

Condensed Interim Consolidated Financial Statements of

BENCHMARK BOTANICS INC.

For the three and six months ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

(Unaudited)

BENCHMARK BOTANICS INC.

(the "Company")

Condensed Interim Consolidated Financial Statements

Three and Six Months ended June 30, 2020 and 2019

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

August 27, 2020

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

	Note	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
		\$	\$
Current Assets			
Cash		596,547	875,347
Restricted cash		34,500	34,500
Amounts receivable	4	116,993	151,269
Biological assets	5	100,210	102,258
Inventory	6	1,168,699	855,029
Prepaid expenses and deposits	7	146,657	73,541
Due from associate		156,445	83,631
		2,320,051	2,175,575
Deposits	9	324,364	272,050
Loans receivable	8	3,948,422	3,802,422
Investment in associate	10	1,666,689	1,784,178
Right of use assets		84,649	102,703
Property, plant and equipment	9	6,985,593	6,822,975
		15,329,768	14,959,903
Current Liabilities			
Accounts payable and accrued liabilities	11	384,611	390,249
Lease liabilities due within one year		48,018	38,362
		432,629	428,611
Lease liabilities		60,032	88,147
		492,661	516,758
Equity			
Share capital	13	31,455,012	29,582,289
Warrants reserve	13	948,667	506,667
Stock options reserve	13	2,172,732	2,403,215
Deficit		(19,739,304)	(18,049,026)
		14,837,107	14,443,145
		15,329,768	14,959,903

NATURE AND CONTINUANCE OF OPERATIONS (Note 1)
COMMITMENTS (Note 16)
SUBSEQUENT EVENTS (Note 18)

Approved on behalf of the Board:

"George Dorin"
Director

"William Ying"
Director

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

Benchmark Botanics Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(Expressed in Canadian Dollars)

	Note	Three Months Ended June 30, 2020	June 30, 2019	Six Months Ended June 30, 2020	June 30, 2019
		\$	\$	\$	\$
Revenue		87,420	134,844	278,515	134,844
Excise taxes		15,597	-	48,432	-
		71,823	134,844	230,083	134,844
Inventory production costs expensed to cost of sales		38,799	49,481	107,770	49,481
Gross profit before fair value adjustments		33,024	85,363	122,313	85,363
Fair value changes in biological assets included in inventory sold and other inventory charges		36,327	73,105	115,293	73,105
Unrealized gain on changes in fair value of biological assets	5	(127,238)	(59,267)	(164,654)	(187,129)
Gross profit		123,935	71,525	171,674	199,387
Expenses					
Amortization of tangible assets	9	82,388	65,339	151,681	130,357
Depreciation on right of use assets		9,027	21,852	18,054	43,704
Sales and marketing expenses		112,362	50,140	156,423	111,542
General and administrative expenses		667,415	1,076,760	1,513,398	2,045,148
Share-based compensation	13	76,169	216,152	50,907	603,129
		947,361	1,430,243	1,890,463	2,933,880
Loss from continuing operations		(823,426)	(1,358,718)	(1,718,789)	(2,734,493)
Other income (expense)					
Interest income	8	73,000	19,255	146,000	22,729
Loss on equity investments		(67,504)	-	(117,489)	-
		5,496	19,255	28,511	22,729
Net loss and comprehensive loss		(817,930)	(1,339,463)	(1,690,278)	(2,711,764)
Loss per common share – basic and diluted					
Basic		(\$0.005)	(\$0.009)	(\$0.010)	(\$0.018)
Weighted average number of common shares					
Basic		176,612,260	146,569,351	174,773,615	150,432,007

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

Benchmark Botanics Inc.

