Consolidated Financial Statements of

# BENCHMARK BOTANICS INC.

For the years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of:
Benchmark Botanics Inc.

We have audited the accompanying consolidated financial statements of Benchmark Botanics Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive loss, changes in equity, and cash flows for the years then ended, and the related notes comprising a summary of the significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained based on our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Benchmark Botanics Inc. as at December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Benchmark Botanics Inc. to continue as a going concern.

Manning Elliott LLP

Chartered Professional Accountants
Vancouver, British Columbia
April 27, 2018

**Benchmark Botanics Inc.**
Consolidated Statements of Financial Position
As at December 31, 2017 and 2016
(Expressed in Canadian Dollars)

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | $ | $ |
| **Current Assets** | | | |
| Cash | | 3,457,702 | 397,119 |
| GST receivable | | 61,779 | 39,873 |
| Inventory | 5 | 33,384 | - |
| Prepaid expenses and deposits | 6 | 37,193 | 34,527 |
| | | 3,590,058 | 471,519 |
| Deposits | 7 | - | 375,000 |
| Property and equipment | 8 | 4,913,221 | 2,674,720 |
| | | 8,503,279 | 3,521,239 |
| **Current Liabilities** | | | |
| Accounts payable and accrued liabilities | | 520,674 | 52,677 |
| **Equity** | | | |
| Share capital | 10 | 15,645,220 | 7,282,232 |
| Subscriptions receivable | | (12,988) | (50) |
| Contributed surplus | | 601,840 | - |
| Deficit | | (8,251,467) | (3,813,620) |
| | | 7,982,605 | 3,468,562 |
| | | 8,503,279 | 3,521,239 |

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

Approved on behalf of the Board:

*"George Dorin"* ________________ *"Peter Hughes"* ________________
Director Director

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

## Benchmark Botanics Inc.

Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2017 and 2016
(Expressed in Canadian Dollars)

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | $ | $ |
| Expenses | | | |
| Consulting fees | | 486,875 | 354,365 |
| Depreciation | | 3,447 | 1,213 |
| Director fees | 9 | 7,000 | - |
| Equipment rental | | 2,277 | 800 |
| Insurance | | 9,315 | 12,603 |
| Management fees | 9 | 435,100 | 14,332 |
| Marketing expenses | | 10,127 | - |
| Office and general | | 67,999 | 2,792 |
| Professional fees | | 124,955 | 8,990 |
| Property taxes | | 20,900 | 15,525 |
| Rent | | 63,093 | 74,027 |
| Repair and Maintenance | | 20,935 | 4,012 |
| Salaries and benefits | 9 | 223,984 | 11,696 |
| Share-based compensation | 10 | 598,273 | 400,000 |
| Utilities | | 31,189 | 20,292 |
| Travel and entertainment | | 152,526 | 66,915 |
| Loss before other expenses | | (2,257,995) | (987,562) |
| Other expenses | | | |
| Listing expense | 4 | (2,179,852) | - |
| Loss on debt settlement | 10(b) | - | (192,000) |
| | | (2,179,852) | (192,000) |
| Net loss and comprehensive loss | | (4,437,847) | (1,179,562) |
| Loss per common share – basic and diluted | | ($0.11) | ($0.10) |
| Weighted average number of common shares outstanding | | 39,938,045 | 12,273,864 |

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

## Benchmark Botanics Inc.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2017 and 2016
(Expressed in Canadian Dollars)

