amount as at December 31, 2019 | 102,703 |

### Lease liabilities

The following is the continuity of lease liabilities as at and for the period ended December 31, 2019:

| **Cost** | $ |
|---|---|
| Balance, January 1, 2019 | 182,484 |
| Lease payments | (77,700) |
| Interest expense on lease liabilities | 21,725 |
| Balance, December 31, 2019 | 126,509 |
| Less: current portion | 38,362 |
| Lease liabilities – non-current | 88,147 |

## CAPITAL MANAGEMENT

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funds to support its operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

The capital structure of the Company consists of items included in shareholders' equity and debt, net of cash and cash equivalents. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or seek debt financing to ensure that there is sufficient working capital to meet its short-term business requirements. There were no changes in the Company's approach to capital management during the year ended December 31, 2019.

The Company is not subject to externally imposed capital requirements.

## OUTSTANDING SHARE CAPITAL

Benchmark has authorized an unlimited number of common voting shares without par value. The following table summarizes the maximum number of ordinary shares issued and allotted as at December 31, 2019 and December 31, 2018, and as of the date of this MD&A if all outstanding options and warrants were converted to shares:

| | April 28, 2020 | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| Common shares | 176,612,261 | 171,545,594 | 142,028,927 |
| Stock options | 7,039,999 | 8,506,666 | 9,563,333 |
| Share purchase warrants | 34,316,667 | 30,916,667 | 2,666,667 |
| Fully diluted shares | 217,968,927 | 210,968,927 | 154,258,927 |

## RISK FACTORS

This section discusses factors relating to the business of Company that should be considered by both existing and potential investors. The information in this section is intended to serve as an overview and should not be considered comprehensive and the Company may face risks and uncertainties not discussed in this section, or not currently known to us, or that we deem to be immaterial. All risks to the Company's business have the potential to influence its operations in a materially adverse manner.

***Pandemic Risk***

During December 2019 the World Health Organization ("WHO") announced that a disease COVID-19 ("Coronavirus") caused infection, and its transmission patterns could become a worldwide pandemic. During 2019 or early 2020, no employees at the Company had any reported cases of Coronavirus. However, Benchmark compiled a risk assessment, and implemented preventative and emergency response measures at its BC office and production sites in an attempt to manage this risk.

The Company and the world (Coronavirus are now present on every continent) are now dealing with the results of this worldwide Coronavirus pandemic. The global impact continues to evolve and may have various potential direct effects on our Canadian operations, our office and logistics related issues.

Effects on the business could be increased including long-term absenteeism of critical staff, supply chain issues, production issues due to missing critical supplies, transport issues, sales issues or other unknown effects and Benchmark may be required to delay or reduce the scope of certain of its operations or projects.  All the possible scenarios may have a materially adverse impact on the

Company's business. It might further create a business shutdown if an outbreak of the Coronavirus were confirmed in the area or at the Company premises.

Globally various international governments are instituting emergency measures which may restrict movement of persons within country's and restrict persons traveling to or departing from numerous countries including Canada, the United States and China. These restrictions could restrict senior management of the Company from effectively managing operations or delay decisions due to an inability to obtain information or results. These restrictions could also cause the Company labour shortages.

These issues could delay the expansion plans previously announced due to supply chain issues, labour shortages or other issues.

The Company is not aware of restrictions on goods or supplies. However, if there were a restriction or the travel restrictions significantly affected the movement of goods there could be a disruption to the movement of cannabis related products thereby potentially disrupting or limiting sales and materially altering our revenue expectations and cash flows. A restriction on goods could also result in a disruption to supply chains and affect the Company's ability to continue production or operations.

The long term effects of the Coronavirus are not known nor is the length of the current restriction, but these changes or others could change how the global business world operates and this might affect global markets and cannabis prices in unknown ways that could materially affect the numerous judgements that the Company makes in assessing its critical accounting estimates and critical accounting judgements (see Notes in the audited consolidated financial statement of the Company for December 31, 2019 and 2018).

The Coronavirus could also have some additional but unforeseen effect on specifically Operations Risk, Funding Risk, Project Development Risk, Economic Uncertainty Risk, Social Risk and uncertain effects on cannabis price changes and the price and trading of the Company's common shares.

