



Bhang Inc.

LISTING STATEMENT - FORM 2A

IN CONNECTION WITH THE LISTING OF THE SHARES OF BHANG INC., THE ENTITY FORMERLY KNOWN AS PELE MOUNTAIN RESOURCES INC., AFTER THE REVERSE TAKEOVER BY BHANG CORPORATION

July 9, 2019

Bhang Inc. derives a substantial portion of its revenues from the marijuana (or “cannabis” used herein) industry in certain states of the United States, which industry is illegal under United States federal law. Bhang Inc. has indirect and ancillary involvement (through its partners and licensees) in the cannabis industry in the United States where certain local state laws permit such activities. In addition to its cannabis industry involvement, Bhang Inc. also produces and sells CBD (defined below) products derived from Hemp (as defined below) and other Hemp products.

The United States federal government regulates drugs through the Controlled Substances Act (21 U.S.C. § 801 et. seq.) (the “Federal CSA”), which places controlled substances, including cannabis, in a schedule. Cannabis is classified as a Schedule I drug. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision.

In the United States cannabis is largely regulated at the state level. State laws regulating cannabis are in direct conflict with the Federal CSA, which makes cannabis use and possession federally illegal. Although certain states authorize medical or recreational cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law shall apply.

The cultivation, sale and use of cannabis is illegal under federal law pursuant to the Federal CSA. Under the Federal CSA, the policies and regulations of the United States Federal Government and its agencies are that cannabis has no medical benefit and a range of activities including cultivation and the personal use of cannabis is prohibited. Even in those states in which the use of cannabis has been legalized, its use, cultivation, sale and distribution remains a violation of federal law. Any person connected to the cannabis industry in the U.S. may be at risk of federal criminal prosecution and civil liability in the United States. Any investments may be subject to civil or criminal forfeiture and total loss. Since federal law criminalizing the use of cannabis is not pre-empted by state laws that legalize its use, strict enforcement of federal law regarding cannabis would harm the Resulting Issuer’s business, prospects, results of operation, and financial condition. Due to the federal illegality of cannabis and the charged political climate surrounding the cannabis industries of various states, political risks are inherent in the cannabis industry. It remains to be seen whether policy changes at the federal level will have a chilling effect on the cannabis industry.

Enforcement of U.S. federal law and any other relevant law is a significant risk and an investor’s contribution to and involvement in such activities may result in U.S. federal civil and/or criminal

prosecution, including forfeiture of his, her or its entire investment.

On January 4, 2018, former U.S. Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the United States, including the Cole Memorandum (as defined herein). With the Cole Memorandum rescinded, U.S. federal prosecutors have been given discretion in determining whether to prosecute cannabis related violations of U.S. federal law.

There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the United States Congress amends the Federal CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, Bhang Inc.'s business, results of operations, financial condition and prospects would be materially adversely affected. See Section 17 of this Listing Statement – Risk Factors for additional information on this risk.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018 the Canadian Securities Administrators published a staff notice (Staff Notice 51-352) setting out the Canadian Securities Administrator's disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry.

Please see the table of concordance under Trends, Commitments, Events or Uncertainties in Section 3.3 for further information on the material facts, risks and uncertainties related to U.S. issuers with marijuana-related activities.

The Agriculture Improvement Act of 2018 (the "2018 Farm Bill") was signed into law on December 20, 2018. The 2018 Farm Bill, among other things, removes Hemp (including any part of the plant *Cannabis sativa L.* containing 0.3% THC (defined below) or less), its extracts, derivatives, and cannabinoids from the Federal CSA, and allows for federally-sanctioned Hemp production under the purview of the United States Department of Agriculture (the "USDA"), in coordination with state departments of agriculture that elect to have primary regulatory authority. All cannabinoids produced from "marihuana" (or "cannabis" as used herein) remain a Schedule I substance under the Federal CSA and are thus illegal under U.S. Federal law.

Despite the passage of the 2018 Farm Bill, several risks remain, including those arising from the complex regulatory environment in the United States and the uncertain reaction of industry stakeholders and the general public to the recent changes.

Although the U.S. Food and Drug Administration (the "FDA") is considering ways to best address this issue, the agency has not deemed CBD or other individual cannabinoids permissible for use in dietary supplements, as dietary ingredients or as safe for use in food. The FDA has taken the position that CBD cannot be marketed in a dietary supplement or added to food because it has been the subject of investigation as a new drug. In addition, the FDA is currently challenging whether similar products of other companies can be sold in the U.S. without FDA approvals which have not yet been obtained. See section 17 "Risk Factors" and Section 3.3(2) – "United States Regulatory Matters – CBD Hemp".

Additional legal barriers applicable to producing and selling hemp and hemp-derived CBD products result from a number of factors, including the fact that both hemp and cannabis (marijuana) are derived from the same plant species, the rapidly-changing patchwork of state laws governing hemp and hemp-derived CBD, and the FDA's position that CBD cannot be added food or marketed as a dietary supplement, i.e., the IND Preclusion.

In addition, prior to the 2018 Farm Bill becoming law, the U.S. Drug Enforcement Administration (the “DEA”) made public statements suggesting that CBD is a controlled substance, and that the retail sale as such would be prohibited. To the knowledge of Bhang Inc., the DEA has not expressed its position with respect to the 2018 Farm Bill, which amended the Federal CSA to exempt Hemp, and THC naturally occurring in Hemp, from the definition of “marihuana” (or “cannabis” as used herein) in the Federal CSA.

Even after the passage of the 2018 Farm Bill, there is risk that the FDA and/or the DEA could take law enforcement actions against Bhang Inc., and there is risk that changes in federal or state regulations could impact the legality of the operations of Bhang Inc.

There is also risk that state or local authorities could take enforcement action against Bhang Inc.

Any investment in Bhang Inc. is speculative due to a variety of factors, including the nature of Bhang Inc.’s business. An investment in these securities should only be made by persons who can afford a total loss of their investment. Legislative and regulatory uncertainties, along with difficulties concerning potential enforcement activities by U.S. federal, state and local governments (or discretion exercised thereby), represent significant risks concerning Bhang Inc.’s business activities.

If Bhang Inc.’s operations are found to be in violation of any of such laws or any other governmental regulations, Bhang Inc. may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of Bhang Inc.’s operations or asset seizures, any of which could adversely affect Bhang Inc.’s business and financial results. See Section 17 “Risk Factors”.

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Cautionary Note Regarding Forward-Looking Statements

The information provided in this listing statement (“**Listing Statement**”), including information incorporated by reference, may contain “forward-looking statements” about Pele Mountain Resources Inc. (the “**Corporation**”), Bhang Inc. (the “**Resulting Issuer**”), Bhang Corporation (“**Bhang**”), Bhang Canada Inc. (“**BCI**”) and Pele Acquisition Corp. (“**Subco**”), a wholly-owned subsidiary of the Corporation. In addition, the Corporation, Bhang or the Resulting Issuer may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of the Corporation, the Resulting Issuer, Bhang or BCI that are not statements of historical fact and may also constitute forward-looking statements. All statements, other than statements of historical fact, made by the Corporation, the Resulting Issuer or Bhang that address activities, events or developments that the Corporation, the Resulting Issuer, Bhang or BCI expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as “may”, “will”, “would”, “could”, “should”, “believes”, “estimates”, “projects”, “potential”, “expects”, “plans”, “intends”, “anticipates”, “targeted”, “continues”, “forecasts”, “designed”, “goal”, or the negative of those words or other similar or comparable words.

Forward-looking statements may relate to future financial conditions, results of operations, plans, objectives, performance or business developments. These statements speak only as at the date they are made and are based on information currently available and on the then current expectations of the party making the statement and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to:

- (a) the regulation of the recreational cannabis industry;
- (b) the availability of financing opportunities, risks associated with economic conditions, dependence on management and conflicts of interest; and
- (c) other risks described in this Listing Statement and described from time to time in documents filed by the Corporation, Bhang, or the Resulting Issuer with Canadian securities regulatory authorities.

The forward-looking statements contained herein are based on certain key expectations and assumptions, including, but not limited to, with respect to expectations and assumptions concerning: (i) receipt of required shareholder and regulatory approvals in a timely manner or at all; and (ii) the success of the operations of the Resulting Issuer.

Although the Resulting Issuer believes that the expectations and assumptions on which such forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements, because no assurance can be given that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to: the availability of sources of income to generate cash flow and revenue; the dependence on management and directors; risks relating to the receipt of the required licenses, risks relating to additional funding requirements; due diligence risks; exchange rate risks; potential transaction and legal risks; risks relating to laws and regulations applicable to the

production and sale of marijuana; and other factors beyond the Resulting Issuer's control, as more particularly described under the heading "*Risk Factors*" in this Listing Statement.

Consequently, all forward-looking statements made in this Listing Statement and other documents of the Corporation, the Resulting Issuer, Bhang or BCI, as applicable, are qualified by such cautionary statements and there can be no assurance that the anticipated results or developments will actually be realized or, even if realized, that they will have the expected consequences to or effects on the Corporation, the Resulting Issuer, Bhang and BCI. The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that the Corporation, the Resulting Issuer, Bhang, BCI, and/or persons acting on their behalf may issue. None of the Corporation, the Resulting Issuer, Bhang or BCI undertakes any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required under securities legislation.

Market and Industry Data

This Listing Statement includes market and industry data that has been obtained from third-party sources, including industry publications. The Resulting Issuer believes that the industry data is accurate and that its estimates and assumptions are reasonable, but there is no assurance as to the accuracy or completeness of this data. Third party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there is no assurance as to the accuracy or completeness of included information. Although the data is believed to be reliable, the Resulting Issuer has not independently verified any of the data from third-party sources referred to in this Listing Statement or ascertained the underlying economic assumptions relied upon by such sources.

Currency

Unless otherwise indicated, all references to "\$" or "US\$" in this Listing Statement refer to United States dollars and all references to "C\$" in this Listing Statement refer to Canadian dollars.

1. GLOSSARY OF TERMS

The following is a glossary of certain general terms used in this Listing Statement. Terms and abbreviations used in the financial statements appended to this Listing Statement are defined separately and the terms and abbreviations defined below are not used therein, except where otherwise indicated. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.

“**2014 Cole Memo**” has the meaning set out in Section 3.3(1).

“**AAC**” has the meaning set out in Section 3.3(1).

“**Affiliate**” means a corporation that is affiliated with another corporation as described below. A corporation is an “**Affiliate**” of another corporation if:

- (a) one of them is the subsidiary of the other; or
- (b) each of them is controlled by the same Person.

A corporation is “**controlled**” by a Person if:

- (c) voting securities of the Corporation are held, other than by way of security only, by or for the benefit of that Person; and
- (d) the voting securities, if voted, entitle the Person to elect a majority of the directors of the Corporation.

A Person beneficially owns securities that are beneficially owned by:

- (a) a corporation controlled by that Person; or
- (b) an Affiliate of that Person or an Affiliate of any corporation controlled by that Person.

“**Agency Agreement**” has the meaning set out in Section 3.2(1).

“**Agent**” has the meaning set out in Section 3.2(1).

“**Agent’s Compensation**” has the meaning set out in Section 3.2(1).

“**Agent’s Fee**” has the meaning set out in Section 3.2(1).

“**Amalco**” has the meaning set out in Section 3.2(1).

“**Amalgamation**” has the meaning set out in Section 3.2(1).

“**AMMA**” has the meaning set out in Section 3.3(1).

“**Annual Materials**” has the meaning set out in Sections 13.6-13.9.

“**April Offering**” has the meaning set out in Section 3.1.

“**ARS**” has the meaning set out in Section 3.3(1).

“**Associate**” when used to indicate a relationship with a Person, means:

- (a) an issuer of which the Person beneficially owns or controls, directly or indirectly, voting securities entitling him to more than 10% of the voting rights attached to outstanding securities of the issuer;
- (b) any partner of the Person;
- (c) any trust or estate in which the Person has a substantial beneficial interest or in respect of which a Person serves as trustee or in a similar capacity; or
- (d) in the case of a Person who is an individual:
 - (i) that Person's spouse or child, or
 - (ii) any relative of the Person or of his spouse who has the same residence as that Person.

"Awards" has the meaning set out in Section 9.

"August Offering" has the meaning set out in Section 3.1.

"AUMA" has the meaning set out in Section 3.3(1).

"AZDHS" has the meaning set out in Section 3.3(1).

"BCI" means Bhang Canada Inc., a corporation existing under the laws of Ontario.

"BCI Broker Warrant" has the meaning set out in Section 3.2(1).

"BCI Shares" has the meaning set out in Section 3.2(1).

"BCI Subscription Receipts" has the meaning set out in Section 3.2(1).

"BCI Units" has the meaning set out in Section 3.2(1).

"BCI Warrant" has the meaning set out in Section 3.2(1).

"Bhang" means Bhang Corporation.

"Bhang Acquisition" has the meaning set out in Section 3.2(1).

"Bhang Exchange Agreements" has the meaning set out in Section 3.2(1).

"Board of Directors" has the meaning set out in Section 5.2.

"BOC" has the meaning set out in Section 13.6-13.9.

"CB Branded Products" has the meaning set out in Section 4.3(4)(a).

"CB Brands" has the meaning set out in Section 4.3(4).

"CB Brands Contractor Agreement" has the meaning set out in Section 4.3(4).

"CB Brands Operating Agreement" has the meaning set out in Section 4.3(4).

"CBD" means cannabidiol.

“CBD Supply Agreement” has the meaning set out in Section 4.3(1).

“CDS” has the meaning set out in Section 17.

“Certificate” has the meaning set out in Section 3.3(1).

“Closing” has the meaning set out in Section 3.2(1).

“Coattail Agreement” has the meaning set out in Section 10.1.

“Code” has the meaning set out in Section 24.1(1).

“Cole Memorandum” has the meaning set out in Section 17.

“Common Shares” has the meaning set out in Section 3.1.

“Consolidation” has the meaning set out in Section 2.2.

“Conversion Ratio” has the meaning set out in Section 10.1.

“Corporation” means Pele Mountain Resources Inc. and its subsidiaries, on a consolidated basis, prior to the Transaction.

“CSE” has the meaning set out in Section 2.3.

“CSE Policies” means the rules and policies of the CSE in effect as of the date hereof.

“Cypress Hill” has the meaning set out in Section 4.3(4).

“DOJ” has the meaning set out in Section 3.3(1).

“December Offering” has the meaning set out in Section 3.1.

“Debt Conversion” has the meaning set out in Section 3.2(1).

“Debt Conversion Shares” has the meaning set out in Section 3.2(1).

“Definitive Agreement” has the meaning ascribed thereto in Section 3.1.

“Department of Taxation” has the meaning set out in Section 3.3(1).

“Dispensary” has the meaning set out in Section 3.3(1).

“DOT” has the meaning ascribed thereto in Section 3.3.

“Equity Incentive Plan” means the equity incentive plan of the Resulting Issuer approved by shareholders of the Corporation.

“Escrow Agent” has the meaning set out in Section 3.2(1).

“Escrow Release Deadline” has the meaning set out in Section 3.2(1).

“Escrow Extension” has the meaning set out in Section 3.2(1).

“**FDA**” has the meaning set out in Section 17.

“**Federal CSA**” has the meaning set out in Section 3.3(1).

“**FinCEN**” has the meaning set out in Section 17.

“**FinCEN Memorandum**” has the meaning set out in Section 3.3(1).

“**FIRPTA**” has the meaning set out in Section 24.1(1).

“**Founding Fathers**” has the meaning set out in Section 4.3(10).

“**Founding Fathers License Agreement**” has the meaning set out in Section 4.3(10).

“**GES**” has the meaning set out in Sections 13.6-13.9.

“**GMP**” has the meaning set out in Section 4.3(6).

“**Hemp**” means the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis, lawfully cultivated in the United States pursuant to the 2014 Farm Bill (or in the future under the 2018 Farm Bill) and applicable state laws and includes industrial hemp.

“**Herban Agreement**” has the meaning set out in Section 4.3(4)(a).

“**Indiva**” means Indiva Limited.

“**Indiva Joint Venture Agreement**” has the meaning set out in Section 4.3(4).

“**Inversion Conditions**” has the meaning set out in Section 17.

“**IRS**” has the meaning set out in Section 24.1(1).

“**ISOs**” has the meaning set out in Section 9.

“**ITA**” has the meaning set out in Section 17.

“**Kaya**” has the meaning set out in Section 4.3(3).

“**Leahy Amendment**” has the meaning set out in Section 3.3(1).

“**Listing Statement**” means this listing statement of the Corporation, including the schedules hereto, prepared in support of the listing of the Subordinate Voting Shares on the CSE.

“**MAUCRSA**” has the meaning set out in Section 3.3(1).

“**MCRSA**” has the meaning set out in Section 3.3(1).

“**MCSB**” has the meaning set out in Section 3.3(1).

“**Miami Leases**” has the meaning set out in Section 4.3(6).

“**MMTC**” has the meaning set out in Section 3.3(1).

“**MOU**” has the meaning set out in Section 17.

“**Multiple Voting Shares**” has the meaning set out in Section 3.2(1).

“**Named Executive Officer**” or “**NEO**” has the meaning set out in Section 15.

“**NQSOs**” has the meaning set out in Section 9.

“**OBCA**” means the *Business Corporations Act* (Ontario).

“**OHA**” has the meaning set out in Section 3.3(1).

“**OMMP**” has the meaning set out in Section 3.3(1).

“**Options**” has the meaning set out in Section 9.

“**Origin House**” has the meaning set out in Section 4.3(3).

“**Origin House License Agreement**” has the meaning set out in Section 4.3(3).

“**Participants**” has the meaning set out in Section 9.

“**Person**” means any individual, corporation, Corporation, partnership, unincorporated association, trust, joint venture, governmental body or any other legal entity whatsoever.

“**Policy 12-203**” has the meaning set out in Sections 13.6-13.9.

“**President’s List**” has the meaning set out in Section 3.2(1).

“**PRHD**” has the meaning set out in Section 3.3(1).

“**RBA**” has the meaning set out in Section 17.

“**Related Person**” has the meaning attributed to it in the CSE Policies.

“**Repurchased Subscription Receipts**” has the meaning set out in Section 3.2(1).

“**Resulting Issuer**” means Bhang Inc., the entity formerly known as Pele Mountain Resources Inc., after the reverse takeover by Bhang Corporation.

“**Resulting Issuer Board**” means the Board of Directors of the Resulting Issuer.

“**Resulting Issuer Broker Warrants**” has the meaning set out in Section 3.2(1).

“**Resulting Issuer Shares**” means the Subordinate Voting Shares.

“**Resulting Issuer Warrants**” has the meaning set out in Section 3.2(1).

“**RSUs**” has the meaning set out in Section 9.

“**Rules**” has the meaning set out in Section 3.3(1).

“**SAR**” has the meaning set out in Section 3.3(1).

“**SARs**” has the meaning set out in Section 9.

“**Section 280E**” has the meaning set out in Section 17.

“**September Offering**” has the meaning set out in Section 3.1.

“**Sessions Memorandum**” has the meaning set out in Section 17.

“**Staff Notice 51-352**” has the meaning set out in Section 3.3.

“**Subco**” means Pele Acquisition Corp., a wholly-owned subsidiary of the Corporation which will amalgamate with BCI pursuant to the Transaction.

“**Subco Shares**” has the meaning set out in Section 3.2(1).

“**Subordinate Voting Shares**” has the meaning set out in Section 3.2(1).

“**Subscription Receipt Agreement**” has the meaning set out in Section 3.2(1).

“**THC**” means delta-9-tetrahydrocannabinol;

“**Transaction**” means the acquisition of Bhang and BCI by the Corporation, as contemplated by the Definitive Agreement.

“**TSXV**” means the TSX Venture Exchange.

“**USAM**” has the meaning set out in Section 3.3(1).

“**USRPHC**” has the meaning set out in Section 24.1(1).

“**USRPI**” has the meaning set out in Section 24.1(1).

“**USTP**” has the meaning set out in Section 3.3(1).

“**U.S. Tax Code**” has the meaning set out in Section 17.

“**Van Rixel Employment Agreement**” 15.

“**Warrants**” has the meaning set out in Section 3.1.

“**WSLCB**” has the meaning set out in Section 3.3(1).

2. CORPORATE STRUCTURE

2.1 Corporate Name and Head and Registered Office

This Listing Statement has been prepared in connection with the Transaction and listing on the Canadian Securities Exchange (the “**CSE**”) of the Resulting Issuer.

Prior to the completion of the Transaction, the registered office of the Corporation was located at 66 Wellington Street West, Suite 4100, Toronto, Ontario, M5K 1B7.

Bhang’s head and registered office is 7251 NE 2nd Avenue, Suite 201, Miami, Florida, 33138.

Upon completion of the Transaction, the head office of the Resulting Issuer will be located at 7251 NE 2nd Avenue, Suite 201, Miami, Florida, 33138. The registered office of the Resulting Issuer will be located at 40 King Street West, Suite 5800, Toronto, Ontario, M5H 3S1.

2.2 Jurisdiction of Incorporation

The Corporation

The Corporation was formed on October 1, 1997 pursuant to an amalgamation under the OBCA between Pele Mountain Resources Inc. and Pele Mountain Holdings Inc. The Corporation received shareholder approval in March 2017 to implement a share consolidation on the basis of one (1) new common share for every ten (10) old common shares and effected such share consolidation by way of Articles of Amendment dated July 24, 2017. The Corporation received shareholder approval in November 2018 to implement a share consolidation on the basis of one (1) new common share for every ten (10) old common shares and effected such share consolidation by way of Articles of Amendment dated May 24, 2019 (the “**Consolidation**”).

On the closing date of the Transaction, the Corporation acquired the business of Bhang and the funds raised by BCI.

Bhang

On August 28, 2010, Bhang, under the name Bhang Chocolate Company Inc., was incorporated in the state of Nevada. On May 6, 2014, Bhang Chocolate Company Inc. changed its name to Bhang Corporation.

See *Item 3.1 – General Development of the Business – Bhang*

2.3 Inter-corporate Relationships

The Resulting Issuer has no material subsidiaries.

2.4 Fundamental Change

See *Item 3.1 – General Development of the Business – The Transaction*

2.5 Corporations incorporated outside of Canada

The Resulting Issuer is not a non-corporate issuer or issuer incorporated outside of Canada.

3. GENERAL DEVELOPMENT OF THE BUSINESS

3.1 General Development of the Business

Upon completion of the Transaction, the business of Bhang became the business of the Resulting Issuer.

General Development of the Business of the Corporation

The Corporation was formed in 1997 to acquire mineral resource properties in Canada and the United States and to carry out mineral exploration and development activities thereon in search of economic deposits of metals and minerals. The Corporation ceased its mining and exploration activities in June of 2017. Prior to the completion of the Transaction, the Corporation divested all of its material assets relating to mining and exploration to third parties and to former members of management.

General Development of the Business of Bhang

On August 28, 2010, Bhang, under the name Bhang Chocolate Company Inc., was incorporated in the state of Nevada to own, operate and develop certain businesses related to the production, distribution and sale of cannabis and cannabis related products in jurisdictions where such production, distribution and sale is authorized under applicable law.

On May 6, 2014, Bhang Chocolate Company Inc. changed its name to Bhang Corporation. Bhang has registrations to operate in the state of Florida.

The founders of Bhang are Scott J. Van Rixel and Richard Sellers.

As a certified master chocolatier & Chef d' Cuisine, Scott Van Rixel brought to Bhang creative and business experience working in food production. He was a chef to the Kennedy family, did product development for Jillian Michaels' protein bars and snack products, and produced gourmet chocolate for boutiques and commercial-scale national clients for over 25 years. He introduced dark chocolate bars made with Venezuelan Crillo cacao sourced from fair-trade and sustainable farms into retail chains such as Whole Foods and Dean & DeLuca, many years ago.

Richard Sellers brought business experience, operating a large Bay Area BMW dealership for 25 years. A serial entrepreneur, Richard was simultaneously managing a profitable suite of real estate & cannabis ventures. Richard also brought significant experience with sourcing cannabis in large, bulk amounts. In 2010 Scott needed cannabis oil in bulk amounts for his new cannabis-infused chocolate bars. Scott was connect to Richard through an Oakland based cannabis and food testing lab. They joined forces, envisioning the possibilities of combining their complementary areas of expertise, and Bhang was born.

Bhang, with a commitment to quality, safety, and consistency launched into the marketplace in 2010 with lab-tested and consistently-dosed cannabis products. Bhang quickly surpassed the competition by winning the most Cannabis Cup awards of any brand in the US across its product categories. The Bhang bar, a perennial favorite, is an artisan chocolate bar pairing sustainably-sourced, fair-trade cacao with high-quality, lab-tested, CLEAN CO2-extracted cannabis oil.

Bhang branded cannabis derived THC products are manufactured by licensees and sold by such licensees in states where they are permitted to sell marijuana products, namely California, Illinois, New Mexico and Michigan. Bhang licenses only its intellectual property (brand and recipes) to these licensees and also provides them with packaging and molds to assist them with production and distribution. Bhang does not directly own, hold or handle any THC products.

Bhang branded Hemp derived CBD products are all manufactured by co-packers and are sold by its licensees or by Bhang directly in states where they are permitted to be sold.

In addition to its broad line of chocolate bars and other products, Bhang (or its licensees) offer customers discrete, smoke-free delivery systems such as vapes, mouth sprays and chewing gum. Customers can choose products with either THC or 100% Hemp-derived CBD, or blend them to customize the experience. For customers who vape, Bhang' s licensees offer an array of CO2-extracted, strain-specific oil cartridges in three strengths and price-points operated with a powerful 510-thread, Bhang-branded battery.

Bhang has developed a CBD brokerage network that has continued to be a steady stream of income for the company. Bhang's CBD division has evolved over the last few years and now offers US-grown, Hemp-derived, CO2-extracted CBD products including Bhang's award-winning crystalline isolate. The isolate is 99%+ pure CBD and packaged in a small, clear, screw-top jar. Bhang's Hemp brokerage network acts as a stream of income which allows Bhang to control the

commodity price of its Hemp derived CBD, profit from excess material and keep ample supply on hand to infuse into its finished Hemp derived CBD products.

Bhang intends to fully launch its terpene-flavoured products which are cannabis-inspired, but do not contain any marijuana or hemp. Offerings will include mass marketed beverages (water, tea, coffee and soda), vape cartridges, e-juice, chocolate, sprays and edibles.

See Section 4 – *Narrative Description of the Business* for further details.

Financing Activities

During the year ended December 31, 2015, Bhang issued a note payable in a principal amount of \$1,000,000. The note was non-interest bearing and payable on demand. During the year ended December 31, 2017, the note was purchased by Bhang's CEO. Bhang amended the note such that only monthly payments of interest at a rate of 5.5% per annum were to commence January 1, 2017 for a period of two years, following which interest would continue to accrue at a rate of 5.5% with principal and accrued interest due December 31, 2024. No prepayment penalty and no conversion rights are available unless authorized by Bhang's Board of Directors at a future date.

On September 25, 2017, Bhang completed a non-brokered private placement of 10,000 common shares in the capital of Bhang (the "**Common Shares**") for aggregate gross proceeds of \$2,000,000.00 (the "**September Offering**"). The net proceeds of the September Offering were used by Bhang for working capital and to develop its business.

On December 17, 2017, Bhang completed a non-brokered private placement of 2,500 Common Shares for aggregate gross proceeds of \$250,000.00 (the "**December Offering**"). The net proceeds of the December Offering were used by Bhang for working capital and to develop its business.

On April 25, 2018, Bhang completed a non-brokered private placement of 2,851 Common Shares for aggregate gross proceeds of \$591,692 (the "**April Offering**"). The net proceeds of the April Offering were used by Bhang for working capital and to develop its business.

On August 14, 2018, Bhang issued warrants (the "**Warrants**") exercisable for up to 10,165 Common Shares at an aggregate price of \$2,500,000, subject to adjustment, until December 15, 2018. On September 15, 2018, the Warrants were exercised for 10,165 Common Shares for aggregate gross proceeds of \$2,500,000.00.

On April 12, 2019, Bhang issued a promissory note with a principal amount of C\$300,000. The note had a maturity date of 12 months from the date of issuance and interest at 8% per annum payable on maturity. The note was automatically exchanged, on substantially the same terms, for a non-secured convertible promissory note of the Resulting Issuer on the closing of the Transaction. The exchanged note shall be convertible at the option of the holder for Resulting Issuer Shares at a price of C\$0.50 per share for a period of 12 months, however, the Resulting Issuer shall have the option to accelerate the conversion of the exchanged note in the event that the volume weighted average price of the Resulting Issuer Shares on the CSE is equal to or greater than C\$1.00 over a period of ten (10) consecutive trading days.

On May 14, 2019, Bhang issued a second promissory note with a principal amount of C\$300,000. The note had a maturity date of 12 months from the date of issuance and interest at 8% per annum payable on maturity. The note was automatically exchanged, on substantially the same terms, for a non-secured convertible promissory note of the Resulting Issuer on the

closing of the Transaction. The exchanged note shall be convertible at the option of the holder for Resulting Issuer Shares at a price of C\$0.50 per share for a period of 12 months, however, the Resulting Issuer shall have the option to accelerate the conversion of the exchanged note in the event that the volume weighted average price of the Resulting Issuer Shares on the CSE is equal to or greater than C\$1.00 over a period of ten (10) consecutive trading days.

3.2 Significant Acquisitions and Dispositions

3.2(1) The Transaction

On November 8, 2018, the Corporation, Bhang, BCI and Subco entered into the Definitive Agreement which set out the terms for the reverse take-over of the Corporation by Bhang. The principal parties to the Transaction are Bhang, as reverse take-over acquirer, and the Corporation.

BCI raised funds in connection with the Transaction by offering the BCI Subscription Receipts and subsequently amalgamated with Subco on the closing of the Transaction.

The closing of the Transaction, which included the transactions and financing described below, was completed on July 9, 2019. On the closing date of the Transaction, the Corporation acquired the business of Bhang and the funds raised by BCI.

Bhang Acquisition

In May of 2019, the shareholders of Bhang entered into agreements with the Corporation whereby the Corporation acquired 100% of the total number of shares of Bhang (the “**Bhang Exchange Agreements**”). Pursuant to the terms of the Bhang Exchange Agreements, the shareholders of Bhang agreed to contribute all of their shares of Bhang for Resulting Issuer Shares so that, after the completion of such exchange, the Resulting Issuer became the owner of 100% of the total number of the shares of Bhang (the “**Bhang Acquisition**”). As such, the Bhang Acquisition resulted in a total of 135,866 shares of Bhang being exchanged for 33,365,916 Resulting Issuer Shares at a deemed price of C\$0.50 per share and 56,634.128 Multiple Voting Shares at a deemed price of C\$500 per share. The Bhang Acquisition was conditional upon certain conditions being met including, but not limited to, the completion of the offering of the subscription receipts of BCI (the “**BCI Subscription Receipts**”) and confirmation that all necessary approvals from the Exchange with respect to the Transaction had been granted. All the conditions precedent to the Bhang Acquisition were met and the transaction was completed on July 9, 2019, which resulted in the Resulting Issuer becoming the 100% owner of Bhang.

Although the Bhang Acquisition resulted in Bhang becoming a wholly-owned subsidiary of the Resulting Issuer, the Bhang Acquisition constituted a reverse take-over of the Resulting Issuer inasmuch as the former shareholders of Bhang own a majority of the outstanding shares of the Resulting Issuer.

The completion of the acquisition of Bhang constituted a fundamental change under the policies of the Exchange.

The Financing

BCI, a related entity of Bhang, completed a brokered private placement of an aggregate of 12,693,635 BCI Subscription Receipts for C\$0.50 per BCI Subscription Receipt on February 12, 2019 and May 15, 2019 for gross proceeds of C\$6,346,817.50. Under its terms, each BCI Subscription Receipt is automatically converted and immediately cancelled, without any further

action by the holder of such BCI Subscription Receipt, and for no additional consideration, into one unit of BCI (the “**BCI Units**”) upon the satisfaction, on or prior to June 12, 2019 (the “**Escrow Release Deadline**”), of the following conditions, among others: (a) the completion of the Bhang Acquisition; (b) requisite shareholder and regulatory approvals of the Transaction including, but not limited to, conditional approval of the Exchange for the listing of the Resulting Issuer Shares; and (c) all documents and instruments have been tabled for the concurrent closing of the Transaction (the “**Closing**”). The Escrow Release Deadline was extended to July 12, 2019 (the “**Escrow Extension**”). Holders of 1,511,000 BCI Subscription Receipts did not consent to the Escrow Extension and, as a result, such BCI Subscription Receipts were indirectly repurchased by the BCI contemporaneously with the Closing (the “**Repurchased Subscription Receipts**”).

The BCI Subscription Receipts were issued pursuant to the terms of a subscription receipt agreement (the “**Subscription Receipt Agreement**”) dated February 12, 2019 between BCI, AltaCorp Capital Inc. (the “**Agent**”), as lead agent, and Capital Transfer Agency, ULC (the “**Escrow Agent**”). Each BCI Unit consists of one common share in the capital of BCI (the “**BCI Shares**”) and one half of one BCI common share purchase warrant (each whole warrant, a “**BCI Warrant**”). Each BCI Warrant is exercisable into one BCI Share at an exercise price of C\$0.65 per BCI Share for 24 months after the completion of the Transaction, subject to acceleration in the event that the volume weighted average price of the shares of the Resulting Issuer is equal to or greater than \$1.00 over a period of 10 consecutive trading days.

The conditions set out above were satisfied on July 9, 2019 and the BCI Subscription Receipts were converted into 11,182,635 BCI Shares and 5,591,316 BCI Warrants (net of the Repurchased Subscription Receipts). The BCI Shares and BCI Warrants issued upon conversion of the BCI Subscription Receipts were immediately exchanged, without additional consideration or action, for Resulting Issuer Shares and Resulting Issuer Warrants (as defined below), respectively, on Closing pursuant to the terms of the Amalgamation (see below). Each Resulting Issuer Warrant is exercisable into one Resulting Issuer Share at an exercise price of C\$0.65 per Resulting Issuer Share for 24 months after the completion of the Transaction, subject to acceleration in the event that the volume weighted average price of the shares of the Resulting Issuer is equal to or greater than C\$1.00 over a period of 10 consecutive trading days.

The Agent offered the BCI Subscription Receipts to prospective purchasers on a reasonable best efforts agency private placement basis and, in connection therewith, BCI, Bhang, the Corporation and the Agent entered into an agency agreement (the “**Agency Agreement**”) pursuant to which the Agent received an aggregate cash commission equal to 6% of the gross proceeds of the brokered offering and a corporate finance fee, subject to certain exceptions mentioned below (the “**Agent’s Fee**”). In addition, the Agent received on closing a number of broker warrants (the “**BCI Broker Warrant**” and together with the Agent’s Fee, the “**Agent’s Compensation**”) equal to 6% of the number of BCI Subscription Receipts issued under the brokered offering subject to certain exceptions mentioned below. Each BCI Broker Warrant will entitle the holder thereof to subscribe, at the offering price of C\$0.50, for one BCI Unit for 24 months following the closing. Bhang submitted to the Agent a president’s list (“**President’s List**”) of purchasers sourced directly by Bhang. The Agent received on closing an aggregate cash fee of 3% of the gross proceeds raised from investors on the President’s List and a number of BCI Broker Warrants equal to 3% of the number of BCI Subscription Receipts sold to investors on the President’s List, in lieu of the Agent’s Compensation.

The net proceeds from the offering of BCI Subscription Receipts (together with accrued interest) was C\$5,200,559 (net of the Repurchased Subscription Receipts) after deducting the applicable Agent’s Fee and expenses of the Agent and the Escrow Agent, and was released to BCI upon satisfaction of the Escrow Release Conditions which occurred on July 9, 2019.

Amalgamation between BCI and Subco

Pursuant to the terms of the Definitive Agreement, the Resulting Issuer acquired BCI by way of a three cornered amalgamation, resulting in the formation of Amalco (the “**Amalgamation**”). As a result of the Amalgamation, all of the BCI Shares and common shares of Subco (“**Subco Shares**”) were exchanged into an equal amount of Resulting Issuer Shares. All of the Resulting Issuer Shares issued under the Amalgamation were issued for the benefit of the purchasers of the BCI Subscription Receipts. All Resulting Issuer Shares under the Amalgamation were issued at a deemed price of C\$0.50 per share. In consideration of the issue by the Resulting Issuer of the Resulting Issuer Shares to the former shareholders of BCI, Amalco issued to the Resulting Issuer one common share of Amalco for each Resulting Issuer Share issued to the shareholders of BCI. The Resulting Issuer also received one share of Amalco in exchange for each issued and outstanding share of Subco held by the Resulting Issuer. As a result of the Amalgamation, Amalco became a wholly-owned subsidiary of the Resulting Issuer. The BCI Warrants were exchanged, without additional consideration or action, for the same number of common share purchase warrants of the Resulting Issuer (the “**Resulting Issuer Warrants**”). In addition, the BCI Broker Warrants were exchanged, without additional consideration or action, for the same number of broker warrants of the Resulting Issuer (the “**Resulting Issuer Broker Warrants**”). Each Resulting Issuer Warrant is exercisable into one Resulting Issuer Share at an exercise price of C\$0.65 per Resulting Issuer Share for 24 months. Each Resulting Issuer Broker Warrant is exercisable into one Resulting Issuer Share and one half of one Resulting Issuer Warrant at an exercise price of C\$0.50 per unit for 24 months.

The completion of the Amalgamation as contemplated by the Definitive Agreement was subject to the conditional approval of the Exchange and all other necessary approvals. The completion of the Amalgamation was also subject to certain other additional conditions precedent, including, but not limited to: (i) the completion of the Bhang Acquisition; (ii) the approval of the Transaction by each of the parties’ respective board of directors; (iii) the approval of the shareholders of BCI; (iv) completion of the offering of BCI Subscription Receipts; (v) approval from the Exchange to list the Resulting Issuer Shares; (vi) the absence of any material change or change in a material fact which might reasonably be expected to have a material adverse effect on the financial and operational conditions or the assets of each of the parties to the Definitive Agreement; and (vii) certain other conditions typical in a transaction of this nature.

Approval for the Amalgamation was obtained from each of the shareholders of Subco and BCI by way of a written resolution prior to the completion of the Amalgamation.

Debt Conversion

In accordance with debt settlement agreements between the Corporation and certain of its creditors, the parties agreed to convert an aggregate of C\$425,000 in indebtedness (the “**Debt Conversion**”) into 850,000 common shares of the Corporation at a post-Consolidation basis at C\$0.50 per share (the “**Debt Conversion Shares**”). The Debt Conversion was completed on May 24, 2019.

Principal Steps of the Transaction

- (1) BCI issued subscription receipts (the “**BCI Subscription Receipts**”) in exchange for proceeds of C\$5,591,317.50 (net of the Repurchased Subscription Receipts);
- (2) The Corporation was delisted from the TSX Venture Exchange;

- (3) The Corporation completed the Consolidation and Debt Conversion;
- (4) All holders of common shares of Bhang exchanged their common shares of Bhang to the Corporation for shares of the Corporation, which included Subordinate Voting Shares and Multiple Voting Shares, as applicable;
- (5) The outstanding BCI Subscription Receipts are converted into BCI Shares and BCI Warrants with each holder of a BCI Subscription Receipt receiving one BCI common share and one half BCI Warrant in exchange therefor;
- (6) The Corporation, Subco and BCI are parties to a three-cornered amalgamation pursuant to which BCI shareholders (being the former holders of BCI Subscription Receipts excluding the holders of the Repurchased Subscription Receipts) receive Subordinate Voting Shares of the Corporation and BCI and Subco amalgamate with the resulting entity being “**Amalco**”; and
- (7) Amalco will be dissolved and liquidated, pursuant to which all of the assets of Amalco will be distributed to the Corporation.