Condensed Interim Consolidated Statements of Changes in Equity

For the six months ended June 30, 2020 and 2019

(Unaudited)

(Expressed in Canadian Dollars)

	Number of Common Shares	Share Capital \$	Warrants Reserve	Share Subscriptions Received (Receivable) \$	Stock Options Reserve	Deficit \$	Total \$
Balance, December 31, 2018	142,028,927	17,815,099	506,667	80,000	1,732,466	(14,328,976)	5,805,256
Impact of adopting IFRS 16	-	-	-	-	-	(21,641)	(21,641)
Restated balance as at January 1, 2019	142,028,927	17,815,099	506,667	80,000	1,732,466	(14,350,617)	5,783,615
Share issued for cash	28,250,000	11,300,000	-	-	-	-	11,300,000
Stock option exercised	866,667	319,656	-	-	(146,323)	-	173,333
Share-based compensation	-	-	-	-	603,129	-	603,129
Share subscriptions repayment	-	-	-	(80,000)	-	-	(80,000)
Comprehensive loss for the period	-	-	-	-	-	(2,711,764)	(2,711,764)
Balance, June 30, 2019	171,145,594	29,434,755	506,667	-	2,189,272	(17,060,343)	15,070,351
Balance, December 31, 2019	171,545,594	29,582,289	506,667	-	2,403,215	(18,049,026)	14,443,145
Shares issued for cash, net	3,400,000	1,258,000	442,000	-	-	-	1,700,000
Stock option exercised	1,666,666	614,723	-	-	(281,390)	-	333,333
Share-based compensation	-	-	-	-	50,907	-	50,907
Comprehensive loss for the period	-	-	-	-	-	(1,690,278)	(1,690,278)
Balance, June 30, 2020	176,612,260	31,455,012	948,667	-	2,172,732	(19,739,304)	14,837,107

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

Benchmark Botanics Inc.

Condensed Interim Consolidated Statements of Cash Flows
For the six months ended June 30, 2020 and 2019
(Unaudited)
(Expressed in Canadian Dollars)

	June 30, 2020	June 30, 2019
	\$	\$
OPERATING ACTIVITIES		
Net loss for the period	(1,690,278)	(2,711,764)
Items not involving cash:		
Fair value changes in biological assets included in inventory sold	115,293	73,105
Unrealized gain on changes in fair value of biological assets	(164,654)	(187,129)
Depreciation and amortization	182,580	174,061
Interest accretion on lease liabilities	8,559	-
Interest accrual on loan receivable	(146,000)	(22,729)
Share-base compensation	50,907	603,129
Loss on equity investments	117,489	-
	(1,526,104)	(2,022,567)
Changes in non-cash working capital balances:		
Amounts receivable	34,276	74,810
Other receivable	-	41,651
Biological assets	2,048	(212,268)
Inventory	(264,309)	67,835
Prepaid expenses	(73,116)	13,302
Due from associate	(72,814)	-
Accounts payable and accrued liabilities	(5,638)	(195,578)
Cash used in operating activities	(1,905,657)	(2,281,575)
INVESTING ACTIVITIES		
Loans receivable	-	(1,700,000)
Acquisition of property and equipment	(379,458)	(98,136)
Cash used in investing activities	(379,458)	(1,798,136)
FINANCING ACTIVITIES		
Proceeds from share subscriptions	2,033,333	11,473,333
Subscriptions repayment	-	(80,000)
Payment on lease liabilities	(27,018)	(39,727)
Cash provided by financing activities	2,006,315	11,353,606
Change in cash during the period	(278,800)	7,273,895
Cash, beginning of period	875,347	328,112
Cash, end of period	596,547	7,602,007
Supplemental cash flow information:		
Cash paid for interest	-	21,285
Cash paid for income taxes	-	-

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

Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(Expressed in Canadian Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Benchmark Botanics Inc. (the "Company") was incorporated on November 23, 2009 under the Business Corporation Act of Alberta. On November 2, 2017, the Company acquired Potanicals Green Growers Inc. ("Potanicals") through a reverse acquisition transaction. The Company's common shares are trading as a Tier 2 Industrial Issuer on the Canadian Securities Exchange ("CSE") under the symbol "BBT". Potanicals was incorporated on February 7, 2014 under the British Columbia Business Corporation Act. The address of the Company's principal place of business is 4715 Paradise Valley Drive, Peachland, BC. The Company's head office and mailing address is 3600 Lysander Lane Suite 400, Richmond, British Columbia.