| | Number of Common Shares | Share Capital | Share Subscriptions Receivable | Contributed Surplus | Deficit | Total |
|---|---|---|---|---|---|---|
| | | $ | $ | | $ | $ |
| Balance, December 31, 2015 | 10,420,000 | 2,904,743 | 2,149,950 | - | (2,634,058) | 2,420,635 |
| Shares issued for cash, net | 7,970,000 | 3,217,500 | (2,150,000) | - | - | 1,067,500 |
| Shares issued for services | 1,173,500 | 550,989 | - | - | - | 550,989 |
| Shares issued for land purchase | 450,000 | 225,000 | - | - | - | 225,000 |
| Shares issued for debt settlement | 768,000 | 384,000 | - | - | - | 384,000 |
| Comprehensive loss for the year | - | - | - | - | (1,179,562) | (1,179,562) |
| Balance, December 31, 2016 | 20,781,500 | 7,282,232 | (50) | - | (3,813,620) | 3,468,562 |
| Shares issued for cash, net | 6,455,556 | 5,570,000 | - | - | - | 5,570,000 |
| Shares issued for services | 360,000 | 180,000 | - | - | - | 180,000 |
| Shares of Potanicals Green Growers Inc. exchanged for | (27,597,056) | - | - | - | - | - |
| Shares of Benchmark Botanics Inc. (Note 4) | 124,186,752 | - | - | - | - | - |
| Shares and options deemed to be issued (Note 4) | 10,000,100 | 2,000,000 | - | 3,567 | - | 2,003,567 |
| Shares issued for land purchase | 3,000,000 | 600,000 | - | - | - | 600,000 |
| Share subscriptions received | - | - | 50 | - | - | 50 |
| Stock options exercised | 47,228 | 12,988 | (12,988) | - | - | - |
| Share-based compensation | - | - | - | 598,273 | - | 598,273 |
| Comprehensive loss for the year | - | - | - | - | (4,437,847) | (4,437,847) |
| Balance, December 31, 2017 | 137,234,080 | 15,645,220 | (12,988) | 601,840 | (8,251,467) | 7,982,605 |

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

**Benchmark Botanics Inc.**
Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016
(Expressed in Canadian Dollars)

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| OPERATING ACTIVITIES | | |
| Net loss for the year | (4,437,847) | (1,179,562) |
| Items not involving cash: | | |
| Depreciation | 3,447 | 1,213 |
| Listing expense | 2,003,567 | - |
| Loss on debt settlement | - | 192,000 |
| Consulting fees | 179,970 | 150,989 |
| Share-based compensation | 598,273 | 400,000 |
| | (1,652,590) | (315,360) |
| Changes in non-cash working capital balances: | | |
| GST receivable | (21,906) | (22,595) |
| Inventory | (33,384) | - |
| Prepaid expenses | (2,666) | (13,762) |
| Deposit | 50,000 | - |
| Accounts payable and accrued liabilities | 456,239 | (114,997) |
| Cash used in operating activities | (1,204,307) | (466,714) |
| INVESTING ACTIVITY | | |
| Acquisition of property and equipment | (1,316,948) | (193,251) |
| Cash used in investing activities | (1,316,948) | (193,251) |
| FINANCING ACTIVITIES | | |
| Repayment of advances to a related party | - | (8,000) |
| Proceeds from share issuance, net of share issuance costs | 5,570,080 | 1,067,500 |
| Cash acquired on reverse acquisition transaction | 11,758 | - |
| Cash provided by financing activities | 5,581,838 | 1,059,500 |
| Change in cash during the year | 3,060,583 | 399,535 |
| Cash (bank indebtedness), beginning of year | 397,119 | (2,416) |
| Cash, end of year | 3,457,702 | 397,119 |
| Supplemental cash flow information: | | |
| Cash paid for interest | - | - |
| Cash paid for income taxes | - | - |
| Non-cash financing and investing transactions: | | |
| Shares issued for land purchase and land deposit | 600,000 | 225,000 |
| Shares issued for debt settlement | - | 192,000 |
| Shares deemed to be issued on reverse acquisition | 2,000,000 | - |
| Shares issued for services | 180,000 | - |

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

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Benchmark Botanics Inc. (the "Company"), formerly Kaiyue International Inc. ("Kaiyue"), 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 described in Note 4. The historical operations, assets and liabilities of Potanicals are included as the comparative figures as at and for the year ended December 31, 2016, which is deemed to be the continuing entity for financial reporting purposes. Potanicals was incorporated on February 7, 2014 under the British Columbia Business Corporation Act.

Concurrent with the closing of the acquisition on November 2, 2017, Kaiyue continued its corporate jurisdiction from Alberta to British Columbia, changed its name to Benchmark Botanics Inc. and effected a change in directors, management and business. On November 3, 2017, the Company's common shares resumed trading as a Tier 2 Industrial Issuer on the Canadian Securities Exchange ("CSE") under the symbol "BBT".