Share Allocation on Closing of the Transaction

On closing of the Transaction:

- (a) The pre-Transaction holders of the Resulting Issuer Shares own shares representing approximately 4% of the voting rights of the Resulting Issuer (including the Resulting Issuer Shares issued pursuant to the Debt Conversion);
- (b) The former Bhang shareholders own shares representing approximately 85% of the voting rights of the Resulting Issuer.
- (c) The purchasers of the BCI Subscription Receipts own approximately 11% of the voting rights of the Resulting Issuer.

Upon completion of the Transaction, Scott Van Rixel, Jamie Pearson, William Waggoner, Stephen Gledhill and Daniel Nauth became the directors of the Resulting Issuer.

The Resulting Issuer’s authorized share capital consists of an unlimited number of subordinate voting shares (“**Subordinate Voting Shares**”) and an unlimited number of multiple voting shares (“**Multiple Voting Shares**”). Upon completion of the Transaction, the outstanding capital of the Resulting Issuer consists of: (i) 49,112,627 Subordinate Voting Shares and (ii) 56,634.128 Multiple Voting Shares.

3.3 Trends, Commitments, Events or Uncertainties

In accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) – Issuers with U.S. Marijuana-Related Activities (“**Staff Notice 51-352**”), below is a table of concordance that is intended to assist readers in identifying those parts of this Listing Statement that address the disclosure expectations outlined in Staff Notice 51-352.

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
All Issuers with U.S. Marijuana-Related Activities	Describe the nature of the issuer's involvement in the U.S. marijuana industry and include the disclosures indicated for at least one of the direct, indirect and ancillary industry involvement types noted in this table.	<p><i>Section 3.3 – Trends Commitments, Events or Uncertainties</i></p> <p><i>Section 4 – Narrative Description of the Business</i></p>
	Prominently state that marijuana is illegal under U.S. federal law and that enforcement of relevant laws is a significant risk.	<i>Cover Page (disclosure in bold typeface)</i>
	Discuss any statements and other available guidance made by federal authorities or prosecutors regarding the risk of enforcement action in any jurisdiction where the issuer conducts U.S. marijuana-related activities.	<p><i>Section 3.3 – Trends, Commitments, Events or Uncertainties – Regulation of Cannabis in the United States Federally</i></p> <p><i>Section 17 – Risk Factors – Marijuana remains illegal under U.S. federal law</i></p> <p><i>Section 17 – Risk Factors – Federal regulation of marijuana in the United States</i></p>
	Outline related risks including, among others, the risk that third party service providers could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer's ability to operate in the U.S.	<p><i>Section 17 – Risk Factors – Restricted access to banking</i></p> <p><i>Section 17 – Risk Factors – U.S. state regulatory uncertainty</i></p> <p><i>Section 17 – Risk Factors – Regulatory scrutiny of the Resulting Issuer's interests in the United States</i></p> <p><i>Section 17 – Risk Factors – Constraints on marketing products</i></p> <p><i>Section 17 – Risk Factors – Proceeds of crime statutes</i></p> <p><i>Section 17 – Risk Factors – Risks Related to the Regulatory Environment in Canada in Relation to the Business of the Resulting Issuer</i></p> <p><i>Section 17 – Risk Factors – Limited trademark protection</i></p> <p><i>Section 17 – Risk Factors – Lack of access to U.S. bankruptcy protections</i></p>

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
		<p><i>Section 17 – Risk Factors – Legality of contracts</i></p> <p><i>Section 17 – Risk Factors – Newly- established legal regime</i></p> <p><i>Section 17 – Risk Factors – Risk of civil asset forfeiture</i></p>
	<p>Given the illegality of marijuana under U.S. federal law, discuss the issuer’s ability to access both public and private capital and indicate what financing options are / are not available in order to support continuing operations.</p>	<p><i>Section 4.2 – Narrative Description of the Business – Total Available Funds</i></p> <p><i>Section 4.2 – Narrative Description of the Business – Ability to Access Public and Private Capital</i></p> <p><i>Section 17 – Risk Factors – Newly- established legal regime</i></p> <p><i>Section 17 – Risk Factors – Restricted access to banking</i></p>
	<p>Quantify the issuer’s balance sheet and operating statement exposure to U.S. marijuana-related activities.</p>	<p><i>Section 5 – Selected Consolidated Financial Information</i></p> <p>See Appendix “C”.</p> <p>Bhang estimates that 20% of its balance sheet for the year ended December 31, 2018 relates to its marijuana related business.</p>
	<p>Disclose if legal advice has not been obtained, either in the form of a legal opinion or otherwise, regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law.</p>	<p>Bhang has received legal advice from multiple U.S. attorneys regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law. Bhang and its U.S. counsel continue to monitor compliance very carefully.</p>

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
U.S. Marijuana Issuers with direct involvement in cultivation or distribution	Outline the regulations for U.S. states in which the issuer operates and confirm how the issuer complies with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.	N/A
	Discuss the issuer's program for monitoring compliance with U.S. state law on an ongoing basis, outline internal compliance procedures and provide a positive statement indicating that the issuer is in compliance with U.S. state law and the related licensing framework. Promptly disclose any non-compliance, citations or notices of violation which may have an impact on the issuer's licence, business activities or operations.	N/A
U.S. Marijuana Issuers with indirect involvement in cultivation or distribution	Outline the regulations for U.S. states in which the issuer's investee(s) operate.	<i>Section 3.3 – Trends, Commitments, Events or Uncertainties</i> <i>Section 17 – Risk Factors – U.S. state regulatory uncertainty</i>
	Provide reasonable assurance, through either positive or negative statements, that the investee's business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state. Promptly disclose any non-compliance, citations or notices of violation, of which the issuer is aware, that may have an impact on the investee's licence, business activities or operations.	<i>Section 3.3 (1) – Trends, Commitments, Events or Uncertainties - United States Regulatory Matters - Marijuana</i>
U.S. Marijuana Issuers with material ancillary involvement	Provide reasonable assurance, through either positive or negative statements, that the applicable customer's or investee's business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.	To the best of Bhang's knowledge, all companies to which it licenses its intellectual property are in compliance with the State cannabis laws in which it operates.

3.3(1) United States Regulatory Matters - Marijuana

Operating since 2010, Bhang is an award-winning cannabis company with three tiers of branded products: (i) marijuana derived products containing THC and CBD which are manufactured by licensees and sold by such licensees, (ii) Hemp derived CBD products that are manufactured by co-packers and sold by licensees and by Bhang directly and (iii) terpene products, that do not contain any marijuana or hemp, and are manufactured by co-packers and sold by Bhang and its

distributors. Products within these tiers include, without limitation, chocolate bars, vapes, gum and mouth spray, in addition to Bhang-branded apparel and merchandise. Bhang also maintains a Hemp brokerage network that acts as a stream of income which allows Bhang to control the commodity price of its Hemp derived CBD, profit from excess material and keep ample supply on hand to infuse into its finished Hemp derived CBD products.

Bhang does not directly own, hold or handle any marijuana or marijuana derived products. Accordingly, Pursuant to Staff Notice 51-352, Bhang has no direct involvement in the US marijuana industry.

Bhang's only indirect involvement with marijuana relates to equity ownership in Origin House. To the best of Bhang's knowledge, Origin House has interests, or operates in, California, Arizona, Florida, Puerto Rico, Oregon, Washington and Nevada and, to its knowledge, is in compliance with all state law in such jurisdictions. Origin House is a Canadian public company and its public filings can be found at www.sedar.com. None of the public filings made by Origin House are incorporated by reference hereto by Bhang.

In accordance with Staff Notice 51-352, below is a discussion of the federal and state-level U.S. regulatory regimes in those jurisdictions where Origin House is directly involved in. In accordance with Staff Notice 51-352, Bhang will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented and amended to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation. Any non-compliance, citations or notices of violation which may have an impact on Bhang's license, business activities or operations will be promptly disclosed by Bhang.

Bhang has ancillary involvement in the US marijuana industry through its intellectual property licensing program in which Bhang branded THC products are manufactured and sold by its licensees in states where they are permitted to sell marijuana products. Bhang licenses only its intellectual property (brand and recipes) to these licensees and also provides them with packaging and molds to assist them with production and distribution.

Regulation of Cannabis in the United States Federally

Producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a federal crime in the U.S. The U.S. federal government regulates drugs through the Federal CSA, which places controlled substances, including cannabis, on one of five schedules. Cannabis is currently classified as a Schedule I controlled substance, which is viewed as having a high potential for abuse and having no currently accepted medical use in treatment in the U.S. No prescriptions may be written for Schedule I substances, and such substances are subject to production quotas imposed by the DEA. Schedule I drugs are the most tightly restricted category of drugs under the Federal CSA.

State and territorial laws that allow the use of medical cannabis or legalize cannabis for adult recreational use are in conflict with the Federal CSA, which makes cannabis use and possession illegal at the federal level. Because cannabis is a Schedule I controlled substance, however, the development of a legal cannabis industry under the laws of these states is in conflict with the Federal CSA, which makes cannabis use and possession illegal on a national level. Additionally, the Supremacy Clause of the U.S. Constitution establishes that the Constitution, federal laws made pursuant to the Constitution, and treaties made under the Constitution's authority constitute the supreme law of the land. The Supremacy Clause provides that state courts are bound by the supreme law; in case of conflict between federal and

state law, including other state laws legalizing certain cannabis uses, the federal law must be applied.

Although federally illegal, the U.S. federal government's approach to enforcement of such laws has trended toward non-enforcement. On August 29, 2013, the U.S. Department of Justice ("DOJ"), issued a memorandum known as the "Cole Memorandum" to all U.S. Attorneys' offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal cannabis laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly regulated medical or recreational cannabis programs. While not legally binding, and merely prosecutorial guidance, the Cole Memorandum laid a framework for managing the tension between state and federal laws concerning state regulated cannabis businesses.

However, on January 4, 2018 the Cole Memorandum was revoked by then Attorney General Jeff Sessions, a long-time opponent of state-regulated medical and recreational cannabis. While this did not create a change in federal law, as the Cole Memorandum was not itself law, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority.

In addition to his revocation of the Cole Memorandum, former A.G. Sessions also issued a one-page memorandum known as the "Sessions Memorandum." The Sessions Memorandum confirmed the rescission of the Cole Memorandum and explained the rationale of the DOJ in doing so: the Cole Memorandum, according to the Sessions Memorandum, was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney's Manual (the "**USAM**"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

While the Sessions Memorandum emphasizes that cannabis is a Schedule I controlled substance, and reiterates the statutory view that cannabis is a "dangerous drug and that marijuana activity is a serious crime," it does not otherwise indicate that the prosecution of cannabis-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether or not to prosecute cannabis-related offenses.

Until the U.S. Congress amends the Federal CSA with respect to cannabis use, there is a risk that federal authorities may enforce current federal law against companies such as Bhang for violation of federal law or they may seek to bring an action or actions against Bhang for violation of federal law or otherwise.

Additionally, under U.S. federal law it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from sales of cannabis or any other Schedule I substance. Canadian banks are also hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted for, and possibly convicted of, money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy. Despite these laws, the U.S. Department of the Treasury issued a memorandum in February of 2014 (the "**FinCEN Memorandum**") outlining the pathways for financial institutions to bank state-

sanctioned cannabis businesses. Under these guidelines, financial institutions must submit a “suspicious activity report” (“**SAR**”) as required by federal money laundering laws. These marijuana related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution’s belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated.

On the same day the FinCEN Memorandum was published, the DOJ issued a memorandum (the “**2014 Cole Memo**”) directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of cannabis-related conduct. The 2014 Cole Memo has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes was not a DOJ priority.

However, former Attorney General Sessions’ revocation of the Cole Memorandum and the 2014 Cole Memo has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memo and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum can act as a standalone document which explicitly lists the eight enforcement priorities originally cited in the Cole Memorandum. As such, the FinCEN Memorandum remains intact.

While the FinCEN Memorandum has not been rescinded by the DOJ at this time, it remains unclear whether the current administration will follow its guidelines. Overall, the DOJ continues to have the right and power to prosecute crimes committed by banks and financial institutions, such as money laundering and violations of the Bank Secrecy Act, that occur in any state, including in states that have legalized the applicable conduct, and the DOJ’s current enforcement priorities could change for any number of reasons, including a change in the opinions of the President of the United States or the U.S. Attorney General. A change in the DOJ’s enforcement priorities could result in the DOJ prosecuting banks and financial institutions for crimes that previously were not prosecuted.

The DOJ is now headed by Attorney General William Barr, who was confirmed to such post by the Senate on February 14, 2019, following A.G. Sessions’ resignation in late 2018 and the interim tenure of Matthew Whitaker as Acting Attorney General. A.G. Barr, who also served in such position under President George H.W. Bush, announced that he did not foresee enforcement of federal cannabis laws against state-legal actors. “I’m not going to go after companies that have relied on the Cole memoranda,” Barr told Senator Cory Booker (D-N.J.) during his confirmation hearings. “My approach to this would be not to upset settled expectations and the reliance interests that have arisen as a result of the Cole memoranda and investments have been made.”

While Mr. Barr has made his stance toward the Cole Memorandum clear, he remains skeptical of the state-legal cannabis industry in general. He has indicated his support for a broad federal criminalization of cannabis, and declared in his confirmation hearings that “[i]t’s incumbent on the Congress to make a decision as to whether we are going to have a federal system or whether it’s going to be a central federal law.” While this position is somewhat contradictory with respect to his statements regarding the Cole Memorandum, it appears that Mr. Barr intends to refrain from initiating prosecutions against state-compliant actors at this time, and would likely look for Congressional action of some kind prior to changing this stance.

Mr. Barr has made no public comments regarding the FinCEN Memorandum. Because the FinCEN Memorandum is not a DOJ memorandum, but from the Department of the Treasury,

Mr. Barr would not control its revocation. However, Mr. Barr's stance toward the 2014 Cole Memo indicates that the FinCEN Memorandum will continue to guide his decisions regarding enforcement priorities.

Banks often refuse to provide banking services to businesses involved in the cannabis industry due to the present state of the laws and regulations governing financial institutions in the United States. The lack of banking and financial services presents unique and significant challenges to businesses operating in and ancillary to the cannabis industry. The potential lack of a secure place in which to deposit and store cash, the inability to pay creditors through the issuance of checks and the inability to secure traditional forms of operational financing, such as lines of credit, are some of the many challenges presented by the lack of traditional banking and financial services available to businesses operating in or ancillary to the cannabis industry. Though the guidelines issued in the past years allow financial institutions to provide bank accounts to certain cannabis businesses, few banks have taken advantage of those guidelines and many cannabis businesses still operate on an all-cash basis. Operating on an all cash or pre-dominantly cash basis would make it difficult for Bhang to manage its business, pay its employees and pay its taxes, and may create safety issues for Bhang, its employees and its service providers.

Additionally, Bhang does not have protection under U.S. bankruptcy laws. U.S. bankruptcy laws were adopted to protect financially troubled businesses and to provide for orderly distributions to business creditors. All bankruptcy cases are handled in U.S. federal courts, and the DOJ has stated that it is the U.S. Trustee Program's ("**USTP**") position that no assets associated with the cannabis industry can be liquidated or restricted following bankruptcy without violating the Federal CSA. In addition, the Director of the USTP recently issued a letter to 1,100 trustees who administer bankruptcy cases urging the trustees to monitor and report to the DOJ cannabis companies looking to declare bankruptcy.

If any of Bhang's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the United States are found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of Bhang to declare or pay dividends and could affect other distributions, including Bhang's ability to transfer funds. Furthermore, while Bhang has no current intentions to declare or pay dividends in the foreseeable future, if a determination was made that Bhang's proceeds from operations (or any future operations or investments in the United States) could reasonably be shown to constitute proceeds of crime, Bhang may decide, or be required, to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

For the reasons set forth above, Bhang's existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in jurisdictions in which Bhang operates. As a result, Bhang may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on Bhang's ability to invest in the United States or any other jurisdiction.

Enforcement of U.S. federal law is a significant risk to cannabis businesses operating in the United States, including Bhang. The rescission of the Cole Memorandum increased the uncertainty and risk associated with the enforcement of U.S. federal laws regarding the production, manufacture, processing, possession, distribution, sale and use of cannabis. There is no certainty as to how the DOJ, the U.S. Federal Bureau of Investigation and other

government agencies will handle cannabis matters now that the Cole Memorandum is no longer in effect.

There can be no assurance that the U.S. federal government will not seek to prosecute cases involving cannabis businesses, including Bhang, notwithstanding compliance with state law. Such proceedings could have a material adverse effect on Bhang's business, revenues, operating results and financial condition, as well as Bhang's reputation and ability to raise capital.

Further, violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the U.S. federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on Bhang, including its reputation and ability to conduct business, its ability to list its securities on stock exchanges, its financial position, its operating results, its profitability or liquidity or the value of its securities. In addition, the time of management and advisors of Bhang and resources that would be needed for the investigation of any such matters or their final resolution could be substantial.

The cultivation, sale and use of cannabis is illegal under federal law pursuant to the Federal CSA. Under the Federal CSA, the policies and regulations of the United States Federal Government and its agencies are that cannabis has no medical benefit and a range of activities including cultivation and the personal use of cannabis is prohibited. Even in those states in which the use of cannabis has been legalized, its use, cultivation, sale and distribution remains a violation of federal law. Any person connected to the cannabis industry in the U.S. may be at risk of federal criminal prosecution and civil liability in the United States. Any investments may be subject to civil or criminal forfeiture and total loss. Since federal law criminalizing the use of cannabis is not pre-empted by state laws that legalize its use, strict enforcement of federal law regarding cannabis would harm the Resulting Issuer's business, prospects, results of operation, and financial condition. Due to the federal illegality of cannabis and the charged political climate surrounding the cannabis industries of various states, political risks are inherent in the cannabis industry. It remains to be seen whether policy changes at the federal level will have a chilling effect on the cannabis industry.

Enforcement of U.S. federal law and any other relevant law is a significant risk and an investor's contribution to and involvement in such activities may result in U.S. federal civil and/or criminal prosecution, including forfeiture of his, her or its entire investment.

Although the Cole Memorandum and 2014 Cole Memo have been rescinded, one legislative safeguard for the medical cannabis industry remains in place. U.S. Congress has used a rider provision in the fiscal year 2015, 2016, 2017 and 2018 Consolidated Appropriations Acts (currently, the "**Leahy Amendment**") to prevent the U.S. federal government from using congressionally appropriated funds to enforce federal cannabis laws against regulated medical-cannabis actors operating in compliance with state and local law. The Leahy Amendment was included in the fiscal year 2019 omnibus appropriations bill signed by President Trump on February 15, 2019, meaning that, the Leahy Amendment is in effect until September 30, 2019 when the fiscal year ends. It is uncertain whether the U.S. Congress will extend this prohibition beyond such expiration date. As the Leahy Amendment protects only state medical cannabis actors, there can be no assurance that U.S. federal prosecutors will not use DOJ funds to interfere with state adult-use (recreational) cannabis actors.

When President Trump signed the omnibus appropriations bill containing the Leahy Amendment on February 15, 2019, he added a signing statement:

“Division C, section 537, provides that the Department of Justice may not use any funds to prevent implementation of medical marijuana laws by various States and territories. I will treat this provision consistent with the President’s constitutional responsibility to faithfully execute the laws of the United States.” Inclusion of this signing statement does not appear at this time to indicate a new approach to enforcement of federal cannabis laws by the White House, but does illustrate the legal uncertainty surrounding the industry.”

The risk of federal enforcement and other risks associated with the Resulting Issuer’s business are described in *Item 17 – Risk Factors*.

Regulation of the Cannabis Market at State and Local Levels

The following sections present an overview of market and regulatory conditions for the marijuana industry in U.S. states in which, to the best of Bhang’s knowledge, Origin House has a substantial operating presence.

California Summary

In 1996, California voters passed a medical marijuana law allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain. The law established a not-for-profit patient/caregiver system but there was no state licensing authority to oversee the businesses that emerged as a result of the system. In September of 2015, the California legislature passed three bills, collectively known as the “Medical Marijuana Regulation and Safety Act” (“**MCRSA**”). In 2016, California voters passed “The Adult Use of Marijuana Act” (“**AUMA**”), which legalized adult-use cannabis for adults 21 years of age and older and created a licensing system for commercial cannabis businesses. On June 27, 2017, Governor Brown signed SB-94 into law. SB-94 combines California’s medicinal and adult-use cannabis regulatory frameworks into one licensing structure under the Medicinal and Adult-Use of Cannabis Regulation and Safety Act (“**MAUCRSA**”).

Pursuant to MAUCRSA: (1) the California Department of Food and Agriculture, via CalCannabis, issues licenses to cannabis cultivators; (2) the California Department of Public Health, via the Manufactured Cannabis Safety Branch (the “**MCSB**”), issues licenses to cannabis manufacturers and (3) the California Department of Consumer Affairs, via the Bureau of Cannabis Control (the “**BCC**”), issues licenses to cannabis distributors, testing laboratories, retailers, and micro-businesses. These agencies also oversee the various aspects of implementing and maintaining California’s cannabis landscape, including the statewide track and trace system. All three agencies released their emergency rulemakings at the end of 2017, and updated them with revisions in June 2018. The three agencies released their permanent rulemakings, which are now in effect, on January 16, 2019. All three agencies began issuing temporary licenses in January 2018 and are currently evaluating annual license applications. The issuance of temporary licenses ended on December 31, 2018, though previously-issued temporary licenses remain valid until their expiration dates. To operate legally under state law, cannabis operators must obtain a state license and local approval. Local authorization is a prerequisite to obtaining state licensure, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. California has not set a limit on the number of states license an entity may hold, unlike other states that have restricted how many cannabis licenses an entity may hold in total or for various types of cannabis activity. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license. There are also no residency requirements for ownership under MAUCRSA.

California has implemented a robust regulatory system designed to ensure, monitor, and enforce compliance with all aspects of a cannabis operator's licensed operations. Compliance with local law is a prerequisite to obtaining and maintaining state licensure, and all three state regulatory agencies require confirmation from the locality that the operator is operating in compliance with local requirements and was granted authorization to continue or commence commercial cannabis operations within the locality's jurisdiction.

License types are designated into two classes: Type M (medical) or Type A (adult use). There are 20 types of licenses, and a single entity may possess both Type M and Type A licenses, across six different categories:

- **Cultivation Facility:** license to (1) cultivate, process and package cannabis; and (2) sell cannabis to other licensed cannabis businesses, but not to consumers.
- **Distributor:** license to (1) purchase cannabis and cannabis products, as applicable from cultivators, manufacturers, microbusinesses and other distributors; (2) to store cannabis and cannabis products; (3) perform quality assurance and facilitate cannabis and cannabis product testing by a laboratory; (4) sell cannabis to other licensed cannabis businesses; and (5) transport cannabis and cannabis products from a cannabis licensee's premises to another cannabis licensee's premises.
- **Product Manufacturing Facility:** license to (1) purchase cannabis and cannabis products, as applicable, from cultivators, other manufacturers, microbusinesses and distributors; (2) manufacture, process, and package cannabis and cannabis products; and (3) sell cannabis and cannabis products to distributors and retailers, but not to consumers. Pursuant to this category, cannabis products include edibles, ointments, tinctures, oils and other concentrates.
- **Testing Laboratory:** license to test cannabis and cannabis products for potency and contaminants, in compliance with MAUCRSA and its resulting regulations.
- **Retailer:** license to (1) purchase cannabis and cannabis products from cultivators, manufacturers, and distributors; and (2) sell cannabis and cannabis products directly to consumers.
- **Microbusiness:** depending on the specific activities listed on a microbusiness's license application, a microbusiness may partake in any of the following activities or a combination thereof: (1) cultivate cannabis on an area less than 10,000 square feet; (2) purchase cannabis and cannabis products from cultivators, manufacturers, other microbusinesses, and distributors; (3) store cannabis and cannabis products; (4) perform quality assurance and facilitate cannabis and cannabis product testing by a licensed laboratory; (5) sell cannabis and cannabis products to other licensed cannabis businesses; (6) transport cannabis and cannabis products from one cannabis licensee's premises to another; (7) manufacture, process and package cannabis and cannabis products; and (8) sell cannabis and cannabis products directly to consumers. To hold a microbusiness license, a licensee must engage in at least three types of commercial cannabis activities.

MAUCRSA permits vertical integration by allowing licensees to hold licenses in multiple separate licensing categories. Every license must have its applicable commercial cannabis activity conducted within a single-premises, which must be contiguous. Although multiple premises are allowed on a given parcel, each licensed premises must be sufficiently separate from any other premises, i.e., having separate entrances and exits and no shared common

areas. Importantly, licensees may not sublet any portion of their licensed premises, and therefore, a licensee cannot lease a multi-unit building and sublease one of the licensed units out.

Only businesses engaged in “commercial cannabis activity” are required to have a license – ancillary services, technology, and know-how are not included on a licensee’s license unless their interests in the licensed entity amount to “ownership” or a “financial interest.”

Under MAUCRSA, an “owner” no longer distinguishes between public and private companies. An owner is: (1) anyone with an aggregate ownership interest of 20% or more in the applicant, unless the interest is solely a security, lien, or encumbrance, (2) the chief executive officer of a nonprofit or other entity, (3) a member of the board of directors for a nonprofit, or (4) an individual participating in the direction, control, or management of the applicant. Each owner of the entity applying for a cannabis license is required to submit fingerprint images and background checks. Such fingerprinting requirement extends to shareholders holding 5% or more of the equity of the applicant’s public company owner. Financial interest holders include, but are not limited to, anyone with an aggregate ownership interest of 20% or more in the applicant or those entitled to a portion of a licensee’s profits. Financial interest holders do not need to undergo fingerprinting and background checks.

Retail cannabis businesses must pay tax on gross receipts (i.e., all revenues in whatever form and before any deductions whatsoever). A cannabis tax return is required whether or not taxes are owed during the month. Failure to submit timely tax returns and payments result in a penalty equal to a percentage of the amount of the tax in addition to the amount of the tax, plus interest on the unpaid tax calculated from the original due date.

Zoning and Land Use Requirements

Applicants are required to comply with all local zoning and land use requirements and provide written authorization from the property owner where the commercial cannabis operations are proposed to take place, which must dictate that the applicant has the property owner’s authorization to engage in the specific state-sanctioned commercial cannabis activities proposed to occur on the premises.

Record-Keeping and Continuous Reporting Requirements

California’s state license application process additionally requires comprehensive criminal history, regulatory history, financial and personal disclosures, coupled with stringent monitoring and continuous reporting requirements designed to ensure only good actors are granted licenses and that licensees continue to operate in compliance with the State regulatory program. Disclosure requirements for local authorizations may vary, but generally tend to mirror the State’s requirements.

Licensees must also keep detailed records pertaining to various aspects of the business for up to seven years. Such records must be easily accessible by any regulatory agency from which the licensee has a license. Additionally, licensees must record all business transactions, which provisional and annual license holders must upload to the statewide traceability system.

Operating Procedure Requirements

Applicants must submit standard operating procedures describing how the operator will, among other requirements, secure the facility, manage inventory, comply with the State’s seed-to-sale tracking requirements, dispense cannabis, and handle waste, as applicable to the license

sought. Once the standard operating procedures are determined compliant and approved by the applicable state regulatory agency, the licensee is required to abide by the processes described and seek regulatory agency approval before any changes to such procedures may be made. Licensees are additionally required to train their employees on compliant operations and are only permitted to transact with other legal and licensed businesses.

Site-Visits & Inspections

California operators will not be able to obtain or maintain state licensure, and thus engage in commercial cannabis activities in the state of California without satisfying and maintaining compliance with state and local law. As a condition of state licensure, operators must consent to random and unannounced inspections of the commercial cannabis facility, as well as all of the facility's books and records, to monitor and enforce compliance with state law. Many localities have also enacted similar standards for inspections, and the state has already commenced site-visits and compliance inspections for operators who have received state temporary or annual licensure.

Prosecutorial Statements and Actions

David L Anderson, U.S. Attorney for the Northern District of California, has made no public comments regarding his stance on prosecuting cannabis since being appointed to the office in January 2019.

McGregor Scott, Acting U.S. Attorney for the Eastern District of California, has made no personal statements regarding marijuana enforcement. However his office stated that marijuana violations in the Eastern District will be evaluated "in accordance with our district's federal law enforcement priorities and resources."

Robert S. Brewer, Jr., Acting U.S. Attorney for the Southern District of California, has made no public comments regarding his stance on prosecuting cannabis. However, Mr. Brewer did state he would have considered using medical marijuana during his battle with non-Hodgkin lymphoma had it been available.

Nicola Hanna, Acting U.S. Attorney for the Central District of California, has made no public comments regarding his stance on prosecuting cannabis since the repeal of the Cole Memorandum.

Arizona Summary

Arizona citizens adopted the Arizona Medical Marijuana Act ("**AMMA**") via citizens' initiative in November 2010. The AMMA is codified in Arizona Revised Statutes ("**ARS**") § 36-2801 et. seq. The AMMA also appointed the Arizona Department of Health Services ("**AZDHS**") as the regulator for the program and authorized AZDHS to promulgate, adopt and enforce regulations for the AMMA. These AZDHS regulations are embodied in the Arizona Administrative Code ("**AAC**") Title 9 Chapter 17 (the "**Rules**"). ARS § 36-2801(11) defines a "nonprofit medical cannabis dispensary" as not-for-profit entity that acquires, possesses, cultivates, manufactures, delivers, transfers, transports, supplies, sells or dispenses cannabis or related supplies and educational materials to cardholders (a "**Dispensary**").

In order for an applicant to receive a Dispensary Registration Certificate (a "**Certificate**") they must: (i) fill out an application on the form proscribed by AZDHS, (ii) submit the applying entity's articles of incorporation and by-laws, (iii) submit fingerprints for each principal officer or board member of the applicant for a background check to exclude felonies, (iv) submit a business plan

and policies and procedures for inventory control, security, patient education, and patient recordkeeping that are consistent with the AMMA and the Rules to ensure that the Dispensary will operate in compliance and (v) designate an Arizona licensed physician as the Medical Director for the Dispensary. Certificates are renewed annually so long as the Dispensary is in good standing with AZDHS and pays the renewal fee and submits an independent third-party financial audit. Arizona residency is not required to operate a medical marijuana business. The number of total Dispensaries is limited per Community Health Analysis Area. Senate Bill 1494 was signed by the governor on June 7, 2019 and goes into effect on August 27, 2019. As a result, those who submit an application for an initial dispensary certificate or a renewal on or after August 27, 2019 will, upon approval, be issued a license that is valid for two years. The bill also describes several location-based factors that, after April 1, 2020, will be used to prioritize where new Certificates will be issued.

Once an applicant has been issued a Certificate, they are allowed to establish one physical retail dispensary location, one cultivation location which is co-located at the dispensary's retail site (if allowed by local zoning) and one additional off-site cultivation location. None of these sites can be operational, however, until the Dispensary receives an approval to operate from AZDHS for the applicable site. This approval to operate requires, among other things: (i) an application on the AZDHS form, (ii) demonstration of compliance with local zoning regulations, (iii) a site plan and floor plan for the applicable property, and (iv) an in-person inspection by AZDHS of the applicable location to ensure compliance with the Rules and consistency with the Dispensary's applicable policies and procedures.

Each local municipality has also implemented various zoning and entitlement rules, regulations and restrictions applicable to the various medical marijuana uses. All AZDHS applications related to the licensing and operation of a medical marijuana facility require, in addition to the AZDHS approvals, verification that such property and/or building(s) comply with all local zoning, land use laws and entitlements. This is accomplished, in part, through the execution and submittal of a "Zoning Attestation" in conjunction with the applicable AZDHS application and required documentation.

Any Dispensary facility (both retail and cultivation) must abide by the following security requirements: (i) ensure that access to the facilities is limited to authorized Dispensary Agents who are in possession of a Dispensary Agent card; and (ii) equip the facility with: (a) intrusion alarms and surveillance equipment, (b) exterior and interior lighting to facilitate surveillance, (c) at least one 19-inch monitor for surveillance and a video capable of printing a high resolution still image, (d) high resolution video cameras at all points of sale, entrances, exits, and limited access areas, both in and around the building, (e) 30 days' video storage, (f) failure notifications and battery backups for the security system and (g) panic buttons inside each building.

Dispensaries may transport medical cannabis between their own sites or between their sites and another Dispensary's sites and must comply with the following Rules: (i) prior to transportation, the Dispensary's agent must complete a trip plan showing: (a) the name of the dispensary agent in charge of transporting the cannabis, (b) the date and start time of the trip, (c) a description of the cannabis, cannabis plants, or cannabis paraphernalia being transported; and (d) the anticipated route of transportation, (ii) during transport the Dispensary Agent shall: (a) carry a copy of the trip plan at all times, (b) use a vehicle with no medical cannabis identification, (c) have a means of communication with the Dispensary, and (d) ensure that no cannabis is visible, and (iii) Dispensaries must maintain trip plan records.

AZDHS may inspect a facility at any time upon five days' notice to the Dispensary. However, if someone has alleged that the Dispensary is not in compliance with the AMMA or the Rules, AZDHS may conduct an unannounced inspection. AZDHS will provide written notice to the

Dispensary of any violations found during any inspection, and the Dispensary then has 20 working days to take corrective action and notify AZDHS.

AZDHS must revoke a Certificate if a Dispensary: (i) operates before obtaining approval to operate a dispensary from AZDHS, (ii) dispenses, delivers, or otherwise transfers cannabis to an entity other than another dispensary with a valid dispensary registration certificate issued by AZDHS, a qualifying patient with a valid registry identification card, or a designated caregiver with a valid registry identification card, (iii) acquires usable cannabis or mature cannabis plants from any entity other than another dispensary with a valid dispensary registration certificate issued by AZDHS, a qualifying patient with a valid registry identification card, or a designated caregiver with a valid registry identification card, or (iv) if a principal officer or board member has been convicted of an excluded felony offense.

Furthermore, AZDHS may revoke a Certificate if a Dispensary does not: (i) comply with the requirements of the AMMA or the Rules, or (ii) implement the policies and procedures or comply with the statements provided to AZDHS with the dispensary's application.

Although Arizona Proposition 205, to legalize and regulate marijuana like alcohol, failed to pass in 2016, with 48.7% of the vote in favor, the medical marijuana program in the state has remained strong and is currently one of the largest in the country. As of May 2019, there were approximately 130 Dispensaries licensed by the state, and approximately 200,164 registered patients. It is unknown at this time when or whether the Department will again accept new applications. However, the application for a Certificate is competitive. On May 28, 2019, the Arizona Supreme Court held that the definition of marijuana includes resin and hashish, and that marijuana extracts, including CBD, are legal within Arizona's medical cannabis program.

Prosecutorial Statements and Actions

Michael Baily, U.S. Attorney for the District of Arizona, confirmed May 23, 2019, has made no public comments regarding his stance on prosecuting state-legal cannabis businesses.

Florida Summary

In 2014, the Florida legislature passed a low-THC cannabis law that allowed patients with a limited number of qualifying conditions to have access to low-THC cannabis and cannabis products. In 2015, five (5) vertically integrated dispensing organization licenses ("**MMTCs**") were awarded. In November of 2016, voters passed Amendment 2 (the "**Amendment**"), which expanded the array of qualifying conditions and gave patients access to full-strength medical cannabis. Late in the legislative session in 2017, the Florida legislature passed Senate Bill 8-A, later codified as F.S. 381.986 (2017), which implemented the Amendment but restricted the original initiative by requiring vertical integration, limiting licenses at the state level, and prohibiting the sale and smoking of whole plant cannabis flower (the "**Statute**").

Litigation from the 2015 applicants who were not selected for licensure has been frequent and ongoing. In 2018, a judge issued an Order Granting Motion for Temporary Injunction against the Department of Health (the "**Order**") which stated that the Statute that implemented the Amendment is unconstitutional because both the required vertical integration, and the statutory cap on the number of MMTC's directly contradicted the Amendment. The Order mandated that the Florida Department of Health's Office of Medical Marijuana Use (the "**Department**") halt the registering or licensing of any additional MMTCs and required the Department to commence registering additional MMTCs by October 19, 2018 in accordance with the plain language of the Amendment. Only a few hours before the deadline, Governor Rick Scott appealed the Order. Gov. Scott's appeal could mean a new application period will not commence until after the

appeal is heard by the Court of Appeals and could possibly be further delayed if ultimately appealed to the State's Supreme Court.

All MMTCs currently operating are required to be vertically integrated, meaning each licensee is responsible for the entire cannabis supply chain: cultivation, processing, transporting and dispensing medical marijuana and low-THC cannabis and products. Each MMTC is currently permitted to open thirty-five (35) dispensaries each, with an additional five (5) dispensaries for every additional 100,000 registered patients. Licensees must: (i) be registered to do business in the State of Florida for the previous five years, (ii) possess a valid certificate of registration issued by the Florida Department of Agriculture, (iii) have the technical and technological ability to cultivate and produce cannabis, including, but not limited to, low-THC cannabis, (iv) have the ability to secure the premises, resources, and personnel necessary to operate as an MMTC, (v) have the ability to maintain accountability of all raw materials, finished products, and any by-products to prevent diversion or unlawful access to or possession of these substances, (vi) have an infrastructure reasonably located to dispense cannabis to registered qualified patients statewide or regionally as determined by the Department, (vii) have the financial ability to maintain operations for the duration of the 2-year approval cycle, including the provision of certified financial statements to the department, (viii) provide evidence that all owners, officers, board members and managers have passed a Level II background screening, inclusive of fingerprinting, and ensure that a medical director is employed to supervise the activities of the MMTC, and (ix) have a diversity plan and veterans plan accompanied by a contractual process for establishing business relationships with veterans and minority contractors and/or employees.

Currently twenty-two (22) MMTC licenses have been issued by the Florida Department, only five of which were issued through the 2015 application process. The remaining seventeen (17) licensees have been issued by the Department through court challenges and related settlements. The Statute required the Department to issue ten (10) new MMTC licenses by Fall of 2017, one of which must be issued to a class member of *Pigford v. Glickman* or *In Re Black Farmers Litigation*. Further, the Statute required that upon the registration of each 100,000 patients, an additional four (4) MMTC licenses would be granted. An application process with instructions have been proposed by the Department; however, due to the Statute and related rule challenges, the application process is indefinitely delayed.

Local jurisdictions have been preempted from regulating MMTCs but may ban retail dispensing locations within their limits. If the locality chooses not to ban dispensaries, it may only regulate them in the same manner it regulates pharmacies and may not place additional restrictions on them. As a result, many localities have chosen to ban retail dispensing facilities outright.

An MMTC may not dispense more than a 70-day supply of cannabis to any patient within such time frame. The MMTC employee who dispenses the cannabis must enter into the registry his or her name or unique employee identifier. The MMTC must verify that: (i) the qualified patient and the caregiver, if applicable, each has an active registration in the registry and active and valid medical cannabis use registry identification card, (ii) the amount and type of cannabis dispensed matches the physician certification in the registry for the qualified patient, and (iii) the physician certification has not already been filled. An MMTC may not dispense to a qualified patient younger than 18 years of age, only to such patient's caregiver. An MMTC may not dispense or sell any other type of cannabis, alcohol, or illicit drug-related product, except a cannabis delivery device as specified in the physician certification. An MMTC must, upon dispensing, record in the registry: (i) the date, time, quantity and form of cannabis dispensed, (ii) the type of cannabis delivery device dispensed, and (iii) the name and registry identification number of the qualified patient or caregiver to whom the cannabis delivery device was dispensed. An MMTC must ensure that patient records are not visible to anyone other than the patient, caregiver, and MMTC employees.

