

# **BENCHMARK BOTANICS INC.**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the three months ended March 31, 2020

## **Benchmark Botanics Inc.**

Management's Discussion & Analysis

For the three months ended March 31, 2020

### **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 three months ended March 31, 2020 and 2019. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements and notes thereto ("Financial Statements") of Benchmark as at and for the three months ended March 31, 2020 and 2019, and the audited consolidated financial statements and the notes thereto 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 May 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

## **Benchmark Botanics Inc.**

Management's Discussion & Analysis

For the three months ended March 31, 2020

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](http://www.sedar.com) and CSE website at [www.thecse.ca](http://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 Botanics Inc.**

Management's Discussion & Analysis

For the three months ended March 31, 2020

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 March 31, 2020, 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 earned 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.

## **Benchmark Botanics Inc.**

Management's Discussion & Analysis

For the three months ended March 31, 2020

The Company earned 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 has 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 March 31, 2020, 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.

### **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).

In 2019, Zhejiang Yatai has made their CAD\$7 million investment into Yatai BBT. As of March 31, 2020, the Company is still in the process of applying for the license and has therefore not received an ownership interest in Yatai BBT.

## **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

## **Benchmark Botanics Inc.**

Management's Discussion & Analysis

For the three months ended March 31, 2020

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**

Developments occurring during the three months ended March 31, 2020:

#### **1. Private Placement**

On March 6, 2020, 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 (a "Warrant"). Each Warrant shall 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.

#### **2. 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 the filing date, the transaction has not been closed.

Developments occurring subsequent to March 31, 2020:

#### **- Strengthening the management team:**

Appointed Paul Haber CPA, CA, C. Dir as Benchmark's new Chief Financial Officer.

Mr. Haber comes to Benchmark with a wealth of public company expertise having helped many companies successfully navigate the capital markets to achieve their expansion and growth plans.

## Benchmark Botanics Inc.

Management's Discussion & Analysis

For the three months ended March 31, 2020

### - Cooperative agreement with China Bast and Leaf Fibres Textile Association (CBLFTA)

The Company has signed a cooperative agreement with China Bast and Leaf Fibres Textile Association (CBLFTA) to research, develop and promote the products and commercial applications for the Cannabis Sativa (hemp) industry.

The cooperative agreement encompasses research projects, educational and promotional activities for all underlying patents, standards, technologies, and applications as well as industrial and consumer products. Benchmark will set up a reward program to encourage this development and to incentivize contributors.

No shares will be issued, and no ownership will be exchanged as part of this cooperative agreement.

China Bast and Leaf Fibres Textile Association (CBLFTA) is a national organization founded and registered with Ministry of Civil Affairs in 1988. Currently with 300 members, CBLFTA represents all entities involved in China's hemp industry. Members include farmers, processors, manufacturers, researchers, entrepreneurs and marketers. The key functions of the CBLFTA are to liaise with governments and stakeholders to develop policies and standards; disseminate information, promote the use of industrial hemp and coordinate research and marketing activities

### Summary of Quarterly Results

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

	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
	Dec-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30
Revenue	191,095	117,410	-	134,844	-	-	-	-
Gross profit before fair value adjustments	89,189	63,043	-	85,363	-	-	-	-
Fair value changes in biological assets included in inventory sold and other inventory charges	(78,966)	(279,953)	-	(73,105)	-	-	-	-
Unrealized gain (loss) on changes in fair value of biological assets	37,416	(35,101)	160,499	59,267	127,862	33,992	124,430	265,837
Operating expenses	943,102	1,265,484	1,397,452	1,420,243	1,503,637	1,867,845	1,620,438	1,428,320
Loss from operations	(895,363)	(1,531,993)	(1,226,953)	(1,358,718)	(1,375,775)	(1,833,853)	(1,496,008)	(1,162,483)
Other (income) expenses	(23,015)	(1,721,577)	(50,724)	(19,255)	(3,474)	122,450	-	500,000
Net income (loss)	(872,348)	189,584	(1,176,229)	(1,339,463)	(1,372,301)	(1,956,303)	(1,496,008)	(1,662,483)
Earnings (loss) per share - basic	(0.001)	0.001	(0.008)	(0.009)	(0.010)	(0.014)	(0.011)	(0.012)
Weighted average number of shares - Basic	172,517,023	171,545,594	154,993,506	146,569,351	142,576,705	140,784,569	139,627,322	138,747,974