The Company's principal business is the licensed production of marijuana under the Access to Cannabis for Medical Purposes Regulations ("ACMPR"). On October 13, 2017, the Company obtained a license to produce medical marijuana under the ACMPR. The address of the Company's principal place of business is 4715 Paradise Valley Drive, Peachland, BC. The Company's head office and mailing address is 6111 London Road Suite 105, Richmond, BC.

These 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 December 31, 2017, the Company has an accumulated deficit of $8,251,467 and has generated negative cash flows from operations. For the year ended December 31, 2017, the Company incurred a net loss of $4,437,847 (2016 – $1,179,562). The Company has not generated revenue from sales. During the year ended December 31, 2017, the majority of the equity financing raised by the Company has been used to purchase property and equipment, increase working capital and to fund expenses. All 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, successfully generating profits and cash flows from producing and distributing medical marijuana.

These 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 consolidated financial statements. Management's plans to meet the Company's current and future obligations are to 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.

## 2. BASIS OF PRESENTATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by International Financial Reporting Committee ("IFRIC").

The consolidated financial statements were authorized for issue by the Board of Directors on April 27, 2018.

b) Basis of measurement

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

a) Use of estimates and judgments

The preparation of the 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:

- the determination of the useful lives of property and equipment;
- the valuation of the shares and options deemed to be issued on the reverse acquisition transaction; and
- share-based payment transactions.

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

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

b) Cash equivalents

Cash equivalents consist of highly liquid investments and bank overdrafts, excluding restricted cash, if any, that are readily convertible to cash with maturities of three months or less when purchased, or which are redeemable at the option of the Company.

c) Share issuance costs

Professional, consulting and regulatory fees as well as other costs directly attributable to financing transactions are reported as deferred financing costs until the transactions are completed, if the completion of the transaction is considered probable. Share issue costs are charged to share capital when the related shares are issued. Costs relating to financing transactions that are not completed, or for which successful completion is considered unlikely, are charged to operations.

d) Impairment

At each reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated to determine the extent of the impairment, if any. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the assets.

An impairment loss is recognized in operations if the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Property and equipment

Property and equipment are stated at cost net of accumulated depreciation and accumulated impairment losses, if any. Cost includes the acquisition price, any direct costs to bring the asset into productive use at its intended location, the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Major inspection cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Depreciation is computed on a straight-line basis based on nature and useful lives of the assets, except in the year of acquisition, when half of the rate is used. The significant classes of plant and equipment and their estimated useful lives are as follows:

| | |
|---|---|
| Leasehold improvements | term of lease |
| Plant | 25 years |
| Production and other equipment | 5 -10 years |
| Computer equipment | 3 years |
| Furniture and fixtures | 5 years |

f) Financial instruments

The Company does not have any derivative financial assets and derivative financial liabilities.

Non-derivative financial assets

Non-derivative financial assets are initially recognized at fair value and are classified into one of four categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables or available-for-sale financial assets.

i) Financial assets at fair value through profit or loss

Financial asset are classified as fair value through profit or loss ("FVTPL") if they are held for trading or are designated as such upon initial recognition. Financial assets at fair value through profit or loss are measured at fair value, and changes are recognized in operations. Upon initial recognition transaction costs are recognized in operations as incurred.

ii) Held-to-maturity financial assets

Financial assets are classified as held-to-maturity if the Company has the positive intent and ability to hold them to maturity. These financial assets are recognized initially at fair value together with directly attributable costs, and are subsequently measured at amortized cost using the effective interest method less any impairment losses. Any sale or reclassification of a more than significant amount of these assets not close to their maturity would result in the reclassification of all held-to-maturity financial assets as available-for-sale, and would prevent the Company classifying investment securities as held-to-maturity for the current and following two financial years.

iii) Loans and receivables

These assets are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are recognized initially at fair value plus any directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method less any impairment losses.

iv) Available-for-sale financial assets
Available-for-sale financial assets are financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and any changes, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity. When an available-for-sale financial asset is derecognized, the cumulative gain or loss in other comprehensive income is reclassified through operations.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

f) Financial instruments (continued)