With respect to security requirements for cultivation, processing and dispensing facilities, an MMTC must maintain a fully operational alarm system that secures all entry points and perimeter windows, and is equipped with motion detectors, pressure switches, and duress, panic and hold-up alarms. The MMTC must also have a 24-hour video surveillance system with specified features. MMTCs must retain video surveillance recordings for at least 45 days, or longer upon the request of law enforcement.

An MMTC's outdoor premises must have sufficient lighting from dusk until dawn. An MMTC's dispensing facilities must include a waiting area with sufficient space and seating to accommodate qualified patients and caregivers and at least one private consultation area. Such facilities may not display products or dispense cannabis or cannabis delivery devices in the waiting area and may not dispense cannabis from its premises between the hours of 9:00 p.m. and 7:00 a.m. but may perform all other operations and deliver cannabis to qualified patients 24-hours a day.

Cannabis must be stored in a secured, locked room or a vault. An MMTC must have at least two employees, or two employees of a security agency, on the premises at all times where cultivation, processing, or storing of cannabis occurs. MMTC employees must wear an identification badge and visitors must wear a visitor pass at all times on the premises. An MMTC must report to law enforcement within 24 hours after the MMTC is notified of or becomes aware of the theft, diversion or loss of cannabis. A cannabis transportation manifest must be maintained in any vehicle transporting cannabis or a cannabis delivery device. The manifest must be generated from the MMTC's seed-to-sale tracking system and must include the: (i) departure date and time, (ii) name, address, and license number of the originating MMTC, (iii) name and address of the recipient, (iv) quantity and form of any cannabis or cannabis delivery device being transported, (v) arrival date and time, (vi) delivery vehicle make and model and license plate number; and (vii) name and signature of the MMTC employees delivering the product. Further, a copy of the transportation manifest must be provided to each individual MMTC that receives a delivery. MMTCs must retain copies of all cannabis transportation manifests for at least three years. Cannabis and cannabis delivery devices must be locked in a separate compartment or container within the vehicle and employees transporting cannabis or cannabis delivery devices must have their employee identification on them at all times. Lastly, at least two people must be in a vehicle transporting cannabis or cannabis delivery devices, and at least one person must remain in the vehicle while the cannabis or cannabis delivery device is being delivered.

The Department shall conduct announced or unannounced inspections of MMTCs to determine compliance with the laws and rules. The Department shall inspect an MMTC upon receiving a complaint or notice that the MMTC has dispensed cannabis containing mold, bacteria, or other contaminants that may cause an adverse effect to humans or the environment. The Department shall conduct at least a biennial inspection of each MMTC to evaluate the MMTC's records, personnel, equipment, security, sanitation practices, and quality assurance practices.

Prosecutorial Statements and Actions

The State of Florida has three federal judicial districts and U.S. Attorneys: Ariana Orshan of the Southern District, Lawrence Keefe of the Northern District, and Maria Lopez of the Middle District. None of the Acting U.S. Attorneys have made public statements regarding their attitude toward enforcement of federal cannabis laws since the revocation of the Cole Memorandum on January 4, 2018.

Puerto Rico Summary

In May of 2015, the then Governor of Puerto Rico Alejandro Garcia Padilla signed an executive order legalizing medical cannabis. The Puerto Rico Department of Health (“PRHD”) was tasked with developing regulations for the production, manufacturing, and sales of medical cannabis and medical cannabis products. In January of 2016, the PRHD published their initial set of regulations governing the medical program. Puerto Rico permits the use of medical cannabis pills, creams, patches, tinctures, and whole plant cannabis for vaporization. Smoking medical cannabis is prohibited in Puerto Rico. The program has a wide range of qualifying conditions including chronic pain, severe nausea, and migraines, as well as cancer, HIV, AIDs, Crohn’s disease and other conditions often included in state medical marijuana programs. Further regulations were promulgated by the PRHD in July of 2017 before being repealed.

Puerto Rico’s medical cannabis system is now governed by Ley 42-2017 and the regulations promulgated pursuant thereto (Regulation 9038, which was implemented July 2, 2018). These changes have created a better-regulated system of medical cannabis for Puerto Rico. Puerto Rico has six distinct classes of traditional cannabis business licenses: cultivation, manufacturing, dispensing, distribution, transportation, and laboratory. Occupational licenses are also issued to (and required for) those working in the industry (including owners), all of whom are subject to background check. PRHD has the authority to determine the number of licensees in each category within statutory limitations, taking into account the geographic distribution of dispensaries, among other factors.

Dispensaries are limited to dispensing a 30-day supply of medical cannabis, and patients may purchase only one ounce per day, which is enforced through the use of a patient database to ensure that one patient does not obtain more than the allowed amount by visiting multiple dispensaries. Patients must have a valid medical card issued by PRHD in order to obtain any medical cannabis from a licensed dispensary.

Medical cannabis licensees in Puerto Rico must comply with strict operating requirements to maintain their licensure. The premises of any licensed business must have appropriate access restrictions, including developments of limited access areas to ensure that only authorized individuals may be present. Licensees must also ensure that their premises meet strict requirements for sanitation and safety, included but not limited to ensuring that adequate first-aid precautions are taken. Security regulations are extensive. Ley 42-2017 requires that licensees have a security system capable of continuous 24/7 monitoring and transmitting videos and photos in real time to a central location from which the system is monitored. All licensees must have at least one security guard during all hours of operations or when otherwise open to the public. Premises are subject to inspection by the PRHD to ensure compliance with all of these rules.

Licensees must implement an inventory tracking system capable of tracking medical cannabis from seed to sale and must also use a required tracking system to protect against the laundering of money. Since April 24, 2018, the PRHD has required use of the BioTrackTHC inventory tracking system to ensure compliance with territorial laws. Puerto Rico has also implemented an online portal to facilitate the registration process for both doctors and patients that will provide easier access to the regulated medical cannabis program.

Puerto Rico has strict residency requirements for medical cannabis business ownership that stipulate the business entity must be held at least 51% by Puerto Rican residents. Applicants are further required to demonstrate sufficient financial ability to keep their business operational for twelve months by providing proof of adequacy of funds and a sound business plan. The medical cannabis program does not require cultivation and dispensing operations to be vertically integrated, but also does not prohibit a single entity from holding a cultivation, manufacturing, and dispensing license.

Prosecutorial Statements and Actions

Since the revocation of the Cole Memorandum and promulgation of the Sessions Memorandum on January 4, 2018, U.S. Attorney Rosa E. Rodriguez-Velez of the District of Puerto Rico has made no public statements regarding her stance toward enforcement of federal laws related to cannabis in Puerto Rico. The Puerto Rico Health Department contains links to both memoranda on its website.

Oregon Summary

Oregon has both medicinal and adult-use cannabis programs. In 1998, Oregon voters passed a limited non-commercial patient/caregiver medical cannabis law allowing physicians to recommend cannabis for certain qualifying conditions such as chronic pain. In 2013, the Oregon legislature passed, and the governor signed, House Bill 3460 to create a regulatory structure for the existing unlicensed medical cannabis businesses. This program is known as the Oregon Medical Marijuana Program (“**OMMP**”). However, the original regulations created by the Oregon Health Authority (“**OHA**”) after the passage of House Bill 3460 were minimal and only regulated dispensaries, leaving cultivators and processors within the unregulated patient/caregiver system. In November 2014, Oregon voters passed Measure 91, titled the “Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act,” creating the “Recreational Marijuana Program” for individuals 21 years of age or older to purchase cannabis for personal use from licensed cannabis businesses. In June 2015, Oregon Governor Kate Brown signed House Bill 3400 into law, which improved on the existing OMMP and created a licensing process for cultivators and processors.

The OHA licenses and regulates OMMP participants while the Oregon Liquor Control Commission (“**OLCC**”) licenses and regulates the Recreational Marijuana Program. There are four (4) distinct license types for medical businesses: producers, processors, dispensaries and laboratories. There are six (6) distinct license types that are available for adult-use businesses: producers, processors, wholesalers, retailers, laboratory and a research certificate. Vertical integration between producers, processors, and retailers is permissible, but not required, for both medical and adult-use licensees. While the law does not impose a limit on the number of licenses at the state level, the OLCC announced on May 30, 2018 that they will temporarily pause the processing of adult-use cannabis license applications. The OHA is currently accepting applications for medical cannabis businesses on a rolling basis. Local governments have the authority to prohibit or restrict the number of medical or recreational cannabis businesses within their jurisdictions. There are no residency requirements for medical or recreational licenses in Oregon and publicly held companies are permitted to hold ownership in licensed businesses.

The state of Oregon has selected Franwell Inc.’s METRC system as the state’s seed-to-sale tracking system used to track commercial cannabis activity and movement across the distribution chain. The METRC system has been implemented state-wide since 2015. The system allows for third-party system integrations via API.

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis products, a licensee is required to do the following in Oregon: (i) maintain a fully operational security alarm system; (ii) contract for security guard services; (iii) maintain a video surveillance system that records continuously twenty-four (24)-hours per day; (iv) ensure that the facility’s outdoor premises have sufficient lighting; (v) not dispense from its premises outside of permissible hours of operation; (vi) store cannabis and cannabis product only in areas per the premises diagram submitted to the state of Oregon during the licensing process; (vii) store all cannabis and cannabis products

in a secured, locked room or a vault; (viii) report to local law enforcement within 24 hours after being notified or becoming aware of the theft, diversion, or loss of cannabis; and (ix) to ensure the safe transport of cannabis and cannabis products between licensed facilities, maintain a delivery manifest in any vehicle transporting cannabis and cannabis products.

Prosecutorial Statements and Actions

On May 18, 2018, Billy Williams, U.S. Attorney for the District of Oregon, issued a memorandum outlining his office's enforcement priorities related to cannabis. Williams listed the following primary enforcement priorities in the memorandum: (1) overproduction and interstate trafficking; (2) protecting Oregon's children; (3) violence, firearms, or other public safety threats; (4) organized crime; and (5) protecting federal lands, natural resources, and Oregon's environment. As to overproduction in particular, Williams stated, "there can be no doubt that there is significant overproduction of marijuana in Oregon... a thriving black market is exporting marijuana across the country, including to states that have not legalized marijuana under their state laws." He also made clear that he "will not make broad proclamations of blanket immunity from prosecution to those who violate federal law," but added that his "office's resources are finite" and that they "must use appropriate discretion before prosecuting any federal case." He went on to explain that his office will explore the use of civil law enforcement mechanisms, coordinate closely with partners in state, tribal, and local governments around the state, and "focus enforcement efforts on federal violations implicating one or more of the priority elements of this [memorandum]." Williams has told Oregon Governor Kate Brown's senior policy advisor that he would like to see limits on licenses for marijuana producers and retailers.

In June 1999, the White House Office of National Drug Control Policy created the Oregon-Idaho High Intensity Drug Trafficking Area program ("HIDTA") to "facilitate, support and enhance collaborative drug control efforts among law enforcement agencies and community-based organizations; thus significantly reducing the impacts of illegal trafficking and use of drugs throughout Oregon and Idaho." In August 2018, HIDTA released a report entitled "An Initial Assessment of Cannabis in Oregon." In response to this report's findings, U.S. Attorney Williams issued the following statement:

"The recent HIDTA Insight Report on marijuana production, distribution, and consumption in Oregon confirms what we already know—it is out of control. The industry's considerable and negative impacts on land use, water, and underage consumption must be addressed immediately. State officials should respond quickly and in a comprehensive manner to address the many concerns raised by this assessment. To date, we've seen insufficient progress from our state officials. We are alarmed by revelations from industry representatives, landowners, and law enforcement partners describing the insufficient and underfunded regulatory and enforcement structure governing both recreational and medical use. A weakly-regulated industry will continue to detract from the livability and health of communities throughout the state.

What is often lost in this discussion is the link between marijuana and serious, interstate criminal activity. Overproduction is rampant and the illegal transport of product out of state—a violation of both state and federal law—continues unchecked. My ask continues to be for transparency, responsible regulation, adequate funding, and a willingness to work together. It's time for the state to wake up, slow down, and address these issues in a responsible and thoughtful manner."

In late August 2018, federal prosecutors made six arrests related to marijuana allegedly being trafficked from Oregon to Florida, Texas, and Virginia. Those arrested were not affiliated with licensed recreational or medical programs in Oregon. In response to these arrests, Williams said, "These cases provide clear evidence of what I have repeatedly raised concerns over:

Oregon’s marijuana industry is attracting organized criminal networks looking to capitalize on the state’s relaxed regulatory environment.”

Washington Summary

Washington State has both medical and adult-use marijuana programs. The original medical law, passed by voters in 1998, allows physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a patient/caregiver system without explicitly permitting businesses. However, the legislature was unable to pass laws regulating the medical marijuana businesses that developed around 2008.

When Initiative 502 legalized marijuana for adults 21 years of age and older in 2012, it regulated adult-use marijuana businesses and left the unregulated medical marijuana establishments in a precarious situation. The Governor of Washington then signed Senate Bill 5052 in 2015, which forced the closure of existing unregulated medical dispensaries and allows existing adult-use retail marijuana stores to apply for a “medical marijuana endorsement” to sell medical marijuana tax free to registered qualifying patients and their designated caregivers.

The Washington State Liquor and Cannabis Board (“**WSLCB**”) regulates adult-use marijuana businesses and those with a medical endorsement. The WSLCB licenses cultivation facilities, product manufacturing facilities (“processors”), retail stores, transportation licensees, and testing facilities. All individuals and entities considered a “true party of interest” in a marijuana business license must have at least six months of Washington residency.

Unlike many other states, Washington prohibits vertical integration between adult-use marijuana retailers and cultivators. Common ownership between cultivation and processors is permitted. A single entity, and/or principals within an entity, must choose between either a retail or non-retail license. Retail licensees can possess up to five retail marijuana licenses and non-retail licensees can possess up to (i) three marijuana producer licenses, (ii) three marijuana processor licenses, and (iii) three marijuana transport licenses. In late 2018, the WSLCB adopted rules related to recently enacted statutory changes which provided a regulatory framework for the introduction of CBD products into the regulated cannabis industry, in addition to other technical changes.

The WSLCB re-opens its application process for growers, processors or retail stores at its discretion, taking into consideration factors such as patient consumption data and population dynamics. The state is currently not accepting new applications for growers, processors or retail stores.

In Washington, the WSLCB requires the use of MJ Freeway inventory tracking software, specifically its traceability solution known as Leaf Data System, for its licensees to ensure compliance with state law and prevent diversion of products out-of-state. MJ Freeway software is capable of tracking inventory from seed to its eventual sale, and is capable of interacting with third-party tracking software.

Prosecutorial Statements and Actions

Brian T Moran, U.S. Attorney for the Western District of Washington, has made no public statements regarding his stance toward enforcement of federal laws related to cannabis in Washington. Joseph H. Harrington, U.S. Attorney for the Eastern District of Washington, has made the following statement regarding the enforcement of federal cannabis laws by his office following the revocation of the Cole Memorandum:

The Attorney General [Jeff Sessions] reiterated his confidence in the long-established principles of federal prosecution that guide the discretion of each United States Attorney around the country (U.S. Attorney's Manual, chapter 9-27.000), and directed that those principles shepherd enforcement of federal law regarding marijuana. With those principles in mind, the Attorney General emphasized his belief that United States Attorneys are in the best position to weigh all relevant considerations – to include the nature and seriousness of an offense, the potential deterrence effect of prosecution, a putative defendant's culpability in connection with an offense, a putative defendant's criminal history and other circumstances, and the limited federal resources -- when deciding which cases to prosecute in their respective communities. When weighing those considerations public safety is always at the fore. Those principles have always been at the core of what the United States Attorney's Office for the Eastern District of Washington does – across all threats to public safety, including those that may relate to marijuana. This United States Attorney's Office will continue to ensure, consistent with the most recent guidance from the Department of Justice, that its enforcement efforts with our federal, state, local, and tribal law enforcement partners focus on those who pose the greatest safety risk to the communities in Eastern Washington, by disrupting criminal organizations, tackling the growing drug crisis, thwarting violent crime, and corralling white-collar fraudsters in this District. This Statement is not intended to, does not, and may not be relied upon to create any rights, substantive or procedural, enforceable at law by any party in any matter civil or criminal.

Nevada Summary

In 2000, Nevada voters passed a medical cannabis initiative allowing physicians to recommend cannabis for certain qualifying conditions such as chronic pain. The initiative created a limited, non-commercial medical cannabis patient/caregiver system. In 2013, Senate Bill 374 was passed by Nevada's legislature and signed by the Governor, which expanded the medical cannabis program and established a for-profit regulated medical cannabis industry. In November 2016, Nevada voters passed an adult-use cannabis ballot measure.

The application process for a Nevada medical cannabis license is merit-based, competitive and is currently closed. Nevada residency is not required to own or invest in a Nevada medical cannabis business, and vertical integration is neither prohibited nor required. Nevada's medical cannabis law includes patient reciprocity, which permits medical patients from other states to purchase cannabis from Nevada dispensaries. Nevada also allows medical dispensaries to deliver medical cannabis to patients in Nevada. The state requires use of the METRC seed-to-sale tracking software to ensure compliance with state law.

The Nevada Division of Public and Behavioral Health was responsible for licensing medical cannabis establishments until July 1, 2017, when the medical cannabis program merged with the adult-use cannabis program. The single regulatory agency is now known as The Marijuana Enforcement Division of the Department of Taxation (the "**Department of Taxation**").

Under Nevada's adult-use cannabis program, the Department of Taxation licenses cannabis cultivation facilities, manufacturing facilities, distributors, retail stores and testing facilities. For the first 18 months, applications for adult-use cannabis licenses could be accepted from only existing medical cannabis establishments or existing liquor distributors. On January 16, 2018, the Department of Taxation issued final rules governing its adult-use cannabis program, pursuant to which up to 66 permanent adult-use cannabis dispensary licenses will be issued, and in December of 2018, the Department of Taxation issued sixty-one (61) conditional dispensary licenses.

Prosecutorial Statements and Actions

In an interview with the Reno Gazette Journal, published June 5, 2019, Nicholas A. Trutanich, U.S. Attorney for the District of Nevada, stated that “marijuana remains illegal under federal law, and my job is to enforce federal law.” Trutanich has also made public statements that he doesn’t think “Nevada is safer because marijuana is available on every corner.

3.3(2) United States Regulatory Matters – CBD Hemp

United States Federal Regulation of Hemp under the 2018 Farm Bill

The *Agriculture Improvement Act of 2018* (the “**2018 Farm Bill**”) was signed into law on December 20, 2018. The 2018 Farm Bill, among other things, removes Hemp (including any part of the cannabis plant containing 0.3% THC or less), its extracts, derivatives, and cannabinoids from the Federal CSA, and allows for federally-sanctioned Hemp production under the purview of the USDA, in coordination with state departments of agriculture that elect to have primary regulatory authority.¹ States,² U.S. territories, and Tribal governments can adopt their own regulatory plans, even if more restrictive than federal regulations, so long as the plans meet minimum federal standards and are approved by the USDA. Hemp production in states and tribal territories that do not choose to create their own plans (and that do not prohibit hemp production) will be governed by USDA regulation. A producer’s failure to adhere to the State’s plan or other applicable federal law could result in federal prosecution. The USDA is now promulgating rules for implementation of the new federally authorized program. Notwithstanding the passage of the 2018 Farm Bill, the industrial hemp cultivation and research provisions contained in Section 7606 of the *Agricultural Act of 2014* (the “**2014 Farm Bill**”) will remain in effect pending the USDA’s rulemaking process. As a result, the 2014 Farm Bill will remain the primary federal law governing domestic hemp production for at least the 2019 growing season, and will be repealed one year after the USDA establishes regulations governing Hemp production in states without their own USDA-approved plans. Under both the 2014 and the 2018 Farm Bill, states have authority to adopt their own regulatory regimes, and as such, regulations will likely continue to vary on a state-by-state basis.

The 2018 Farm Bill removed Hemp from the Federal CSA by amending the definition of marijuana to exclude Hemp as defined in the 2018 Farm Bill, making Hemp an ordinary agricultural commodity. Despite continued regulation of the hemp industry, this newly enacted legislation eliminates much legal ambiguity concerning the interplay of Federal and State law. Federal law now provides that any CBD derived from Hemp is not a controlled substance under the Federal CSA; however, CBD derived from Hemp could still be considered a controlled substance under applicable state law.

Regulation concerning production of Hemp requires a State or Tribal government desiring primary regulatory authority to submit to USDA a plan for Hemp production under which the State or Indian tribe monitors and regulates production. Additionally, subject to narrow exceptions applicable to 2014 Farm Bill pilot program participants, individuals convicted of felony narcotic related offenses, within the past ten years, are barred from participating in hemp production.

The Secretary of Agriculture has been mandated with creating a Federal licensing scheme. Currently, there is no Federal licensing scheme in place, and no state plans have been approved by the USDA. USDA has stated it will not approve state plans until such time as it

¹ H.R. 2, 115th Cong. § 10111 (2018).

² The term ‘State’ means— “(A) a State; “(B) the District of Columbia; “(C) the Commonwealth of Puerto Rico; and “(D) any other territory or possession of the United States.

finalizes rules governing Hemp production in states that do not submit their own Hemp production plans. USDA has projected that rules will be finalized in time for the 2020 growing season. States have the express authority to adopt more stringent plans governing Hemp production if such states submit plans approved by USDA that meet minimum federal standards.

Hemp and related products can be moved in interstate commerce if produced in compliance with State and Federal law. Specifically, under the 2018 Farm Bill, no State can prohibit the transportation of Hemp or Hemp products within and between the States, if the Hemp or Hemp product was produced in accordance with the 2018 Farm Bill production requirements.

Under the 2018 Farm Bill, Hemp is no longer excluded from Federal Crop Insurance coverage. In this respect the law treats Hemp like any other agricultural commodity. Further, Hemp research has received additional eligibility for Federal funding. Federally insured banks can now serve Hemp producers operating in compliance with applicable law.

In sum, due to the fact that the federal government is now regulating Hemp and its derivatives as an agricultural crop and has lifted previous limitations on the cultivation and sale of Hemp, the legality of producing CBD products derived from Hemp has been greatly expanded and clarified by the 2018 Farm Bill. However, until the 2018 Farm Bill is fully implemented, which is expected upon final USDA rulemaking later this year, the limited research pilot program provisions of the 2014 Farm Bill still govern. Under the 2014 Farm Bill, many states have limitations as to lawful activity under state law with respect to commercial production and sale.

Further, it should be noted that a common misunderstanding surrounding the passage of the 2018 Farm Bill is that the legislation has also legalized CBD and various CBD products in all circumstances. This stems from a clause in Section 12619 of the 2018 Farm Bill which exempts Hemp and its derivatives from the Federal CSA by excluding Hemp and its derivatives from the definition of “marihuana” (marijuana). Accordingly, where CBD is derived from Hemp, it is not a controlled substance. However, while many state controlled substances laws mirror the Federal CSA as amended by the 2018 Farm Bill, some states have more restrictive laws governing Hemp and Hemp-derived CBD products. In addition, many states are in the process of reforming state criminal laws to conform with the change in Federal law.

Federally, cannabis derived CBD will remain illegal, but the 2018 Farm Bill does create certain exceptions to this rule. Under Section 12619, the production of any cannabinoid that is derived from Hemp would be considered legal, provided that the production meets all of the federal regulations, state level regulations, and other guidelines in a manner that is consistent with the 2018 Farm Bill (such as the production being carried out by a licensed cultivator in an appropriate setting). If any of these conditions aren't met, then the cannabinoid produced would be considered illegal under the 2018 Farm Bill and/or the Federal CSA.

In addition, commercial CBD products derived from cannabis that are specially approved by the FDA, such as the anti-convulsant medication, Epidiolex, the active ingredient of which is cannabis-derived CBD, would also not be classified as Schedule I controlled substances under the Federal CSA. After the FDA approved Epidiolex for sale, Epidiolex was independently scheduled in the Federal CSA as a Schedule V drug.

It should also be noted that the 2018 Farm Bill does not change anything affecting state-level adult-use or medicinal cannabis programs. Cannabis-derived CBD products produced by or produced for state-level adult-use or medicinal cannabis programs were not legalized under the 2018 Farm Bill and remain illegal at the federal level.

Development of Current Regulatory Framework

In addition to customary regulations applicable to any commercial business, Bhang's operations related to Hemp are subject to state and federal regulation in respect of the production, distribution and sale of products intended for human ingestion or topical application. The 2018 Farm Bill expressly made no amendments to the Federal Food Drug and Cosmetic Act ("**FDCA**") which applies to the production and sale of all products intended for human or animal consumption introduced into interstate commerce.

Hemp is an agricultural commodity cultivated for use in the production of a wide range of products globally. Among others, hemp is used in the agriculture, textile, recycling, automotive, furniture, food and beverage, paper, construction materials and personal care industries.

Botanically, Hemp is categorized as *Cannabis sativa* L., a subspecies of the cannabis genus. Numerous unique, chemical compounds are extractable from Hemp, including THC and CBD. These cannabinoids are responsible for a range of potential psychological and physiological effects. Hemp is distinguishable from its cousin marijuana, which also comes from the *Cannabis sativa* L. subspecies, by its absence of more than trace amounts (0.3% or less) of the plant's primary psychoactive compound THC. Although international standards vary, other countries, such as Canada, have used the same THC potency standards to define Hemp.

Historically, the effects of federal tax rendered the domestic farming of hemp impractical. In addition, with the science of distinguishing hemp from marijuana undeveloped, and fearful of hemp as a psychoactive substance, states legally restricted growth and cultivation of the hemp plant. Subsequently, federal legislation scheduled all cannabis grown in the United States as a controlled substance, and as a result, until the passage of the 2014 Farm Bill, cultivating hemp for any purpose in the United States without a Schedule I registration with the DEA was illegal. Presently, the 2014 Farm Bill allows industrial hemp to be cultivated within the context of a state agricultural pilot program and where permitted by state law.

The 2014 Farm Bill

In 2014, Congress enacted the 2014 Farm Bill. The 2014 Farm Bill allows institutions of higher education or state departments of agriculture to cultivate industrial hemp for research purposes, *notwithstanding the Federal CSA or any other federal law*, provided certain conditions are met. The scope of the 2014 Farm Bill is limited to cultivation that is: (a) for research purposes (inclusive of market research); (b) part of an "agricultural pilot program" or other agricultural or academic research; and (c) permitted by state law. "**Industrial hemp**" is defined in federal law as the plant *Cannabis sativa* L., and any part of such plant, whether growing or not, with a delta-9 THC concentration of not more than 0.3% on a dry weight basis. The 2014 Farm Bill does not provide a federal regulatory framework or require states to adopt and implement hemp programs.³ As a result, many state regulatory and enforcement agencies continue to prohibit the production and sale of Hemp and hemp-derived CBD products.

³ Federal policy guidance issued by the USDA, the FDA and DEA in 2016 (the "**Statement of Principles**") states that the scope of lawful activity under the 2014 Farm Bill is limited to sales of hemp products with a research purpose and is permitted only amongst states that authorize such sales. While the Statement of Principles remains informative as to the respective federal agencies' interpretation of the 2014 Farm Bill, it is worth noting that the Statement of Principles is not legally binding and is disputed by many, including members of Congress who drafted the 2014 Farm Bill, as contravening the intent of the 2014 Farm Bill and exceeding the FDA's, USDA's, and DEA's authority. However, as recently as February 27, 2019, the USDA referenced the Statement of Principles as "additional guidance" that remains applicable to the 2014 Farm Bill.

Notwithstanding the fact that Hemp and Hemp-derived CBD are now expressly removed from the Federal CSA, compliance with state law remains imperative under both the 2014 and 2018 Farm Bill.

The various state 2014 Farm Bill industrial hemp pilot programs have different requirements regarding the registration of cultivators and processors, the involvement of institutions of higher education, and permissible commercialization. The 2014 Farm Bill did not establish a federal regulatory framework and gave significant discretion to states to adopt regulations governing hemp activity. Any plant found to contain a higher concentration of THC than permitted by the 2014 Farm Bill (which uses the same THC threshold as the 2018 Farm Bill) is considered a Schedule I substance under the Federal CSA (i.e. marijuana) and is not protected by the 2014 Farm Bill.

Because hemp was criminalized for nearly a century, a critical element of state pilot programs is studying markets in which American farmers could profitably sell industrial hemp products.

DEA Position

The following discussion pertains to the DEA's position prior to the date the 2018 Farm Bill was enacted. To the knowledge of Bhang, the DEA has not expressed its position with respect to the 2018 Farm Bill; however, due to the fact that Hemp is explicitly exempted from the definition of "marihuana" (marijuana or "cannabis" as used herein) in the Federal CSA, the DEA no longer has authority over the production and distribution of Hemp.

The DEA published a regulation in 2016 (the "**2016 Final Rule**") also referred to as the "Marihuana Extract Rule," which states that all extracts from the cannabis plant are Schedule I controlled substances, regardless of which part of the cannabis plant the extracts are derived from. Although the DEA subsequently issued a clarification to the 2016 Final Rule, explaining that the 2016 Final Rule includes only extracts that fall within the Federal CSA definition of "marihuana", and does not include materials excluded from the Federal CSA definition of "marihuana", it makes clear that the DEA does not believe (or did not believe at the time) that CBD can be derived in commercially viable amounts from the parts of the plant exempted from CSA control. In coming to this conclusion, the DEA noted that cannabinoids are concentrated in the flower and that CBD present in stalk is generally due to the presence of resin. (Note again, that the DEA was referring to exemptions from the definition of "marihuana" (marijuana or "cannabis" as used herein) as that term was defined prior to the passage of the 2018 Farm Bill.) According to the DEA, resin from any part of the plant is clearly included in the CSA definition of "marihuana."

This position is again emphasized in the 2018 Ninth Circuit Court of Appeals case of Hemp Industries Association ("**HIA**"), et al., Petitioners, v. Drug Enforcement Administration, et al., Respondents, Nos. 03-71336; 03-71603, 2017 WL 10721879 (C.A.9) ("**HIA v. DEA III**"). In this case, HIA and other industry petitioners filed a Petition for Review seeking to block the implementation of the DEA's 2016 Final Rule on marihuana extracts, in part, claiming that the 2016 Final Rule conflicted with the 2014 Farm Bill. In response to the case, a bipartisan group of 29 congressional members submitted an amicus brief (the "**Amicus Brief**") arguing that the DEA's stance was in contravention of the 2014 Farm Bill and other laws, and that the intent and plain meaning of the 2014 Farm Bill was to open industrial hemp to national commercial activity. On April 30, 2018, the Ninth Circuit Court of Appeals denied the HIA's appeal of the 2016 Final Rule based on procedural grounds, but importantly confirmed that *the 2014 Farm Bill adequately acknowledges the conflict and pre-empts the Federal CSA*, confirming that the 2016 Final Rule does not apply to industrial hemp grown lawfully under the 2014 Farm Bill. As noted

above, the passage of the 2018 Farm Bill and its corresponding amendments to the Federal CSA changes this analysis.

On May 22, 2018, the DEA issued an internal directive to its agents concerning the legality of Hemp and Hemp-derived products. The key language states:

Products and materials that are made from the cannabis plant and which fall outside the [Federal] CSA definition of marijuana (such as sterilized seeds, oil or cake made from the seeds, and mature stalks) are not controlled under the CSA. Such products may accordingly be sold and otherwise distributed throughout the United States without restriction under the [Federal] CSA or its implementing regulations. The mere presence of cannabinoids is not itself dispositive as to whether a substance is within the scope of the [Federal] CSA; the dispositive question is whether the substance falls within the [Federal] CSA definition of marijuana.

Further, they clarified the controversial “marijuana extract” rule:

This directive does not address or alter DEA’s previous statements regarding the drug code for marijuana extract and regarding resin. See Establishment of a New Drug Code for Marijuana Extract, 81 Fed. Reg. 90194 (Dec. 14, 2016); Clarification of the New Drug Code (7350) for Marijuana Extract. As DEA has previously explained, the drug code for marijuana extract extends no further than the [Federal] CSA does, and it thus does not apply to materials outside the [Federal] CSA definition of marijuana.

To be clear, the DEA has stated that it has no enforcement authority over hemp or hemp products that are excluded from the Federal CSA. This may include any product derived from Hemp grown as part of a 2014 Farm Bill-authorized pilot program, which the 2014 Farm Bill explicitly includes “notwithstanding” the Federal CSA, or lawfully imported hemp. (The Ninth Circuit Court of Appeals stated the 2014 Farm Bill “contemplates potential conflict between the Controlled Substances Act and pre-empts it.”)

Despite the DEA’s concession that it maintains no jurisdiction with regard to 2014 Farm Bill authorized activities, there remains concern over the extent to which other federal, state and local agencies, as well as financial institutions and service providers, defer to the DEA’s earlier, negative rhetoric towards the 2014 Farm Bill in the Statement of Principles and a possible reaction to the new and not yet fully implemented 2018 Farm Bill.

Since the 2018 Farm Bill established a clear regulatory framework for the cultivation and sale of Hemp, and amended the Federal CSA to expressly exclude Hemp, Bhang believes that the position of the DEA should change and that no action against Bhang will be taken by the DEA as long as Bhang strictly complies with the requirements of the 2014 Farm Bill or the 2018 Farm Bill, and state law, as applicable.

FDA Approval of Epidiolex

On June 25, 2018, the FDA issued to GW Pharmaceuticals plc its approval for Epidiolex, the first cannabis-derived prescription medicine to be available in the U.S. The active ingredient in Epidiolex is CBD. Following the FDA’s approval, the DEA announced on September 27, 2018, its scheduling of Epidiolex as a Schedule V controlled substance, placing the drug in the least

restrictive category of control under the Federal CSA.⁴ At this time, Epidiolex is the only drug included in this classification, which also applies to any future FDA-approved drugs that contain CBD derived from cannabis with no more than 0.1% THC.⁵ Marijuana (or “cannabis” as used herein), as defined in the Federal CSA, continues to be classified as a Schedule I controlled substance, and CBD derived from *marijuana* is likewise classified as a Schedule I drug. The Schedule V designation does not apply to CBD as a substance on its own or to non-FDA approved products containing CBD, for which the legal status is dependent on its source.

State Regulation of Hemp

States take varying approaches to regulating the production and sale of Hemp and Hemp-derived CBD under the 2014 Farm Bill and state food and drug laws. While some States explicitly authorize and regulate the production and sale of CBD or otherwise provide legal protection for authorized individuals to engage in commercial Hemp activities, other States maintain outdated drug laws that do not distinguish between marijuana (or “cannabis” as used herein), hemp and/or hemp-derived CBD, resulting in hemp being classified as a controlled substance under certain state laws. In these states, sale of CBD, notwithstanding origin, is either restricted to state medical or adult-use cannabis program licensees or remains otherwise unlawful under state criminal laws. Additionally, a number of States prohibit the sale of consumable CBD products based on the FDA’s position that, pursuant to the FDCA it is unlawful to introduce food containing added CBD or THC into interstate commerce, or to market CBD or THC products as, or in, dietary supplements, regardless of whether the substances are hemp-derived.

Under the 2018 Farm Bill there will be significant, shared state-federal regulatory authority over the production of Hemp. States and Tribal governments have the option to have primary regulatory authority over Hemp production in their jurisdictions by submitting regulatory plans to USDA that meet minimal federal standards. Under section 10113 of the 2018 Farm Bill, state departments of agriculture must consult with the State’s governor and chief law enforcement officer to devise a plan that must be submitted to the Secretary of the USDA. A State’s plan to license and regulate Hemp production can only commence once the Secretary of the USDA approves that State’s plan. In States opting not to devise a Hemp regulatory program, and that do not otherwise prohibit hemp production, the USDA will construct a regulatory program under which Hemp cultivators in those States must apply for licenses and comply with a federally governed program. Additionally, pursuant to the 2018 Farm Bill, a State is not required to authorize or permit the production and sale of Hemp or Hemp products. As a result, it is possible that a limited number of States will maintain laws that could be interpreted to prohibit the manufacture, possession and sale of Hemp-derived CBD products.

Bhang contracts with licensed Hemp processors and/or manufacturers in Kentucky and Nevada to produce the Hemp and CBD products it sells and/or plans to sell. Although Bhang intends to expand its distribution to other states when the regulatory environment permits, Bhang does not currently sell its Hemp-derived CBD products to customers residing in: Alabama, Arizona,

⁴ Schedule of Controlled Substances, 83 Fed. Reg. 48950 (Sept. 28, 2018) (to be codified at 21 C.F.R. part 1308); Importation and Exportation of Controlled Substances, 83 Fed. Reg. 48950 (Sept. 28, 2018) to be codified at 21 C.F.R. part 1312), <https://www.federalregister.gov/documents/2018/09/28/2018-21121/schedules-of-controlled-substances-placement-in-schedule-v-of-certain-fda-approved-drugs-containing>.

⁵ The schedule V designation includes, “(b) A drug product in finished dosage formulation that has been approved by the U.S. Food and Drug Administration that contains cannabidiol (2- [1R-3- methyl-6R-(1-methylethenyl)-2- cyclohexen-1-yl]-5-pentyl-1,3- benzenediol) derived from cannabis and no more than 0.1 percent (w/w) residual tetrahydrocannabinols,” *See Id.*

Connecticut, Idaho, Iowa, Louisiana, Maryland, Michigan, Mississippi, Nebraska, New Hampshire, New Jersey, Ohio, South Dakota, Texas, Virginia and West Virginia. A regulatory overview of Hemp and Hemp-derived CBD in the states that Bhang Inc. sells its Hemp-derived CBD products is described in the following sections.

Alaska: Alaska’s industrial hemp pilot program was established in April 2018.⁶ Industrial hemp is regulated as an agricultural crop in the state and the production and sale of hemp-derived food products is expressly authorized by Alaskan law. The law removes “industrial hemp” from the definition of “marijuana,” and “CBD oil” from the definition of “hashish oil” under state law.⁷ “Industrial hemp” is defined as all parts and varieties of the plant *Cannabis sativa* L. containing not more than 0.3% delta-9 THC,⁸ and “Cannabidiol oil” is defined as the viscous liquid concentrate of cannabidiol extracted from the plant (genus) *Cannabis* containing not more than 0.3 % delta-9 THC.⁹ Alaska’s Department of Natural Resources (“DNR”), through the Division of Agriculture, recently released proposed regulations necessary to implement the program, but regulations have not yet been finalized.¹⁰ Once implemented, an individual registered to participate in the program will be permitted to produce industrial hemp. “Production” is defined at Ch. 5, SLA 2018 as the growing, harvesting, possessing, transporting, processing, selling, and buying of industrial hemp. According to the proposed regulations, registrations will be available for hemp growers, processors, and retailers.¹¹ In Alaska, food products, hemp-derived or otherwise, are regulated pursuant to the Alaska Food, Drug & Cosmetic Act, which has been amended to specify that “[f]ood is not adulterated [as defined in state law]...solely because it contains industrial hemp [as defined in state law],...or an industrial hemp product.”¹²

Arkansas: In Arkansas, hemp-derived CBD that contains no more than 0.3% THC is exempted from the definition of marijuana under the Uniform Controlled Substances Act.¹³ Arkansas’ industrial hemp legislation was adopted in May of 2017, with regulations for implementation having taken effect on August 31, 2018.¹⁴ The regulations allow for private parties to participate in the program and authorize commercial use as a legitimate research purpose under the 2014 Farm Bill.¹⁵ Arkansas’ industrial hemp program permits the sale and transfer of marketable hemp products, including hemp-derived CBD, to members of the general public, both within and outside the state, provided that the marketable hemp product does not contain more 0.3% decarboxylated delta-9-THC or as adopted by federal law in the Federal CSA.¹⁶ A licensed grower or licensed processor/handler selling or transferring, or permitting the sale or transfer, of floral or plant extracts (including CBD), must retain testing data or results for at least three (3) years demonstrating that the extract’s decarboxylated delta-9-THC level is not more than

⁶ SB 6, Available at <http://www.akleg.gov/basis/Bill/Detail/30?Root=SB0006>

⁷ ALASKA STAT. ANN. § 11.71.900(11) & (14), *See also*: ALASKA STAT. ANN. § 17.38.900(10).