The Company's principal business is the production of marijuana licensed under the *Cannabis Act (Canada)* and its relevant regulations (the "Cannabis Act"), which came into force on October 17, 2018. On October 13, 2017, the Company obtained a license to produce medical marijuana under the Access to Cannabis for Medical Purposes Regulations (the "ACMPR"). On May 29, 2018, the Company amended its licence to produce cannabis oil. On September 28, 2018, the Company obtained a licence to sell cannabis under the ACMPR. On July 26, 2019, the Company received a retail 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. Subsequent to the period end, the Company has received its third cultivation license, effective August 7, 2020, from Health Canada for the Company's joint venture indoor and outdoor operations located in Pitt Meadows, BC. (note 18(b))

These condensed interim consolidated financial statements (the "interim consolidated financial statements") have been prepared on the basis of accounting principals applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. As at June 30, 2020, the Company has an accumulated deficit of \$19,739,304 and has generated negative cash flows from operations. For the six months ended June 30, 2020, the Company incurred a net loss of \$1,690,278 (June 30, 2019 – \$2,711,764). During the six months ended June 30, 2020, the majority of the equity financing raised by the Company has been used to purchase property, plant and equipment, increase working capital and to fund expenses. All of these factors raise significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing and successfully generating profits and cash flows from producing and distributing medical marijuana.

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

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The impact on the Company is not currently determinable but management continues to monitor the situation.

2. BASIS OF PRESENTATION

a) Statement of compliance

These interim consolidated financial statements are in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. These interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the years ended December 31, 2019 and 2018.

The interim consolidated financial statements were authorized for issue by the Board of Directors on August 27, 2020.

Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (continued)

b) Basis of measurement

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

c) Basis of consolidation

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

3. SIGNIFICANT ACCOUNTING POLICIES

a) Investments in associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associate without control or joint control over those decisions. Significant influence is presumed if the Company holds between 20% and 50% of the voting rights, unless evidence exists to the contrary.

Investments in associates are accounted for using the equity method. The Company's interest in an associate is initially recorded at cost and is subsequently adjusted for the Company's share of changes in the net assets of the associate, less any impairment in the value of individual investments, and any dividends paid. Where the Company transacts with an associate, unrealized profits and losses are eliminated to the extent of the Company's interest in that associate.

b) Use of estimates and judgments

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

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

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

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

- The evaluation of the Company's ability to continue as going concern (see Note 1);
- The determination of impairment in the carrying costs of inventory;
- The recognition and valuation of impairment of property, plant and equipment;
- In determining the appropriate basis of accounting for the Company's interests in investees, judgment is applied regarding the degree to which the Company has the ability to exert influence directly or indirectly over the investees' financial and operating activities; and
- Income tax and estimates about timing, likelihood and reversal of temporary differences between accounting and tax basis of the assets and liabilities.

c) Reclassifications

Certain reclassifications have been made to confirm the prior period's condensed interim consolidated financial statements and notes to the current period's presentation.

Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(Expressed in Canadian Dollars)

4. AMOUNTS RECEIVABLE

Amounts receivable are comprised of:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	\$	\$
Accounts receivable	87,787	86,172
GST receivable	29,206	65,097
Balance, end of period	116,993	151,269

5. BIOLOGICAL ASSETS

As at June 30, 2020 and December 31, 2019, the Company's biological assets consisted of cannabis plants. The changes in the carrying value of the biological assets are as follow:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	\$	\$
Balance, beginning of period	102,258	33,992
Unrealized gain on changes in fair value of biological assets	164,654	312,527
Production costs capitalized	166,091	458,524
Harvested cannabis transferred to inventory	(332,793)	(702,785)
Balance, end of period	100,210	102,258

As of June 30, 2020, the weighted average fair value less cost to complete and cost to sell was \$5.00 per gram (December 31, 2019 - \$5.00 per gram).