Non-derivative financial liabilities

Non-derivative financial liabilities are initially recognized at fair value and are classified into one of two categories: financial liabilities at fair value through profit or loss or other financial liabilities.

v) Financial liabilities at fair value through profit or loss
These financial liabilities are acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are measured at fair value, and changes therein are recognized in operations.

vi) Other financial liabilities
These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs, and are subsequently measured at amortized cost using effective interest method.

g) Share-based payments

The Company accounts for share-based payments awards granted to employees and consultants using the fair value method. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest, using the Black-Scholes option pricing model. The amount recognized as expense is adjusted to reflect the number of share options expected to vest at each reporting period.

h) Loss per share

Basic loss per share is computed by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. The Company applies the treasury stock method in calculating diluted earnings per share. Diluted earnings per share excludes all dilutive potential common shares if their effect is anti-dilutive.

i) Income taxes

Income tax expense comprises current and deferred tax and is recognized in operations except to the extent that it relates to business combinations, or items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for temporary differences in assets and liabilities arising in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, transactions relating to investments in jointly controlled entities to the extent that they will not reverse in the foreseeable future, and transactions arising on the initial recognition of goodwill. Deferred income tax is recognized at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred income tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

k) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The functional currency of the Company is the Canadian dollar. The financial statements are presented in Canadian dollars, which is the Company's presentation currency.

l) Inventory

Inventories of harvested finished goods and packing materials are initially valued at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less costs to sell at harvest which becomes the deemed cost. Any subsequent postharvest costs are capitalized to inventory to the extent that the cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. Products for resale and supplies and consumables are valued at cost. At year end, the Company only had raw materials consisting of seeds on hand.

m) Biological assets

The Company measures biological assets consisting of medical cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Gains or losses arising from the changes in fair value less cost to sell during the year are included in the results of operations for the related year. At year end, the Company did not have any biological assets on hand.

n) Recent accounting pronouncements

There were no new or revised accounting standards which were effective for the Company's financial year beginning on January 1, 2017 and therefore the Company did not adopt any new accounting standards for the year ended December 31, 2017.

o) New standards and interpretations not yet adopted

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB that are mandatory for future accounting periods. Some updates that are not applicable or are not consequential to the Company have been excluded from the list below.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

o) New standards and interpretations not yet adopted (continued)

*Accounting standards effective for annual periods beginning on or after January 1, 2018*

IFRS 15 *Revenue from Contracts with Customers* – In May 2014, the IASB issued IFRS 15 which replaces the detailed guidance on revenue recognition requirements that currently exists under IFRS. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers, unless the contracts are within the scope of other IFRSs. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets that are not an output of the Company's ordinary activities. Additional disclosure is required under the standard, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods, and key judgments and estimates. The standard is effective for annual periods beginning on or after January 1, 2018; early application is permitted either following a full retrospective approach or a modified retrospective approach. The modified retrospective approach allows the standard to be applied to existing contracts beginning the initial period of adoption and restatements to the comparative periods are not required. The Company is required to disclose the impact by financial line item as a result of the adoption of the new standard. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning January 1, 2018.

IFRS 9 *Financial Instruments* - This is a finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39. The standard contains requirements in the following areas:

- **Classification and measurement**. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment**. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting**. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures
- **Derecognition**. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

*Standard effective for annual periods beginning on or after January 1, 2019*

IFRS 16 *Leases* - IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. 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. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*.

The above standards have not been early adopted by the Company in these consolidated financial statements and they are not expected to have a material effect on the Company's future results and financial position.

(Expressed in Canadian Dollars)

## 4. REVERSE ACQUISITION TRANSACTION

On November 2, 2017, the Company acquired 100% ownership of Potanicals Green Growers Inc. ("Potanicals) by issuing 124,186,752 of its common shares to acquire all of the 27,597,056 issued and outstanding shares of Potanicals (the "Transaction"). For accounting purposes, the acquisition is considered to be outside the scope of IFRS 3 *Business Combinations* ("IFRS 3") since the Company, prior to the acquisition did not constitute a business. As a result, the acquisition is accounted for in accordance with IFRS 2 *Share-based Payment* whereby Potanicals is deemed to have issued shares and share purchase options in exchange for the net assets of the Company together with its listing status at the fair value of the consideration deemed received by Potanicals. The accounting for this transaction resulted in the following:

(i) The consolidated financial statements of the combined entities are issued under the legal parent, Benchmark Botanics Inc., but are considered a continuation of the financial statements, assets and operations of the legal subsidiary, Potanicals.