⁸ ALASKA STAT. ANN. § 03.05.100(5).

⁹ ALASKA STAT. ANN. § 11.71.900(31).

¹⁰ *Draft Hemp Regulations*, ALASKA DEP’T. OF NATURAL RESOURCES, <http://plants.alaska.gov/pdf/Industrial%20Hemp%20Regulations%20Public%20Notice%20Draft%205-31-19%20Final.pdf> (last visited June 21, 2019).

¹¹ *Id.*

¹² ALASKA STAT. ANN. § 17.20.020 (2018).

¹³ H.B. 1518, 92nd Gen. Assemb., Reg. Sess. (Ark. 2019) (to be codified at ARK. CODE ANN. § 5-64-101(15)(B)).

¹⁴ ARK. CODE ANN. § 2-15-401 to -412 (2018).

¹⁵ *Id.*

¹⁶ *Regulations on the Industrial Hemp Research Program in Arkansas, Section 12(C)*, ARKANSAS STATE PLANT BOARD (Aug. 31, 2018), https://www.agriculture.arkansas.gov/Websites/aad/files/Content/6350524/8-31-2018_Final_Rule-AR_Industrial_Hemp_Research_Program_in_Arkansas.pdf.

0.3%.¹⁷ Licensed growers and licensed processor/handlers must comply with the FDCA and all other applicable local, state, and federal laws and regulations relating to product development, product manufacturing, consumer safety, and public health.¹⁸

California: California’s industrial hemp program is administered by the California Department of Food and Agriculture (the “**C DFA**”), which has delegated registration and oversight authority to county agricultural commissioners. In September 2018, California lawmakers passed a law (Senate Bill 1409), allowing CDFA to establish, by regulation, an agricultural pilot program that is compliant with the 2014 Farm Bill. That regulation has not yet been established; however, as of April 30, 2019, private growers may register with their local county agricultural commissioners to cultivate industrial hemp for commercial purposes.¹⁹ California law does not currently regulate (and licenses are not currently available) the private manufacturing, processing, or sale of non-food industrial hemp or industrial hemp products. California Department of Public Health (the “**CDPH**”) policy, last updated July 6, 2018, prohibits the sale of any food (including animal food or feed) to which hemp-derived CBD has been added.²⁰ California defines “food” as: (a) any article used or intended for use for food, drink, confection, condiment, or chewing gum by man or other animal; or (b) any article used or intended for use as a component of any article designated in subdivision (a).²¹ Notably, this policy does not apply to the state’s adult-use and medical cannabis program. Cannabis-derived CBD products may still be sold by licensed cannabis dispensaries.²² The policy states that CBD products will not be an approved food, food ingredient, food additive, or dietary supplement in California until the FDA rules that hemp-derived CBD can be used for those purposes, or until California determines that hemp-derived CBD is safe to use for human and animal consumption. However, the policy clarifies that hemp seed and hemp seed oil are permitted ingredients in food products so long as no health benefit claims are made about such products.²³ Notwithstanding the CDPH’s policy, Assembly Bill 228 was introduced in January 2019, to approve the use of such ingredients in food, and to specify “that a food, beverage, or cosmetic is not adulterated by the inclusion of industrial hemp or cannabinoids, extracts, or derivatives from industrial hemp.”²⁴ If enacted, AB 228 would also prohibit the imposition of any additional restrictions on the sale of food, beverages, or cosmetics that include industrial hemp or cannabinoids, extracts, or derivatives from industrial hemp based solely on the inclusion of industrial hemp or cannabinoids, extracts, or derivatives from industrial hemp.²⁵ AB 228 was amended and

¹⁷ *Regulations on the Industrial Hemp Research Program in Arkansas, Section 12(D)*, ARKANSAS STATE PLANT BOARD (Aug. 31, 2018), https://www.agriculture.arkansas.gov/Websites/aad/files/Content/6350524/8-31-2018_Final_Rule-AR_Industrial_Hemp_Research_Program_in_Arkansas.pdf.

¹⁸ *Regulations on the Industrial Hemp Research Program in Arkansas, Section 12(F)*, ARKANSAS STATE PLANT BOARD (Aug. 31, 2018), https://www.agriculture.arkansas.gov/Websites/aad/files/Content/6350524/8-31-2018_Final_Rule-AR_Industrial_Hemp_Research_Program_in_Arkansas.pdf.

¹⁹ See *Frequently Asked Questions: Industrial Hemp Registration Process*, CAL. DEP’T OF FOOD AND AGRIC. (updated May 6, 2019), <https://www.cdfa.ca.gov/plant/industrialhemp/docs/FAQ-IH-RegistrationProcess.pdf>.

²⁰ California Department of Public Health Food and Drug Branch, *FAQ – Industrial Hemp and Cannabidiol (CBD) in Food Products*, (last updated July 6, 2018), <https://www.cdph.ca.gov/Programs/CEH/DFDCS/CDPH%20Document%20Library/FDB/FoodSafetyProgram/HEMP/Web%20template%20for%20FSS%20Rounded%20-%20Final.pdf>

²¹ California Health & Safety Code § 109935.

²² California Department of Public Health Food and Drug Branch, *FAQ – Industrial Hemp and Cannabidiol (CBD) in Food Products*, (last updated July 6, 2018), <https://www.cdph.ca.gov/Programs/CEH/DFDCS/CDPH%20Document%20Library/FDB/FoodSafetyProgram/HEMP/Web%20template%20for%20FSS%20Rounded%20-%20Final.pdf>

²³ *Id.*

²⁴ AB 228 (2019), http://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201920200AB228

²⁵ *Id.*

passed out of the Committee on Health March 14, 2019, with 15 votes in favor and 0 votes opposed.²⁶ The bill was then amended and passed again by the Business and Professions Committee March 26, 2019, with 20 votes in favor and 0 votes opposed.²⁷ AB 228 was subsequently re-referred to the Assembly Appropriations Committee that same day.²⁸ On May 22, 2019, the bill was passed by the General Assembly and sent to the Senate.²⁹ The bill is currently in the Senate committee process, and has significant bipartisan support.³⁰

Colorado: The Colorado Department of Agriculture’s Program regulates the cultivation (growing) of Hemp and is administered by the Colorado Department of Agriculture (the “**CDA**”) pursuant to the Colorado Industrial Hemp Regulatory Program Act. Processing and/or extraction is governed by the Colorado Department of Public Health & Environment (“**CDPHE**”), which permits registered persons in the State of Colorado to carry out the processing, sale, and distribution of Hemp-based products. Passed in 2012, Amendment 64 to the Colorado Constitution directed the General Assembly to enact legislation governing the cultivation, processing and sale of industrial hemp by July 1, 2014.³¹ In 2013, responsibility for establishing regulations pertaining to the cultivation of industrial hemp, including registration and inspection, was delegated to the CDA.³² The CDA adopted rules and regulations that set forth requirements for registration, inspection, and testing.³³ Registration requirements include but are not limited to: disclosing the name and address of the entity that will hold the registration, and the name of each officer, director, member, partner or owner of at least 10% of the entity and any other person who has managing or controlling authority over the entity; providing the CDA with GPS coordinates and a map of the land area where the Hemp will be cultivated; listing the intended use of harvested Hemp materials; and payment of a non-refundable fee.³⁴ All registrants are subject to routine inspection and sampling by the CDA to verify that the THC concentration of the plants being cultivated does not exceed 0.3% on a dry weight basis, and to ensure registrants are complying with applicable reporting requirements.³⁵

The Colorado Industrial Hemp Regulatory Program Act expressly authorizes two distinct categories of Hemp cultivation registration to be issued and administered by the CDA: (i) research and development; and (ii) commercial. “Research and Development” is defined as the “cultivation of industrial hemp by an institution of higher education under the pilot program administered by the CDA for purposes of agricultural or academic research in the development of growing industrial hemp.”³⁶ In comparison, “Commercial” is defined as “the growth of industrial hemp, for any purpose including engaging in commerce, market development and market research, by any person or legal entity other than an institution of higher education or under a pilot program administered by the CDA for purposes of agricultural or academic research in the development of growing industrial hemp.”³⁷ Further, the Colorado Food and Drug Act establishes that food, cosmetics, drugs, and devices, as those terms are defined in the act, are not adulterated or misbranded by virtue of containing industrial hemp, so long as such

²⁶ Assembly Bill 228 (2019), Bill History, (last visited April 04, 2019)
http://leginfo.legislature.ca.gov/faces/billHistoryClient.xhtml?bill_id=201920200AB228

²⁷ *Id.*

²⁸ *Id.*

²⁹ *Id.*

³⁰ *Id.*

³¹ Colo. Const. art. XVIII, § 16.

³² Colorado Senate Bill 13-241.

³³ 8 CCR 1203-23.

³⁴ *Id.*

³⁵ *Id.*

³⁶ 8 CCR §1203-23(1.12).

³⁷ 8 CCR §1203-23(1.3).

products are produced by a wholesale food manufacturing facility that has registered with the CDPHE, and the finished product contains a delta-9 THC concentration of no more than three-tenths of one percent (0.3%).

Delaware: Hemp is defined in Delaware law as the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with the federally defined delta-9 THC concentration of not more than 0.3 percent on a dry weight basis, or the THC concentration for hemp defined in 7 U.S.C. sec 5940, whichever is greater.³⁸ In Delaware, hemp is considered an agricultural commodity and is defined as a grain under Del. Code Title 3.³⁹ Delaware permits institutions of higher education to cultivate hemp notwithstanding any law or regulation to the contrary;⁴⁰ but the state’s definition of marijuana does not exclude industrial hemp indicating that state protections may only be available to program registrants. Although Delaware’s hemp program is currently restricted to research purposes, Delaware passed a law in 2018 authorizing the state Department of Agriculture to “[a]dopt any policies and regulations necessary to permit the cultivation of industrial hemp when federal law permits the cultivation of industrial hemp beyond agricultural or academic research.”⁴¹ The Department of Agriculture has already formed an internal committee to develop the state’s hemp production plan, but clarified that the agency will not submit a plan to the USDA for approval pursuant to the 2018 Farm Bill until the USDA promulgates its regulations.⁴²

Florida: Florida enacted industrial hemp legislation in 2017 to establish a research program pursuant to the 2014 Farm Bill.⁴³ Florida law allows for the state Department of Agriculture and Consumer Services to work with any land grant university in the state that has a college of agriculture to research industrial hemp.⁴⁴ Participation in the research program is currently limited to state universities and does not currently allow commercial production; however, universities may develop pilot projects in partnership with public, nonprofit, and private entities.⁴⁵ Florida defines “cannabis” in its criminal code to include, “all parts of any plant of the genus *cannabis*, whether growing or not; the seeds thereof; the resin extracted from any part of the plant; and every compound, manufacture, salt derivative, mixture, or preparation of the plant or its seeds or resin.”⁴⁶ The term does not include “marijuana,” *if manufactured, possessed, sold, purchased, delivered, distributed, or dispensed, in conformance with §381.986* [Florida’s Medical Marijuana Program statutes];⁴⁷ however, the definition does not exempt industrial hemp as defined under the 2014 (or 2018) Farm Bill, or parts of the cannabis plant, such as the stalks and sterile seeds, that have long been exempt from the Federal CSA definition of marijuana. In addition, the state defines “industrial hemp” specific to that which is cultivated or possessed by “an approved grower under the pilot project, limiting the scope of legal protection to program participants operating within the parameters of the limited research program.”⁴⁸ Although infrequent, there have been enforcement actions commenced against retailers selling

³⁸ Del. Code Title 3 §2801(2).

³⁹ Del. Code Title 3

⁴⁰ 3 Delaware Code § 2802(a).

⁴¹ 3 Delaware Code § 101(11).

⁴² “What Action is Delaware Taking on Commercial Hemp Production?” Delaware Department of Agriculture. <https://agriculture.delaware.gov/plant-industries/hemp-program/>.

⁴³ Florida Annotated Statutes §1004.4473.

⁴⁴ Florida Annotated Statutes §1004.4473(2)(a).

⁴⁵ See *generally* Florida Annotated Statutes §1004.4473.

⁴⁶ Florida Annotated Statutes § 893.02(3).

⁴⁷ Florida Annotated Statutes § 893.02(3), see *also*: Florida Annotated Statutes § 381.986(f).

⁴⁸ Florida Annotated Statutes §1004.4473(1)(c).

hemp-derived CBD products in Florida, which involved seizures of hemp flower shipments intended for delivery in Tallahassee, Florida, as well as seizures of CBD products on store shelves that were allegedly produced lawfully in other states. However, Senate Bill 1020, a bill that would remove limitations in the current law and allow the production and sale of hemp as an agricultural crop in the state under the 2018 Farm Bill has passed the legislature and is awaiting the governor's signature. State officials have confirmed their intent to regulate hemp as an agricultural commodity and expand the current program. Florida Department of Agriculture and Consumer Services Commissioner ("**FDACS**"), Nikki Fried, has made public statements expressing the need for the passage of state hemp program legislation,⁴⁹ and the agency website states that "FDACS is currently reviewing the [2018] Farm Bill requirements and working quickly to submit the required regulatory plan to the U.S. Department of Agriculture for approval."⁵⁰ On May 3, 2019, Senate Bill 1020 was passed by the Florida Legislature. The Bill has been enrolled and presented to the governor for signature. SB 1020 creates a commercial hemp farming program, legalizes CBD and the sale of hemp extracts, and removes hemp and industrial hemp from the definition of cannabis under state law resulting in hemp no longer being a controlled substance in the state of Florida.⁵¹ The bill also provides that hemp-derived cannabinoids, including, but not limited to CBD, are not adulterants under state law.⁵² Rules implementing SB 1020 will be issued by the Florida Department of Agriculture no later than August 1, 2019,⁵³ and licenses will thereafter be issued to those seeking the right to cultivate hemp. Hemp extract may be distributed and sold in Florida as long as (i) the product has a certificate of analysis prepared by an independent testing laboratory reflecting that the THC content does not exceed 0.3 percent on a dry-weight basis; (ii) does not contain contaminants; and (iii) is distributed or sold in compliant packaging.⁵⁴

Georgia: On May 10, 2019, Georgia enacted the "Georgia Hemp Farming Act." The act establishes a commercial hemp program in accordance with the 2018 Farm Bill and removes "hemp" as defined in the 2018 Farm Bill from the definitions of marijuana and THC under state law.⁵⁵ The state definition of "hemp products" includes all products made from hemp with a THC concentration of 0.3% or less, but excludes from that definition "food products infused with THC unless approved by the [FDA]."⁵⁶ THC is defined in state law as including delta-9 THC and THCA.⁵⁷ The act does not prohibit or address the retail sale of consumable CBD products; however, the Georgia Department of Agriculture's ("**GDA**") Food Safety Division published a press release in response to the bill's passage, which states that Georgia adopts the FFDCa and the FDA's position on the use of CBD in food, animal feed, and dietary supplements.⁵⁸ Commissioner Black of the GDA Food Safety Division stated that, "[u]ntil FDA changes their regulations, the Department cannot license or otherwise endorse the production of CBD

⁴⁹ Florida Department of Agriculture and Consumer Services, Have Questions About CBD in Florida? Here's What Consumers Need to Know, (March 08, 2019), <https://www.freshfromflorida.com/News-Events/Press-Releases/2019-Press-Releases/Have-Questions-About-CBD-in-Florida-Here-s-What-Consumers-Need-to-Know>.

⁵⁰ Florida Department of Agriculture and Consumer Services, Processing of Medical Marijuana Edibles at Treatment Centers, CBD and Hemp, (last visited April 04, 2019), <https://www.freshfromflorida.com/Business-Services/Food-Establishment-Inspections/Processing-of-Medical-Marijuana-Edibles-at-Treatment-Centers>.

⁵¹ SB 1020, 2019 Leg. (Fla. 2019).

⁵² *Id.*

⁵³ *Id.*

⁵⁴ *Id.*

⁵⁵ HB 213, 2019-2020 Reg. Sess. (Ga. 2019).

⁵⁶ *Id.*

⁵⁷ *Id.*

⁵⁸ Press release, *CBD Oil Still Unlawful as a Food Additive in Georgia*, GEORGIA DEP'T OF AGRIC. (May 10, 2019), <http://agr.georgia.gov/cbd-oil-still-unlawful-as-a-food-additive-in-georgia.aspx>.

adulterated food or feed products.”⁵⁹ The GDA is currently working to develop regulations for hemp production in the state of Georgia.⁶⁰ Licenses will not be issued until rules and regulations are in place.⁶¹

Hawaii: Hawaii’s industrial hemp pilot program allows the Hawaii Department of Agriculture (the “HDOA”) to work with licensees to research the growth, cultivation, and marketing of industrial hemp.⁶² In Hawaii, for purposes of the Hawaii Industrial Hemp Act, “[a]ny plant that meets the definition of ‘industrial hemp’ under [the Hawaii Industrial Hemp Act] shall not constitute “marijuana” as defined in section 329-1 or 712-1240, Hawaii Revised Statutes.”⁶³ Production for commercial purposes is permitted, as research into the marketing and industrial development of hemp includes “reporting market demand for industrial hemp varieties, raw materials, and end products, including identification of actual or potential hemp products, processors, product manufacturers, wholesalers, retailers, and targeted consumers.”⁶⁴ HDOA does not regulate processing, manufacturing, or sales. On March 4, 2019, the HDOA updated its FAQs stating that, despite the passage of the 2018 Farm Bill, “all of the current Hawaii Statutes and Rules are still applicable to the growth of hemp.”⁶⁵ However, a “new hemp regulatory program based upon the 2018 Farm Bill will likely be available for the 2020 growing season.”⁶⁶

On May 1, 2019, HDOA released an advisory titled “Hawai’i Department of Health advises consumers and businesses on cannabis-derived products including cannabidiol or CBD” (the “Advisory”).⁶⁷ The Advisory states that HDOA “intends to regulate all cannabis-derived products in a manner consistent with the approach of the [FDA].”⁶⁸ The Advisory also notes that “state statutes . . . prohibit businesses from adding CBD to food, beverages and cosmetics.”⁶⁹ The Advisory states that HDOA is “notifying businesses in Hawai’i of the illegal status of [cannabis-derived products, including products containing CBD,]” and cautions that “[a]ny establishment that fails to comply with this directive may be subject to the loss of their state food establishment permit and/or closure of their business by health inspectors.”⁷⁰ On May 6, 2019, the Hawaii Legislature passed Senate Bill 1353. The governor has until June 24, 2019 to sign the bill, veto the bill, or allow it to become law without signature. The bill requires the HDOA to establish a permanent industrial hemp program and to submit a state hemp plan to the USDA

⁵⁹ *CBD Oil Still Unlawful as a Food Additive in Georgia*, VALDOSTA TODAY (May 11, 2019), <http://valdostatoday.com/news-2/region/2019/05/cbd-oil-still-unlawful-as-a-food-additive-in-georgia/>.

⁶⁰ *See FAQs: Industrial Hemp Production in Georgia Agriculture*, GEORGIA DEP’T OF AGRIC., <http://www.agr.georgia.gov/industrial-hemp-production.aspx> (last visited May 31, 2019).

⁶¹ *Id.*

⁶² HAW. REV. STAT. § 141-31 to -41 (2018).

⁶³ S.B. 2175, 27th Leg., (Haw. 2014).

⁶⁴ HAW. REV. STAT. § 141-36(10)(D) (2018).

⁶⁵ *Industrial Hemp Pilot Program FAQs*, STATE OF HAW. DEP’T. OF AG. (Mar. 4, 2019), <http://hdoa.hawaii.gov/hemp/hemp-faqs/>

⁶⁶ *Id.*

⁶⁷ *Hawai’i Department of Health advises consumers and businesses on cannabis-derived products including cannabidiol or CBD*, HAWAI’I DEP’T OF HEALTH (May 1, 2019), <https://health.hawaii.gov/news/files/2019/05/19-027-DOH-Advisory-on-Products-Containing-CBD-and-Safety-002.pdf>.

⁶⁸ *Id.*

⁶⁹ *Hawai’i Department of Health advises consumers and businesses on cannabis-derived products including cannabidiol or CBD*, HAWAI’I DEP’T OF HEALTH (May 1, 2019), <https://health.hawaii.gov/news/files/2019/05/19-027-DOH-Advisory-on-Products-Containing-CBD-and-Safety-002.pdf>.

⁷⁰ *Id.*

for approval.⁷¹ The bill defines hemp as "the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 per cent on a dry weight basis" and excludes hemp from the statutory definition of marijuana.⁷² The bill also excludes the tetrahydrocannabinols found in hemp from the definition of tetrahydrocannabinols in Hawaii's controlled drug law.⁷³

Illinois: The Illinois Industrial Hemp Act allows both institutions of higher education and private parties to cultivate and process industrial hemp for use in a wide variety of products.⁷⁴ Regulations for implementation of the program were adopted April 29, 2019, and applications for registration as a grower or processor are now available.⁷⁵ Notably, the rules provide that the Illinois Department of Agriculture ("**IDOA**") "shall permit the sale or transfer of stripped stalks, fiber, dried roots, nonviable seeds, seed oils, floral and plant extracts (excluding THC in excess of 0.3%) and other marketable hemp products to members of the general public, both within and outside the State of Illinois."⁷⁶ Additionally, state law defines "industrial hemp" as the plant *Cannabis sativa* L. and any part of that plant, whether growing or not, with a delta-9 THC concentration of not more than 0.3% on a dry weight basis that has been cultivated under a license issued under this Act *or is otherwise lawfully present in this State*, and includes "any intermediate or finished product made or derived from industrial hemp."⁷⁷ State law explicitly excludes industrial hemp (and thus products derived therefrom) from the definition of "cannabis" in its drug control statutes.⁷⁸

Indiana: In Indiana, industrial hemp is an agricultural product that is subject to regulation by the State Seed Commissioner.⁷⁹ Indiana recently passed a hemp program expansion bill that aligns the state definition of hemp with the 2018 Farm Bill, requires the state to submit a hemp production plan to the USDA for approval, and provides that the State Seed Commissioners may *not* regulate hemp products.⁸⁰ The newly adopted law also defines "hemp product" as including extracts and cannabinoids, but notably excludes smokable hemp from that definition.⁸¹ Hemp buds and hemp flower are only permitted to be sold to state licensees.⁸² State law also allows for the purchase and use of "low THC hemp extract" (inclusive of CBD oil) that contains 0.3% THC or less so long as the product meets state-mandated testing, packaging, and labeling requirements.⁸³ Low THC hemp extract is defined as a substance or compound that: (1) is derived from or contains any part of the plant *Cannabis sativa* L. that meets the definition of industrial hemp under state law; (2) contains not more than 0.3% total delta-9-tetrahydrocannabinol (THC), including precursors, by weight; and (3) contains no other

⁷¹ SB 1353, 30th Leg., 2019 Reg. Sess. (Haw. 2019).

⁷² *Id.*

⁷³ *Id.*

⁷⁴ 505 ILL. COMP. STAT. 89/1 to /25 (2018).

⁷⁵ *Notice of Adopted Rules, Part 1200 Industrial Hemp Act*, Illinois Register (April 29, 2019), https://www2.illinois.gov/sites/agr/Plants/Documents/Hemp%20Rules%20as%20adopted_2019-04-29.pdf; *Industrial Hemp*, ILL. DEP'T. OF AGRIC., <https://www2.illinois.gov/sites/agr/Plants/Pages/Industrial-Hemp.aspx> (last visited June 4, 2019).

⁷⁶ ILL. ADMIN. CODE tit. 8 § 1200.90(c).

⁷⁷ 505 ILL. COMP. STAT. 89/5 (2018).

⁷⁸ 720 ILL. COMP. STAT. 550/3(a) (2018).

⁷⁹ IC 15-15-13-7(a).

⁸⁰ SB 516, 2019 Reg. Sess. (Ind. 2019).

⁸¹ *Id.*

⁸² *Id.*

⁸³ IND. CODE § 24-4-21-1 to -5 (2018).

controlled substances.⁸⁴ Indiana law requires products containing low THC hemp extract to have a scannable barcode or QR code that links to a document containing information such as: a batch number; product name; batch date; expiration date; batch size; total quantity produced; and ingredients used, including: the ingredient name, manufacturer, company or product number and ingredient lot number.⁸⁵ The document must also include a download link for a certificate of analysis for the low THC content.⁸⁶

Kansas: On April 18, 2019, the governor signed HB 2167, the Commercial Industrial Hemp Act, establishing a commercial industrial hemp program in accordance with the requirements of the 2018 Farm Bill.⁸⁷ Pursuant to the act, industrial hemp, hemp waste, and hemp products are now exempted from the definition of tetrahydrocannabinols in the state’s drug laws.⁸⁸ The new law also exempts industrial hemp from the definition of marijuana “when cultivated, produced, possessed or used for activities authorized by the Commercial Industrial Hemp Act.”⁸⁹ Although the act will permit commercial activity once the new program is implemented, sales of hemp cigarettes, cigars, chew, dip or other smokeless material (including vapes) containing industrial hemp by any person in the state of Kansas is prohibited.⁹⁰ The sale of hemp products containing any ingredient from industrial hemp that is prohibited pursuant to the Kansas Food, Drug, and Cosmetic Act or the Commercial Feeding Stuffs Act is also prohibited; however, such acts do not appear to mirror the FDCA unlawful acts section or expressly prohibit the use of hemp ingredients in such products. At present, the state operates pursuant to the Alternative Crop Research Act, which allows cultivation of industrial hemp for research purposes (including research into commercial viability) under the 2014 Farm Bill.⁹¹ The term “hemp products” is defined in the act as “including all products made from industrial hemp, including, but not limited to, cloth, cordage, fiber, food, fuel, paint, paper, particleboard, plastics, seed, seed meal and seed oil for consumption and certified seed for cultivation, if the seeds originate from industrial hemp varieties.”⁹² Industrial hemp plants, plant parts, grain or seeds can only be purchased, transferred, and sold to a business *outside of* Kansas if that business is licensed under an approved hemp agricultural pilot program.⁹³ Kansas law excludes cannabidiol from the definitions of marijuana in both the state’s controlled substances laws and the Kansas Criminal Code, meaning it is legal under Kansas law to possess or sell products or substances containing any amount of CBD⁹⁴ so long as other regulatory requirements that may apply to the particular product-type are satisfied. Kansas will continue to operate pursuant to its research program until the USDA or the state adopts implementing regulations for the new commercial program.

Kentucky: Kentucky’s robust Hemp Research Pilot Program is administered by the Kentucky Department of Agriculture⁹⁵ and allows for the Department of Agriculture to work with license holders and affiliated universities to study methods of cultivation, processing, and marketing of

⁸⁴ IND. CODE § 35-48-1-17.5 (2018).

⁸⁵ IND. CODE § 24-4-21-4 (2018).

⁸⁶ IND. CODE § 24-4-21-4 (2018).

⁸⁷ HB 2167, 2019 Reg. Sess. (Kan. 2019).

⁸⁸ *Id.*

⁸⁹ HB 2167, 2019 Reg. Sess. (Kan. 2019).

⁹⁰ *Id.*

⁹¹ KAN. STAT. ANN. §§ 2-3901 to -3903 (2018).

⁹² *Id.*

⁹³ *See generally* K.A.R. 4-34-1 – 20.

⁹⁴ *See* KAN. STAT. ANN. 65-4101(aa) (2019); KAN. STAT. ANN 21-5701(j) (2019).

⁹⁵ KY. REV. STAT. ANN. § 260.850 to .869 (2018).

industrial hemp.⁹⁶ On December 20, 2018, the Kentucky Department of Agriculture submitted plans to the USDA to maintain primary regulatory authority over Hemp production under the 2018 Farm Bill. The plan has not yet been approved, and the USDA has stated that it will not be approving any plans until federal regulations have been promulgated. Kentucky's current Industrial Hemp Pilot Program will remain in effect until new plans are approved by the USDA. The current program, regulates growers, processors, handlers and brokers of industrial hemp.⁹⁷ Additionally, in Kentucky, CBD derived from industrial hemp is excluded from the definition of marijuana, and therefore, it is not considered a controlled substance.⁹⁸ Kentucky does not require processors, handlers, brokers, or marketers of "publicly marketable hemp products" to have a license.⁹⁹ A "publicly marketable hemp product" is defined as a hemp product that "does not include any living hemp plants, viable seeds, leaf materials, floral materials, or delta-9-THC content above zero and three-tenths (0.3) percent" and includes "bare stalks, bast fiber, hurd fiber, nonviable roots, nonviable seeds, seed oils, and plant extracts."¹⁰⁰ Hemp-derived CBD isolate that does not contain more than 0.3% THC is considered a "publicly marketable hemp product," and thus can be transferred or sold to anyone; buyers are not required to be participants in the Hemp Research Pilot Program.¹⁰¹ While Kentucky does not prohibit the transfer of "publicly marketable hemp products" to other states, it does specify that the burden is on the registrant and any affiliate to ensure compliance with applicable federal, state, and local law.¹⁰² Additionally, Kentucky requires that all final batches of hemp-derived CBD extracts produced in Kentucky be tested to confirm that the batches do not contain more than 0.3% THC.¹⁰³ All test results must be retained by the program participants for a minimum of three years.¹⁰⁴

Maine: A person licensed by the Department of Agriculture, Conservation and Forestry may plant, grow, harvest, possess, process, sell and buy industrial hemp for both research and commercial purposes.¹⁰⁵ Seeds must be acquired from a certified seed source, and the pilot program does not regulate processing.¹⁰⁶ Maine provides an affirmative defense against prosecution for the unlawful trafficking of scheduled drugs under its drug control statutes for trafficking industrial hemp, although it appears the defense only applies to industrial hemp grown under the state's program.¹⁰⁷ The state recently amended its definition of "hemp" to better align with the 2018 Farm Bill definition; however, it still includes the following qualifier, "*and that is grown or possessed by a licensed grower in compliance with this chapter.*"¹⁰⁸ Although in February 2019, the Maine Department of Health and Human Services began ordering stores to remove all foods, tinctures and capsules containing hemp-derived CBD, because federal authorities do not recognize it as safe, the governor signed a bill on March 27,

⁹⁶ *Id.*

⁹⁷ KY. ADMIN. REGS 50:020; KY. ADMIN. REGS 50:030.

⁹⁸ KY. REV. STAT. ANN. § 218A.010(27) (2018).

⁹⁹ KY. ADMIN. REGS. 50:030 §2(1).

¹⁰⁰ *Id.* at §1(33).

¹⁰¹ *Industrial Hemp Research Pilot Program Transfer Requirements*, KY. DEP'T. OF AGRIC. (Jan. 1, 2018), http://www.kyagr.com/marketing/documents/HEMP_RSTR_Transfer-Requirements.pdf.

¹⁰² *Id.*

¹⁰³ *Id.*

¹⁰⁴ *Id.*

¹⁰⁵ ME. STAT. tit. 7 § 2231 (2018).

¹⁰⁶ *Id.*

¹⁰⁷ ME. STAT. tit. 17-a § 1103 (2018) ("It is an affirmative defense to prosecution under this section that the substance trafficked in is Industrial Hemp.").

¹⁰⁸ ME. STAT. tit. 7 § 2231(1) (2018).

2019, which provides that food, food additives or food products that contain hemp, including CBD derived from hemp, are not considered to be adulterated or misbranded under state law based solely on the inclusion of hemp or CBD derived from hemp.¹⁰⁹ The law further states, “The nonpharmaceutical or nonmedical production, marketing, sale or distribution of food, food additives or food products within the State that contain hemp may not be restricted or prohibited within the State based solely on the inclusion of hemp,” but still prohibits food and eating establishments from making any medical claims about hemp products without federal approval.¹¹⁰

Massachusetts: Massachusetts’ hemp pilot program is regulated by the Massachusetts Department of Agriculture (“**MDAR**”) and authorizes the cultivation and processing of hemp for both research and commercial purposes. “Hemp” is defined in state law as the plant of the genus *Cannabis* or any part of the plant, whether growing or not, with a delta-9-tetrahydrocannabinol concentration that does not exceed 0.3 per cent on a dry weight basis of any part of the plant of the genus *Cannabis*, or per volume or weight of marijuana product, or the combined per cent of delta-9-tetrahydrocannabinol and tetrahydrocannabinolic acid in any part of the plant of the genus *Cannabis* regardless of moisture content,¹¹¹ and exempted from the state’s definition of marijuana.¹¹² Under Massachusetts General Laws, Chapter 128 § 116-123, the planting, growing, harvesting, processing, and retail sale of hemp and hemp products is permitted, but requires licensing by MDAR. MDAR is currently only licensing growing and processing activities, but the agency has stated that it intends to revise the program to align with the 2018 Farm Bill once USDA regulations are promulgated.¹¹³ A person licensed by MDAR may plant, grow, harvest, possess, process, buy, or sell industrial hemp for either commercial or research purposes; however, the commercial purposes must be considered reasonable by the Commissioner. MDAR issued a policy confirming that production of CBD derived from a crop that is certified (by the Department of Agricultural Resources) as industrial hemp is a reasonable commercial purpose.¹¹⁴ At present, licensed processors may only utilize industrial hemp sourced from a licensed Massachusetts grower, unless otherwise authorized by federal law, and will need documentation demonstrating federal authorization.¹¹⁵

Minnesota: Minnesota’s industrial hemp pilot program permits a person licensed by the state Commissioner of Agriculture to possess, transport, process, sell, or buy industrial hemp for research and commercial purposes.¹¹⁶ The pilot program only governs hemp cultivation, processing, and marketing within the state of Minnesota, but it is not a violation of program rules to sell hemp seed, grain, plant material, or hemp products produced in the state of Minnesota to other states.¹¹⁷ Although Minnesota does not prohibit commercial sales of hemp products generally, it adopts the FDA’s interpretation of the FDCA, and prohibits the sale of food products

¹⁰⁹ H.P. 459 – L.D. 630, 129th Leg., Reg. Sess. (Me. 2019).

¹¹⁰ *Id.*

¹¹¹ M.G.L. c. 94G, § 1(e).

¹¹² M.G.L. c. 94G, § 1(g).

¹¹³ Massachusetts Department of Agriculture, Frequently Asked Questions: 2018 Farm Bill (updated February 25, 2019), https://www.mass.gov/files/documents/2019/02/25/FAQ%20Farm%20Bill%202018_0.pdf.

¹¹⁴ Massachusetts Department of Agriculture, Interim Policy Commercial Industrial Hemp Program, (April 30, 2018), <https://www.mass.gov/files/documents/2018/04/30/Hemp%20Policy.pdf>.

¹¹⁵ *Id.*

¹¹⁶ MINN. STAT. §§ 18K.01 to .09 (2018).

¹¹⁷ Minnesota Department of Agriculture, FAQs Regarding Minnesota’s Industrial Hemp Pilot Program, (last visited April 04, 2019), <https://www.mda.state.mn.us/plants/hemp/indsthempquestions>.

containing CBD or THC.¹¹⁸ A state licensee can produce CBD oil or extract from hemp plants if he or she clearly explains all proposed activities and methods in the annual hemp program application.¹¹⁹ The Minnesota Department of Agriculture confirmed that registrants cannot produce or market CBD oil as a medicine, make any medical claims on the label or in marketing, or sell a product intended for human consumption if it has any traces of cannabinoids in it; however, agency policy confirms that production of food products using hemp seed or grain is permitted.¹²⁰

Missouri: Missouri’s agricultural pilot program allows program registrants to cultivate, process, and market industrial hemp and exempts industrial hemp from the state’s definition of marijuana.¹²¹ Implementing regulations are not yet final and will likely determine the scope of permitted commercial activity. The term industrial hemp is broadly defined to include industrial hemp commodities and products and topical or ingestible animal and consumer products derived from industrial hemp with a delta-9 THC concentration of not more than 0.3% on a dry weight basis.¹²² The law permits participation by private entities and contemplates commercial activity; however, registration for participation in the program is not yet available.¹²³ Notably, the law expressly states that industrial hemp, industrial hemp products, and industrial hemp commodities, if added to food, do not make that food “adulterated.”¹²⁴ Proposed rules for implementation of the program appear to allow processors to manufacture hemp extract, defined as “an extract from a cannabis sativa L. plant or a mixture or preparation containing cannabis sativa L. plant material that is composed of no more than three-tenths of one percent (0.3%) delta-9 THC on a dry weight basis.”¹²⁵ While a handler license is required for processing industrial hemp into publicly marketable hemp products, the state does not appear to require a license for sale of such finished products. Additionally, the Missouri Department of Alcohol and Tobacco Control (“**ATC**”) issued an Industry Circular regarding CBD oil on January 24, 2019 stating that ATC has no legal authority to bar the use of CBD oil in combination with alcohol beverages so long as the oil contains no THC. The guidance states that, “[i]f the CBD oil has no THC content, it would be considered the same as any other nonalcoholic product,” and provides that CBD oil products with no THC can be distributed and sold by liquor license holders and used in intoxicating liquor drinks.¹²⁶

Montana: Montana’s industrial hemp program authorizes the cultivation and manufacture of hemp and hemp products by a person licensed by the Department of Agriculture for research and commercial use.¹²⁷ Industrial hemp is considered an agricultural crop in Montana, and upon meeting the state licensing requirements, an individual may plant, grow, harvest, possess, process, sell, or buy industrial hemp (defined as the Cannabis plant that does not contain more than .3% tetrahydrocannabinol).¹²⁸ The licensee must notify the Commissioner of each sale or

¹¹⁸ *Id.*

¹¹⁹ Minnesota Department of Agriculture, FAQs Regarding Minnesota’s Industrial Hemp Pilot Program, (last visited April 04, 2019), <https://www.mda.state.mn.us/plants/hemp/industhempquestions>.

¹²⁰ *Id.*

¹²¹ See MO. REV. STAT. 195.010(26) (2018) (defining marijuana); MO. REV. STAT. 195.740 to .773 (2018) (authorizing the Industrial Hemp Pilot Program).

¹²² MO. REV. STAT. 195.010(23).

¹²³ MO. REV. STAT. 195.740 to .773 (2018).

¹²⁴ MO. REV. STAT. 196.070(2).

¹²⁵ Proposed Rules available at: <https://www.sos.mo.gov/CMSImages/AdRules/moreg/2019/v44n1Jan2/v44n1b.pdf>

¹²⁶ *Industry Circular – CBD Oil*, MISSOURI DIVISION OF ALCOHOL AND TOBACCO CONTROL (January 24, 2019), <https://atc.dps.mo.gov/>.

¹²⁷ Montana Code Annotated § 80-18-101-111.