***Reliance on License***

The ability of the Company to successfully grow, store and sell medical marijuana in Canada is dependent on Potanical's current production license from Health Canada (the "License"). The License is subject to ongoing compliance and reporting requirements. Failure to comply with the requirements and terms of the License or any failure to maintain the License or any failure to renew the License after its expiry date, would have a material adverse impact on the business, financial condition and operating results of the Company. Although the Company believes that it will meet the requirements of the MMPR for future extensions or renewals of the License, there can be no assurance that Health Canada will extend or renew the License or, if extended or renewed, that it will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the License, or should they renew the License on different terms, the business, financial condition and operating results of the Company would be materially adversely affected.

### *Regulatory Risks*

Some of the proposed activities of the Company will be subject to regulation by governmental authorities, including, but not limited to, Health Canada's Office of Controlled Substances. The Company's business objectives are contingent upon, in part, compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company. Furthermore, although the operations of Potanicals are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Company's ability to produce or sell medical cannabis. Amendments to current laws and regulations governing the importation, distribution, transportation and/or production of medical cannabis, or more stringent implementation thereof could have a substantial adverse impact on the Company.

### *Governmental Regulations and Risks*

The Company's operations will be subject to environmental regulation in the jurisdiction in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Government approvals and permits are currently, and may in the future, be required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from its proposed production of medical cannabis or from proceeding with the development of its operations as currently proposed. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing the production of medical cannabis, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in expenses, capital expenditures or production costs or reduction in levels of production or require abandonment or delays in development.

### *Limited Operating History*

While Potanicals was incorporated and began carrying on business in 2014, it is yet to generate any revenue. The Company is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on Shareholders' investment and the likelihood of success must be considered considering the early stage of operations.

### *History of Losses*

The Company has incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable.

### *Volatile Stock Price*

The stock price of the Company is expected to be highly volatile and will be drastically affected by governmental and regulatory regimes and community support for the medical cannabis industry. The Company cannot predict the results of its operations expected to take place in the future. The results of these activities will inevitably affect the Company's decisions related to future operations and will likely trigger major changes in the trading price of the common shares of the Company.

### *Risks Inherent in an Agricultural Business*

The Company's business may, in the future, involve the growing of medical cannabis, an agricultural product. Such business will be subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although all such growing of the Company is expected to be completed indoors under climate-controlled conditions, there can be no assurance that natural elements will not have a material adverse effect on any such future production.

### *Energy Costs*

The Company's medical cannabis growing operations will consume considerable energy, which will make the Company vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may, in the future, adversely impact the business of the Company and its ability to operate profitably.

### *Reliance on Management*

Another risk associated with the production and sale of medical cannabis is the loss of important staff members. The Company is currently in good standing with all high-level employees and believes that with well managed practices it will remain in good standing. The success of the Company will be dependent upon the ability, expertise, judgment, discretion and good faith of its senior management and key personnel. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

***Insurance and Uninsured Risks***

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labour disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although the Company maintains and intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

***The Company will be an Entrant Engaging in a New Industry***

The medical cannabis industry is fairly new. There can be no assurance that an active and liquid market for the common shares of the Company will develop and Shareholders may find it difficult to resell their shares. Accordingly, no assurance can be given that the Company will be successful in the long term.

***Dependence on Suppliers and Skilled Labour***

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. This could have an adverse effect on the financial results of the Company.

***Difficulty to Forecast***

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the medical cannabis industry in Canada. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

***Management of Growth***

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

***Internal Controls***
Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company has undertaken a number of procedures and will implement a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on the Company under Canadian securities law, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's consolidated financial statements and materially adversely affect the trading price of the common shares of the Company.

***Liquidity***
The Company cannot predict at what prices the common shares will trade, and there can be no assurance that an active trading market in the common shares will develop or be sustained. There is a significant liquidity risk associated with an investment in the common shares of the Company.

***Dilution***
The Corporation may issue equity securities to finance its activities, including future acquisitions. If the Company was to issue common shares, existing holders of such common shares may experience dilution in their holdings. Moreover, when the Company's intention to issue additional equity securities becomes publicly known, the Company's share price may be adversely affected.

***Litigation***
The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue operating and the market price for the common shares of the Company and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

Benchmark Botanics Inc.

William Ying
Chief Executive Officer
April 28, 2020