(ii) Since Potanicals is deemed to be the continuing entity for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values.

Since the share and share-based consideration allocated to the former shareholders of the Company on closing is considered within the scope of IFRS 2, and the Company was not able to identify specifically some or all of the goods or service received in return for the allocation of the shares and options, the value in excess of the net identifiable assets or obligations of the Company acquired on closing was expensed in the consolidated statement of comprehensive loss as listing expense.

The listing expense of $2,179,852 is comprised of the fair value of the common shares and options of the Company retained by the former shareholders of the Company and other direct expenses of the Transaction less the fair value of the net assets of the Company that were acquired.

The listing fee expense is summarized as follows:

| | $ |
|---|---|
| Common shares issued (10,000,100 shares at $0.20) | 2,000,000 |
| Stock options deemed to be issued (94,455 options exercisable at $0.275) | 3,567 |
| Legal and other transactions costs | 176,285 |
| | 2,179,852 |
| Net assets of the Company: | |
| Cash | 11,758 |
| Liabilities | (11,758) |
| | - |
| Listing expense | 2,179,852 |

The Company has estimated the fair value of the equity instruments deemed to be issued to Kaiyue. The fair value of the 10,000,100 common shares amounted to $2,000,000, based on the fair value of the shares issued in the concurrent Potanicals private placement after adjusting for the exchange ratio on the Transaction. The fair value of the 94,455 stock options, exercisable at $0.275 per share until May 24, 2018, amounted to $3,567. The fair value of the stock options was estimated using the Black-Scholes option pricing model, using the following assumptions: a share price of $0.20, an expected volatility of 100%, a risk free interest rate of 1.1%, no expected dividend and expected remaining lives of 0.56 years for the options.

(Expressed in Canadian Dollars)

## 5. INVENTORY

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Raw materials | 33,384 | - |

## 6. PREPAID EXPENSES

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Prepaid expenses and deposit | 32,906 | 34,527 |
| Prepaid insurance | 4,287 | - |
| | 37,193 | 34,527 |

## 7. DEPOSITS

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Prepaid financing fees | - | 50,000 |
| Deposit for equipment | - | 100,000 |
| Deposit for purchase of land | - | 225,000 |
| | - | 375,000 |

On November 8, 2016, the Company entered into a contract to purchase a property and issued 450,000 common shares at a fair value of $225,000 for payment as deposit on the property. During the year ended December 31, 2017, the Company completed the purchase of the property (See Note 10(b)).

## 8. PROPERTIES AND EQUIPMENT

| | Land | Plant | Leasehold Improvements | Production and Other Equipment | Computer Equipment and Software | Furniture and Fixtures | Total |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| **Cost** | | | | | | | |
| Balance, December 31, 2015 | - | - | 1,702,519 | 877,950 | 76,102 | 6,737 | 2,663,308 |
| Additions | - | - | 13,299 | - | - | - | 13,299 |
| Balance, December 31, 2016 | - | - | 1,715,818 | 877,950 | 76,102 | 6,737 | 2,676,607 |
| Additions | 1,857,500 | | 212,837 | 100,000 | 53,151 | 18,460 | 2,241,948 |
| Transfer to building | - | 1,894,755 | (1,894,755) | - | - | - | - |
| Balance, December 31, 2017 | 1,857,500 | 1,894,755 | 33,900 | 977,950 | 129,253 | 25,197 | 4,918,555 |
| **Accumulated Depreciation** | | | | | | | |
| Balance, December 31, 2015 | - | - | - | - | - | 674 | 674 |
| Charge for the year | - | - | - | - | - | 1,213 | 1,213 |
| Balance, December 31, 2016 | | | - | - | - | 1,887 | 1,887 |
| Charge for the year | - | - | 1,412 | - | 603 | 1,432 | 3,447 |
| Balance, December 31, 2017 | - | - | 1,412 | - | 603 | 3,319 | 5,334 |
| **Net book value** | | | | | | | |
| December 31, 2016 | - | - | 1,715,818 | 877,950 | 76,102 | 4,850 | 2,674,720 |
| December 31, 2017 | 1,857,500 | 1,894,755 | 32,488 | 977,950 | 128,650 | 21,878 | 4,913,221 |