¹²⁸ Montana Code Annotated § 80-18-102.

distribution of any industrial hemp grown by the licensee, including the name and address of the person receiving the industrial hemp.¹²⁹ Post-harvest commercial use of the hemp, including the manufacture of products is permitted, but must also be approved by the Department of Agriculture. The Montana Department of Agriculture does not regulate the production or sale of food, drugs, health supplements, or cosmetics; but states that, participants are not permitted to produce hemp-derived animal foods or feeds at present.¹³⁰ The Montana Department of Public Health and Human Services (“DPHHS”) issued a policy statement, updated February 6, 2019, specifying that, “CBD extracts are not allowed in food or dietary supplements, regardless of the Cannabis source, industrial hemp or otherwise;” however, the policy additionally states that, the DPHHS has determined that verifiable food-grade industrial hulled hemp seeds and oil from such seeds will be allowed in a variety of specified food products, including dietary supplements, if the food product is marketed without any health and health-related claims.¹³¹

Nevada: Nevada’s industrial hemp program permits the cultivation and manufacture of industrial hemp by private entities in coordination with the State Board of Agriculture.¹³² Manufacture of hemp products is allowed; however, the State Board of Agriculture can adopt regulations to restrict or prohibit the use of CBD if it chooses (it has not done so). A “Handler” licensed with the Nevada Department of Agriculture may not sell a commodity or product made using industrial hemp which is intended for human consumption unless the commodity or product has been submitted to an independent testing laboratory for testing and the independent testing laboratory has confirmed that the commodity or product satisfies the standards established by the Department for quality control.¹³³ In addition, Senate Bill 209 was signed by the governor on June 5, 2019. The act directs the Nevada Department of Health and Human Services to adopt regulations imposing testing and labeling requirements on all products containing hemp that are intended for human consumption.¹³⁴

New Mexico: New Mexico adopted the Hemp Manufacturing Act (the “Act”) in April 2019 to expand its hemp program and explicitly regulate the production and sale of hemp products, including those containing CBD. “Hemp finished product” is defined in the Act as “a hemp product that is intended for retail sale and containing hemp or hemp extracts that includes food, food additives and herbs for human use, including consumption, that has a THC content of not more than three-tenths percent.”¹³⁵ Consumption is defined in New Mexico law as including inhalation, indicating that CBD vaporizer pens and other inhalables would be a permitted hemp finished product, at least once the Act takes effect (July 1, 2019).¹³⁶ Individuals, businesses, agencies, institutions, or other entities that possess a valid hemp production license, must comply with all state and federal requirements relevant to the production of hemp; however, the Act explicitly states that “hemp finished products produced by a hemp manufacturer holding a permit issued [by New Mexico’s hemp program] shall not be deemed adulterated as that term is used in the Food Service Sanitation Act and the New Mexico Food Act.”¹³⁷ Permit holders are still required to comply with such acts for the production of hemp finished products intended for consumption by eating or drinking. Importantly, the state’s criminal code defines marijuana to exclude “any part of the [Cannabis Sativa L.] plant, whether growing or not, containing a delta-9-

¹²⁹ Montana Code Annotated § 80-18-106.

¹³⁰ Montana Department of Agriculture, Montana State Hemp Program, <https://agr.mt.gov/Industrial-Hemp>.

¹³¹ *Id.*

¹³² NEV. REV. STAT. § 557.010 to .290 (2018).

¹³³ NEV. REV. STAT. § 557.270 (2018).

¹³⁴ SB 209, 80th Sess., (Nev. 2019).

¹³⁵ 24 NMSA 1978 § 2.

¹³⁶ 84 NMSA §30-31-2(Y).

¹³⁷ 24 NMSA 1978 §6.

tetrahydrocannabinol concentration of no more than 0.3% on a dry weight basis. As such, hemp-derived CBD products are not classified as “marijuana” under the state’s criminal code. Although the hemp program expansion language does not take effect until July, there are no explicit permissions or prohibitions regarding engaging in hemp-derived CBD activity under its current program rules.

New York: The cultivation, sale, distribution, transportation and processing of industrial hemp is permitted pursuant to the industrial hemp Agricultural Research Pilot Program (the “**Program**”), so long as such activities are conducted by: (a) an individual or entity under the auspices of the New York Department of Agriculture and Markets (the “**Department**”) or (b) an institution of higher education. Businesses and entities wishing to cultivate or process industrial hemp under the Program must submit applications to, and receive authorization from, the Department. Institutions of higher education must similarly apply to the Department to become an industrial research partner in the Program. Regardless of the particular application type, each applicant must sign a New York State Hemp Research Partner Agreement (“**RPA**”), which sets forth the terms governing the scope of permitted activities.¹³⁸ Pursuant to an FAQ issued by the Department on December 18, 2018 — which according to the FAQ is “provided only as guidance,” does “not bind the Department,” and is “subject to change” — a business or entity may “make and research the use of CBD” in New York if: (1) it is listed in the research plan in his or her application and (2) the participant is in compliance with all provisions of the RPA.¹³⁹ By contrast, a business cannot “sell any item for human consumption that has CBD as an ingredient” unless the item also satisfies two additional standards: (3) the item is produced under the rigorous dietary-supplement standards described in the RPA, and (4) the item is properly labeled and packaged for sale pursuant to FDA regulations for dietary supplements.¹⁴⁰ While the standards listed above apply explicitly to program participants, the FAQ states that all “products made from industrial hemp that are sold in New York State must meet New York State standards, regardless of where the product is processed or manufactured.”¹⁴¹ In addition, the FAQ also states that products listing CBD as an ingredient must be manufactured pursuant to the dietary-supplement standards and cannot be sold as food, or as a product designed for use in any vaping or inhalation system.¹⁴² For example, the FAQ expressly states that “bottled tea made with concentrated CBD extract” and “chocolates with CBD drizzle” may not be labeled and sold as food but will be regulated as dietary supplements and therefore be subject to each of the four conditions noted above.¹⁴³ Notably, however, no special license from the Department is required to sell dietary supplements (which includes all products for human consumption with CBD as an ingredient) and there are “no restrictions on locations where products [developed within the Program] can be sold.”¹⁴⁴ However, this policy position is subject to change.¹⁴⁵

¹³⁸ Sample RPAs are available on the Department’s website. *See:* <https://www.agriculture.ny.gov/PI/PIHome.html>.

¹³⁹ New York State Department of Agriculture and Markets, CBD Processor Research Partner Application Industrial Hemp Agricultural Research Pilot Program Frequently Asked Questions, (December 18, 2018) https://www.agriculture.ny.gov/PI/Hemp_FAQ_CBD_Processor_and_Hemp_Research_Pilot_Program.pdf

¹⁴⁰ *Id.*

¹⁴¹ *Id.*

¹⁴² *Id.*

¹⁴³ *Id.*

¹⁴⁴ *Id.*

¹⁴⁵ *Id.*

North Carolina: North Carolina’s industrial hemp pilot program (adopted in 2016) allows commercial production of industrial hemp products.¹⁴⁶ The state offers two types of licenses: one for strictly research purposes, and the other for research with intent to market the final product (contemplating the sale of finished hemp products). Permitted research purposes include commercial and marketing activity, specifically, “promoting research into the development of industrial hemp and commercial markets for North Carolina industrial hemp and hemp products.”¹⁴⁷ “Marijuana” is defined in North Carolina’s controlled substances law to exclude industrial hemp as defined in G.S. 106-568.51 . . . *but only when the industrial hemp is produced and used in compliance with the state’s program.*¹⁴⁸ Further, “industrial hemp,” as excluded from the state’s definition of marijuana, is defined *as that which is “cultivated or possessed by a grower licensed by the Commission.”*¹⁴⁹ Although hemp and CBD products cultivated and processed out-of-state are widely available for purchase and sale in North Carolina, and many interpret the law as permitting the sale of these products, the state’s restrictive statutory definitions of “marijuana” and “industrial hemp” create risk for those engaging in commercial hemp activity outside of the state’s regulated program. North Carolina adopts the FDCA by reference and likewise takes the position that products containing CBD as an ingredient or marketed as containing CBD may not be sold in food or dietary supplements for humans or animals. Notably, in response to the Department of Agriculture and Consumer Services’ distribution of warning letters to businesses selling CBD food, drinks, and animal food,¹⁵⁰ Joe Reardon, assistant commissioner for the N.C. Department of Agriculture and Consumer Services stated that, CBD oils, topicals, and tinctures remain permitted if no health claims are made;¹⁵¹ however, it should also be noted that this qualifier is not substantiated by state law and is less restrictive than the FDA’s position. Senate Bill 315 recently passed the Senate and is now in the House. The bill defines a hemp product to include “any product containing one or more hemp-derived cannabinoids, including cannabidiol.”¹⁵² The bill also defines a “hemp extract” as “an extract from hemp, or a mixture or preparation containing hemp plant material or compounds.”¹⁵³ The bill provides that no license will be necessary to possess, transport, handle, or sell hemp products, including CBD,¹⁵⁴ and also removes hemp and hemp products from the definition of marijuana without the qualifier that it be produced under the state program.¹⁵⁵

North Dakota: In April 2019, the governor signed House Bill 1349 and House Bill 1113, aligning the state’s hemp program with the definitions contained within and the amendments made to the Federal CSA by the 2018 Farm Bill. HB 1349 amended the state’s previously restrictive definition of industrial hemp to align with the 2018 Farm Bill definition of “hemp,” and also exempts hemp, as defined in the 2018 Farm Bill, from the state’s definition of marijuana.¹⁵⁶ HB 1113 was enacted several days later and exempts THC found in hemp from the definition of

¹⁴⁶ North Carolina Industrial Hemp Program Rules, <https://www.ncoah.com/rules/02%20NCAC%2062%20Proposed%20Temporary%20Rules.pdf>.

¹⁴⁷ N.C. GEN. STAT. § 106-568.55(9) (2018).

¹⁴⁸ N.C. GEN. STAT. § 90-87(16) (2018).

¹⁴⁹ N.C. GEN. STAT. § 106-568.51(7) (2018).

¹⁵⁰ *Regulators notify industry regarding CBD product in the marketplace*, N.C. DEP’T. OF AGRIC. AND CONSUMER SERV. (February 8, 2019), <http://www.ncagr.gov/paffairs/release/2019/RegulatorsnotifyindustryregardingCBDproductsinthemarketplace.htm>.

¹⁵¹ *That trendy CBD product in your smoothie? Adding it is illegal, NC officials say*, CHARLOTTE OBSERVER, (February 15, 2019), <https://www.charlotteobserver.com/news/local/crime/article226150860.html>.

¹⁵² SB 315, 2019 Reg. Sess. (N.C. 2019).

¹⁵³ *Id.*

¹⁵⁴ *Id.*

¹⁵⁵ *Id.*

¹⁵⁶ HB 1349, 66th Leg. Assemb., Reg. Sess. (N.D. 2019).

THC under state law.¹⁵⁷ Although these bills are expected to greatly expand North Dakota's hemp program by aligning the program with the 2018 Farm Bill minimum plan requirements, North Dakota separately defines and schedules "hashish" as a schedule I drug.¹⁵⁸ Hashish is defined as "the resin extracted from any part of the plant cannabis with or without its adhering plant parts, whether growing or not, and every compound, manufacture, salt, derivative, mixture, or preparation of the resin."¹⁵⁹

Oklahoma: Oklahoma's newly revised industrial hemp Program allows private individuals and business to cultivate, handle, and process industrial hemp for research and commercial purposes pursuant to a state issued license.¹⁶⁰ In addition, as of April 2019, the state now defines industrial hemp to include cannabinoids and extracts in accordance with the definition of hemp in the 2018 Farm Bill.¹⁶¹ Oklahoma's new law also defines "processing" to mean the conversion of industrial hemp into a marketable form, including the production of cannabinoids, derivatives, and extracts.¹⁶² Industrial hemp grown pursuant to the Oklahoma Industrial Hemp Pilot Program is excluded from the definition of "marijuana" in the state's Uniform Controlled Dangerous Substances Act.¹⁶³ The definition of marijuana also expressly excludes CBD derived from the mature stalks (including CBD derived from the fiber, oil, or cake of the mature stalks), of the cannabis plant.¹⁶⁴ On May 13, 2019, Senate Bill 238 was approved by the governor, but has a delayed effective date of November 1, 2019. The bill creates labeling requirements for CBD products and specifies that "[r]etail sales of industrial hemp and hemp products may be conducted without a hemp license so long as the products and the hemp used in the products were grown and cultivated legally in this state or another state or jurisdiction and meet the same or substantially the same requirements for processing hemp products or growing hemp."¹⁶⁵ The bill also provides that "[t]he addition of derivatives of hemp, including hemp-derived CBD, to cosmetics, personal care products and products intended for human or animal consumption shall be permitted without a license and shall not be considered an adulteration of such products."¹⁶⁶ Businesses that manufacture or sell food products containing CBD in Oklahoma are required by state law to obtain a food license.¹⁶⁷ SB 238 will not remove that requirement.

Oregon: Oregon considers hemp to be an agricultural product, and does not prohibit the interstate transfer of hemp products (including CBD), leaving it to businesses to ensure compliance with applicable federal law. The sale of hemp products in Oregon, including those that contain CBD, is expressly permitted subject to state-mandated testing, quality control, and labeling standards.¹⁶⁸ Oregon defines "industrial hemp Commodity or Product" to mean an item processed by a handler containing any industrial hemp or containing any chemical compounds derived from industrial hemp, *including CBD derived from industrial hemp*, and includes "hemp

¹⁵⁷ HB 1113, 66th Leg. Assemb., Reg. Sess. (N.D. 2019).

¹⁵⁸ N.D. CENT. CODE § 19-03.1-01(15) (2018).

¹⁵⁹ North Dakota Century Code § 19-03.1-01(15).

¹⁶⁰ OKLA. ADMIN. CODE § 35:30-24-3.

¹⁶¹ OKLA. STAT. tit. 2 §. 3-402(3) (2019).

¹⁶² OKLA. STAT. tit. 2 §. 3-402(6) (2019).

¹⁶³ Oklahoma Statutes Annotated § 2-101(23).

¹⁶⁴ *Id.*

¹⁶⁵ SB 238, 2019 Reg. Sess. (Okla. 2019).

¹⁶⁶ *Id.*

¹⁶⁷ *OSDH Encourages CBD and Medical Marijuana Establishments to Obtain Food Licenses*, OFFICE OF COMMUNICATIONS (February 19, 2019), https://www.ok.gov/triton/modules/newsroom/newsroom_article.php?id=150&article_id=47560.

¹⁶⁸ *See* OR. ADMIN. R. § 603-048-2300.

edibles” which are further defined as food or potable liquid created from industrial hemp seed or into which industrial hemp, a hemp concentrate, or a hemp extract has been incorporated.¹⁶⁹ Oregon requires hemp products intended for human consumption to be tested in the same manner as the marijuana product-type to which it is most alike (i.e. hemp edibles would be tested in the same manner as marijuana edibles).¹⁷⁰ Testing may only be conducted by: (a) A laboratory licensed by the Oregon Liquor Control Commission (the “**OLCC**”) under ORS 475B.560 and accredited by the Oregon Health Authority under ORS 475B.565; or (b) A laboratory accredited to the same or more stringent standards as laboratories described in (a) if the hemp item was processed outside the state of Oregon.¹⁷¹ It is a separate violation for a person (non-licensee) to sell an industrial hemp product that contains more than 0.3% THC to a consumer unless licensed as a retailer by OLCC (marijuana dispensary).¹⁷² In Oregon, a food product is not considered adulterated solely for containing hemp.¹⁷³

Pennsylvania: Pennsylvania law allows individuals and institutions of higher education to cultivate industrial hemp for research and commercial purposes.¹⁷⁴ Industrial hemp products may be sold if they are not prohibited by federal or state law.¹⁷⁵ Under Pennsylvania’s 2019 program, industrial hemp plants and products are expressly permitted to move across state lines.¹⁷⁶ All products distributed or sold must meet all state and federal laws, and regulations that are applicable to the commodity, including the FDCA.¹⁷⁷ The Pennsylvania Department of Agriculture (“**PDA**”) cites the FDA’s FAQ on legality of including CBD in food, and states that it is the permit holder’s responsibility to ensure that any CBD extraction or the production of CBD-containing substances complies with all laws and regulations, including any distribution to be conducted as part of marketing research.¹⁷⁸ The PDA permits research on industrial hemp growth, cultivation, and marketing relevant to extraction or production of CBD compounds or substances that contain them.¹⁷⁹ In late January 2019, the PDA announced that Pennsylvania had submitted a state plan to the USDA for approval, becoming the second state to do so since the passage of the 2018 Farm Bill. Additionally, the PDA re-opened its 2019 hemp program to include applications for commercial growing operations.¹⁸⁰

Rhode Island: Rhode Island’s industrial hemp program regulates industrial hemp like other agricultural commodities and allows private parties or institutions of higher education to receive licensure from the Department of Business Regulation to cultivate or process industrial hemp for research and commercial purposes.¹⁸¹ The Department of Business Regulation, in coordination with the Department of Environmental Management’s Division of Agriculture, regulates

¹⁶⁹ OR. ADMIN. R. 603-048-0010; OR. ADMIN. R. 603-048-2310.

¹⁷⁰ OR. ADMIN. R. § 603-048-1500.

¹⁷¹ *Id.*

¹⁷² *Id.*

¹⁷³ OR. REV. STAT. § 571.303 (2018).

¹⁷⁴ 3 P.A. CONS. STAT. § 701 to 710 (2018).

¹⁷⁵ *Id.*

¹⁷⁶ *2019 Industrial Hemp Parameters*, P.A. DEP’T. OF AGRIC., https://www.agriculture.pa.gov/Plants_Land_Water/industrial_hemp/Documents/2019%20Revised%20Program%20Parameters_1.22.2019.pdf (last visited April 2, 2019).

¹⁷⁷ *Frequently Asked Questions*, P.A. DEP’T. OF AGRIC., https://www.agriculture.pa.gov/Plants_Land_Water/industrial_hemp/Pages/Industrial-Hemp-Program-FAQs.aspx (last visited April 2, 2019).

¹⁷⁸ *Id.*

¹⁷⁹ *Id.*

¹⁸⁰ *Pennsylvania’s Industrial Hemp Plan Allows for Commercial Growing Operations*, P.A. DEP’T. OF AGRIC. (Jan 22, 2019), https://www.media.pa.gov/pages/Agriculture_details.aspx?newsid=774.

¹⁸¹ 2 R.I. GEN. LAWS § 2-26-1 to -9 (2018).

licensing, testing, and industrial hemp production and product manufacturing.¹⁸² Food products containing industrial hemp-derived extracts (including CBD) are permitted, subject to labeling and quality control standards in addition to compliance with any applicable state or local food processing and safety regulations.¹⁸³ Further, Rhode Island’s definition of industrial hemp specifically includes “hemp derivatives such as hemp extractions and concentrates.”¹⁸⁴

South Carolina: South Carolina classifies hemp as an agricultural commodity and exempts THC in hemp and hemp products from the definition of marijuana under state law.¹⁸⁵ The term “hemp products” is defined in state law to mean “all products with the federally defined THC level for hemp derived from, or made by, processing hemp plants or hemp plant parts, that are prepared in a form available for commercial sale, including, but not limited to, cosmetics, personal care products, food intended for animal or human consumption, cloth, cordage, fiber, fuel, paint, paper, particleboard, plastics, and any product containing one or more hemp-derived cannabinoids, such as cannabidiol.”¹⁸⁶ “Unprocessed or raw plant material, including non-sterilized hemp seeds, is not considered a hemp product.”¹⁸⁷ South Carolina’s hemp program was recently expanded via passage of the “Hemp Farming Act” (“HFA”) in March 2019.¹⁸⁸ Notably, the HFA removed the state’s food adulteration protection provision applicable to the use of hemp as an ingredient in food products.¹⁸⁹ In place of such provision, the HFA explicitly provides that the program requirements contained in the HFA do “not apply to the possession, handling, transport, or sale of hemp products and extracts, including those containing hemp-derived cannabinoids, including CBD,” and that “nothing in this chapter authorizes any person to violate any federal or state law or regulation.”¹⁹⁰ Further, although much of the original industrial hemp program requirements were repealed and replaced with the HFA, all current program participants will remain subject to the laws and regulations that were in place prior to the passage of the HFA for the duration of the current license term. The state’s Department of Agriculture adopts the FDA’s interpretation of the FDCA stating that CBD oil is prohibited to be added to animal and human foods.¹⁹¹

Tennessee: Tennessee’s industrial hemp pilot program permits the commercial manufacture and sale of industrial hemp products, but does not regulate processing, define “hemp product,” or specify the types of products that may be produced pursuant to the state’s industrial hemp pilot program.¹⁹² CBD produced in compliance with the industrial hemp pilot program can be distributed in commerce throughout the state for commercial purposes or as part of research on the marketability of industrial hemp products.¹⁹³ State law appears to permit the production and sale of hemp-infused foods intended for oral consumption, but production of such products is subject to existing food regulations as enforced by Tennessee Department of Agriculture.¹⁹⁴ On

¹⁸² 230-80 R.I. CODE R. §10-1.1 to -1.15.

¹⁸³ 230-80 R.I. CODE R. §10-1.10.

¹⁸⁴ 230-80 R.I. CODE R. §10-1.5.

¹⁸⁵ S.C. CODE ANN. §§ 46-55-10 (2018).

¹⁸⁶ S.C. CODE ANN. § 46-55-10(9) (2018).

¹⁸⁷ *Id.*

¹⁸⁸ HB 3449, 123rd Gen. Assemb., 2019 Reg. Sess. (S.C. 2019).

¹⁸⁹ *Id.*

¹⁹⁰ *Id.*

¹⁹¹ *SCDA Regulators To Notify Industry Regarding CBD and Hemp In Food and Feed Products In The Market Place*, S.C. DEP’T. OF AGRIC. (February 20, 2019), <https://agriculture.sc.gov/scda-regulators-to-notify-industry-regarding-cbd-and-hemp-in-food-and-feed-products-in-the-market-place/>.

¹⁹² TENN. COMP. R. & REGS. 0080-06-28-.01 (2018).

¹⁹³ TENN. COMP. R. & REGS. 0080-06-28-.01 to -.09 (2018).

¹⁹⁴ Tennessee Department of Agriculture, Concerns Associated with Cannabis Extractions, Concentrations, Infusions, and Infused Foods

April 9, 2019, HB 0844 was signed into law. The act directs the state commissioner of agriculture to develop a hemp plan under the 2018 Farm Bill, and to submit that plan to the USDA for approval.¹⁹⁵

Utah: Utah’s industrial hemp program permits the cultivation, processing, and commercial sale of industrial hemp products and has undergone a series of changes during the past year, including authorizing and providing product-type, registration, labeling, and quality control standards for the sale of industrial hemp and industrial hemp-derived CBD products to the general public.¹⁹⁶ A person may sell or use a CBD product in Utah so long as it is registered with the state.¹⁹⁷ Retailer responsibilities established under the new administrative rules likewise require retailers to ensure all industrial hemp products are labeled correctly and properly registered with the Department of Agriculture and Food (“**Department**”) prior to sale.¹⁹⁸ A retailer may register the product in lieu of the manufacturer if the product is not registered, but is required to provide the identity of the manufacturer of industrial hemp products sold upon request of the Department.¹⁹⁹ A product may be registered with the state by applying to the Department.²⁰⁰ Registration applications for CBD products must include a Certificate of Analysis from a third-party laboratory and the full label that will appear on the product.²⁰¹ Hemp products that do not satisfy state labeling requirements are deemed misbranded and falsely advertised.²⁰² Notably, the administrative rules define “industrial hemp” to mean any part of a cannabis plant, whether growing or not, with a concentration of *less than* 0.3% tetrahydrocannabinol by weight, as opposed to 0.3% THC *or less*, and define THC to mean “total composite tetrahydrocannabinol, including delta -9- tetrahydrocannabinol *and* tetrahydrocannabinolic acid,” not just delta -9- tetrahydrocannabinol.²⁰³ No retailer license is required to sell industrial hemp-derived CBD, and anyone can sell it so long as the products are up to code (e.g. appropriately registered with the state).²⁰⁴

Vermont: The state Secretary of Agriculture, Food and Markets (the “**Secretary**”) oversees the state’s industrial hemp program, which allows for the cultivation, production, processing, marketing, and commercial trade of industrial hemp in Vermont.²⁰⁵ Private parties may participate in the pilot program, which deems industrial hemp an “agricultural product.”²⁰⁶ “Hemp products” or “hemp-infused products” are defined in Vermont law to include all products made from hemp, including cloth, cordage, fiber, food, fuel, paint, paper, construction materials, plastics, seed, seed meal, seed oil, and certified seed for cultivation.²⁰⁷ “A crop or product confirmed by the Secretary to meet the definition of hemp under State or federal law may be

<https://www.tn.gov/content/dam/tn/agriculture/documents/foodsafety/Concerns%20with%20CBD%20Infused%20Foods.pdf>

¹⁹⁵ HB 0844, 2019 Reg. Sess. (Tenn. 2019).

¹⁹⁶ Utah Department of Agriculture and Food, Cannabis Laws, <http://ag.utah.gov/cannabis-information.html>

¹⁹⁷ Utah Code § 4-41-402(3).

¹⁹⁸ Utah Administrative Code R68-26-7.

¹⁹⁹ *Id.*

²⁰⁰ Utah Administrative Code R68-26-3.

²⁰¹ Utah Administrative Code R68-26-4.

²⁰² Utah Administrative Code R68-26-8.

²⁰³ Utah Administrative Code R68-24-2.

²⁰⁴ Utah Code § 4-41-402(3).

²⁰⁵ 6 Vermont Statutes Annotated § 564(a).

²⁰⁶ 6 Vermont Statutes Annotated § 563.

²⁰⁷ 6 Vermont Statutes Annotated § 562(2).

sold or transferred in interstate commerce to the extent authorized by federal law.”²⁰⁸ Growers also have an option to sell a crop to a dispensary registered under 18 V.S.A. chapter 86, Vermont’s Therapeutic Use of Cannabis Act, if the hemp crop is found to have a THC content above 0.3%.²⁰⁹ Proposed program regulations set forth labeling requirements for hemp and hemp-infused products. The proposed rules do not appear to require a retailer to obtain a license; however, the agency may inspect any retail location offering hemp products and take samples of the products offered for sale.²¹⁰

On May 30, 2019, Senate Bill 58 was signed by the governor and took effect immediately. The act expands the state’s hemp program and outlines policies and procedures for growing, processing, testing, and marketing hemp and hemp products in Vermont.²¹¹ The act confirms that “a retail establishment selling hemp products or hemp infused products is not a processor” and therefore would not require a processor license,²¹² and also expands the state’s definition of “hemp product” to include any product containing one or more hemp-derived cannabinoids, such as CBD.²¹³

Washington: Washington recently passed a hemp program expansion bill that will replace the state’s previously restrictive research program with a commercial regulatory structure contemplated by the 2018 Farm Bill.²¹⁴ Pursuant to the act, hemp and processed hemp produced in accordance with state law or produced lawfully under the laws of another state, tribe, or country may be transferred and sold within the state, outside of the state, and internationally. The act removes the state’s previous prohibition on licensees processing plant parts other than seed into products intended for consumption by humans, and provides that “[t]he whole hemp plant may be used as food.”²¹⁵ The act states that the Washington Department of Agriculture shall regulate the processing of hemp for food products, that are allowable under federal law, in the same manner as other food processing under chapters 15.130 and 69.07 RCW and may adopt rules as necessary to properly regulate the processing of hemp for food products including, but not limited to, establishing standards for creating hemp extracts used for food.²¹⁶ Because the Washington Department of Agriculture did not adopt rules implementing the act prior to June 1, 2019, those licensed to grow hemp under chapter 15.120 RCW [the industrial hemp research program] may commence hemp production under the new commercial regime as of the effective date of the implementing rules.²¹⁷

²⁰⁸ Vermont Agency of Agriculture, Food & Markets, *Cultivation of Industrial Hemp in Vermont – Frequently Asked Questions*, (November 28, 2018), <https://agriculture.vermont.gov/sites/agriculture/files/documents/PHARM/hemp/20181128%20Hemp%20FAQ.pdf>

²⁰⁹ Vermont Agency of Agriculture, Food & Markets, *Cultivation of Industrial Hemp in Vermont – Frequently Asked Questions*, (November 28, 2018), <https://agriculture.vermont.gov/sites/agriculture/files/documents/PHARM/hemp/20181128%20Hemp%20FAQ.pdf>

²¹⁰ *Proposed Vermont Hemp Program Rules*, VERMONT AGENCY OF AGRIC., FOOD AND MARKETS (May 17, 2019), https://agriculture.vermont.gov/sites/agriculture/files/documents/PHARM/hemp/Industrial_Hemp_Rule_%20SOS_05172019.pdf

²¹¹ SB 58, 2019 Reg. Sess. (Vt. 2019).

²¹² *Id.*

²¹³ *Id.*

²¹⁴ SB 5267, 2019 Reg. Sess. (Wash. 2019).

²¹⁵ *Id.*

²¹⁶ *Id.*

²¹⁷ *Id.*

Wisconsin: Wisconsin’s industrial hemp program, which is administered by the Wisconsin Department of Agriculture, Trade and Consumer Protection (the “**DATCP**”), allows permitted Wisconsin farmers to grow and sell industrial hemp. State law authorizes the transfer, sale, import, and export of industrial hemp to the extent permitted under federal law.²¹⁸ Although all cultivation must include a research purpose, this expressly includes market research, and private parties are permitted to participate in the program.²¹⁹ The state definition of agricultural commodity includes industrial hemp, and the DATCP’s statements confirm that the program allows CBD extraction by licensed processors. The DATCP confirms that “it is the licensed processor’s responsibility to ensure that any CBD extraction or the production of CBD-containing substances complies with all laws and regulations, including any distribution to be conducted as part of marketing research. . . No license currently is needed from the industrial hemp program to sell products made from industrial hemp. However, licenses from other programs or departments may be required. For example, all retailers will need a seller’s permit from the Wisconsin Department of Revenue.”²²⁰ Although “DATCP’s Division of Food and Recreational Safety generally follows FDA’s guidelines related to safe food ingredients or additives,”²²¹ Wisconsin law provides that “the department may not consider a food to be adulterated solely because it contains industrial hemp, as defined in s. 94.67 (15r), or an industrial hemp product.”²²²

Wyoming: Wyoming permits the commercial sale of industrial hemp; however, the state’s program has not yet been implemented and the licenses required to cultivate or process hemp in Wyoming are not yet available. Notwithstanding this fact, Wyoming law provides that, “the possession, purchase, sale, transportation and use of hemp and hemp products by any person is allowable without restriction.”²²³ Although the state definition of marijuana does not directly exclude industrial hemp, House Bill 0171 was signed into law in March 2019, excepting the possession or use of hemp (inclusive of cannabinoids derived from hemp) and hemp products from penalties attributed to violations of the state’s controlled substances act.²²⁴ Wyoming has submitted a hemp production plan to the USDA for approval and the Wyoming Department of Agriculture has stated that no regulatory program or licenses will be available for growing or processing hemp until the plan is approved.²²⁵

FDA Regulation

The primary law governing the production and sale of food and drugs in interstate commerce is the FDCA. The purpose of the FDCA is to forbid the movement in interstate commerce of adulterated and misbranded food, drugs, devices and cosmetics. The FDA is charged with protecting the integrity of the U.S. food supply and cosmetic products, as well as monitoring the safety and efficacy of drugs, biological products, and almost any compound intended for human

²¹⁸ 2017 Wisconsin Act 100, § 94.55 (2)(a), http://docs.legis.wisconsin.gov/2017/related/acts/100/_4.

²¹⁹ *Id.*

²²⁰ Department of Agriculture, Trade and Consumer Protection , Frequently Asked Questions: Wisconsin’s Industrial Hemp Pilot Research Program, (updated March 13, 2019), <https://datcp.wi.gov/Documents/IHFAQ.pdf>.

²²² 2017 Wisconsin Act 100, § 5.97.02, available at: http://docs.legis.wisconsin.gov/2017/related/acts/100/_4

²²³ *Id.*

²²⁴ H.B. 0171, 65th Leg., Gen. Sess. (Wy. 2019).

²²⁵ *Wyoming Hemp Program*, WYOMING DEPARTMENT OF AGRIC., <https://wyagric.state.wy.us/newsroom/hemp> (last visited June 21, 2019).

or animal consumption, among other areas.²²⁶ To date, the FDA has not approved marijuana, CBD, or other individual cannabinoids for use in dietary supplements, as dietary ingredients or as safe for use in food. This creates additional barriers to lawfully selling cannabinoid and cannabinoid-based products in the U.S.

The Dietary Supplement Health and Education Act (the “**DSHEA**”), an amendment to the FDCA, established a framework governing the composition, safety, labeling, manufacturing and marketing of dietary supplements in the United States. Generally, under DSHEA, dietary ingredients marketed in the United States prior to October 15, 1994 may be used in dietary supplements without notifying the FDA. “New” dietary ingredients (i.e. dietary ingredients “not marketed in the United States before October 15, 1994”) must be the subject of a new dietary ingredient notification submitted to the FDA unless the ingredient has been “present in the food supply as an article used for food” without being “chemically altered.” Any new dietary ingredient notification must provide the FDA with evidence of a “history of use or other evidence of safety” establishing that use of the dietary ingredient “will reasonably be expected to be safe.”

The FDA has taken the position that CBD cannot be marketed in a dietary supplement because it has been the subject of investigation as a new drug (such restrictions referred to as “**IND Preclusion**”). There is evidence that GW Pharmaceuticals plc received authorization for its investigation as a new drug related to CBD in 2006. Excluded from the DSHEA definition of a dietary supplement is: “an article authorized for investigation as a new drug, antibiotic, or biological for which substantial clinical investigations have been instituted and for which the existence of such investigations has been made public, which was not before such approval, certification, licensing, or authorization marketed as a dietary supplement or as a food unless the Secretary, in the Secretary’s discretion, has issued a regulation, after notice and comment, finding that the article would be lawful under this Act.” It is the FDA’s interpretation of the IND Preclusion that the preclusion date is the date in which it authorized the drug for investigation; however, Bhang believes there are significant arguments against this position in that all conditions of the statute must be met before the IND Preclusion applies, including (1) authorization for investigation as a new drug; (2) substantial clinical investigations must be instituted; (3) such substantial investigations must be made public; and (4) all of the above must occur prior to the marketing of the article as a food or dietary supplement. As discussed below, the FDA takes the position that CBD was not marketed in a food or dietary supplement prior to the IND Preclusion becoming effective. Bhang disagrees with this position and further believes that its products were sold in interstate commerce prior to the publication of substantial clinical investigations. Thus, Bhang takes the position that the IND Preclusion does not apply. As of the date of this Listing Statement, Bhang has not, and does not intend to file an investigational drug application with the FDA, concerning any of its products that contain CBD derived from Hemp.

The FDCA similarly does not recognize CBD as safe for use in food products, stating that a substance added to food is unsafe unless, among other things, the substance is Generally Recognized as Safe (“**GRAS**”) for its intended use. The FDA has declined to recognize CBD as GRAS for human consumption, although certain hemp seed oils are considered GRAS.²²⁷²²⁸ Further research is needed to determine if other cannabinoids would be considered GRAS or

²²⁶ U.S. Food and Drug Administration, Mission Statement: <http://www.fda.gov/downloads/aboutfda/reportsmanualsforms/reports/budgetreports/ucm298331.pdf>

²²⁷ 21 CFR § § 170.30(b), (c), 170.3(f).

²²⁸ 21 CFR § 1308.35 (a)(2). The DEA’s final rule on legal hemp materials and products specifically excludes materials used for human consumption

what steps would be necessary for them to be recognized as GRAS. In the meantime, stakeholders are collecting data to pursue a GRAS determination for CBD. Enforcement of this prohibition has been sporadic at best, with CBD products being sold across the nation and with FDA enforcement generally limited to product manufacturers making unlawful drug or health claims about their CBD products. But such sales of consumable CBD products, even if compliant with the Federal CSA, would not be legal pursuant to the FDCA. Bhang's products containing CBD derived from Hemp will not be marketed or sold using claims that their use is safe and effective treatment for disease conditions.

Despite the position taken by the FDA, Bhang believes there is substantial uncertainty and differences in interpretation among state and federal regulatory agencies, legislators, academics, and businesses as to whether cannabinoids were present in the food supply and marketed prior to October 15, 1994 or whether such inclusion of cannabinoids is otherwise approved by the FDA as dietary ingredients, notwithstanding that cannabis and the cannabinoids contained therein have been therapeutically used and consumed as food by human beings for centuries even if not specifically labeled as CBD or other cannabinoids. As a result, Bhang believes the federal legality regarding the distribution and sale of hemp-based CBD products intended for human consumption or cosmetic use must be considered on a case-by-case basis and that the uncertainties cannot be resolved without further federal legislation, regulation or a definitive judicial interpretation of existing legislation and rules. A determination that hemp products containing cannabinoids were not present in the food supply, marketed prior to October 15, 1994, are not otherwise permissible for use as a dietary ingredient, or are adulterants, may have a materially adverse effect upon Bhang and its business. Moreover, if the FDA were to enforce the IND Preclusion based on its interpretation of the legislation, this would have a materially adverse effect upon Bhang Inc. and its business. See section 17 "Risk Factors".

Hemp derived products may be legally sold and marketed in the United States where they contain hemp lawfully imported from another country or cultivated pursuant to a state agricultural pilot program, provided the product complies with applicable state and federal law; for example, the FDCA. Textiles, fibers, and certain food and cosmetic products containing hemp seed and hemp seed oils (which have been designated as GRAS) can be lawfully sold in compliance with federal law. Consumable products containing CBD, however, may only be legal to the extent they are lawfully sourced, sold in a state where state law does not prohibit such sale, and where they are compliant with the FDCA. Compliance with the FDCA may prove difficult for most CBD products, while other hemp-based products such as hemp seed, hemp protein powder, and hemp seed oil products may be able to achieve compliance with FDCA more easily. Notwithstanding the FDA's stated position on CBD, the FDA has authority to issue a regulation allowing the use of a pharmaceutical ingredient in these products and has stated that it is taking new steps to evaluate whether the agency should pursue such a process. The agency announced that it is exploring pathways to consider whether there are circumstances in which certain cannabis-derived compounds might be permitted in a food or dietary supplement. Former FDA Commissioner, Dr. Scott Gottlieb, M.D., independently stated in a March 2019 interview that the agency is establishing a working group to consider the best approach for regulating CBD.²²⁹

Except as described above and elsewhere in this Listing Statement, Bhang is in compliance with applicable law and has not received any citations or notices of violation which may have an impact on Bhang's Licenses, business activities or operations.

²²⁹ *Outgoing FDA Commissioner Scott Gottlieb on CBD*, C-SPAN (Mar. 19, 2019), <https://www.c-span.org/video/?c4786956/outgoing-fda-commissioner-scott-gottlieb-cbd&start=1759>.

Future Uncertainty of Legal Status

Despite the positive changes brought by the 2018 Farm Bill, there remain a number of considerations, potential changes in regulation, and uncertainties regarding the cultivation, sourcing, production and distribution of Hemp and products containing Hemp derivatives. Applicable laws and regulations remain subject to change as there are different interpretations among federal, state and local regulatory agencies, legislators, academics and businesses with respect to the treatment of the importation of derivatives from exempted portions of the cannabis plant, the scope of operation of the 2014 Farm Bill, and authorizations granted to 2018 Farm Bill-compliant Hemp growers and licensed Hemp-derived CBD producers. These different federal, state, and local agency interpretations, as discussed above, touch on the regulation of cannabinoids by the DEA and/or the FDA and the extent to which imported derivatives, and/or 2014 Farm Bill-compliant cultivators and processors may engage in interstate commerce, whether under federal and/or state law. The uncertainties likely cannot be resolved without further federal and state legislation, regulation or a definitive judicial interpretation of existing legislation and rules. Multiple trade groups, industry organizations, and private companies have requested that the FDA either expeditiously promulgate rules to authorize the marketing of CBD as a dietary supplement and/or its addition to food notwithstanding existing IND Preclusion, or to exercise formal enforcement discretion with respect to the provisions of the FDCA that FDA interprets to prohibit the marketing of CBD as a dietary supplement and to prohibit the addition of CBD to food. Either of these pathways would likely be accompanied by specific conditions for use established by the agency, which could potentially limit the concentration or dose of CBD (or THC) within a product category or could limit acceptable hemp-derived ingredients. There is uncertainty as to when or if the FDA will promulgate such rules or policy, and whether such rules or policies would be favorable to Bhang or could negatively impact operations. See section 17 “Risk Factors”.