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

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

During the six months ended June 30, 2020, the Company's biological assets produced 66,613 (June 30, 2019 – 65,619) grams of dried cannabis.

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

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

The Company estimates the average grow cycle of plants up to the point of harvest is approximately twelve weeks.

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected the gain or loss on biological assets in future periods.

Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(Expressed in Canadian Dollars)

6. INVENTORY

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	\$	\$
Dry cannabis	1,092,621	831,260
Raw materials	76,078	23,769
Total	1,168,699	855,029

For the six months ended June 30, 2020, the Company sold 42,739 grams of dried cannabis (June 30, 2019 – 24,517 grams). Inventory expensed during the six months ended June 30, 2020, was \$107,770 (2019 - \$49,481).

The fair value changes of biological assets included in inventory sold and other inventory charges for the six months ended June 30, 2020 was \$115,293 (June 30, 2019 - \$73,105).

7. PREPAID EXPENSES AND DEPOSITS

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	\$	\$
Prepaid expenses	50,132	38,886
Deposits	96,525	34,655
	146,657	73,541

Deposits include mainly \$60,000 rental deposit paid for the lease entered on February 20, 2020 for office premises located in Richmond and \$30,000 paid for excise duty tax deposit.

8. LOANS RECEIVABLE

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Loan receivable from 1139000 B.C. Ltd.	3,660,000	3,660,000
Add: Accrued interest	288,422	142,422
Loan receivable	3,948,422	3,802,422

On January 28, 2019, the Company entered into a revolving loan agreement (the "Loan Agreement") with 1139000 BC Ltd. ("1139000"), an associated company as described in Note 10. Pursuant to the Loan Agreement, the Company agreed to make loans to 1139000 from time to time. The loans are unsecured, bear interest at 8% per annum and mature on December 31, 2020. As at June 30, 2020, the loans receivable totaled \$3,948,422 (December 31, 2019 – 3,802,422). Accrued interest expense for the six months ended June 30, 2020 was \$146,000 (2019 - \$nil).

Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(Expressed in Canadian Dollars)

9. PROPERTY, PLANT AND EQUIPMENT

	Land	Plant	Building under Development	Leasehold Improvement	Production and Other Equipment	Computer Equipment and Software	Furniture and Fixtures	Motor Vehicle	Total
Cost	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2018	1,887,644	1,943,022	-	33,900	1,012,068	146,315	188,555	68,992	5,280,496
Additions	84,200	20,057	1,918,479	-	71,606	5,564	7,223	38,146	2,145,275
Balance, December 31, 2019	1,971,844	1,963,079	1,918,479	33,900	1,083,674	151,879	195,778	107,138	7,425,771
Additions	-	-	306,762	-	10,967	5,563	3,852	-	327,144
Balance, June 30, 2020	1,971,844	1,963,079	2,225,241	33,900	1,094,641	157,442	199,630	107,138	7,752,915
Accumulated Depreciation									
Balance, December 31, 2018	-	76,723	-	12,712	98,836	65,155	13,605	1,725	268,756
Charge for the year	-	78,122	-	11,300	139,363	49,699	37,943	17,613	334,040
Balance, December 31, 2019	-	154,845	-	24,012	238,199	114,854	51,548	19,338	602,796
Charge for the period	-	39,262	-	5,650	59,490	25,545	23,865	10,714	164,526
Balance, June 30, 2020	-	194,107	-	29,662	297,689	140,399	75,413	30,052	767,322
Net book value									
December 31, 2019	1,971,844	1,808,234	1,918,479	9,888	845,475	37,025	144,230	87,800	6,822,975
June 30, 2020	1,971,844	1,768,972	2,225,241	4,238	796,952	17,043	124,217	77,086	6,985,593

As at June 30, 2020 and December 31, 2019, the Company's Building under Development is not yet available for use. As a result, no depreciation was recorded for three and six months ended June 30, 2020 and the year ended December 31, 2019. As at June 30, 2020, deposits of \$324,364 (December 31, 2019 - \$272,050) were made to purchase equipment for the Company's extraction facility which is currently under construction.

Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(Expressed in Canadian Dollars)

10. INVESTMENT IN ASSOCIATE

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 operation in Pitt Meadows, BC. Pursuant to the Agreement, the 1139000 existing shareholders will earn their initial 75% ownership interest in 1139000 by financing the costs and expenses relating to the purchase, design, construction and upgrading of the Facility into a facility that meets the requirements of a licensed cultivation and production of medical cannabis facility under ACMPR which was replaced by the Cannabis Act and its relevant regulations (the "Cannabis Act") effectively on October 17, 2018.

The Company, through its wholly-owned subsidiary, Potanicals Green Growers Inc., 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. 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. On November 29, 2019, the Company received a cultivation license for the Facility and received its 25% interest in 1139000 on December 6, 2019. As at June 30, 2020, the Facility has not reached the commercial stage.

As at December 6, 2019, the fair value of 1139000's net assets were \$7,236,000. The Company recognized a gain of \$1,677,430 on its acquisition of the 25% ownership interest of 1139000, as follows:

	\$
Cash	247,955
Prepaid expenses and other current assets	311,161
Property, plant and equipment	12,666,709
Accounts payable	(252,803)
Mortgages payable	(1,984,600)
Loan payable	(3,752,422)
<u>Net assets</u>	<u>7,236,000</u>
The Company's 25% share of the net assets' fair value	1,809,000
<u>Less: Costs incurred by the Company to extend the licence</u>	<u>(131,570)</u>
Gain on acquisition of associate	1,677,430

The following table outlines the investment in 1139000 that is accounted for using the equity method for the period ended June 30, 2020:

	\$
Balance, December 31, 2018	-
Initial recognition of the 25% ownership of 1139000	1,809,000
Share of 1139000 loss for the year	(24,822)
<u>Balance, December 31, 2019</u>	<u>1,784,178</u>
Share of 1139000 loss for the period	(117,489)
<u>Balance, June 30, 2020</u>	<u>1,666,689</u>

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	\$	\$
Trade payables	329,988	327,188
Accrued liabilities	54,623	63,061
<u>Total</u>	<u>384,611</u>	<u>390,249</u>

Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(Expressed in Canadian Dollars)

12. RELATED PARTY BALANCES AND TRANSACTIONS

The Company has identified its directors and senior officers as its key personnel. No post-employment benefits, other long-term benefits or termination benefits were made during the six months ended June 30, 2020 and 2019. Short-term key management and director compensation consists of the following:

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
	\$	\$
Share-based payments	40,898	325,545
Salaries	198,873	166,800
Management fees	152,000	249,000
Director fees	46,750	46,750
Consulting fees	30,000	36,000
	<u>468,521</u>	<u>824,095</u>

Related party balances and transactions

- a) During the six months ended June 30, 2020, the Company incurred \$21,000 (June 30, 2019 - \$21,000) 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.

13. SHARE CAPITAL

Common Shares Issued and Outstanding

For the six months ended June 30, 2020

At June 30, 2020, there were 176,612,260 issued and fully paid common shares (December 31, 2019 - 171,545,594)

On March 6, 2020, the Company has closed its 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. The fair value of the warrants was \$442,000 based on the residual value method.

During the six months ended June 30, 2020, there were 1,666,666 shares issued on exercise of stock options for total proceeds of \$333,333.

For the six months ended June 30, 2019

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

Escrow Shares

As at June 30, 2020, the Company has 5,426,100 of its common shares held in escrow (December 31, 2019 - 11,752,200). Of this amount, 5,426,100 of the common shares will be released every 6 months thereafter until November 2, 2020.

Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

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13. SHARE CAPITAL (continued)

Stock Options

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

The status of the stock options is summarized as follows:

	Number of Options	Exercise Price
Outstanding, December 31, 2018	9,563,333	
Exercised on January 4, 2019	(566,667)	\$0.20
Granted on January 24, 2019	1,050,000	\$0.45
Stock options forfeited	(960,000)	\$0.54
Stock options expired	(380,000)	\$0.54
Exercised on May 13, 2019	(300,000)	\$0.20
Exercised on August 6, 2019	(400,000)	\$0.20
Granted on September 3, 2019	500,000	\$0.43
Outstanding, December 31, 2019	8,506,666	
Exercised on February 29, 2020	(1,100,000)	\$0.20
Exercised on March 27, 2020	(566,666)	\$0.20
Stock options forfeited	(1,580,000)	\$0.54
Granted on May 7, 2020	200,000	\$0.35
Granted on June 1, 2020	500,000	\$0.283
Outstanding, June 30, 2020	5,960,000	

The following table summarizes the stock options outstanding and exercisable as at June 30, 2020:

Outstanding			Exercisable
Number of options	Weighted average exercise price	Weighted average remaining contractual life in years	Number of options
2,100,000	\$0.20	2.35	2,100,000
1,110,000	\$0.60	3.11	740,000
950,000	\$0.48	3.30	633,333
600,000	\$0.45	3.57	400,000
500,000	\$0.43	4.18	166,667
200,000	\$0.35	4.85	66,667
500,000	\$0.28	4.92	166,667
5,960,000	\$0.34	3.30	4,273,333

The following table summarizes the stock options outstanding and exercisable as at December 31, 2019:

Outstanding			Exercisable
Number of options	Weighted average exercise price	Weighted average remaining contractual life in years	Number of options
4,566,666	\$0.20	2.85	4,566,666
1,440,000	\$0.60	3.61	960,000
950,000	\$0.48	3.80	633,333
1,050,000	\$0.45	4.07	350,000
500,000	\$0.43	4.68	166,667
8,506,666	\$0.34	3.34	6,676,666

Benchmark Botanics Inc.

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13. SHARE CAPITAL (continued)

Stock Options (continued)

On November 7, 2017, the Company granted an aggregate of 8,700,000 stock options to directors, officers, employees and consultants of the Company. These stock options have an exercise price of \$0.20 and an expiry date of November 6, 2022. All of the options will vest over a two year period with 1/3 of the stock options vesting immediately on the date of grant; 1/3 to vest one year thereafter and 1/3 to vest two years thereafter; such that all of the stock options are fully vested on November 6, 2019. During the six months ended June 30, 2020, the Company recognized share-based payments of \$nil (2019 - \$121,399) related to these stock options.

On August 9, 2018, the Company granted an aggregate of 2,580,000 stock options to directors, officers, employees and consultants of the Company. These stock options have an exercise price of \$0.60 and an expiry date of August 8, 2023. All of the options will vest over a two-year period with 1/3 of the stock options vesting immediately on the date of grant; 1/3 to vest one year thereafter and 1/3 to vest two years thereafter; such that all of the stock options are fully vested on August 9, 2020. During the six months ended June 30, 2020, the Company recognized share-based (recoveries) payments of \$(39,915) (2019- \$166,573) related to these stock options.

On October 19, 2018, the Company granted an aggregate of 950,000 stock options to directors and officer of the Company. These stock options have an exercise price of \$0.48 and an expiry date of October 18, 2023. All of the options will vest over a two-year period with 1/3 of the stock options vesting immediately on the date of grant; 1/3 to vest one year thereafter and 1/3 to vest two years thereafter; such that all of the stock options are fully vested on October 18, 2020. During the six months ended June 30, 2020, the Company recognized share-based payments of \$19,464 (2019 - \$95,759) related to these stock options.