## Benchmark Botanics Inc.

Management's Discussion & Analysis

For the three months ended March 31, 2020

### *Financial Results – Highlights for the three months ended March 31, 2020*

- Net loss for the three months ended March 31, 2020 was \$872,348, compared to a net loss of \$1,372,301 for the three months ended March 31, 2019. The decrease in net loss for the three months ended March 31, 2020 is due to the decrease in expenses of \$560,535, and the decrease in unrealized gain on changes in fair value of biological assets of \$90,446.
- EBITDA before share-based compensation expenses, loss on equity investments and unrealized gain on changes in fair value of biological assets (“Adjusted EBITDA”) for the three months ended March 31, 2020 slightly decreased to a negative \$723,304 from a negative \$1,016,338 for the same time period of last year.
- At March 31, 2020, the Company had negative working capital of \$2,648,914 (December 31, 2019 - \$1,746,964).

## 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)	
	3/31/2020	3/31/2019
Revenue	191,095	-
Gross profit before fair value impacts in cost of sales	89,189	-
Gross profit	47,739	127,862
Gross margin before fair value impacts in cost of sales	56.4%	-
Operating expenses	943,102	1,503,637
Loss from operations	(895,363)	(1,375,775)
Other income (expense)	23,015	3,474
Net loss	(872,348)	(1,372,301)
EBITDA	(789,577)	(1,275,353)
Adjusted EBITDA	(723,304)	(1,016,338)
Loss per share		
Basic	(0.005)	(0.010)
Weighted average number of shares		
Basic	172,517,023	142,576,705

## Benchmark Botanics Inc.

Management's Discussion & Analysis

For the three months ended March 31, 2020

### Revenue

	Three-Month Period Ended (Unaudited)	
	03/31/2020	03/31/2019
Revenue	191,095	-
Excise taxes	32,935	-
Net revenue	158,160	-

Total revenue for the three months ended March 31, 2020 was \$191,095 (2019 - \$nil) from sales of dried cannabis to a licensed producer and retail sales for the adult-use market in Canada. The total quantity of cannabis sold during the three months ended March 31, 2020 was 29,587 grams (2019 – nil) at an average sale price of \$6.46.

### 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 three months ended March 31, 2020 were \$147,937, 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 three months ended March 31, 2020, the Company reported an unrealized gain on the changes in fair value of its biological assets of \$37,416 (2019 - \$127,862). This represents the

## Benchmark Botanics Inc.

Management's Discussion & Analysis

For the three months ended March 31, 2020

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 ended March 31, 2020 was \$89,189 (2019 - \$nil), respectively, or 56.4% of net revenue.

### *Expenses*

	Three-Month Period Ended (Unaudited)	
	3/31/2020	3/31/2019
Amortization of tangible assets	69,293	65,018
Depreciation on right of use assets	9,027	21,852
Sales and marketing expenses	44,061	61,402
General and administration	845,983	968,388
Share-based compensation (recovery)	(25,262)	386,977
Operating expenses	943,102	1,503,637

The \$560,535 decrease in operation expenses for the three months ended March 31, 2020 compared to the same period of last year was mainly due to:

- The decrease of \$122,405 in general and administration expenses discussed below; and
- Share-based compensation expense decreased to a recovery of \$25,262 for the three months ended March 31, 2020 from an expense of \$386,977 for the three months ended March 31, 2019.

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.

### *General and administrative expenses*

For the three months ended March 31, 2020 compared to the same period last year, the decrease of \$122,405 in general and administration expenses was primarily due to \$57,430 decrease in consulting fees, \$42,992 decrease in salaries and benefits, \$19,640 decrease in professional fees, and \$11,721 decrease in travel expenses.

Salary and wages were reduced to \$380,672 for the three months ended March 31, 2020, compared to \$423,664 for the three months ended March 31, 2019. This decrease was required by our response to the Covid-19 outbreak and is one of its impacts on the Company. The Company laid off some personnel in this quarter given the reduced business activities during this special time.