Following the implementation of the 2018 Farm Bill, there will be significant shared state-federal regulatory authority over Hemp production. Under section 10113 of the 2018 Farm Bill, state departments of agriculture and Tribal governments desiring to have primary regulatory authority over hemp production in their jurisdiction must consult with the state’s governor and chief law enforcement officer to devise a plan that must be submitted to the Secretary of the USDA. A State’s plan to license and regulate Hemp can only commence once the Secretary of the USDA approves that State’s plan. In States opting not to devise a hemp regulatory program, and that do not otherwise prohibit Hemp production, the USDA will construct a regulatory program under which Hemp cultivators in those states must apply for licenses and comply with a federally-governed program. In the nearest future the shared state-federal regulation is likely to result into a complex, fast-changing regulatory framework. However, until one year after the USDA adopts rules governing Hemp production in States and Tribal territories that do not elect to have primary regulatory authority, the 2014 Farm Bill research pilot program provisions remain governing law for Hemp production in the U.S.

Bhang’s Regulatory Compliance Activities

Bhang’s senior management team regularly monitors the development of applicable U.S. laws and Bhang continues to engage a U.S. legal counsel to ensure it is operating in compliance with all applicable laws and permits.

3.3(3) United States Industry Background and Trends

The development of the legal cannabis industry has evolved quickly in the United States, both for medical and adult-use, as additional states adopt regulations for its production and sale.

Currently, 60% of Americans live in a jurisdiction where cannabis is legal in some form and approximately 25% of Americans live in jurisdictions where it is fully legalized for adult use.²³⁰

A growing number of citizens and members of the medical community now view the use of cannabis and cannabis derivatives to treat or alleviate the symptoms of a wide variety of chronic conditions as acceptable. In 2015, a research review published in the *Journal of the American Medical Association* found solid evidence that cannabis can treat pain and muscle spasms.²³¹ The use of cannabis to treat pain is particularly important, as other studies have proposed that cannabis can replace pain patients' use of opiates which are addictive and potentially deadly.²³²

US surveys have consistently shown overwhelming support for the legalization of medical cannabis. It is estimated that 94% of the US voters support legalizing cannabis for medical use.²³³ In addition, there is strong majority support for the full legalization of recreational adult use cannabis, with an estimated 64% of the US public supporting legalizing cannabis for adult recreational use.²³⁴ These statistics highlight the growth in public support for legal cannabis use over the past forty (40) years.

While thirty-three (33) states and the District of Columbia, as well as the territories of Puerto Rico, Guam, the Northern Mariana Islands and the U.S. Virgin Islands, among others, have now legalized adult-use and/or medical cannabis, cannabis continues to be illegal under US federal law with "marihuana" categorized as a Schedule I drug under the Federal CSA. See Section 4 – *Narrative Description of the Business* and Section 17 – *Risk Factors*, below.

Currently Bhang's licensees for its cannabis derived THC products operate in California, Illinois, New Mexico and Michigan, although Bhang has plans to expand to work with other licensees in additional jurisdictions both within the US, where cannabis use is legalized either medicinally or recreationally, and internationally.

²³⁰ Ripley, Eve. (2016 November 30). Nearly 60 percent of U.S. population now lives in states with marijuana legalization. Retrieved from <https://news.medicalmarijuanainc.com/nearly-60-percent-u-s-population-now-lives-states-marijuana-legalization/>.

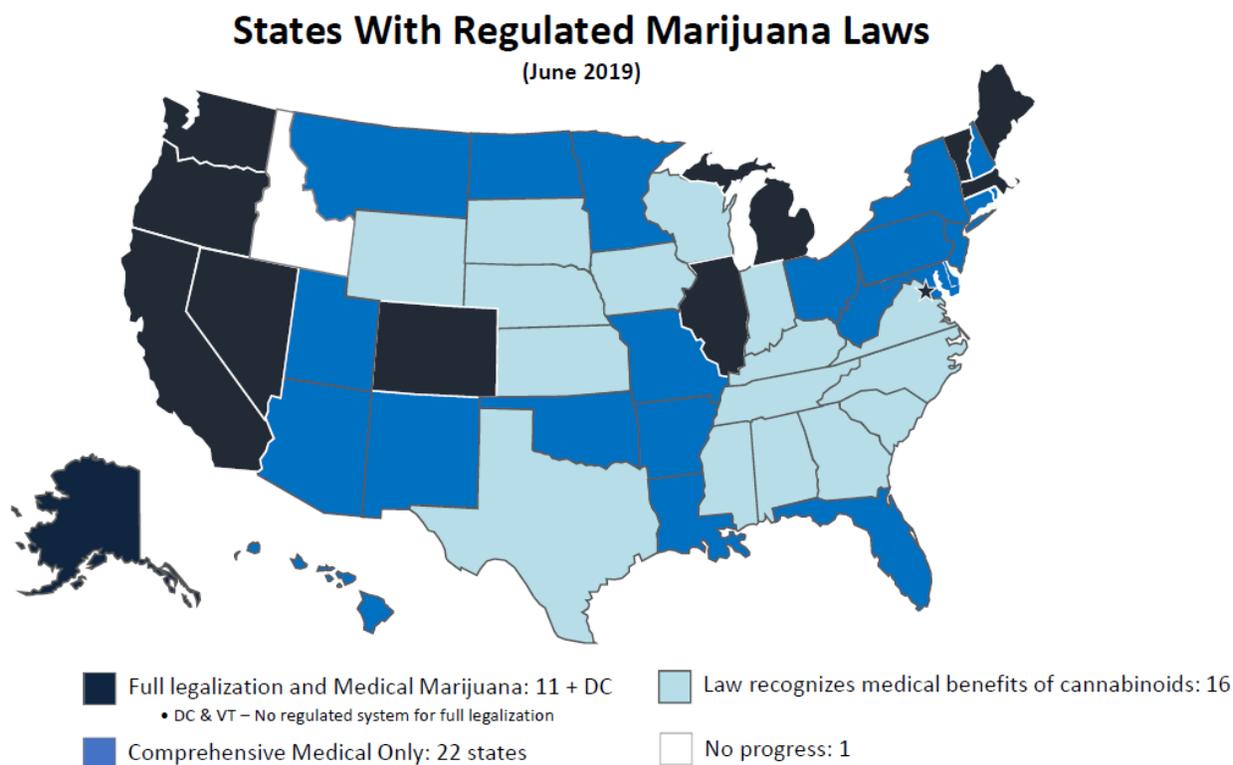
²³¹ Grant, Igor MD (2015). Medical Use of Cannabinoids. *Journal of American Medical Association*, 314: 16, 1750-1751. doi: 10.1001/jama.2015.11429.

²³² Bachhuber, MA, Saloner B, Cunningham CO, Barry CL. (2014). Medical Cannabis Laws and Opioid Analgesic Overdose Mortality in the United States, 1999-2010. *JAMA Intern Med.* 174(10):1668-1673. doi: 10.1001/jamainternmed.2014.4005.

²³³ Quinnipiac University. (2017 April 20). U.S. Voter Support For Marijuana Hits New High; Quinnipiac University National Poll Finds; 76 Percent Say Their Finances Are Excellent Or Good. Retrieved from <https://poll.qu.edu/national/release-detail?ReleaseID=2453>.

²³⁴ Gallup. (2017 October 25). Record-High Support for Legalizing Marijuana Use in U.S. Retrieved from <http://news.gallup.com/pol/1/221018/record-high-support-legalizing-marijuana.aspx>.

(a) State Status of Legalization



98% of all states currently have some form of legalized cannabis, from CBD-only to full recreational legalization.

(b) Current US Cannabis Market

As a result of the growing support for legal access to cannabis at the state level, there has been significant growth of opportunities within the US cannabis market. Sales of legal cannabis flowers and cannabis-infused derivative and edible products totaled US\$10.4 billion in 2018.²³⁵ The US market for direct legal cannabis sales alone is projected to grow to US\$17.0 billion by 2021.²³⁶ The total market for direct cannabis sales today is appraised at US\$50 to US\$55 billion in the US if every state legalized full adult recreational consumption.²³⁷

California

California is a significant target jurisdiction for Bhang products. Analysts predict that the California cannabis market will be one of the fastest growing industries in California within the next five (5) years. The market is forecasted to stabilize after 2025, at which point the California cannabis market is estimated to be valued at approximately US\$10.0 billion (see Table 2).

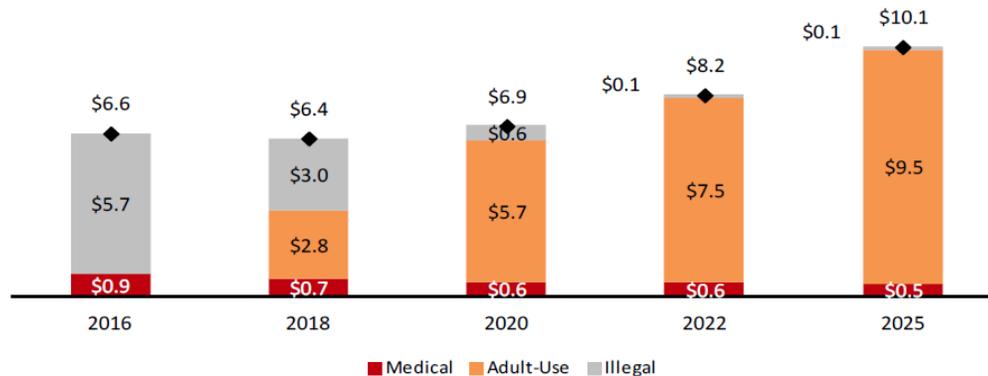
²³⁵ CNBC. (Dec. 27, 2018). CNBC.com. Available from <https://www.cnbc.com/2018/12/27/legal-marijuana-industry-had-banner-year-in-2018.html>.

²³⁶ Arcview Market Research & New Frontier Data. (2016). *The State of Legal Marijuana Markets* (4th ed.), pp. 11. Available from <https://www.arcviewmarketresearch.com/4th-edition-legal-marijuana-market/>.

²³⁷ Marijuana Business Daily. (2017). *Marijuana Business Factbook*, 2017. Available from <https://mjbizdaily.com/factbook/>.

Approximately US\$850.0 million in medical cannabis retail sales were documents in 2016 in California from dispensaries state wide. However, it is estimated that approximately 85% of total transactions are unrecorded for revenue and carried out in illegal transactions. The University of California Agricultural Issues Center predicts the illegal market will shrink to less than 30%, legal adult-use sales will increase nearly 62%, and legal medical sales will decrease to less than 10% (from 15%) due to the provision of an alternative to obtaining medical cannabis physician recommendations for a fee.²³⁸

Table 2: California Marijuana Market Forecast (USD billion)²³⁹

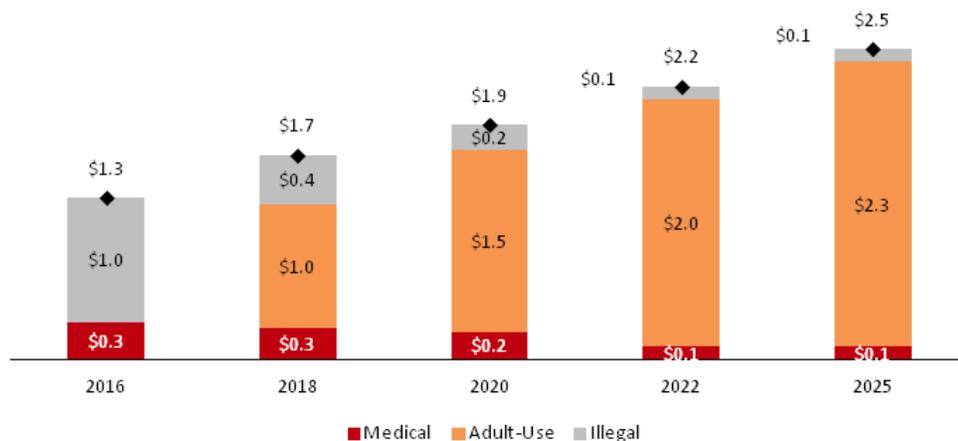


It is predicted that the Los Angeles, California legal market for cannabis will reach approximately US\$1.7 billion by 2020, and approximately US\$2.4 billion by 2025 (see Table 3). The closure of dispensaries operating illegally is anticipated to positively impact the California market. The reduction of illegal dispensaries will create a greater awareness of sourcing cannabis products from legally registered dispensaries, which will lead to the consumer benefits that registered dispensaries, selling products such as those carrying the Bhang brand, provide. Bhang anticipates the closure of illegal dispensaries, the enactment of mandatory testing of sample products by third-party entities and the reduction in the illegal market will benefit both consumers and producers of cannabis products such as vapes, edibles and beverages.

²³⁸ McGreevy, Patrick. (2017 June 11). Legal marijuana could be a \$5-billion boon to California's economy. Retrieved from <http://www.latimes.com/politics/la-pol-ca-pot-economic-study-20170611-story.html>.

²³⁹ Sources: Berke, Jeremy. (2017 December 8). The legal marijuana market is exploding – it'll hit almost \$10 billion sales this year. Retrieved from <http://www.businessinsider.com/legal-weed-market-to-hit-10-billion-in-sales-report-says-2017-12>; Morris, Chris. (2017 December 6). Legal Marijuana Sales Are Expected to Hit \$10 Billion This Year. Retrieved from <http://fortune.com/2017/12/06/legal-marijuana-sales-10-billion/>; The Arcview Group. (2017 December 6). NEW REPORT: Legal Marijuana Sales to Grow 33% to \$10 Billion in 2017. Retrieved from <https://globenewswire.com/news-release/2017/12/06/1234230/0/en/NEVV-REPORT-Legal-Marijuana-Sales-to-Grow-33-to-10-Billion-in-2017.html>.

Table 3: Los Angeles Marijuana Market Forecast (USD billion)²⁴⁰



4. NARRATIVE DESCRIPTION OF THE BUSINESS

4.1 Business of Bhang

Operating since 2010, Bhang is an award-winning cannabis company with three tiers of branded products: (i) marijuana derived products containing THC and CBD which are manufactured by licensees and sold by such licensees, (ii) Hemp derived CBD products that are manufactured by co-packers and are sold by licensees and by Bhang directly and (iii) terpene products, that do not contain any marijuana or hemp, and are manufactured by co-packers and are available for sale by Bhang and its distributors. Products within these tiers include, without limitation, chocolate bars, vapes, gum and mouth spray, in addition to Bhang-branded apparel and merchandise. Bhang’s products have won over 22 awards including 8 “best of” cup awards for artisanal edibles, concentrates, CBD and vape products. Bhang also operates a wholesale Hemp brokerage network as a stream of income which allows Bhang to control the commodity price of its Hemp-derived CBD, profit from excess material and keep ample supply on hand to infuse into its finished CBD products.

Bhang branded THC products are manufactured by licensees and sold by such licensees in certain states where they are permitted to sell marijuana products, namely California, Illinois, New Mexico and Michigan, with plans to enter other US markets and internationally.. Bhang licenses only its intellectual property (brand and recipes) to these licensees and also provides them with packaging and molds to assist them with production and distribution. Bhang does not directly own, hold or handle any THC products. Bhang, through a licensing agreement, holds a nominal equity interest in Origin House, a leading cannabis brand and Bhang’s largest licensee. See Section 4.3(3) - *Production and Distribution (a) THC Products* for more details.

Bhang branded Hemp derived CBD products are all manufactured by co-packers and are sold by its licensees or by Bhang directly in states where they are permitted to be sold. States where Bhang branded CBD products are sold are listed in Section 3.3(2) – *United States Regulatory Matters – CBD Hemp*. The full launch of Bhang’s terpene products is expected to occur in the next 12 months. Terpene-flavoured products are cannabis-inspired and do not contain any marijuana or hemp.

²⁴⁰ Sources: MedMen internal analysis and Frontier Financial Group Inc. (2018). CannaBits. Retrieved from <https://newfrontierdata.com/cannabits/>.

In the forthcoming twelve (12) month period, Bhang expects to accomplish the following business objectives:

- launch its beverage, capsule, mint, vape, snus packet, pre-roll and pre-roll cigarette manufacturing all of which will be based on Hemp derived CBD and terpene products;
- target expansion into markets with strategic joint ventures and licensing deals where it believes it can gain market share against local competition through superior branding and consumer offerings;
- complete a full product launch of US and Canadian terpene line of products to select mass retailers; and
- fulfill the advertising and marketing campaign as described in Section 4.3(7) - *Marketing*.

The significant events and milestones that must occur for the aforementioned business objectives to be accomplished are as follows:

- completing the manufacturing plant build-out in Miami, Florida and launch the facility by end of Q3 with an estimated cost of C\$2,125,000;
- undertake strategic acquisitions of businesses with manufacturing and/or distribution capabilities relevant to Bhang by the end of fiscal 2019 with an estimated cost of C\$600,000
- secure Hemp derived CBD distribution throughout the United States and secure international licensing arrangements for its intellectual property with businesses in Canada, Mexico, Uruguay, Denmark, Poland, Spain, Germany, Austria, Liechtenstein and Poland within a 12 month period with an estimated cost of C\$250,000;
- secure terpene product distribution to US and Canadian market and enter into agreements with mass retailers within a 12 month period with an estimated cost of C\$275,000;
- initiate marketing strategy though focus on SEO and SEM by end of Q3 with an estimated cost of C\$350,000; and
- research new products and consumer testing by the end of Q3 with an estimated cost of C\$100,000.

4.2 Total Available Funds

Bhang has historically relied on equity financings to satisfy its capital requirements and will continue to depend upon equity capital to finance its planned development and expansion activities moving forward.

The estimated consolidated working capital of Bhang as of the most recent month end prior to filing the Listing Statement was C\$150,000 (excluding prepaid expenses and deferred transaction costs). Bhang also has other funds totalling C\$5,200,559 obtained from the offering of BCI Subscription Receipts.

Notwithstanding the foregoing, there may be circumstances where, for business reasons, a reallocation of funds may be necessary for Bhang to achieve its objectives. Bhang may require additional funds in order to fulfill all of its expenditure requirements to meet its business objectives and may either issue additional securities or incur debt. There can be no assurance that additional funding required by the Bhang will be available, if required.

Use of Available Funds	Amount (\$CAD)
Manufacturing and launch of Miami plant	\$2,125,000
Expand distribution network	\$250,000

Acquisitions	\$600,000
Marketing and Advertising	\$350,000
Product Research	\$100,000
Launch of terpene line products	\$275,000
Working Capital	\$1,150,000
Transaction Costs (accounting, audit, legal and CSE fees)	\$500,000
Total Available Funds	\$5,350,000

Ability to Access Public and Private Capital

Due to the present state of the laws and regulations governing financial institutions in the United States, banks often refuse to provide banking services to businesses involved in the cannabis industry. Consequently, Bhang is not able to obtain bank financing in the United States or financing from other United States federally regulated entities.

Bhang has historically, and continues to have, robust access to equity and debt financing from prospectus exempt (private placement) markets in the United States. Bhang's executive team and board have extensive relationships with sources of private capital (such as funds and high net worth individuals).

In addition to Bhang's working capital and the capital raised from its offering of BCI Subscription Receipts, Bhang expects to generate adequate cash to fund its continuing operations. Bhang's business plan includes aggressive growth with the launch of new products and international expansion. Accordingly, Bhang expects to raise additional capital during the next fiscal year.

There can be no assurance that additional financing will be available to the Resulting Issuer when needed or on terms which are acceptable. See *Item 17 Risk Factors – Restricted access to banking* and *Item 17 Risk Factors – Newly-established legal regime*.

4.3 Principal Products and Services

4.3(1) Hemp CBD Wholesale – Bhang Brokerage

Years of experience has allowed Bhang to create a Hemp derived CBD brokerage network that gives it the ability to purchase Hemp derived CBD in bulk at a discount. Bhang has the contacts and infrastructure in place to continue to generate income from wholesale bulk sales of its Hemp derived CBD supply, which can accommodate increases and decreases in demand. Bhang has invested heavily into manufacturing and production capabilities to ensure product supply control, quality control and to manage availability and consistency. Bhang has contractually placed capacity controls over its raw materials, specifically Hemp, to ensure capacity is met. Bhang can wholesale Hemp-derived CBD as a stream of income and keeping supply on hand to infuse into its finished products. Bhang determines the level of combination needed based on market conditions and inventory levels.

Bhang has relationships with several CBD suppliers and in July 2018 entered an agreement with a Kentucky farm to acquire the following Hemp derived agricultural products: multiple grades of flower, CBD isolate and full-spectrum Hemp extract (the "**CBD Supply Agreement**"). Pursuant to the CBD Supply Agreement, Bhang has an exclusive agreement with the Kentucky farm to purchase up to a maximum weight of the aforementioned Hemp derived agricultural products. If the farm produces CBD isolate or full-spectrum Hemp extract in excess of the product maximums, Bhang has the first right to purchase such agricultural products before they are offered to third parties. The CBD Supply Agreement has a three (3) year term and

automatically renews for successive one (1) year terms, unless it is terminated in accordance with the terms thereof. The agricultural products are delivered to Bhang as they are processed. Bhang then sets aside the portion required to manufacture its own CBD products and sells the remainder to third parties.

4.3(2) Product Lines

(a) THC Products

Bhang's licensees offer a variety of cannabis-infused products through its retail licensees that contain THC. Products include chocolate, vape cartridges, EZ dabbers, pre-rolls & flower, gum, vape pen batteries and mouth spray. Cannabis products are targeted to the dispensary market. Bhang does not directly own, hold or handle any THC products. These products are sold through dispensaries in states with an established medical and/or recreational cannabis regime.

The Bhang bar, the Bhang branded flagship product, is an artisan chocolate bar pairing sustainably-sourced, fair-trade cacao with adventurous flavors and lab-tested, CO₂-extracted cannabis oil. Bhang branded chocolate is for chocolate lovers who crave an edible with a cannabis-free taste and verified potencies. Bhang branded bars are available in milk, vegan dark, and white chocolate in a variety of flavors, sizes, and cannabis potencies around the United States. Bhang bars are available in compliant packaging, a variety of flavors and at an affordable price-point.

Bhang's licensees offer customers discrete, smoke-free delivery systems such as vapes, mouth sprays and chewing gum. Customers can select products with either cannabis-derived THC or Hemp-derived CBD, or blend them to customize the experience. For customers who vape, Bhang's licensees offer an array of CO₂-extracted, strain-specific oil cartridges in three (3) strengths and price-points to provide customers with the ability to tailor their experience. Bhang branded batteries and dual coil cartridges deliver its lab-tested, clean oil in a variety of strains.



(b) Hemp-Derived CBD Products

Hemp-derived CBD products offered by Bhang and its licensees are below 0.3% in THC. The CBD products are wellness focused and sold in health stores and other CBD friendly channels.

Bhang's CBD products have evolved over the last seven (7) years and resulted in US-grown, Hemp-derived, CO₂-extracted CBD products including its award-winning crystalline isolate. The isolate is 99%+ pure CBD and packaged in a small, clear, screw-top jar for discretion and convenience. Other CBD products include cartridges, chocolate, pre-rolls, gum, vape pens, sprays and e-juice. All Bhang CBD products are lab-tested for heavy metals, pesticides, and solvents. Hemp-derived CBD products are targeted to the wellness retail channels.

Bhang CBD products include its line of "pre-roll straights." These are, what appear to be a classic cigarette, with a traditional filter. They are called a "pre-roll straight" and are not designed or intended for use with tobacco products. They are made with terpene-enhanced, American-grown Hemp flower. The pre-roll straights are tobacco-free, nicotine-free and an incredibly smooth smoke containing nearly 37 milligrams of CBD per stick. They are currently being sold directly on Bhang's e-commerce site, through several retailers and Bhang has recently executed distribution deals with Mr. Checkout in the US.



(c) Terpene Products

In early 2019, Bhang launched two of its terpene products, namely Little Stinker e-juice and Terpzilla. A full launch of Bhang's terpene product line is expected to occur in the next 12 months. Terpene-flavoured products are cannabis-inspired and do not marijuana or hemp. Offerings will include mass marketed beverages (water, tea, coffee, wine, beer and soda), vape cartridges, e-juice, chocolate, pre-rolls, cigarettes, sprays, compressed tablet pills, snus packets and edibles. The target market includes mass markets such as drug stores and big box retailers.



4.3(3) Production and Distribution

(a) THC Products

Distribution of Bhang's THC products is completed through Bhang's licensing program, which provides a legal presence in a number of US states. Licensees pay royalties to use Bhang's intellectual property (brand and recipes) to manufacture and distribute edibles, vape cartridges and other products under the Bhang brand. Bhang's licensees are responsible for navigating and complying with their own local cannabis laws. Current licensees are located in California, Florida, Illinois, Michigan and New Mexico. Bhang is looking to work with potential licensees in Arizona, Colorado, Nevada, New York, Ohio, Montana, and Massachusetts once legislative changes have been settled. Licensees have wholesale contracts to purchase Bhang's finished CBD products for distribution through their THC networks, where legally viable.

In Bhang's three (3) largest markets, California (the single largest cannabis market in the US and the world), Florida and Canada (the largest country to pass federal recreational cannabis laws) its manufacturing and distribution partners are CannaRoyalty Corp., doing business as "Origin House" ("**Origin House**"), Trulieve and Indiva, respectively. Bhang has executed joint venture with Indiva to be Bhang's manufacturing and distribution partner Canada-wide and for European exports. Origin House, Bhang's California licensee, owns and operates one of the largest distribution operations in the State of California with a presence covering the entire state. These three (3) companies are publicly-traded (Origin House and Trulieve are listed on the CSE and Indiva is listed on the TSX Venture Exchange), well-funded and contractually aligned to significantly and directly benefit by helping Bhang achieve dominance in their markets.

Origin House, Bhang's California licensee, owns and operates one of the largest distribution operations in California with a presence covering the entire state. In February 2018 Bhang signed a trademark license agreement with Kaya Management, Inc. ("**Kaya**"), a company that was acquired by Origin House on March 27, 2018 (the "**Origin House License Agreement**"). Origin House is currently manufacturing and distributing Bhang-branded products in California. Pursuant to the Origin House License Agreement, Bhang, as licensor, granted an exclusive royalty-bearing license in certain marks to Kaya, as licensee. Such licensed marks may be used in the manufacture, sale, promotion, marketing, advertising, and distribution of certain licensed products within the State of California to all entities licensed by the State of California to offer, sell or distribute medical or adult use cannabis products. The initial term of the Origin House License Agreement ends on December 31, 2022 and may be renewed for an additional five (5) year term, provided Kaya has complied with the terms of the Origin House License Agreement. Kaya has agreed to pay Bhang a fixed royalty rate of 6.3% on the gross sales of licensed products, on a quarterly basis, in addition to start up consideration costs consisting of US\$25,000.00 in cash, US\$250,000 in Origin House stock, and US\$25,000.00 credit in prepaid services from a marketing agency for use in the preparation of a brand style guide. Kaya has also agreed to the following minimum payments applicable against royalties, to be paid in equal quarterly installments:

- Year 2018: US\$467,500.00;
- Year 2019: US\$750,000.00;
- Year 2020: US\$802,500.00;
- Year 2021: US\$858,675.00; and
- Year 2022: US\$918,782.00.

(b) Hemp-Derived CBD Products

Currently, Bhang's Hemp-derived CBD products are all manufactured by co-packers, which are then sold through its licensees or through Bhang directly. Bhang works with third party distributors and vendors to distribute its Hemp derived CBD products. Bhang has added online infrastructure to sell its Hemp-derived CBD products directly through e-commerce and has begun executing distribution deals to self-distribute through c-store, smoke, vape, and head shop chains.

Bhang anticipates a robust CBD consumer products industry in 2019 and in the future. Bhang will benefit from partnership with a Kentucky Hemp farm to purchase all plant material produced on site in accordance with the CBD Supply Agreement. The harvest is expected to yield sufficient product to produce 2,800 to 3,500 kilograms of finished CBD isolate. Bhang also has the option to take the material as multiple grades of flower, full spectrum oil or isolate. The farm has indicated it can expand its operation annually to meet increasing demand. The growth coming from this acreage will be enough to supply all operations for product manufacturing until the next harvest season comes. Bhang receives the product requested as it is processed.

Research for an expanded beauty and wellness brand is beginning with an expected limited launch in Q4 of 2019. Bhang will conduct consumer testing of the products. The test results of consumer acceptance of the new consumer products will dictate the number of expanded distribution points throughout 2020. Expenses will be incurred in the production and manufacturing of the products, along with support associates in merchandising, planning and allocation. Further, Bhang is currently exploring international opportunities in Canada and outside of North America, though the timeline for commercialization in these locations is unknown at this time. Bhang's e-commerce websites sell proprietary Hemp-derived CBD-infused consumer products, branded apparel, and proprietary branded accessory products.

Currently Bhang intends to manage all orders, processing, packaging, unit storage, distribution, delivery, returns and customer-service call centers.

(c) Terpene Products

In early 2019, Bhang launched two of its terpene products, namely Little Stinker e-juice and Terpzilla. Bhang is currently working on completing a full product launch of US and Canadian terpene products to select mass retailers, which is expected to be completed in the next 12 months. Terpenes are the “aromatic metabolites found in the oils of all plants.” [https://www.greenrelief.ca/blog/what-are-cannabis-terpenes/] Bhang is working with third parties to produce co-branded terpene products including e-juice and beverages, which will be manufactured and distributed through such third parties’ current networks. Concurrently, Bhang is working on completing a full range of terpene edibles and cosmetics for sale to mainstream retail. The range should be developed and available in the next 12 months.

See Section 4.3(8) – *Narrative Description of the Business – Principal Products and Services – Product Development* for further details on terpene products that are currently in development.

4.3(4) Joint Ventures

(a) CB Brands, LLC

Bhang has a joint venture with hip-hop group Cypress Hill named CB Brands, LLC (“**CB Brands**”). CB Brands was created to develop, manufacture, market, sell, and/or distribute co-branded and newly branded flower and cannabis products, including flower, joints, concentrated cannabis oil and personal cannabis vaporizer products. The joint venture is governed by the operating agreement of CB Brands (the “**CB Brands Operating Agreement**”) entered in August 2016 among its members, Bhang and Cypress Hill Musik (“**Cypress Hill**”) and is a 50/50 partnership between the parties. Pursuant to the CB Brands Operating Agreement, neither Bhang nor Cypress Hill may compete with CB Brands for a one (1) year period after such member ceases to be associated with CB Brands in their respective deliverable areas. The management and operating responsibilities of CB Brands are delegated to its manager, Scott Van Rixel. Bhang and CB Brands do not operate at arm’s length given that Mr. Van Rixel is the sole operator of CB Brands and is a director and officer of Bhang.

CB Brands operates as CHB (Cypress Bhang) and launched two products in Q4 of 2018 through a licensing and distribution relationship with Herban Engineering and bud.com. The products can be ordered online through bud.com for delivery in large metro markets in California (Sacramento, Berkeley, Oakland, San Francisco, Hollywood, Los Angeles). There is a direct portal to the product line found at cypressbhang.com. The CHB venture was launched from the Sylmar, California Dr. Greenthumb dispensary, owned by front man B-Real, and promoted on the band’s and Bhang’s social channels in the same week as Cypress Hill released their first studio album in 8 years, Elephants on Acid. Shortly after the first tranche of products sold out, the California regulations regarding testing changed (again) requiring a packaging refresh that is currently in the works.

(b) Indiva

On April 17, 2018, Bhang entered a joint venture agreement with Indiva (the “**Indiva Joint Venture Agreement**”), a Canadian TSX Venture Exchange listed issuer that wholly owns a subsidiary licensed under the *Cannabis Act* (Canada) and is a supplier of medical-grade cannabis and cannabis products. The joint venture is a 50/50 partnership between Bhang and Indiva. The Indiva Joint Venture Agreement provides Indiva with exclusive rights to manufacture

and sell Bhang-branded THC products in Canada as well as the right to export those products internationally. As part of the Indiva Joint Venture Agreement, Indiva has committed to investing US\$5,000,000.00 into cannabis processing equipment to manufacture Bhang products. Edible THC products are not yet legal in Canada and Indiva has not begun distributing any joint venture products. On February 13, 2019 Bhang and Indiva announced the first phase in their planned roll-out into the Canadian edibles market with Bhang's California licensee, Origin House.

4.3(5) Employees and Human Resources

As of the most recent financial year, Bhang had twelve (12) employees. Bhang will invest capital to systematically grow the company into a global brand. Bhang intends to add key hires in strategic areas such as marketing, production, sales and distribution for immediate business execution that results in greater revenues. Other key positions will be backfilled in the future, as expansion requires and revenue exists to do so.

Bhang executives and technical staff have significant sales, product development and marketing experience in order to optimize productivity; financial; sales; marketing; and branding. For example, Scott Van Rixel is a classically-trained and celebrated Chef d' Cuisine and master chocolatier with over 25 years' gourmet food experience. Richard Sellers has a broad range of experience in the cannabis industry from owning multiple dispensaries and grow operations to serving as an industry consultant for the last 20 years. Thomas Stein has over 15 years of experience in distribution, finance and marketing for some of the largest adult beverage companies in the world. With the necessary specialized skills relating to product development, sales and marketing, Bhang believes that all of the necessary skill and labour is available to execute upon its strategy.

4.3(6) Real Estate and Physical Resources

Bhang has secured and is building out its headquarters at 7251 NE 2nd Avenue in Miami, Florida with executive and administrative office space in Unit 201, a product development clean room which is completed in Unit 102, and a warehouse for pick, pack and shipping nearly completed in Unit 113. Bhang plans to produce capsules, vape cartridges, and mints in Unit 102, and will continue building-out its beverage plant, an automated pre-roll Hemp cigarette & pre-roll cone manufacturing facility, and snus packet production line at the Unit 102 location in phase 2. Production equipment has been ordered for phase 2 and Bhang is currently waiting for such equipment to arrive. Through several partnerships, Bhang has secured Good Manufacturing Practice certified facilities to manufacture and distribute Hemp-derived CBD products for both wholesale and retail sales. The Good Manufacturing Practice is a system for ensuring that products are consistently produced and controlled according to quality standards.

Bhang has leased its Miami, Florida headquarters under two (2) separate leases with the same lessor, one (1) for its research and development, administrative, manufacturing and storage facility (the "**Miami Manufacturing Lease**") and one (1) exclusively for administrative office space (the "**Miami Office Lease**").

The Miami Manufacturing Lease commenced on June 18, 2018 and ends on July 31, 2020, subject to Bhang's option to extend the Miami Manufacturing Lease for two (2) additional two (2) year periods. The monthly base rent is US\$4,681.64, plus applicable taxes, which increases by three percent (3.0%) annually. Bhang is also responsible for additional rent, including a common area maintenance fee, utilities, and maintenance of the leased premises. Pursuant to the Miami Manufacturing Lease, all repairs, renovations and fixtures will remain Bhang's property. Bhang

cannot assign the Miami Manufacturing Lease or sublet the premises leased pursuant thereto without written consent of the lessor.

The Miami Office Lease commenced on November 1, 2018 and ends on July 31, 2020, subject to Bhang's option to extend the Miami Office Lease for two (2) additional two (2) year periods. The monthly base rent is US\$2,612.50, plus applicable taxes. The monthly base rent increases to US\$2,935.50 after the first year of the Miami Office Lease and three percent (3.0%) annually thereafter. Bhang is also responsible for additional rent, including a common area maintenance fee, utilities, and maintenance of the leased premises. Pursuant to the Miami Office Lease, all repairs, renovations and fixtures will remain Bhang's property. Bhang cannot assign the Miami Office Lease or sublet the premises leased pursuant thereto without written consent of the lessor

4.3(7) Marketing

Over the next twelve months, Bhang intends to capitalize on and expand on its brand equity position in the THC space, rapidly scale its Hemp derived CBD and terpene consumer products businesses and develop new brands that target the growing female and wellness consumer base through a robust e-commerce platform, upweighted digital investment, earned media and research and development of new products.

(a) Capitalizing on and Expanding Bhang's THC Brand Equity

Bhang will increase its presence and visibility in legal THC markets through strategic partnership or licensing where it sees the ability to gain significant share. Bhang is currently in process of a full packaging refresh which will include a robust retail merchandising solution incorporating multiple SKU's. Additionally, Bhang is looking to include an augmented reality experience across all of its packaging to encourage consumer and dispensary engagement and increase consumer data capture. Finally, Bhang recognizes significant opportunities in the growing micro-dose segment and will be releasing several micro-dose products in the edible and beverage segments. Bhang understands the importance of both product endorsement and earned media in this rapidly growing space and has hired a lifestyle PR agency to ensure that wherever there is talk of cannabis or Hemp products a Bhang brand is mentioned.

(b) Rapidly Scale Hemp Derived CBD and Terpene Consumer Product Businesses

In marketing its Hemp derived CBD consumer products, Bhang intends to use consistent branding and messaging across all of its points of sale and operate in an Omni Channel fashion to effectively communicate all brand propositions. Bhang has a dedicated marketing team, and has partnered with very well respected branding agencies to create some of the most interesting and innovative brands in the CBD space. In addition, Bhang intends to build a powerful E-Commerce Business through a significant investment in SEO, SEM and content marketing. Bhang expects to launch new E-Commerce enabled websites for all of its brands, beginning with the flagship Bhang CBD Brand in 2019. Bhang will focus investment (C\$350,000) into SEO and SEM for which it expects to realize an 111% return on its investment within 5 months increasing monthly thereafter. SEO is the process of increasing the quality and quantity of website traffic, increasing visibility of a website or a web page to users of a web search engine. SEM is a form of Internet marketing that involves the promotion of websites by increasing their visibility in search engine results pages.

As well as e-commerce, Bhang is working closely with distributors to gain mainstream retail distribution of its terpene products and its Hemp derived CBD products where legally permitted.

Through using terpenes, Bhang will be among the first brands to appear on retail shelves broadly available to cannabis curious consumers, in beverage, edible and vapeable formats.

(c) New Brand Development

Bhang has long prided itself on the ability to recognize what consumers want before they do. This commitment to innovation will continue to be a major pillar of Bhang's future success. Currently Bhang is beginning a consumer study to understand the future cannabis consumer, and the vastly underserved female consumer. Bhang will develop and launch a suite of new brands addressing the most profitable future consumers in 2019. In marketing its new consumer products, Bhang intends to use consistent branding and messaging across all of its points of sale and operate in an Omni Channel fashion to effectively communicate all brand propositions. Bhang has a dedicated marketing team, and has partnered with very well respected branding agencies to create some of the most interesting and innovative brands in the Hemp and cannabis space.

4.3(8) Product Development

(a) Beverage Line

Over the last two (2) years, Bhang has been developing formulas for its soda and cold brew coffee product line. The beverage line will feature cannabis flavor profiles with terpene flavour accents. Bhang is currently in discussions with a co-packer of such products in lieu of building out its in-house beverage production facility in Miami, Florida. The launch of beverage line is anticipated to occur by the end of 2019. Equipment for the production of the beverage line and completion of facility build-out is anticipated to cost US\$2,175,000.00.