On January 24, 2019, the Company granted 600,000 stock options to a director and 450,000 stock options to an employee of the Company. These stock options have an exercise price of \$0.45 and an expiry date of January 23, 2024. All of the options will vest over a two-year period with 1/3 of the stock options vesting immediately on the date of grant; 1/3 to vest one year thereafter and 1/3 to vest two years thereafter; such that all of the stock options are fully vested on January 23, 2021. During the six months ended June 30, 2020, the Company recognized share-based (recoveries) payments of \$(36,923) (2019 - \$219,398) related to these stock options.

On September 3, 2019, the Company granted 500,000 stock options to a consultant of the Company. These stock options have an exercise price of \$0.43 and an expiry date of September 2, 2024. All of the options will vest over a two-year period with 1/3 of the stock options vesting immediately on the date of grant; 1/3 to vest one year thereafter and 1/3 to vest two years thereafter; such that all of the stock options are fully vested on September 2, 2021. During the six months ended June 30, 2020, the Company recognized share-based payments of \$40,356 (2019 - \$nil) related to these stock options.

On May 7, 2020, the Company granted 200,000 stock options to an officer of the Company. These stock options have an exercise price of \$0.35 and an expiry date of May 6, 2025. All of the options will vest over a two-year period with 1/3 of the stock options vesting immediately on the date of grant; 1/3 to vest one year thereafter and 1/3 to vest two years thereafter; such that all of the stock options are fully vested on May 6, 2022. During the six months ended June 30, 2020, the Company recognized share-based payments of \$23,929 (2019 - \$nil) related to these stock options.

On June 1, 2020, the Company granted 500,000 stock options to an employee and a consultant of the Company. These stock options have an exercise price of \$0.28 and an expiry date of May 31, 2025. All of the options will vest over a two-year period with 1/3 of the stock options vesting immediately on the date of grant; 1/3 to vest one year thereafter and 1/3 to vest two years thereafter; such that all of the stock options are fully vested on May 31, 2022. During the six months ended June 30, 2020, the Company recognized share-based payments of \$43,996 (2019 - \$nil) related to these stock options.

The weighted average fair value at grant date of the stock options granted during the six months ended June 30, 2020 was \$nil (2019 - \$0.38) per option. The fair value was determined using the Black-Scholes option pricing model using the following weighted average assumptions:

	2020	2019
Expected volatility	125%	125%
Risk-free interest rate	0.38%	1.86%
Dividend yield	-	-
Expected life of options	5.0 years	5.0 years
Stock price on grant date	\$0.30	\$0.45
Forfeiture rate	-	-

Benchmark Botanics Inc.

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13. SHARE CAPITAL (continued)

Warrants

A summary of the changes in warrants is presented below:

	Number of warrants	Weighted Average Exercise Price
Balance at December 31, 2018	2,666,667	\$1.20
Warrants issued	28,250,000	\$1.00
Balance at December 31, 2019	30,916,667	\$1.02
Warrants issued	3,400,000	1.20
Balance at June 30, 2020	34,316,667	\$1.04

Pursuant to the private placement closed on June 6, 2019, the Company issued 28,500,000 common share purchase warrants at fair value of \$nil. Each warrant is exercisable into one common share of the Company at an exercise price of \$1.00 per common share for a period of two years, expiring on June 5, 2021.

Pursuant to the private placement closed on March 6, 2020, the Company issued 3,400,000 common share purchase warrants at fair value of \$442,000. Each warrant is exercisable into one common share of the Company at an exercise price of \$1.20 per common share for a period of two years, expiring on March 5, 2022.

14. FINANCIAL INSTRUMENTS

Fair values

The Company's financial instruments include cash, amounts receivable 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:

	June 30, 2020	December 31, 2019
	\$	\$
Financial assets at fair value through profit or loss (i)	631,047	909,847
Financial assets at amortized cost (ii)	4,192,654	3,972,225
Financial liabilities at amortized cost (iii)	329,988	327,188

- (i) Cash and restricted cash
- (ii) Amounts receivables, due from associate and loans 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				
June 30, 2020	631,047	-	-	631,047
December 31, 2019	909,847	-	-	909,847

Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited)

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14. FINANCIAL INSTRUMENTS (continued)

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 June 30, 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 of the Company's financial instruments are denominated in Canadian dollars and all current operational activities occur within Canada. In management's opinion there is no significant foreign exchange risk to the Company.