(Expressed in Canadian Dollars)

## 8. PROPERTIES AND EQUIPMENT (continued)

As at December 31, 2017, the Company's plant, leasehold improvements, production and other equipment and computer equipment were not available for use. As a result no depreciation has been recorded.

## 9. RELATED PARTY BALANCES AND TRANSACTIONS

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, 2017 and 2016. Short-term key management compensation consists of the following:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Share-based payments | 515,752 | - |
| Salaries | 74,928 | 7,770 |
| Management fees | 435,100 | 114,000 |
| Director fees | 7,000 | - |
| Rent | 56,510 | 45,500 |

Related party balances

a) Included in accounts payable was $5,772 (2016 - $10,644) expenses reimbursement due to two officers of the Company.

b) Included in accrued liabilities was $276,675 (2016 - $nil) due to a director and officer of the Company.

The above balances are non-interest bearing, unsecured and have no fixed terms of repayment.

Related party transactions

c) During the year ended December 31, 2017, the Company completed the purchase of land from a director of the Company. Of the total purchase price of $825,000 for the land, $225,000 was paid by the issuance of 450,000 common shares of the Company on November 9, 2016 and the remaining $600,000 of the purchase price was paid by the issuance of 3,000,000 common shares of the Company on December 15, 2017.

d) During the year ended December 31, 2017, the Company completed the purchase of land from a director and officer of the Company. The total purchase price of $1,000,000 was paid in cash on December 22, 2017.

e) During the year ended December 31, 2017, the Company incurred a fee of $263,500 to a director and officer of the Company. The fee was a bonus for assisting to raise capital, corporate restructuring and examining new business possibilities.

f) During the year ended December 31, 2016, the Company issued 432,000 common shares at a fair value of $216,000 as payment of amounts due to a company controlled by a shareholder of the Company.

## 10. SHARE CAPITAL

a) Authorized share capital

The Company is authorized to issue an unlimited number of voting common shares without par value.

b) Issued and outstanding:

During the year ended December 31, 2017, the Company issued the following common shares:

i. On May 16, 2017, the Company issued 360,000 common shares at a fair value of $180,000 to a consultant as payment for consulting services received. The amount was recorded as consulting fees.

ii. On June 29, 2017, the Company completed a private placement and issued 600,000 common shares for total proceeds of $300,000.

iii. On November 2, 2017, the Company issued 5,855,556 common shares for total proceeds of $5,270,000.

iv. On November 2, 2017, as a result of the reverse acquisition transaction as described in Note 4, the Company acquired all of the issued and outstanding common shares of Potanicals Green Growers Inc. in exchange for 124,186,752 common shares of the Company.

The Company estimated the fair value of the 10,000,100 common shares deemed to be issued to be $2,000,000, based on the fair value of the shares issued in the concurrent Potanicals private placement after adjusting for the exchange ratio on the Transaction.

v. On December 15, 2017, the Company issued 3,000,000 common shares to a director to purchase land with a fair value of $600,000 (Note 9).

vi. On December 24, 2017, the Company issued 47,228 common shares for the exercise of stock options and recorded a share subscription receivable of $12,988.

During the year ended December 31, 2016, the Company issued the following common shares:

i. The Company issued 7,970,000 common shares for total proceeds of $3,217,500, of which $2,150,000 was received in 2015.

ii. On October 16, 2016, the Company issued 373,500 common shares at a fair value of $150,989 to two consultants as payment for consulting services received.

iii. On October 25, 2016, the Company issued 432,000 common shares for payment of $108,000 due to a company controlled by a shareholder and 336,000 common shares for payment of $84,000 due to an employee. The shares had a fair value of $384,000. The Company recorded a loss on settlement of debt of $192,000.

iv. On November 2, 2016, the Company issued 800,000 common shares to certain employees at a fair value of $400,000. The amount was recorded as share-based compensation.

v. On November 9, 2016, the Company issued 450,000 common shares at a fair value of $225,000 to a director of the Company as payment of a land deposit (Note 9).