(b) Hemp Cigarettes

Bhang has entered an agreement to obtain an automated cone-roller machine for the production of Hemp cigarettes. The agreement also provides Bhang with an exclusive right to sell the vendor's units in North, Central and South America. The vendor is in the process of developing a mobile pre-rolling system for Bhang's exclusive use, that would allow Bhang to offer pre-rolling services to dispensaries within the United States. Bhang anticipates receiving the mobile unit in late 2019.

(c) Terpene-Flavoured Coffee

Bhang has developed terpene-flavoured dry coffee for brewing. Bhang is in the process of negotiating an agreement with a roaster for the production of coffee pods, for use with single-serve coffee makers, and Hemp-derived CBD-infused beans for brewing.

(d) THC, CBD and Terpene Compressed Tablet Pills

Bhang has developed THC, Hemp-derived CBD and terpene compressed tablet pills and is currently working on the packaging for such products.

(e) CBD Beet Juice

Bhang has entered a memorandum of understanding with a third party to co-produce a Bhang-branded Hemp-derived CBD infused beet beverage. The beverage is currently being produced by the third party and will be distributed by Bhang, where permitted, throughout the United States.

(f) Liquid Wellness Shots

Bhang's liquid wellness shots are currently in the research and development stage.

(g) THC and CBD Tinctures

Bhang has developed a second flavour of its THC and CBD tincture, strawberry lemonade, which can be taken orally or used with vape mods and cartridges. The product is being manufactured by a third party. Bhang is in the process of creating marketing materials for the tincture.

(h) CBD and Terpene Snus Packets

Bhang has purchased the machinery to manufacture its Hemp-derived CBD and terpene snus packets.

(i) THC and CBD Topicals

Bhang is working with a second supplier of Hemp-derived CBD topicals, in addition to the topicals that are currently available on Bhang's online store. Bhang has approved the topicals and is developing their packaging.

4.3(9) Competition

Bhang operates as a "House of Cannabis and Hemp Brands". Bhang's direct competitors include Charlotte's Web, Dixie Elixirs, Green Growth Brands, Binske, O.penVAPE and Kiva Confections primarily. While similarities exist between Bhang and those companies, Bhang does not compete head-to-head except in certain product categories. There are also significant differences between Bhang's competitors and Bhang. For example, Bhang has intentions to expand its brand internationally through relationships with licensees. Bhang is not aware that any of its competitors outside of O.penVAPE have an international presence. Bhang has four distinct streams of income that includes CBD brokerage and THC product licensing which is unique compared to its largest competitors. With regards to Bhang's terpene products, Bhang is not aware of its competitors developing cannabis-inspired terpene products for mass-market and box retail store distribution. So while in certain categories (THC chocolate, THC vape, CBD, for example) there are similarities, Bhang's business model is unlike that of its largest competitors and is therefore well positioned to limit its risk of competitive exposure.

Bhang's competitive strategy includes the following elements.

- **Brand recognition** - Be a top brand consumer's love, connect with and trust.
- **Distribution** - Ability to achieve efficient distribution in new jurisdictions as regulations open those markets, making products readily available with no stoppage in service.
- **Supply-Chain Strength** - Ability to secure consistent, licensed biomass and product components for consistent production and delivery.
- **Manufacturing** - Be a presence and grow to not only service customers who want Bhang branded products, but also to create jobs and have a positive impact on local communities.

- **Accessible Growth Strategy** - Mass markets are starting to open as regulations ease and national chains are considering offering more Hemp-derived product lines.

- **Strong Business Development** – Building trusted relationships with influencers will be key to operating in national distribution markets in addition to those we already have.

4.3(10) Intellectual Property

As of the date hereof, Bhang has five (5) registered trademarks with the United States Patent and Trademark Office, licensed the use of eight (8) trademarks registered with the United States Patent and Trademark Office, has two (2) registered trademarks with the World Intellectual Property Organization and numerous trademark applications in progress with the United States Patent and Trademark Office. Bhang has invested significant resources in developing its brand and brand story, protected through confidentiality and trade secret agreements entered with licensees.

Bhang's trademarks registered with the United States Patent and Trademark Office consist of:

- “Bhang” was registered under serial number 86149698 on February 10, 2015 for use with chewing gum containing Hemp and candy containing Hemp.
- “Bhang (stylized)” was registered under serial number 86136318 on May 12, 2015 for use with clothing, namely, tee shirts, hats, sweatpants, sweatshirts, and women’s underpants.
- “Bhang (stylized)” was registered under serial number 85291133 on January 1, 2013 for use with chocolate and chocolates (chocolate candies, chocolate-based-ready-to-eat food bars), confectioneries, namely snack foods, namely chocolate, with all of the foregoing containing only FDA approved ingredients.
- “Hempstick” was registered under serial number 86159169 on September 2, 2014 for use with lip balm made with Hemp.
- “Perfection in Cannabis Confection” was registered under serial number 85581434 on November 8, 2016 for use with chocolate confectionaries.
- “Bhang” was registered under serial number 87776087 on September 4, 2019 for use with chocolate bars.

Bhang has licensed the use of trademarks registered with the United States Patent and Trademark Office, consisting of:

- “B (stylized)” was registered under serial number 86419233 on October 6, 2015 for use with disposable and reusable cartridges containing nicotine.
- “Because Quality Matters” was registered under serial number 86399289 on May 15, 2018 for use with electronic cigarettes.
- “Bhang” was registered under serial number 86201026 on July 3, 2018 for use with disposable and reusable cartridges and electronic cigarettes.
- “Bhang” was registered under serial number 5508760 on July 3, 2018 for use with disposable and reusable cartridges; electronic cigarettes.
- “Cannaboard” was registered under serial number 85635962 on December 31, 2013 for use with sporting goods, namely, skateboards, snowboards and surfboards.
- “Leaf design mark” was registered under serial number 87415661 on May 5, 2018 for use with non-alcoholic drinks, namely energy shots; vegetable juice.
- “Sensinilla” was registered under serial number 86667477 on May 29, 2018 for use with coffee based beverages.

- “Smochalatte” was registered under serial number 86667465 on June 12, 2018 for use with coffee based beverages.

Bhang has obtained such licenses from Founding Fathers Hemp Co., Inc. (“**Founding Fathers**”) through a license agreement (the “**Founding Fathers License Agreement**”) on an exclusive, royalty-free basis. The term of the Founding Fathers License Agreement is for a one (1) year term, and automatically extends for subsequent one (1) year terms. The Founding Fathers License Agreement includes the license of other trademarks owned by Founding Fathers to Bhang, that have been filed but are not yet registered.

Bhang’s trademarks registered with the European Union through the World Intellectual Property Organization consist of:

- “B (stylized)” was registered by Founding Fathers under registration number 1 415 666 on May 15, 2018 for use with disposable and reusable cartridges containing nicotine.
- “Bhang (stylized)” was registered under registration number 1 417 314 on May 22, 2018. This mark was registered for use with clothing, namely t-shirts, hats, sweatpants, sweatshirts and women’s underpants.
- “Bhang (stylized)” was registered under registration number 1 433 575 on May 22, 2018. This mark was registered for use with chocolate and chocolates and confectionaries, namely, snack foods, namely, chocolate.

All federal registered trademarks in the United States described above are subject to renewal ten (10) years from the date of registration.

In addition to its trademarks, Bhang owns 354 website domains, including www.gotbhang.com, and social media accounts across all major platforms.

Bhang has also secured the exclusive use of a patented device which allows for child-safe closures on rolled lip cans (soda cans) for use on cannabis beverage products.

5. SELECTED CONSOLIDATED FINANCIAL INFORMATION

5.1 Consolidated Financial Information – Annual and Interim Information

The Corporation’s Annual Information

The following table sets forth selected financial information for the Corporation for the years ended September 30, 2018, 2017 and 2016. Such information is derived from the financial statements of the Corporation and should be read in conjunction with such financial statements. All amounts are reported in Canadian dollars.

	As at and for the year ended September 30, 2016 (audited) (C\$)	As at and for the year ended September 30, 2017 (audited) (C\$)	As at and for the year ended September 30, 2018 (audited) (C\$)
<i><u>Statement of operations</u></i>			
Interest income	9	Nil	766
Net income (loss) from operations	(1,156,842)	(137,809)	(110,392)

	As at and for the year ended September 30, 2016 (audited) (C\$)	As at and for the year ended September 30, 2017 (audited) (C\$)	As at and for the year ended September 30, 2018 (audited) (C\$)
Net income (loss)	(1,156,842)	(137,809)	(110,392)
Net income (loss) per share (basic and diluted)	(0.06)	(0.007)	0.003
<u>Statement of financial position</u>			
Total assets	520,846	236,712	90,773
Total liabilities	1,833,444	1,613,296	347,965
Cash dividends declared per share	Nil	Nil	Nil

See Appendix "A" – *Financial Statements of the Corporation*

Bhang's Annual Information

The following tables set forth selected financial information for Bhang as at and for the years ended December 31, 2018 and 2017. Such information is derived from the financial statements of Bhang and should be read in conjunction with such financial statements.

See Appendix "C" – *Financial Statements of Bhang*

SELECTED ANNUAL FINANCIAL INFORMATION

	Bhang as at and for the year ended December 31, 2017 (audited) (\$)	Bhang as at and for the year ended December 31, 2018 (audited) (\$)
<u>Statement of operations</u>		
Total revenue	1,979,391	1,638,016
Gross profit (loss)	1,257,281	987,432
Net profit (loss) attributable to the Corporation	(577,415)	(1,538,608)
<u>Statement of financial position</u>		
Total assets	3,369,509	6,005,412
Total liabilities	3,816,683	778,731
Shareholders' equity (deficit)	(447,174)	5,276,681

SELECTED INTERIM FINANCIAL INFORMATION

The Corporation's Interim Information

The following tables set forth selected interim financial information for the Corporation for the periods set out. Such information is derived from the financial statements of the Corporation and should be read in conjunction with such financial statements. All amounts are reported in Canadian dollars.

Fiscal Year Quarter	2019		2018				2017	
	Mar	Dec	Sep	Jun	Mar	Dec	Sep	Jun
	C\$	C\$	C\$	C\$	C\$	C\$	C\$	C\$
Interest income	0	0	0	0	766	0	9	0
Net income (loss)	(26,358)	(108,475)	(57,650)	53,187	(110,713)	225,568	(191,320)	838,686
Net income (loss), per share diluted	(0.001)	(0.003)	(0.004)	0.001	(0.003)	0.009	(0.007)	0.04

See Appendix "A" – *Financial Statements of the Corporation*

See Appendix "D" – *Consolidated Proforma Financial Statements of the Resulting Issuer.*

5.2 Dividends

The Resulting Issuer has not declared distributions on Subordinate Voting Shares in the past. The Resulting Issuer currently intends to reinvest all future earnings to finance the development and growth of its business. As a result, the Resulting Issuer does not intend to pay dividends on Subordinate Voting Shares in the foreseeable future. Any future determination to pay distributions will be at the discretion of the board of directors ("**Board of Directors**") and will depend on the financial condition, business environment, operating results, capital requirements, any contractual restrictions on the payment of distributions and any other factors that the Board of Directors deems relevant. The Resulting Issuer is not bound or limited in any way to pay dividends in the event that the Board of Directors determined that a dividend was in the best interest of its shareholders.

IFRS

The financial statements included in this Listing Statement have been, and the future financial statements of the Resulting Issuer shall be, prepared in accordance with IFRS.

6. MANAGEMENT'S DISCUSSION AND ANALYSIS

The Corporation

The Corporation's Management's Discussion and Analysis ("MD&A") for the years ended September 30, 2018, 2017 and 2016, and for the six month interim financial period ended March 31, 2019 are attached to this Listing Statement as Appendix "B" – MD&A of the Corporation.

Bhang

The following MD&A of the financial condition and results of operations of Bhang constitutes the review by the management of Bhang of the factors that affected Bhang's financial and operating performance for the years ended December 31, 2018 and 2017 and the three month periods ended March 31, 2019 and 2018. The MD&A for the years ended December 31, 2018 and 2017 should be read in conjunction with the audited consolidated financial statements ("**Financial Statements**") of Bhang for the years ended December 31, 2018 and 2017, and the unaudited interim financial statements for the three month periods ended March 31, 2019 and 2018 ("**Interim Financial Statements**"), including the notes thereto. Unless otherwise stated, all amounts discussed herein are denominated in United States dollars. The Financial Statements and Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as described in Note 2 to the Financial Statements and Interim Financial Statements. Information regarding the accounting policies used in the preparation of the Financial is set out in Note 3 to the Financial Statements and Interim Financial Statements.

On August 28, 2010, Bhang, under the name Bhang Chocolate Company Inc., was incorporated in the state of Nevada to own, operate and develop certain businesses related to the production, distribution and sale of cannabis and cannabis related products in jurisdictions where such production, distribution and sale is authorized under applicable law.

On May 6, 2014, Bhang Chocolate Company Inc. changed its name to Bhang Corporation. Bhang has registrations to operate in the state of Florida.

Results of Operations

During the years ended December 31, 2018 and 2017, Bhang had a net losses from operations of \$1,538,608 and \$577,415, respectively. Gross profit for the year ended December 31, 2018 was \$987,432 a reduction of \$269,849 when compared to gross profit of \$1,257,281 during the year ended December 31, 2017.

Revenue for the year ended December 31, 2018 amounted to \$1,638,737 a decrease of \$340,654 when compared to revenue of \$1,979,391 for the year ended December 31, 2017. Within revenue, product sales decreased from \$850,630 to \$791,471 from 2017 to 2018. Prior to the 2017 fiscal year, Bhang derived revenue from by purchasing packaging products, vape hardware and other components associated with its licensed products and selling them to its licensees. During the fiscal 2017 year, Bhang altered that arrangement and the licensees ordered these pieces directly which has resulted in a reduction of product sales from 2017 through to 2018. In addition, during the year ended December 31, 2017, Bhang made the decision to sell a large amount of inventory at reduced prices as there was a significant amount of price fluctuation in the market that Bhang did not want to expose itself to. Furthermore, during fiscal 2018, Bhang shifted their focus away from the sales of bulk CBD products toward the sale of finished CBD products. While sales of the finished CBD products started to gain momentum towards the end of the third quarter of fiscal 2018, there was a gap between these sales and the decrease in bulk CBD which contributed to the overall decrease product sales between the 2018 and 2017 fiscal years. During the 2018 fiscal year, Bhang earned licensing revenue of \$782,886, a reduction of \$268,940 when compared to licensing revenue of \$1,051,826 earned during the 2017 fiscal year. During fiscal 2017, Bhang was forced to terminate a several license agreements due to violations by the licensees. However, Bhang has made strides in adding new licensees to its roster for fiscal 2018 and onwards. During the year ended December 31, 2018, Bhang earned other revenue of \$64,380 which was \$12,555 less than other income of \$76,935 earned during the year ended December 31, 2017. Included in this category are charges related to shipping the packaging products, vape hardware and other products to licensees. As Bhang

started to have the licensees order these items directly from the vendors during 2017, less income from the shipping of these goods was earned.

During the fiscal year ended December 31, 2017, Bhang incurred cost of sales of \$722,110. This amount decreased by \$70,805 to \$651,305 during fiscal 2018. These reductions are a direct result of the new arrangement whereby Bhang's licensees ordered packaging products, vape hardware and other products directly from the vendor as Bhang no longer had to purchase these goods prior to selling them to its licensees.

As a result of the year-over-year changes to revenue and cost of sales, gross profit for the year ended December 31, 2018 was \$987,432 a reduction of \$269,849 when compared to gross profit of \$1,257,281 during the year ended December 31, 2017.

Operating expenses for the year ended December 31, 2018 amounted to \$2,552,500, an increase of \$955,639 when compared to expenses of \$1,596,861 incurred during the year ended December 31, 2017. The most significant areas of fluctuation between the two years relate to sales and marketing, professional fees, salaries and wages, and bad debts.

During the year ended December 31, 2017, Bhang incurred professional fees of \$361,815. This amount increased by \$123,313 during 2018, resulting in total professional fees of \$485,128 for the 2018 fiscal year. During the year ended December 31, 2014, Bhang entered into a Cannabis Brands Cooperative Agreement (the "**Co-op Agreement**") with another party pursuant to which the other party made aggregate payments of \$1,500,000 towards its acquisition of an ownership interest in Bhang. During the year ended December 31, 2014, Bhang declared the Co-op Agreement to be in default as a result of the other party's inability to make all of the payments contemplated in the Co-op Agreement. The other party, shortly thereafter, declared the Co-op Agreement to be rescinded and initiated a claim against Bhang for repayment of the \$1,500,000. During the year ended December 31, 2018, Bhang paid back the original payments of \$1,500,000 accrued interest and other costs in full satisfaction of a Judgement dated December 29, 2016 as issued by the United States District Court for the Northern District of California. Legal expenses for the year ended December 31, 2017 were \$327,711, of which \$224,267 was related to general corporate and trademark work with the balance of \$103,444 related to the matter discussed above. During the year ended December 31, 2018, Bhang incurred legal expenses of \$395,309, of which \$69,885 related to the significant matter discussed above, with the remaining related to general corporate work including general corporate, trademark and debt recovery. During the year ended December 31, 2018, Bhang's accounting expenses increased as a result of additional accounting and audit work. Bhang also engaged a strategic content consulting firm during the year ended December 31, 2018 that resulted in additional professional expenses when compared to fiscal 2017.

Mid-way through the fiscal 2016 year, Bhang hired a new employee in a management role with part of their annual remuneration being shares of Bhang. During the 2017 fiscal year, a right to 1,500 shares of Bhang vested to this employee. While these shares were not issued to the employee until January 2018, the fair value of these shares of \$296,205 was recognized as share-based compensation expense during the year ended December 31, 2017. The employee was issued an additional 1,500 shares of Bhang in August 2018 which resulted in share-based compensation of \$291,825 during the year ended December 31, 2018.

As a result of the addition of this employee part of the way through fiscal 2016, salaries and benefits expenses amounted to \$372,084 for the year ended December 31, 2017. During the year ended December 31, 2018, Bhang incurred additional salaries and benefits as additional operational and administrative staff were added in anticipation of growth of Bhang's operations. Bhang also engaged an executive recruiting firm to find a national sales manager and a regional

sales manager which had the effect of increasing expenses for the year. The result of this was total salaries and wages expense of \$586,325 for the year ended December 31, 2018, an increase of \$214,241 compared to the prior year.

During the year ended December 31, 2018, Bhang incurred bad debt expense of \$306,518 as it reduced the recoverable value of some specific accounts in anticipation of settlement. There were no such bad debt write-offs during the year ended December 31, 2017 as Bhang had a small bad debt recovery of \$3,762 related to the payment of some amounts that had been written off in a prior year.

During the year ended December 31, 2018, Bhang incurred sales and marketing expenses of \$412,505 representing an increase of \$219,839 when compared to expenses of \$192,666 incurred during the year ended December 31, 2017. During the 2018 fiscal year, Bhang launched focused efforts on expanding its social media presence as well as enhancing its promotional materials by engaging a number of media agencies on a continuous basis throughout the year with a particular focus during the latter half of fiscal 2018.

Bhang's remaining operating expenses consisting of general and administrative and product development amounted to \$470,199 and \$377,853 for the years ended December 31, 2018 and 2017, respectively.

For the year ended December 31, 2018, Bhang's cash expenses (operating expenses less share-based compensation and asset depreciation) amounted to \$2,242,847, an increase of \$965,727 when compared to similar expenses of \$1,277,120 for the year ended December 31, 2017.

During the year ended December 31, 2017, Bhang incurred interest expense of \$217,870, the majority of which was charged on the disputed investment of \$1,500,000 as the court ordered interest to be charged from the time of the original advances until payment was made. This charge amounted to \$167,870 for fiscal 2017, with the remaining \$50,000 payable on the outstanding promissory note of \$1,000,000. During the year ended December 31, 2018, Bhang incurred interest expense of \$41,667 on the outstanding promissory note until the note was converted into common shares of Bhang during October 2018.

During the year ended December 31, 2017, Bhang disposed of some items of property and equipment for proceeds of \$25,000 which resulted in a loss on the disposition of \$5,750. There were no such dispositions or losses during the year ended December 31, 2018.

In early fiscal 2018, Bhang received 124,922 shares of CannaRoyalty Corp. as payment for licensing fees, the fair value of which upon receipt was \$505,582. Bhang recorded unrealized gains on these shares of \$85,055 during the year ended December 31, 2018 as the carrying value of the shares is adjusted to the fair market value at each reporting date.

After deducting interest expense and the loss on the disposition of property and equipment from the loss from operations, Bhang was faced with a net loss for the year ended December 31, 2017 of \$577,415. After deducting interest expense and adding the unrealized gains on its marketable securities, Bhang incurred a net loss of \$1,538,608 for the year ended December 31, 2018.

During the three months ended March 31, 2019 Bhang had net income of \$128,909 compared to a net loss of \$196,915 for the comparative period ended March 31, 2018. Gross profit for the three months ended March 31, 2019 was \$429,316 an increase of \$210,315 when compared to gross profit of \$219,001 for the three month period ended March 31, 2018.

Revenue for the three months ended March 31, 2019 amounted to \$1,601,364 an increase of \$1,299,217 when compared to revenue of \$302,147 for the three months ended March 31, 2018. Within revenue, product sales increased from \$143,846 to \$1,384,904 from 2018 to 2019. This increase is mainly driven by the sale of CBD Concentrate as well as the sale of finished CBD goods. During the three months ended March 31, 2019, Bhang earned licensing revenue of \$212,344, an increase of \$67,868 when compared to licensing revenue of \$144,476 earned during the three months ended March 31, 2018. During fiscal 2017, Bhang was forced to terminate a several license agreements due to violations by the licensees. However, Bhang has made strides in adding new licensees to its roster for fiscal 2018 and onwards. During the three months ended March 31, 2019, Bhang earned other revenue of \$4,116 which was \$9,709 less than other income of \$13,825 earned during the three months ended March 31, 2018. Included in this category are charges related to shipping the packaging products, vape hardware and other products to licensees.

During the three months ended March 31, 2018, Bhang incurred cost of sales of \$83,146. This amount increased by \$1,103,902 to \$1,172,048 during the three months ended March 31, 2019. This increase is a result of the increase in revenue.

As a result of the year-over-year changes to revenue and cost of sales, gross profit for the three month period ended March 31, 2019 was \$429,316 an increase of \$195,315 when compared to gross profit of \$210,315 during the three months ended March 31, 2018. The costs of finalizing certain product formulas and the related production processes during the three months ended March 31, 2019 resulted in increased costs of sales and a reduced gross margin as a percentage of sales. These inefficiencies are not expected to recur in the future.

Operating expenses for the three months ended March 31, 2019 amounted to \$817,377, an increase of \$431,061 when compared to expenses of \$386,316 incurred during the three months ended March 31, 2018. The most significant areas of fluctuation between the two years relate to sales and marketing, professional fees, salaries and wages, general and administrative and bad debts.

During the three months ended March 31, 2019, Bhang incurred sales and marketing expenses of \$284,326 representing an increase of \$220,921 when compared to expenses of \$63,405 incurred during the three months ended March 31, 2018. During the 2018 fiscal year, Bhang launched focused efforts on expanding its social media presence as well as enhancing its promotional materials by engaging a number of media agencies on a continuous basis throughout the year with a particular focus during the latter half of fiscal 2018 which continued into fiscal 2019.

As discussed previously, Bhang continued to add to its staff roster throughout mid to late 2018 and into 2019 to address Bhang's current and anticipated growth. This resulted in wages and salaries expenses of \$292,051 for the three months ended March 31, 2019, an increase of \$190,977 when compared to wages and salaries expenses of \$101,074 for the three months ended March 31, 2018.

During the three month period ended March 31, 2019 Bhang incurred professional fees of \$101,412, which was comprised of legal, accounting and other consulting expenses. This amount represents an increase of \$60,151 when compared to expenses of \$41,261 incurred during the three months ended March 31, 2018. The most significant fluctuations within professional fees relate to consulting expenses related to marketing services and recruitment. These were expenses that were not incurred in the three months ended March 31, 2018.

General and administrative expenses amounted to \$189,083 for the three months ended March 31, 2019, an increase of \$112,288 compared to expenses of \$76,795 incurred during the three months ended March 31, 2018. Driving this increase are increased insurance, depreciation and amortization, travel and general office expenses related to the overall growth of Bhang.

During the three months ended March 31, 2018, Bhang incurred share-based compensation expense of \$72,956 related the continued vesting of shares to be issued to an employee pursuant to their employment contract. Bhang did not incur any such expense during the three months ended March 31, 2019.

During the three months ended March 31, 2019, Bhang was able to recover \$49,495 of outstanding receivables from customers that had previously been provided for as a bad debt. During the three months ended March 31, 2018, Bhang incurred bad debt expenses of \$30,825.

For the three month period ended March 31, 2019, Bhang's cash expenses (operating expenses less share-based compensation and asset depreciation) amounted to \$806,346, an increase of \$414,732 when compared to similar expenses of \$391,614 for the three months ended March 31, 2018.

During the three months ended March 31, 2018, Bhang incurred aggregate interest expenses of \$16,699 which consisted of \$8,889 payable on two loans extended to Bhang during the three months ended March 31, 2019, and \$7,810 related to its office leases. During the three months ended March 31, 2019, Bhang adopted IFRS 15 which requires a company to record the present value of its future lease payments as a liability using a discount rate that represents the company's cost of borrowing. The result of this an allocation of the existing lease payments between interest and debt repayment components. During the three months ended March 31, 2018, Bhang incurred interest expense of \$12,500 on the outstanding promissory note, which was ultimately converted into common shares of Bhang during October 2018.

During the three months ended March 31, 2019, Bhang had an unrealized gain of \$535,839 on its investment in 124,922 shares of CannaRoyalty Corp. which were received subsequent to March 31, 2018. As at March 31, 2019, the fair value of these shares had increased to \$1,126,476 from \$590,637 at December 31, 2018.

After deducting interest expenses and adding the unrealized gains on its marketable securities, Bhang was faced with net income for the three months ended March 31, 2019 of \$128,909. After deducting interest expense, Bhang incurred a net loss of \$196,915 for the three months ended March 31, 2018.

Capital Resources

During the years ended December 31, 2017 and 2018, Bhang received subscriptions for 14,117 common shares for gross cash proceeds of \$2,841,692, and issued 10,165 common shares for gross proceeds of \$2,500,000 pursuant to the exercise of warrants. In addition, Bhang issued 21,098 common shares during those fiscal years for services rendered with a fair value of \$4,108,996 as well as 4,064 common shares in connection with the conversion of a promissory note in the amount of \$1,000,000. Finally, Bhang received a subscription for 5,000 shares, which had yet to be issued as of December 31, 2018, for gross proceeds of \$1,000,000. During the three months ended March 31, 2019, Bhang received additional subscriptions for 1,422 shares for gross proceeds of \$350,000. As at March 31, 2019, these shares had yet to be issued.

Outstanding Common Shares

As of the date of this Listing Statement, Bhang has 140,866 common shares issued and outstanding.

As at the date of this Listing Statement, Bhang does not have any outstanding stock options or warrants.

Liquidity and Capital Resources

As at December 31, 2018, Bhang had cash of \$490,970 and working capital of \$4,917,343. As at March 31, 2019, Bhang had cash of \$366,731 and working capital of \$5,342,912. Included in Bhang's current assets as of March 31, 2019 was \$2,218,254 of deferred transaction costs (December 31, 2018 - \$2,119,103) and \$1,169,786 of prepaid expenses (December 31, 2018 - \$1,683,016). The main component of the deferred transaction costs relates to the fair value of 8,598 common shares of Bhang issued for services rendered in facilitating and executing the Transaction. The estimated fair value of \$1,672,741 of these common shares will be expensed in the fiscal period in which the Transaction is completed. The remaining balance of deferred transaction costs of \$545,513 (December 31, 2018 - \$446,362) relates to cash payments to the Corporation for working capital purposes and other charges from other service providers for services rendered in connection with the Transaction. With respect to the balance of prepaid expenses of \$1,120,286 as at March 31, 2019 (December 31, 2018 - \$1,633,516), included in this is aggregate payments for inventory and property and equipment of \$1,062,948 (December 31, 2018 - \$1,535,798). These purchases relate to the purchase of bulk CBD for use in Bhang's products and resale, as well as other materials for use in Bhang's terpene and pre-rolled Hemp cigarette product lines. The balance of \$106,838 at March 31, 2019 (December 31, 2018 - \$147,218) related to investor relations services to be rendered following completion of the Transaction, rent and professional services. Included in accounts receivable at March 31, 2019 and December 31, 2018 is an outstanding balance of \$101,300 owed from a customer. While the actual amount owed to Bhang is \$317,965.88, Bhang has reduced the carrying amount to reflect the actual amount received subsequent to March 31, 2019 in full settlement of the debt. Also included in accounts receivable at December 31, 2018, is outstanding balance of \$417,889 from another customers, the carrying value of which had been reduced to \$300,000 at December 31, 2018 to reflect the amount received during the three month period ended March 31, 2019 as full settlement of the debt. Bhang has evaluated all outstanding accounts receivable balances on a customer-by-customer basis and has provided an allowance for doubtful accounts in the amount of \$894,459 as at March 31, 2019 (December 31, 2018 - \$943,954) to account for the portion of these and other accounts receivable that it estimates as uncollectible. Bhang expects to recover all other outstanding receivables regardless of the age of the outstanding debt.

During the year ended December 31, 2018, cash of \$3,050,603 was used in the operating activities of Bhang. These funds were spent on the various operating expenses during the period as well as the repayment of accounts payable and current liabilities and payments towards future receipts of inventory and other prepaid expenses. Bhang also spent net cash of \$574,009 on investing activities by continuing to invest in a joint venture (\$84,181) and property and equipment (\$194,332), as well as paying costs associated with the Transaction (\$298,493). Finally, the financing activities of Bhang provided funds of \$3,960,025 through the issuance of common shares and the exercise of warrants, which was offset by a repayment of other liabilities and interest.

During the three months ended March 31, 2019, cash of \$438,684 was used in the operating activities of Bhang. These funds were spent on various operating expenses as well as the purchase of inventory. Cash used in investing activities amounted to \$260,555 during the three months ended March 31, 2019 and related to the payment of deferred transaction costs, the

purchase of property and equipment, the repayment of lease liabilities as well as a promissory note receivable that was received by Bhang. In addition, Bhang the financing activities of Bhang were able to generate cash of \$575,000 through further subscriptions of shares as well as the extension of two short-term loans to Bhang.

Commitments

a) Bhang has commitments under operating leases for its facilities and commitments under finance lease for equipment. The minimum lease payments due are as follows:

Fiscal Year	Amount
2019	\$97,629
2020	\$101,174
2021	\$69,543

b) Bhang entered into a Contract Services Agreement effective July 1, 2018 for consulting services costing \$10,000 per month with one of the its shareholders.

c) Bhang entered into an Exclusive Farming Wholesale Joint Venture and Purchase Agreement with a private coffee plantation in Honduras (“Seller”) to acquire certain green coffee beans. The Joint Venture allows Bhang to roast all green coffee beans at their Miami, Florida facility and share in the profits (85% Bhang, 15% seller), and in the case of traditional coffee sales, beans, ground up coffee or any other coffee products sold. The seller requested a purchase advance of \$30,000 to be paid in acceptable monthly increments to be completed by December 2018. The advance will be treated as a forward credit towards 2019 green coffee bean purchases.

d) Bhang entered into a Distribution Agreement with a newly single purpose entity in Israel, formed for this transaction. The purpose of the transaction is to distribute and market products through its distributor’s retail channels and exclusive distributor rights in the United States, North America including Canada, South and Central America, and abroad if demand exists with approval from the Israel entity. Bhang has agreed to bonus the Israel entity with 2,000 shares of Bhang stock for 5 years, to be issued on the anniversary date starting from the day the 1st machine becomes operational. The bonus only remains enforceable if this agreement remains active and no breach, termination, or cancellation has occurred.

e) Bhang entered into a consulting services agreement for the provision of public relations and marketing services in exchange for a guaranteed monthly fee of \$7,000. The consulting services agreement has an initial term of three months, following which it will automatically renew on a month-by-month basis until terminated. Each party may terminate the consulting services agreement effective thirty days after delivery of written notice to the other party.

Related Party Transactions

During the year ended December 31, 2018, Bhang incurred the following related party transactions:

a) Interest of \$41,667 (2017 - \$50,000) was paid to an officer and director in connection with the note payable.

b) Rental income of \$34,500 (2017 - 2017 \$18,000) and revenue of \$191,605 (2017 - \$1,060,626) was recognized on product sales and licensing revenue to companies in which a director, officer and shareholder of Bhang is a director, officer and shareholder. As at December 31, 2018, accounts receivable includes \$386,394 (2017 - \$763,618) owing from these companies. In addition, Bhang paid consulting fees of \$135,000 (2017 - \$180,000), made purchases of \$17,786 (2017 - \$Nil) and paid rent of \$19,500 (\$14,625) from companies in which a director, officer and shareholder of Bhang is a director, officer and shareholder. As at December 31, 2018, accounts payable and accrued liabilities included \$67,625 (2017 - \$15,000) owed to this company.

c) Licensing revenue of \$86,330 (2017 - \$238,525) was recognized on sales to a company controlled by the sibling of Bhang's President and CEO. As at December 31, 2018, accounts receivable included \$76,356 (2017 - \$207) owing from this company.

d) Key Management Personnel consists of the President and CEO. The compensation paid or payable to key management for the year ended December 31, 2018 includes salaries of \$240,000 (2017 - \$200,000).

During the three months ended March 31, 2019, Bhang incurred the following related party transactions:

a) Interest of \$Nil (2017 - \$12,500) was paid to an officer and director in connection with the note payable.

b) Rental income of \$Nil (2018 - \$1,500) and revenue of \$3,903 (2018 - \$131,712) was recognized on product sales and licensing revenue to companies in which a director, officer and shareholder of Bhang is a director, officer and shareholder. As at March 31, 2019, accounts receivable includes \$Nil (December 31, 2018 - \$386,394) owing from these companies. In addition, Bhang paid consulting fees of \$30,000 (2018 - \$45,000), made purchases of \$3,903 (2018 - \$9,484) and paid rent of \$Nil (\$4,875) from companies in which a director, officer and shareholder of Bhang is a director, officer and shareholder. As at March 31, 2019, accounts payable and accrued liabilities included \$67,625 (December 31, 2018 - \$67,625) owed to this company.

c) Licensing and product sales revenue of \$15,105 (2018 - \$44,018) was recognized on sales to a company controlled by the sibling of Bhang's President and CEO. As at March 31, 2019, accounts receivable included \$88,064 (December 31, 2018 - \$76,356) owing from this company. Bhang also made purchases of \$2,400 from this company (2018 - \$Nil).

d) Key Management Personnel consists of the President and CEO. The compensation paid or payable to key management for the three months ended March 31, 2019 includes salaries of \$60,000 (2018 - \$60,000).

The transactions are in the normal course of operations and are measured at the exchange amounts being the amounts agreed to by the parties.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other

factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The most significant judgments include those related to the ability of Bhang to continue as a going concern, the determination of when property, plant, and equipment are available for use, and impairment of its financial and non-financial assets. The most significant estimates and assumptions include those related to the recoverability of accounts receivable, the useful life of property and equipment and the inputs used the determination of the fair value of warrants issued.

7. MARKET FOR SECURITIES

Prior to the closing of the transaction, the Corporation had been listed on the TSXV under the symbol "GEM". The Resulting Issuer intends to be traded on the CSE under the symbol "BHNG".

8. CONSOLIDATED CAPITALIZATION

The Corporation received shareholder approval in March 2017 to implement a share consolidation on the basis of one (1) new common share for every ten (10) old common shares and effected such share consolidation by way of Articles of Amendment dated July 24, 2017. The Corporation received shareholder approval in November 2018 to (i) implement a second share consolidation on the basis of one (1) new common share for every ten (10) old common shares and (ii) to reconstitute its common shares into Subordinate Voting Shares and create a new class of Multiple Voting Shares. The Corporation effected the consolidation and share reorganization by way of Articles of Amendment dated May 24, 2019.

As of the date of this Listing Statement, the Resulting Issuer has issued and outstanding 49,112,627 Subordinate Voting Shares, 56,634.128 Multiple Voting Shares and securities (consisting of warrants and broker warrants) convertible into an aggregate of 64,116,224 Subordinate Voting Shares.

9. OPTIONS TO PURCHASE SECURITIES

On November 8, 2018 shareholders of the Corporation approved the Equity Incentive Plan, the principal terms of which are described below.

Summary of Equity Incentive Plan

The principal features of the Equity Incentive Plan are summarized below.

Purpose

The purpose of the Equity Incentive Plan will be to enable the Resulting Issuer and its affiliated companies to: (i) promote and retain employees, officers, consultants, advisors and directors capable of assuring the future success of the Resulting Issuer, (ii) to offer such persons incentives to put forth maximum efforts, and (iii) to compensate such persons through various stock and cash-based arrangements and provide them with opportunities for stock ownership, thereby aligning the interests of such persons and Shareholders.

The Equity Incentive Plan permits the grant of (i) nonqualified stock options ("**NQSOs**") and incentive stock options ("**ISOs**") (collectively, "**Options**"), (ii) restricted stock awards, (iii) restricted stock units ("**RSUs**"), (iv) stock appreciation rights ("**SARs**"), and (v) performance compensation awards ("**PCAs**"), which are referred to herein collectively as "**Awards**," as more fully described below.

Eligibility

Any of the Resulting Issuer's employees, officers, directors, consultants (who are natural persons) are eligible to participate in the Equity Incentive Plan if selected by the Compensation Committee of the Resulting Issuer (the "**Participants**"). The basis of participation of an individual under the Equity Incentive Plan, and the type and amount of any Award that an individual will be entitled to receive under the Equity Incentive Plan, will be determined by the Compensation Committee based on its judgment as to the best interests of the Resulting Issuer and its shareholders, and therefore cannot be determined in advance.

The maximum number of Subordinate Voting Shares that may be issued under the Equity Incentive Plan shall be determined by the Resulting Issuer Board from time to time, but in no case shall exceed, in the aggregate, 10% of the number of Subordinate Voting Shares (including the number of Subordinate Voting Shares underlying the Multiple Voting Shares on an "as if converted" basis) then outstanding. Notwithstanding the foregoing, a maximum of 20,000,000 Subordinate Voting Shares may be issued as ISOs, subject to adjustment as provided in the Equity Incentive Plan. Any shares subject to an Award under the Equity Incentive Plan that are forfeited, cancelled, expire unexercised, are settled in cash, or are used or withheld to satisfy tax withholding obligations of a Participant shall again be available for Awards under the Equity Incentive Plan. No financial assistance or support agreements may be provided by the Resulting Issuer in connection with grants under the Equity Incentive Plan.

In the event of any dividend, recapitalization, forward or reverse stock split, reorganization, merger, amalgamation, consolidation, split-up, split-off, combination, repurchase or exchange of Subordinate Voting Shares or other securities of the Resulting Issuer, issuance of warrants or other rights to acquire Subordinate Voting Shares or other securities of the Resulting Issuer, or other similar corporate transaction or event, which affects the Subordinate Voting Shares, or unusual or nonrecurring events affecting the Resulting Issuer, or the financial statements of the Resulting Issuer, or changes in applicable rules, rulings, regulations or other requirements of any governmental body or securities exchange or inter-dealer quotation system, accounting principles or law, the Compensation Committee may make such adjustment, which is appropriate in order to prevent dilution or enlargement of the rights of Participants under the Equity Incentive Plan, to (i) the number and kind of shares which may thereafter be issued in connection with Awards, (ii) the number and kind of shares issuable in respect of outstanding Awards, (iii) the purchase price or exercise price relating to any Award or, if deemed appropriate, make provision for a cash payment with respect to any outstanding Award, and (iv) any share limit set forth in the Equity Incentive Plan.