Liquidity Risk

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

The following are the contractual maturities of financial liabilities:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 3 years
June 30, 2020					
Accounts payable	329,988	329,988	329,988	-	-
	<u>329,988</u>	<u>329,988</u>	<u>329,988</u>		
December 31, 2019					
Accounts payable	327,188	327,188	327,188	-	-

15. CAPITAL DISCLOSURES

The Company's objectives when managing capital are:

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

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

16. COMMITMENTS

- (a) 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.
- (b) 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.

Benchmark Botanics Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited)

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16. COMMITMENTS (continued)

- (c) On July 10, 2019, the Company entered into a purchase agreement with a construction company which provides the goods and services for construction of an extraction building at the Peachland facility. The total purchase price is \$1,650,000, of which \$1,465,000 was paid as of June 30, 2020.
- (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 Corporation Agreement with Zhengjiang Yatai Pharmaceutical Co., Ltd. and Ripington 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. The Company has not received an ownership interest in Yatai & BBT Biotech Ltd. as of June 30, 2020.

Subsequent to the period end, the Company received its third cultivation license, effective August 7, 2020, from Health Canada (note 18(b)).

17. GENERAL AND ADMINISTRATIVE EXPENSES

The Company's operating expenses are presented on the consolidated statements of comprehensive loss based on the functions of the expenses to the following classifications: inventory production costs, sales and marketing and general and administration.

During the six months ended June 30, 2020 and 2019, the Company incurred the following general and administrative expenses:

	2020	2019
	\$	\$
Consulting fees	273,633	275,950
Director fees	46,750	46,750
Insurance	108,480	56,167
Interest on lease liabilities	8,559	17,021
Management fees	152,000	248,724
Office and general	236,059	221,945
Professional fees	101,679	107,146
Salaries and benefits	523,619	831,462
Travel and entertainment	53,695	214,842
Utilities	8,924	25,141
	<hr/>	<hr/>
	1,513,398	2,045,148

18. SUBSEQUENT EVENTS

- a) Subsequent to the period end, the Company has entered into a share exchange agreement (the "Agreement") with shareholders of 1139000 B.C. Ltd. ("1139") for the acquisition of 5,199,000 common shares of 1139 from shareholders. The Company currently owns 5,000,000 Common shares of 1139 and after completion of the transactions contemplated under the Agreement, the Company will own 10,199,000 Common shares, which will represent 51% of issued and outstanding share capital of 1139.

Under the Agreement, the Company will issue to the shareholders of 1139 an aggregate of 26,999,956 the common shares of the Company (the "Purchase Price") in exchange for their 5,199,000 common shares of 1139. The transactions contemplated under the Agreement are arm's-length transactions. Closing of the transactions is subject to compliance with the requirements of the Canadian Securities Exchange and applicable securities laws.

In August of 2018, 1139 acquired a four-acre greenhouse facility with assistance from Benchmark to develop the facility into a licensed medical cannabis cultivation operation in Pitt Meadows, BC.

Benchmark Botanics Inc.

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18. SUBSEQUENT EVENTS (continued)

- b) The Company, through its wholly-owned subsidiary Potanicals Green Growers Inc., (“Potanicals”), a holder of federal licenses to cultivate and sell cannabis under the Cannabis Act, has received its third cultivation license, effective August 7, 2020, from Health Canada for the Company’s joint venture (YATAI & BBT Biotech Ltd.) indoor and outdoor operations located in Pitt Meadows, BC.

The site is now fully licensed by Health Canada to possess cannabis, obtain dried cannabis, fresh cannabis, cannabis plants or cannabis plant seeds by cultivating, propagating and harvesting cannabis; and to sell cannabis in accordance with subsection 11(5) of the Cannabis Regulations. This license allows the Company to immediately begin cultivating and research & development activities.