## **Benchmark Botanics Inc.**

Management's Discussion & Analysis

For the three months ended March 31, 2020

Consulting fees decreased to \$101,500 for the three-month period beginning April 1st, 2020 from \$158,930 for the three months ended March 31, 2020. The Company also terminated some consultants' agreements as part of adapting to the Covid-19 slow down.

### ***Other income and expenses***

For the three months ended March 31, 2020, other expenses included interest income of \$73,000, and a loss on equity investment of \$49,985.

As of March 31, 2020, 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 March 31, 2020, \$215,422 interest income was accrued (2019 - \$3,474)

For the three months ended March 31, 2020, the Company accrued a loss of \$49,985 from investment in an equity investee (2019 - \$nil).

### ***Income Taxes***

Benchmark and its subsidiary did not accrue any income taxes for the three months ended March 31, 2020 and 2019 as no taxable income was generated.

### ***Net Loss and Comprehensive Loss***

For the three months ended March 31, 2020, net loss and comprehensive loss was \$872,348 compared to a net loss of \$1,372,301 for the corresponding period of 2019. The decrease of net loss was attributed to the decrease in the general and administrative expenses as discussed above and share-based compensation expenses.

## Benchmark Botanics Inc.

Management's Discussion & Analysis

For the three months ended March 31, 2020

### 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	
	March 31	
	2020	2019
	(Unaudited)	(Unaudited)
Net income (loss)	- 872,348	- 1,372,301
Add		
Depreciation	69,293	65,018
Depreciation on right of use assets	9,027	21,852
Interest accretion on lease liabilities	4,451	10,078
<b>EBITDA</b>	<b>- 789,577</b>	<b>- 1,275,353</b>
Fair value changes in biological assets included in inventory sold and other inventory charges	78,966	-
Unrealized gain on changes in fair value of biological assets	- 37,416	- 127,962
Loss on equity investment	49,985	-
Share-based compensation expenses (recovery)	- 25,262	386,977
<b>Adjusted EBITDA</b>	<b>- 723,304</b>	<b>- 1,016,338</b>

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, and fair value changes in biological assets included in inventory sold.

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.

## **Benchmark Botanics Inc.**

Management's Discussion & Analysis

For the three months ended March 31, 2020

### **LIQUIDITY AND CAPITAL RESOURCES**

Cash totaled \$1,532,260 as at March 31, 2020, as compared to \$875,347 as at December 31, 2019.

#### ***Cash used in operating activities***

For the quarter ended March 31, 2020, cash used in operating activities was \$1,089,139 compared to cash used in operating activities of \$1,263,928 for the quarter ended March 31, 2019. This decrease mainly reflects a decrease in operating expenses, and less payments of accounts payable.

#### ***Cash used in investing activities***

For the three months ended March 31, 2020 cash used in investing activities was \$273,772 compared to cash used in investing activities of \$459,781 for the three months ended March 31, 2019.

Cash used in investing activities during the period ended March 31, 2020 was mainly for the acquisition of property, plant and equipment of \$273,772 (2019 - acquisition of property and equipment \$9,781)

Cash used in investing activities during the period ended March 31, 2019 mainly relates to the loan receivable from 1139000 of \$450,000 (2019 - \$nil).

Loan receivable was the loan made to 1139000 B.C. Ltd., an associate of the Company. 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 March 31, 2020, net property, plant and equipment was \$7,021,031, an increase of \$198,056 from \$6,822,975 as at December 31, 2019. Increase in property, plant and equipment is mainly due to the addition of plant, machinery and equipment of \$273,722 as part of Potanicals' production facilities, offset by the depreciation expenses of \$75,716.

#### ***Cash provided by financing activities***

For the three months ended March 31, 2020, cash generated from financing activities was \$2,019,824 compared to cash generated from financing activities of \$2,076,080 for the three months ended March 31, 2019. The difference was mainly a result of \$2,033,333 in proceeds from the issuance of shares and the exercise of stock options compared to \$113,333 in proceeds from the exercise of stock options and a shareholder loan of \$2,062,290 for the three months ended March 31, 2019.

During the three months ended March 31, 2020, there were 1,666,666 shares issued on the exercise of stock options for total proceeds of \$333,333.

On March 6, 2020, the Company closed a non-brokered private placement financing for total gross proceeds of \$1,700,000.

## **Benchmark Botanics Inc.**

Management's Discussion & Analysis

For the three months ended March 31, 2020

During the three months ended March 31, 2019, there were 566,666 shares issued on the exercise of stock options for total proceeds of \$113,333.