**Escrow Shares**

As at December 31, 2017, the Company has 32,556,600 of its common shares held in escrow. Of this amount, 3,722,000 of the common shares will be released on the date of 6 months and 4,976,100 of the common shares will be released on each of the dates 12 months, 18 months, 24 months, 30 months and 36 months following the completion of the reverse acquisition transaction on November 2, 2017 as described in Note 4.

(Expressed in Canadian Dollars)

## 10. 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.

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 year ended December 31, 2017, the Company recognized share-based payments of $598,273 (2016 - $Nil) related to these stock options.

The weighted average fair value at grant date of the stock options granted during the year ended December 31, 2017 was $0.17 per option. The fair value was determined using the Black-Scholes option-pricing model using the following weighted average assumptions:

| | 2017 |
|---|---|
| Expected volatility | 125% |
| Risk-free interest rate | 1.61% |
| Dividend yield | - |
| Expected life of options | 5.0 years |
| Stock price on grant date | $0.20 |
| Forfeiture rate | - |

Stock option transactions are summarized as follows:

| | Number of Options | Exercise Price |
|---|---|---|
| Outstanding, December 31, 2015 and 2016 | - | - |
| Deemed to be issued on reverse acquisition transaction (Note 4) | 94,455 | $0.275 |
| Granted | 8,700,000 | $0.20 |
| Exercised | (47,228) | $0.275 |
| Outstanding, December 31, 2017 | 8,747,227 | $0.20 |

The following table summarizes the stock options outstanding and exercisable as at December 31, 2017:

| Outstanding | | | Exercisable | |
|---|---|---|---|---|
| Number of options | Weighted average exercise price $ | Weighted average remaining contractual life in years | Number of options | Weighted average remaining contractual life in years |
| 47,227 | 0.275 | 0.40 | 47,227 | 0.40 |
| 8,700,000 | 0.20 | 4.85 | 2,900,000 | 4.85 |
| 8,747,227 | 0.20 | 4.83 | 2,947,227 | 4.78 |

### Warrants

As at December 31, 2017 and 2016, there were no warrants outstanding.

(Expressed in Canadian Dollars)

## 11. INCOME TAX

In assessing the realizability of deferred income tax assets, management considers whether it is probable that some portion of all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are expected to reverse. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred income tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Canadian Statutory income tax rate | 26% | 13% |
| Income tax recovery at statutory rates | (1,153,841) | (128,383) |
| Non-deductible and other items | 398,563 | 1,304 |
| Effect of income tax rate change | (50,925) | (127,079) |
| Change in unrecognized deferred tax assets | 806,203 | 254,158 |
| Income tax provision | - | - |

Deferred income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of deferred tax assets (liabilities) are as follows:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Non-capital losses | 1,305,482 | 567,230 |
| Share issuance costs | 810 | 1,560 |
| Capital assets | 931 | - |
| Exploration and evaluation assets | 67,770 | - |
| Unrecognized deferred tax assets | (1,374,993) | (568,790) |
| Net deferred income tax assets | - | - |

As at December 31, 2017, the Company had non-capital losses carried forward of approximately $4,836,000 (2016 - $2,181,700) which may be applied to reduce future years' taxable income, expiring as follows:

| | | |
|---|---|---|
| 2029 | $ | 17,000 |
| 2030 | | 121,000 |
| 2031 | | 240,000 |
| 2032 | | 215,000 |
| 2033 | | 159,000 |
| 2034 | | 690,000 |
| 2035 | | 940,000 |
| 2036 | | 813,000 |
| 2037 | | 1,641,000 |
| | $ | 4,836,000 |

## 12. FINANCIAL INSTRUMENTS

*Fair values*

The Company's financial instruments include cash 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:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| | $ | $ |
| Financial assets at fair value through profit or loss (i) | 3,457,702 | 397,119 |
| Other financial liabilities (ii) | 226,007 | 52,677 |

(i) Cash
(ii) 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 | | | | |
| December 31, 2017 | 3,457,702 | - | - | 3,457,702 |
| December 31, 2016 | 397,119 | - | - | 397,119 |

*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 cash equivalents. The carrying value of these financial assets represents the Company's maximum exposure to credit risk. To minimize credit risk the Company only holds its cash with chartered Canadian financial institutions. As at December 31, 2017 and 2016, 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 accounts receivables in a timely manner and by maintaining sufficient cash on hand through equity financing and bank loans.

(Expressed in Canadian Dollars)

## 12. FINANCIAL INSTRUMENTS (continued)

The following are the contractual maturities of financial liabilities:

| | Carrying Amount | Contractual Cash Flows | Within 1 year | Within 2 years | Within 3 years |
|---|---|---|---|---|---|
| December 31, 2017 | | | | | |
| Accounts payable | 226,007 | 226,007 | 226,007 | - | - |
| Total | 226,007 | 226,007 | 226,007 | - | - |
| December 31, 2016 | | | | | |
| Accounts payable | 52,677 | 52,677 | 52,677 | - | - |
| Total | 52,677 | 52,677 | 52,677 | - | - |

## 13. 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.

## 14. COMMITMENTS

(a) On July 1, 2017, the Company entered into a lease agreement with a related party for leasing of office premises located at 105 – 6111 London Road, Richmond, BC V7E 3X3. The Company agreed to pay an annual rent of $27,000 until the lease expires on June 30, 2020.

(b) On November 29, 2017, the Company entered into a lease agreement for office premises located in Toronto, Ontario. The Company agreed to pay an annual rent of $20,000 from January 1, 2018 until the lease expires on December 31, 2020.

(c) On December 12, 2016, the Company entered into a two year contract with Novus Merchant Partners regarding the going public transaction and financings. The Company will pay:

a. a total success fee equal to 5% of the Company’s shares issued and outstanding immediately before the closing of the going-public transaction;
b. stock options of the resulting public company equal to 2.5% of the value of the Company’s exercisable options; and
c. monthly advisory fees at:
   i. $25,000 monthly payable on completion of the going public transaction;
   ii. $15,000 payable monthly after the completion of the going public transaction until the closing of the first subsequent financing of at least $5,000,000;
   iii. $25,000 payable monthly after the closing of the first subsequent financing until the closing of additional subsequent financings of cumulative proceeds of $15,000,000; and
   iv. $25,000 payable monthly from the closing of the additional subsequent financings to the 24$^{th}$ months after the going public transaction.

In September 2017, the Company terminated the contract with Novus Merchant Partners.

## 15. SUBSEQUENT EVENTS

a) On March 5, 2018, the Company entered into a purchase and sale contract for the purchase of a greenhouse production centre at a purchase price of $13,500,000 and the Company paid a non-refundable deposit of $500,000.

b) On April 4, 2018, the Company entered into a binding letter agreement with 1139000 B.C. Ltd. ("1139") and Min Wi to form a joint venture for the acquisition and development of a four acre greenhouse facility (the "Property"), into a licensed medical cannabis cultivation operation (the "Joint Venture"). As consideration for its initial 75% ownership interest in the Joint Venture, 1139 is to purchase, develop, renovate and upgrade the Property as is necessary to meet the requirements for licensed cultivation and production of medical cannabis at the Property. The Company will earn its initial 25% ownership interest in the Joint Venture by obtaining Health Canada's approval to extend its licence for cultivation and production of medical cannabis under the Access to Cannabis for Medical Purposes Regulations ("ACMPR") to the Property. The Company will have the option to acquire from 1139's shareholders an additional 26% ownership interest in the Joint Venture once 80% of the Property's full growing facilities are operational, utilized for licensed growing of cannabis and the growing of cannabis enters into the flower stage. The Company will pay for the additional 26% ownership interest of the Joint Venture, at its fair value as determined at the time the option is exercised, by issuance of the Company's common shares in exchange for the 26% issued and outstanding shares from 1139's shareholders.