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

The loan balance as at March 31, 2019 including principal in the amount of \$2,062,290 was outstanding. This loan was fully paid back on June 6, 2019.

### **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 February 20, 2020, the Company entered into a lease agreement for office premises located in Richmond, BC. The Company agreed to pay annual rent of \$190,627 from July 1, 2020 to June 30, 2021, \$200,660 from July 1, 2021 to June 30, 2023, \$210,693 from July 1, 2023 until the lease expires on June 30, 2025.
- (d) 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 \$1,465,000 was paid as of March 31, 2020.
- (e) The Company has entered into consulting agreements with its key management personnel. These agreements do not have specific expiry dates.
- (f) On May 27, 2019, the Company entered into an Investment Corporation 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 March 31, 2020, 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.

## Benchmark Botanics Inc.

Management's Discussion & Analysis

For the three months ended March 31, 2020

### 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 personnel. No post-employment benefits, other long-term benefits or termination benefits were made during the three months ended March 31, 2020 and 2019. Short-term key management and director compensation consists of the following:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	\$	\$
Share-based payments	20,449	196,588
Salaries	53,273	83,400
Management fees	79,500	124,500
Director fees	22,875	22,875
Consulting fees	63,000	18,000
	<u>239,097</u>	<u>445,363</u>

#### Related party balances and transactions

- a) During the three months ended March 31, 2020, the Company incurred of \$10,500 (2019 - \$10,500) in rental expenses to a director 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.

## Benchmark Botanics Inc.

Management's Discussion & Analysis

For the three months ended March 31, 2020

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

	March 31, 2020	December 31, 2019
	\$	\$
Financial assets at fair value through profit or loss (i)	1,566,760	909,847
Financial assets at amortized cost (ii)	4,142,922	3,972,225
Financial liabilities at amortized cost (iii)	287,536	327,188

(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 data

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

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash and restricted cash				
March 31, 2020	1,566,760	-	-	1,566,760
December 31, 2019	909,847	-	-	909,847

### ***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 March 31, 2020 and December 31, 2019, 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.

## Benchmark Botanics Inc.

Management's Discussion & Analysis

For the three months ended March 31, 2020

### *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 March 31, 2020, the Company had cash of \$1,532,260 (December 31, 2019: \$875,347). As of March 31, 2020, the Company had working capital of \$2,648,914 (December 31, 2019 - \$1,746,964 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
March 31, 2020					
Accounts payable	287,536	287,536	287,536	-	-
	<u>287,536</u>	<u>287,536</u>	<u>287,536</u>		
December 31, 2019					
Accounts payable	327,188	327,188	327,188	-	-

## 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;

## Benchmark Botanics Inc.

Management's Discussion & Analysis

For the three months ended March 31, 2020

- 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.

### 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 three months ended March 31, 2020.

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 March 31, 2020 and December 31, 2019, and as of the date of this MD&A if all outstanding options and warrants were converted to shares:

	May 28, 2020	March 31, 2020	December 31, 2019
Common shares	176,612,260	176,612,260	171,545,594
Stock options	6,300,000	6,300,000	8,506,666
Share purchase warrants	30,916,667	30,916,667	30,916,667
Fully diluted shares	213,828,927	213,828,927	210,968,927

## **Benchmark Botanics Inc.**

Management's Discussion & Analysis

For the three months ended March 31, 2020

### **RISK FACTORS**

Many factors could cause the Company's actual results, performance and achievements to differ materially from those expressed or implied by the forward-looking statements and forward-looking information, which are discussed in greater detail under the heading "Risk Factors" in the Company's audited consolidated financial statements for the years ended December 31, 2019 and 2018. and available on [www.sedar.com](http://www.sedar.com), which risk factors are incorporated by reference into this document and should be reviewed in detail by all readers.

The current COVID-19 pandemic is bringing unprecedented pressures to communities and businesses globally. Benchmark is not immune to these pressures. Despite this, we are committed to execute on our goals of driving strong revenue growth in 2020. We endeavor to drive shareholder value and will continue to pursue accretive and strategic opportunities.

Benchmark Botanics Inc.

William Ying  
Chief Executive Officer  
May 28, 2020