Awards

Options

The Compensation Committee is authorized to grant Options to purchase Subordinate Voting Shares that are either ISOs meaning they are intended to satisfy the requirements of Section 422 of the Code, or NQSOs, meaning they are not intended to satisfy the requirements of Section 422 of the Code. Options granted under the Equity Incentive Plan will be subject to the terms and conditions established by the Compensation Committee. Under the terms of the Equity Incentive Plan, unless the Compensation Committee determines otherwise in the case of an Option substituted for another Option in connection with a corporate transaction, the exercise price of the Options will not be lower than the greater of the closing market prices of the Subordinate Voting Shares on (a) the trading day prior to the date of grant of the stock options, and (b) the date of grant of the stock options. Subject to the foregoing, Options granted under the Equity Incentive Plan will be subject to such terms, including the exercise price and the

conditions and timing of exercise, as may be determined by the Compensation Committee and specified in the applicable award agreement. The maximum term of an option granted under the Equity Incentive Plan will be ten years from the date of grant (or five years in the case of an ISO granted to a 10% shareholder). Payment in respect of the exercise of an Option may be made in cash or by check, by surrender of unrestricted shares (at their fair market value on the date of exercise) or by such other method as the Compensation Committee may determine to be appropriate.

Restricted Stock Awards

A restricted stock award is a grant of Subordinate Voting Shares, which are subject to forfeiture restrictions during a restriction period. The Compensation Committee will determine the price, if any, to be paid by the Participant for each Subordinate Voting Shares subject to a restricted stock award, but in any event the price may not be lower than the greater of the closing market prices of the Subordinate Voting Shares on (a) the trading day prior to the date of grant of the restricted stock, and (b) the date of grant of the restricted stock. The Compensation Committee may condition the expiration of the restriction period, if any, upon: (i) the Participant's continued service over a period of time with the Resulting Issuer or its affiliates; (ii) the achievement by the Participant, the Resulting Issuer or its affiliates of any other performance goals set by the Compensation Committee; or (iii) any combination of the above conditions as specified in the applicable award agreement. If the specified conditions are not attained, the Participant will forfeit the portion of the restricted stock award with respect to which those conditions are not attained, and the underlying Subordinate Voting Shares will be forfeited. At the end of the restriction period, if the conditions, if any, have been satisfied, the restrictions imposed will lapse with respect to the applicable number of Subordinate Voting Shares. During the restriction period, unless otherwise provided in the applicable award agreement, a Participant will have the right to vote the shares underlying the restricted stock; however, all dividends will remain subject to restriction until the stock with respect to which the dividend was issued lapses. The Compensation Committee may, in its discretion, accelerate the vesting and delivery of shares of restricted stock. Unless otherwise provided in the applicable award agreement or as may be determined by the Compensation Committee, upon a Participant's termination of service with the Resulting Issuer, the unvested portion of a restricted stock award will be forfeited.

Restricted Stock Units

RSUs are granted in reference to a specified number of Subordinate Voting Shares and entitle the holder to receive, on achievement of specific performance goals established by the Compensation Committee, after a period of continued service with the Resulting Issuer or its affiliates or any combination of the above as set forth in the applicable award agreement, one Subordinate Voting Share for each such Subordinate Voting Share covered by the RSU; provided, that the Compensation Committee may elect to pay cash, or part cash and part Subordinate Voting Shares in lieu of delivering only Subordinate Voting Shares. The Compensation Committee may, in its discretion, accelerate the vesting of RSUs. Unless otherwise provided in the applicable award agreement or as may be determined by the Compensation Committee, upon a Participant's termination of service with the Resulting Issuer, the unvested portion of the RSUs will be forfeited. The value ascribed to the Subordinate Voting Shares covered by the RSU may not be lower than the greater of the closing market prices of the Subordinate Voting Shares on (a) the trading day prior to the date of grant of the RSUs, and (b) the date of grant of the RSUs.

Stock Appreciation Rights

An SAR entitles the recipient to receive, upon exercise of the SAR, the increase in the fair market value of a specified number of Subordinate Voting Shares from the date of the grant of the SAR and the date of exercise payable in Subordinate Voting Shares. Any grant may specify a vesting period or periods before the SAR may become exercisable and permissible dates or periods on or during which the SAR shall be exercisable. No SAR may be exercised more than ten years from the grant date. Unless otherwise provided in the applicable award agreement or as may be determined by the Compensation Committee, upon a Participant's termination of service with the Resulting Issuer, the unvested portion of a SAR will be forfeited. The value ascribed to the Subordinate Voting Shares covered by the SARs may not be lower than the greater of the closing market prices of the Subordinate Voting Shares on (a) the trading day prior to the date of grant of the SAR, and (b) the date of grant of the SAR.

Performance Compensation Awards

PCAs may be granted under the Equity Incentive Plan, which (i) may be denominated or payable in cash, Subordinate Voting Shares, or other securities, awards or other property (including, without limitation, restricted stock and RSUs), and (ii) confer on the holder thereof the right to receive payments, in whole or in part, upon the achievement of one or more objective performance goals during such performance periods as the Compensation Committee shall establish. Notwithstanding the foregoing, pursuant to the rules of the CSE, the value ascribed to the Subordinate Voting Shares covered by the PCAs may not be lower than the greater of the closing market prices of the Subordinate Voting Shares on (a) the trading day prior to the date of grant of the PCA, and (b) the date of grant of the PCA. Subject to the terms of the 2019 Incentive Plan and the policies of the CSE, the performance goals to be achieved during any performance period, the length of any performance period, the amount of any PCA granted, the amount of any payment or transfer to be made pursuant to any PCA and any other terms and conditions shall be determined by the Compensation Committee. Unless otherwise provided in the applicable award agreement or as may be determined by the Compensation Committee, upon a Participant's termination of service with the Resulting Issuer, the unvested portion of a PCA will be forfeited.

General

The Compensation Committee may impose restrictions on the grant, exercise or payment of an Award as it determines appropriate, subject to compliance with CSE Policies. Generally, Awards granted under the Equity Incentive Plan shall be non-transferable except by will or by the laws of descent and distribution. No Participant shall have any rights as a shareholder with respect to Subordinate Voting Shares covered by Options, SARs, restricted stock awards, or RSUs, unless and until such Awards are settled in Subordinate Voting Shares.

No Award shall be exercisable, no Subordinate Voting Shares shall be issued, no certificates for Subordinate Voting Shares shall be delivered and no payment shall be made under the Equity Incentive Plan except in compliance with all applicable laws.

The Resulting Issuer Board may amend, alter, suspend, discontinue or terminate the Equity Incentive Plan, provided that (i) such amendment, alteration, suspension, discontinuation, or termination shall be subject to the approval of the Resulting Issuer's shareholders if such approval is necessary to comply with any tax or regulatory requirement applicable to the Equity Incentive Plan (including, without limitation, as necessary to comply with any rules or requirements of applicable securities exchange), (ii) no such amendment or termination may adversely affect Awards then outstanding without the Award holder's permission, and (iii) such

amendment, alteration, suspension, discontinuation, or termination is in compliance with CSE Policies.

In the event of any reorganization, merger, consolidation, split-up, spin-off, combination, plan of arrangement, take-over bid or tender offer, repurchase or exchange of Subordinate Voting Shares or other securities of the Resulting Issuer or any other similar corporate transaction or event involving the Resulting Issuer (or the Resulting Issuer shall enter into a written agreement

to undergo such a transaction or event), the Compensation Committee or the Resulting Issuer Board may, in its sole discretion, provide for any (or a combination) of the following to be effective upon the consummation of the event (or effective immediately prior to the consummation of the event, provided that the consummation of the event subsequently occurs):

- termination of the Award, whether or not vested, in exchange for cash and/or other property, if any, equal to the amount that would have been attained upon the exercise of the vested portion of the Award or realization of the Participant's vested rights,
- the replacement of the Award with other rights or property selected by the Compensation Committee or the Resulting Issuer Board, in its sole discretion,
- assumption of the Award by the successor or survivor Resulting Issuer, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor Resulting Issuer, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices,
- that the Award shall be exercisable or payable or fully vested with respect to all Subordinate Voting Shares covered thereby, notwithstanding anything to the contrary in the applicable award agreement, or
- that the Award cannot vest, be exercised or become payable after a date certain in the future, which may be the effective date of the event.

Tax Withholding

The Resulting Issuer may take such action as it deems appropriate to ensure that all applicable federal, state, local and/or foreign payroll, withholding, income or other taxes, which are the sole and absolute responsibility of a Participant, are withheld or collected from such Participant.

10. DESCRIPTION OF THE SECURITIES

10.1 Description of the Corporation's Securities

The Corporation

The Resulting Issuer is authorized to issue an unlimited number of Subordinate Voting Shares and an unlimited number of Multiple Voting Shares. Upon completion of the Transaction, the outstanding capital of the Corporation consists of 49,112,627 Subordinate Voting Shares and 56,634,128 Multiple Voting Shares.

Take-Over Bid Protection

Under applicable Canadian law, an offer to purchase Multiple Voting Shares would not necessarily require that an offer be made to purchase Subordinate Voting Shares. In accordance with the rules applicable to most senior issuers in Canada, in the event of a take-over bid, the holders of Subordinate Voting Shares will be entitled to participate on an equal footing with holders of Multiple Voting Shares. The owners of all the outstanding Multiple Voting Shares will enter into a customary coattail agreement with the Corporation and a trustee (the "**Coattail Agreement**"). The Coattail Agreement will contain provisions customary for dual class, listed corporations designed to prevent transactions that otherwise would deprive the holders of Subordinate Voting Shares of rights under applicable provincial take-over bid legislation to which they would have been entitled if the Multiple Voting Shares had been Subordinate Voting Shares.

The undertakings in the Coattail Agreement will not apply to prevent a sale by any holder of Multiple Voting Shares if concurrently an offer is made to purchase Subordinate Voting Shares that:

- (a) offers a price per Subordinate Voting Share at least as high as the highest price per share paid pursuant to the take-over bid for the Multiple Voting Shares (on an as converted to Subordinate Voting Share basis);
- (b) provides that the percentage of outstanding Subordinate Voting Shares to be taken up (exclusive of shares owned immediately prior to the offer by the offeror or persons acting jointly or in concert with the offeror) is at least as high as the percentage of Multiple Voting Shares to be sold (exclusive of Multiple Voting Shares owned immediately prior to the offer by the offeror and persons acting jointly or in concert with the offeror);
- (c) has no condition attached other than the right not to take up and pay for Subordinate Voting Shares tendered if no shares are purchased pursuant to the offer for Multiple Voting Shares; and
- (d) is in all other material respects identical to the offer for Multiple Voting Shares.

The conversion of Multiple Voting Shares into Subordinate Voting Shares would not constitute a disposition of Multiple Voting Shares for the purposes of the Coattail Agreement.

Under the Coattail Agreement, any disposition of Multiple Voting Shares (including a transfer to a pledgee as security) by a holder of Multiple Voting Shares party to the agreement will be conditional upon the transferee or pledgee becoming a party to the Coattail Agreement, to the extent such transferred Multiple Voting Shares are not automatically converted into Subordinate Voting Shares in accordance with the Articles.

The Coattail Agreement will contain provisions for authorizing action by the trustee to enforce the rights under the Coattail Agreement on behalf of the holders of the Subordinate Voting Shares. The obligation of the trustee to take such action will be conditional on the Corporation or holders of the Subordinate Voting Shares providing such funds and indemnity as the trustee may require. No holder of Subordinate Voting Shares will have the right, other than through the trustee, to institute any action or proceeding or to exercise any other remedy to enforce any rights arising under the Coattail Agreement unless the trustee fails to act on a request authorized by holders of not less than 10% of the outstanding Subordinate Voting Shares and reasonable funds and indemnity have been provided to the trustee. The Corporation will agree

to pay the reasonable costs of any action that may be taken in good faith by holders of Subordinate Voting Shares pursuant to the Coattail Agreement.

The Coattail Agreement will provide that it may not be amended, and no provision thereof may be waived, unless, prior to giving effect to such amendment or waiver, the following have been obtained: (a) the consent of any applicable securities regulatory authority in Canada and (b) the approval of at least 66-2/3% of the votes cast by holders of Subordinate Voting Shares excluding votes attached to Subordinate Voting Shares, if any, held by the Principal Shareholders, their affiliates and any persons who have an agreement to purchase Multiple Voting Shares on terms which would constitute a sale or disposition for purposes of the Coattail Agreement other than as permitted thereby.

No provision of the Coattail Agreement will limit the rights of any holders of Subordinate Voting Shares under applicable law.

Subordinate Voting Shares (formerly post-consolidation common shares of the Corporation)

Reclassification	Each post-consolidation common share held by a shareholder of the Resulting Issuer is reclassified into one Subordinate Voting Share.
Right to Notice and Vote	Holders of Subordinate Voting Shares will be entitled to notice of and to attend at any meeting of the shareholders of the Resulting Issuer, except a meeting of which only holders of another particular class or series of shares of the Resulting Issuer will have the right to vote. At each such meeting, holders of Subordinate Voting Shares will be entitled to one vote in respect of each Subordinate Voting Share held.
Class Rights	As long as any Subordinate Voting Shares remain outstanding, the Resulting Issuer will not, without the consent of the holders of the Subordinate Voting Shares by separate special resolution, prejudice or interfere with any right attached to the Subordinate Voting Shares. Holders of Subordinate Voting Shares will not be entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of Subordinate Voting Shares, or bonds, debentures or other securities of the Resulting Issuer.
Dividends	Holders of Subordinate Voting Shares will be entitled to receive as and when declared by the directors of the Resulting Issuer, dividends in cash or property of the Resulting Issuer. No dividend will be declared or paid on the Subordinate Voting Shares unless the Resulting Issuer simultaneously declares or pays, as applicable, equivalent dividends (on an as-converted to Subordinate Voting Share basis) on the Multiple Voting Shares.
Participation	In the event of the liquidation, dissolution or winding-up of the Resulting Issuer, whether voluntary or involuntary, or in the event of any other distribution of assets of the Resulting Issuer among its shareholders for the purpose of winding up its affairs, the holders of Subordinate Voting Shares will, subject to the prior rights of the holders of any shares of the Resulting Issuer ranking in priority to the Subordinate Voting Shares, be entitled to participate rateably along with all other holders of Subordinate Voting Shares and Multiple Voting Shares (on an as-

converted to Subordinate Voting Share basis).

Changes No subdivision or consolidation of the Subordinate Voting Shares or Multiple Voting Shares shall occur unless, simultaneously, the Subordinate Voting Shares and Multiple Voting Shares are subdivided or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

Multiple Voting Shares

Right to Vote Holders of Multiple Voting Shares will be entitled to notice of and to attend at any meeting of the shareholders of the Resulting Issuer, except a meeting of which only holders of another particular class or series of shares of the Resulting Issuer will have the right to vote. At each such meeting, holders of Multiple Voting Shares will be entitled to one vote in respect of each Subordinate Voting Share into which such Multiple Voting Share could then be converted (1,000 votes per Multiple Voting Share held).

Class Rights As long as any Multiple Voting Shares remain outstanding, the Resulting Issuer will not, without the consent of the holders of the Multiple Voting Shares by separate special resolution, prejudice or interfere with any right attached to the Multiple Voting Shares. Holders of Multiple Voting Shares will not be entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of Subordinate Voting Shares, or bonds, debentures or other securities of the Resulting Issuer.

Dividends The holders of the Multiple Voting Shares are entitled to receive such dividends as may be declared and paid to holders of the Subordinate Voting Shares in any financial year as the Board of the Resulting Issuer may by resolution determine, on an as-converted to Subordinate Voting Share basis. No dividend will be declared or paid on the Multiple Voting Shares unless the Resulting Issuer simultaneously declares or pays, as applicable, equivalent dividends (on an as-converted to Subordinate Voting Share basis) on the Subordinate Voting Shares.

Participation In the event of the liquidation, dissolution or winding-up of the Resulting Issuer, whether voluntary or involuntary, or in the event of any other distribution of assets of the Resulting Issuer among its shareholders for the purpose of winding up its affairs, the holders of Multiple Voting Shares will, subject to the prior rights of the holders of any shares of the Resulting Issuer ranking in priority to the Multiple Voting Shares, be entitled to participate rateably along with all other holders of Multiple Voting Shares (on an as-converted to Subordinate Voting Share basis) and Subordinate Voting Shares (on an as-converted to Subordinate Voting Share basis).

Changes No subdivision or consolidation of the Subordinate Voting Shares or Multiple Voting Shares shall occur unless, simultaneously, the Subordinate Voting Shares and Multiple Voting Shares are subdivided

or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

Conversion

The Multiple Voting Shares each have a restricted right to convert into 1,000 Subordinate Voting Shares (the “**Conversion Ratio**”), subject to adjustments for certain customary corporate changes. The ability to convert the Multiple Voting Shares is subject to a restriction that the aggregate number of Subordinate Voting Shares and Multiple Voting Shares held of record, directly or indirectly, by residents of the United States (as determined in accordance with Rules 3b-4 and 12g3-2(a) under the Securities Exchange Act of 1934, as amended, may not exceed forty percent (45%) of the aggregate number of Subordinate Voting Shares and Multiple Voting Shares issued and outstanding after giving effect to such conversions and to a restriction on beneficial ownership of Subordinate Voting Shares exceeding certain levels. In addition, the Multiple Voting Shares will be automatically converted into Subordinate Voting Shares in certain circumstances, including upon the registration of the Subordinate Voting Shares under the United States Securities Act of 1933, as amended.

10.2 – 10.6 Miscellaneous Securities Provisions

See Section 10.1 above.

10.7 Prior Sales of Common Shares

The Corporation

The following tables set forth the issuances of common shares of the Corporation within the last twelve (12) months before the date of this Listing Statement (excluding securities issued upon closing of the Transaction).

Date Issued	Number of Common Shares¹	Issue Price per Share	Aggregate Issue Price	Nature of Consideration
May 24, 2019	100,000	C\$0.50	C\$50,000	Release relating to certain mining claims owned by Mountain Pass Resources Inc., a former subsidiary of the Corporation
May 24, 2019	850,000	C\$0.50	C\$425,000	Debt Conversion

Notes:

1. Post-Consolidated Subordinate Voting Shares.

Bhang

The following tables set forth the issuances of common shares of Bhang within the last twelve (12) months before the date of this Listing Statement.

Date Issued	Number of Common Shares¹	Issue Price per Share	Aggregate Issue Price	Nature of Consideration
August 23, 2018	281	\$326.30	\$91,692	cash
August 23, 2018	1,500	\$195.44	\$291,825	services rendered
October 24, 2018	9,500	\$195.44	\$1,848,225	services rendered
October 24, 2018	4,064	\$246.06	\$1,000,000	conversion of promissory note
December 27, 2018	10,165	\$245.94	\$2,500,000	cash (warrant exercise)
May 9, 2019	1,422	\$246.13	\$350,000	cash

10.8 Stock Exchange Price

To date, no Subordinate Voting Shares or shares of Bhang Corporation have been listed on a stock exchange prior to the date of this Listing Statement.

11. ESCROWED SECURITIES

Effective upon the closing of the Transaction, the following securities of the Resulting Issuer are held in escrow:

Designation of class held in escrow	Number of securities held in escrow	Percentage of class
Subordinate Voting Shares	500,000 (a)	1%
Multiple Voting Shares	53,322.044 (a)	94.15%

(a) Shares held by Scott Van Rixel, Richard Sellers, Jamie Pearson and William Waggoner, which were deposited in escrow pursuant to the policies of the CSE on the closing of the Transaction.

The CSE escrowed securities shall be released on the following schedule:

The date Common Shares are listed on the CSE (the "Listing Date")	1/10 of the Escrow Securities
6 months after the Listing Date	1/6 of the remaining Escrow Securities
12 months after the Listing Date	1/5 of the remaining Escrow Securities
18 months after the Listing Date	1/4 of your remaining Escrow Securities
24 months after the Listing Date	1/3 of the remaining Escrow Securities

The date Common Shares are listed on the CSE (the "Listing Date")	1/10 of the Escrow Securities
30 months after the Listing Date	1/2 of the remaining Escrow Securities
36 months after the Listing Date	remaining Escrow Securities

12. PRINCIPAL SHAREHOLDERS

12.1 Principal Shareholders

To the knowledge of the directors and officers of each of the Corporation and Bhang, following the Transaction, the following Persons will beneficially own, directly or indirectly, or exercise control or direction over voting securities carrying more than 10% of the voting rights attached to the securities of the Resulting Issuer:

PRINCIPAL SHAREHOLDERS

Name, Jurisdiction of Residence	Number and Percentage Ownership of Shares	Ownership	Percentage of Voting Shares⁽¹⁾
Scott J. Van Rixel (Miami Beach, FL)	31,713.876 Multiple Voting Shares (56%)	Beneficial and of Record	29.99% 28% (fully diluted)
Richard Sellers (Concord, CA)	500,000 Subordinate Voting Shares (1%) and 17,382.609 Multiple Voting Shares (30.69%)	Beneficial and of Record	16.91% 15.80% (fully diluted)

Notes:

- (1) Includes the voting rights attached to the Subordinate Voting Shares and Multiple Voting Shares held by the principal shareholder.

12.3 Voting Trusts

To the knowledge of the Resulting Issuer, no voting trust exists within the Resulting Issuer such that more than 10% of any class of voting securities of the Resulting Issuer are held, or are to be held, subject to any voting trust or other similar agreement.

12.4 Associates and Affiliates

To the knowledge of the Resulting Issuer none of the principal shareholders is an Associate or Affiliate of any other principal shareholder.

13. DIRECTORS AND OFFICERS

13.1 13.5 Directors and Officers

The Articles of the Resulting Issuer provide that the number of directors should not be fewer than three (3) directors. Each director shall hold office until the close of the next annual general meeting of the Resulting Issuer, or until his or her successor is duly elected or appointed, unless his or her office is earlier vacated. The Resulting Issuer Board consists of five (5) directors, of whom two (2) can be defined as an “unrelated director” (as defined under CSE Policies) or a director who is independent of management and is free from any interests and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director’s ability to act with a view to the best interests of the Resulting Issuer, other than interests and relationships arising from shareholders, and do not have interests in or relationships with the Resulting Issuer.

The following table lists the names, municipalities of residence of the directors and officers of the Resulting Issuer, their positions and offices to be held with the Resulting Issuer, and their principal occupations during the past five (5) years and the number of securities of the Resulting Issuer that are beneficially owned, directly or indirectly, or over which control or direction will be exercised by each.

Name, Municipality of Residence and Position Held	Principal Occupation for Past Five Years	Director of the Corporation Since	Number and Percentage of Common Shares Beneficially Owned or Controlled Prior to the Transaction	Number and Percentage of Multiple Voting and/or Subordinate Voting Shares (as applicable) Beneficially Owned or Controlled After the Transaction
Scott J. Van Rixel Miami Beach, Florida Chairman and Chief Executive Officer and Director	Bhang, CEO and Founder	2019	Nil	31,713.876 Multiple Voting Shares (56%)
Thomas Stein Parkland, Florida President	Bhang, President Formerly Edrington, Vice President	N/A	Nil	Nil
Jamie L. Pearson Billings, Montana Chief Operating Officer, Corporate Secretary and Director	Bhang, Director of Operations	2019	Nil	2,384.701 Multiple Voting Shares (4.21%)

Name, Municipality of Residence and Position Held	Principal Occupation for Past Five Years	Director of the Corporation Since	Number and Percentage of Common Shares Beneficially Owned or Controlled Prior to the Transaction	Number and Percentage of Multiple Voting and/or Subordinate Voting Shares (as applicable) Beneficially Owned or Controlled After the Transaction
William J. Waggoner ⁽¹⁾⁽²⁾ Santa Fe, New Mexico Director	Mexico Petroleum Company , Chairman and Chief Executive Officer,	2019	Nil	1,840.857 Multiple Voting Shares (3.25%)
Stephen Gledhill ⁽¹⁾⁽²⁾ Aurora, Ontario Chief Financial Officer and Director	Keshill Consulting Associates Inc., Principal,	2019	Nil	Nil
Daniel Nauth ⁽¹⁾⁽²⁾ Brampton, Ontario Director	Nauth PLC, Principal	2019	Nil	20,000 Subordinate Voting Shares (0.04%)
Jeremy Applen Santa Fe, New Mexico Chief Science Officer	Bhang, Chief Science Officer	N/A	Nil	Nil
Samantha Ford Collins Novato, California Chief Marketing Officer	Bhang, Chief Marketing Officer Formerly, Treasury Wine Estates, Vice President of Brand Marketing; 19 Crimes, Global Director	N/A	Nil	Nil
Heather Vigil Fort Lauderdale, Florida Vice President - Sales	Bhang, Vice President - Sales Formerly, Jackson Family Wines, Regional Manager	N/A	Nil	Nil

Notes:

(1) Member of the audit committee.

(2) Member of the Compensation Committee.

All of the directors of the Resulting Issuer will be appointed to hold office until the next annual general meeting of shareholders or until their successors are duly elected or appointed, unless their office is earlier vacated.

Upon completion of the Transaction, all promoters, directors, officers and Related Persons, as a group, will beneficially own, directly or indirectly, the following shares of the Resulting Issuer: (i) 520,000 Subordinate Voting Shares or 1% (non-diluted) and (ii) 53,322.044 Multiple Voting Shares or 94.15% (non-diluted).

Board Committees

The Resulting Issuer currently has an audit committee and Compensation Committee. A brief description of each committee is set out below. Following the completion of the Transaction, the directors of the Resulting Issuer intend to establish such committees of the board as determined to be appropriate in addition to the audit committee and Compensation Committee.

Audit Committee

The audit committee assists the Resulting Issuer's Board of Directors in fulfilling its responsibilities for oversight of financial and accounting matters. The audit committee, among other responsibilities, reviews the financial reports and other financial information provided by the Resulting Issuer to regulatory authorities and its shareholder and reviews the Resulting Issuer's system of internal controls regarding finance and accounting including auditing, accounting and financial reporting processes.

The members of the audit committee after completion of the Transaction include the following three directors. Also indicated is whether they are "independent" and "financially literate" within the meaning of National Instrument 52-110 – *Audit Committees* ("NI 52-110").

Name of Member	Independent ⁽¹⁾	Financially Literate ⁽²⁾
William J. Waggoner	Yes	Yes
Stephen Gledhill	No	Yes
Daniel Nauth	Yes	Yes

Notes:

- (1) A member of the audit committee is independent if he or she has no direct or indirect 'material relationship' with the Corporation. A material relationship is a relationship which could, in the view of the Corporation's Board of Directors, reasonably interfere with the exercise of a member's independent judgment. An executive officer of the Corporation, such as the President or Secretary, is deemed to have a material relationship with the Corporation.
- (2) A member of the audit committee is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

Compensation Committee

The Compensation Committee assists the Resulting Issuer Board in fulfilling its responsibilities for compensation philosophy and guidelines, and fixing compensation levels for the Resulting Issuer's executive officers. In addition, the Compensation Committee is charged with reviewing the employee stock option plan and proposing changes thereto, approving any awards of options under the employee stock option plan and recommending any other employee benefit plans, incentive awards and perquisites with respect to the Resulting Issuer's executive officers.

The Compensation Committee is also responsible for reviewing, approving and reporting to the Resulting Issuer Board annually (or more frequently as required) on the Resulting Issuer's succession plans for its executive officers.

The proposed members of the Compensation Committee after completion of the Transaction include the following three directors: William Waggoner, Stephen Gledhill and Daniel Nauth.

13.6 - 13.9 Corporate Cease Trade Orders or Bankruptcies; Penalties or Sanctions; Personal Bankruptcies

Except as disclosed below, no director or officer of the Resulting Issuer or a shareholder holding a sufficient number of securities of the Resulting Issuer to affect materially the control of the Resulting Issuer, is, or within 10 years before the date of this Listing Statement has been, a director or officer of any other issuer that, while that person was acting in that capacity: (a) was the subject of a cease trade or similar order, or an order that denied the other issuer access to any exemptions under Ontario securities law, for a period of more than 30 consecutive days; (b) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; (c) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or (d) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

On April 25, 2016, CO2 Gro Inc. (formerly BlueOcean NutraSciences Inc.) ("**BOC**") applied to the applicable Canadian securities regulatory authorities pursuant to National Policy 12-203 – Cease Trade Orders for Continuous Disclosure Defaults ("**Policy 12-203**") for a MCTO, which precluded members of management (including Stephen Gledhill, CFO from trading BOC common shares until such time as the MCTO is no longer in effect. The MCTO was sought by BOC as it would not be filing its audited annual financial statements, related management discussion and analysis and applicable officer certifications (the "**Annual Materials**") by the deadline date of April 29, 2016. On May 9, 2016, the OSC granted a temporary MCTO, effective until May 16, 2016. On May 16, 2016, the OSC issued a permanent MCTO in effect until 2 days following BOC filing its Annual Materials with the applicable regulatory authorities. On July 19, 2016, BOC filed its Annual Materials and on July 21, 2016, the MCTO was lifted.

On January 12, 2016 (further to a TSX Venture Exchange Bulletin dated January 11, 2016), Gemoscan Canada, Inc.'s ("**GES**") shares were suspended from trading on the TSX Venture Exchange for failing to maintain exchange requirements, GES having made assignment into bankruptcy. Effective January 13, 2016, GES's listing was transferred to the NEX. Stephen Gledhill served as CFO of GES from August 2010 to November 2015.

No director or officer of the Resulting Issuer, or a shareholder holding sufficient securities of the Resulting Issuer to affect materially the control of the Resulting Issuer has: (a) been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority; or (b) been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

No director or officer of the Resulting Issuer, or a shareholder holding sufficient securities of the Resulting Issuer to affect materially the control of the Resulting Issuer, or a personal holding company of any such persons has, within the 10 years before the date of the Listing Statement, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or officer

13.10 Conflicts of Interest

Conflicts of interest may arise as a result of the directors, officers and promoters of the Resulting Issuer also holding positions as directors or officers of other companies. Some of the individuals that are directors and officers of the Resulting Issuer have been and will continue to be engaged in the identification and evaluation of assets, businesses and companies on their own behalf and on behalf of other companies, and situations may arise where the directors and officers of the Resulting Issuer will be in direct competition with the Resulting Issuer. For example, Scott Van Rixel is the sole operator of CB Brands and is also a director and officer of Bhang. Conflicts, if any, will be subject to the procedures and remedies provided under OBCA.

13.11 Management

Brief descriptions of the biographies for all of the officers and directors of the Resulting Issuer are set out below:

Scott J. Van Rixel | Chairman, Chief Executive Officer & Director (Age 44)

Mr. Van Rixel is the co-founder of Bhang. A classically-trained and celebrated Chef d' Cuisine and master chocolatier with over 25 years' gourmet food experience, Mr. Van Rixel is an innovator of consumer products. His experience in the commercial gourmet chocolate business selling into elite markets like Whole Foods and Dean & DeLuca was the foundation for Bhang's beginning in 2010. Mr. Van Rixel has a track-record of innovating products the masses want, including a line of wellness products for celebrities and Bhang's award-winning line of Hemp-derived CBD and cannabis-infused products.

Mr. Van Rixel has also owned and operated diverse businesses including several upscale restaurants, catering companies, a spirits' distillery, and a business that imported organic cacao from Venezuela. Mr. Van Rixel attended Johnson and Wales Culinary School, is a founding member of the National Cannabis Industry Association (NCIA) and was one of the five principal sponsors of Women Grow.

Mr. Van Rixel is employed on a full time basis with the Resulting Issuer. Mr. Van Rixel has signed a non-competition and non-disclosure agreement with the Resulting Issuer.

Tom Stein | President (Age 40)

Mr. Stein is a graduate of Rutgers University (B.A. Economics) with over 15 years' experience in leading organizations, primary in the adult beverage industry, with focus in execution, distribution, finance, marketing and M&A. Mr. Stein spent time at MillerCoors and then on to Diageo where he managed distributors, sales and marketing teams in New Jersey. He was concurrently working at Diageo when he began Goosie LLC, a premium digital photo product company whose products were sold through brick and mortar, ecommerce partnerships and direct to consumer. Mr. Stein successfully sold the company in 2011, returning to the adult beverage industry to work for Palm Bay as a Director where he managed sales, marketing and was a part of the brands M&A team. Mr. Stein moved on to Edrington, a privately held, adult

beverage company with brands including The Macallan, Highland Park, The Glenrothes, and The Famous Grouse where he held multiple roles as Regional Sales Manager, Director of Commercial and Marketing Integration, Senior Director and Vice President.

Mr. Stein is employed on a full time basis with the Resulting Issuer. Mr. Stein has signed a non-competition and non-disclosure agreement with the Resulting Issuer.

Jamie L. Pearson | Chief Operations Officer, Corporate Secretary & Director (Age 49)

Ms. Pearson spent the first 20 years of her career investing in real estate. She owned a real estate investment firm, a property management company and currently owns a real estate portfolio that spans three countries. In 2015, she co-founded a celebrity cannabis agency, working with iconic artists such as Cypress Hill and Die Antwoord to initiate ventures with cannabis brands such as Bhang and Natural Cannabis. Ms. Pearson studied German at the University of Wuppertal (Wuppertal, Germany) has a B.A. from Vassar College and a Masters in Leadership from the University of Oregon. Ms. Pearson has personally owned cultivation operations in Northern California and Montana and has been a cannabis-friendly landlord for over 12 years., She is on the advisory board of Liberty Leaf Holdings (CSE: LIB).

Ms. Pearson is employed on a full time basis with the Resulting Issuer. Ms. Pearson has signed a non-competition and non-disclosure agreement with the Resulting Issuer.

William J. Waggoner | Director (Age 59)

In 1983, William Waggoner earned his B.S. degree from the University of Oklahoma, majoring in Petroleum Management. He attended law school and the University of New Mexico and Queen's College, Oxford University, UK. He served as a staff attorney to the New Mexico Legislature for four years before entering private law practice. At OU, Mr. Waggoner formed his own oil company. Will has launched a number of start ups over the past three and half decades, founded and still manages a law firm in Santa Fe, NM and has served on a number of boards, including the New Mexico State Board of Bar Commissioners, serving as the President of the Young Lawyers Division for NM. Mr. Waggoner also served as the Executive Director of the New Mexico Independent Petroleum Association as well as other non-profits. In addition to his current role as CEO and Chairman of the Board of Mexico Petroleum Company, he also serves as the Executive Vice-President and Director of Perspective Component Inc., a high tech hardware/software enterprise about to launch its first product to the global markets. Mr. Waggoner is a co-founder of Bhang. He has assisted Bhang from its inception, throughout its growth and expansion and continues to provide policy advice and vision on a number of strategic matters.

Mr. Waggoner is providing services on a part time (25%) basis to the Resulting Issuer. Mr. Waggoner has signed a nondisclosure agreement with the Resulting Issuer but has not signed a non-competition agreement with the Resulting Issuer.

Stephen Gledhill | Director (Age 58)

Mr. Gledhill is a founding member and Managing Director of RG Mining Investments Inc. and RG Management Services Inc., both of which are accounting, administrative and corporate secretarial services companies. In 1992, he formed Keshill Consulting Associates Inc., a boutique management consulting practice. Mr. Gledhill has over 25 years of financial-control experience and acts as CFO and Corporate Secretary for multiple publicly-traded companies, several of which he was instrumental in scaling-up and taking public. He currently serves as the CFO of Caracara Silver Inc. (TSXV:CSV), CO2 Gro Inc. (TSXV:GROW), POSaBIT Systems

Corporation (CSE: PBIT), DelphX Capital Markets Inc. (DELX:TSXV) and is an independent member of the Board of Directors and Audit Chair of Grown Rogue International Inc. (GRIN:CSE). Prior to the inception of RGMI and RGMS, Mr. Gledhill served as the Senior Vice President and CFO of Borealis Capital Corporation, a Toronto-based merchant bank as well as Vice President of Finance of OMERS Realty Corporation (ORC), the real estate entity of the Ontario Municipal Employees Retirement System. Mr. Gledhill is a Chartered Public Accountant and Certified Management Accountant and holds a Bachelor of Math Degree from the University of Waterloo.

Mr. Gledhill is providing services on a part time (25%) basis to the Resulting Issuer. Mr. Gledhill has signed a nondisclosure agreement with the Resulting Issuer but has not signed a non-competition agreement with the Resulting Issuer.

Daniel Nauth | Director (Age 41)

Mr. Nauth is an attorney with a practice focused on U.S.-Canada cross-border capital markets and M&A transactions which includes experience with corporate governance and regulatory compliance. Mr. Nauth advises Canadian, U.S. and other foreign companies and investment banks in a wide range of U.S.-Canada cross-border and domestic public and private equity and debt financings (including under the U.S.-Canada Multijurisdictional Disclosure System), M&A transactions, corporate commercial matters, as well as assisting companies in connection with stock exchange, OTCQX and OTCQB listings. Mr. Nauth also advises clients with respect to their regulatory and compliance matters, including continuous reporting, corporate governance and ongoing stock exchange listing requirements under United States and Canadian corporate and securities laws. Mr. Nauth has a BA (Hons.) from York University as well as a LLB/JD from Queens University. Mr. Nauth is an Ontario based attorney, licensed with the State of New York and the Law Society of Ontario.

Mr. Nauth is providing services on a part time (25%) basis to the Resulting Issuer. Mr. Nauth has signed a nondisclosure agreement with the Resulting Issuer but has not signed a non-competition agreement with the Resulting Issuer.

Jeremy Applen | Chief Science Officer (Age 40)

Jeremy Applen has extensive experience in quality management and regulatory compliance with a background in pharmaceutical research and drug safety. He founded New Mexico's first state-approved medical cannabis laboratory, and worked closely with government regulators and numerous cannabis organizations both nationally and internationally to identify and resolve significant issues related to regulation, product quality and product safety. Recognized for his expertise on the interrelationship between standards, regulation and public health, he has served on advisory panels for the Association of Public Health Laboratories and Centers for Disease Control and Prevention. He regularly speaks on topics such as *The Interrelationship Between Harmonized Standards, Regulation, Quality Management and Public Health*; *What Regulators Need to Know about Testing*; and *Using GxP Management Software in Conjunction with Quality Assurance Data to Maintain Regulatory Compliance*. Jeremy currently serves as Vice Chairman of the ASTM (American Society for Testing Materials) Committee D37 on Cannabis. He earned his B.S. in Biochemistry from the University of New Mexico and attended the University of New Mexico College of Pharmacy.

Mr. Applen is employed on a full time basis with the Resulting Issuer. Mr. Applen has signed a non-competition and non-disclosure agreement with the Resulting Issuer.

Samantha Ford Collins | Chief Marketing Officer (Age 42)

Samantha Collins has 20 years of marketing experience in the adult beverage industry working for both Treasury Wine Estates and Diageo North America. Most recently she served as Vice President of Brand Marketing for Treasury Wine Estates where she led global strategy for such brands as Beaulieu Vineyard, Stags' Leap Winery and Penfolds and also served as Global Director for 19 Crimes as it grew to over a million cases, expanded to 4 new countries and launched the Living Wine Labels App.

Ms. Collins will leverage her extensive marketing and brand development experience as well as her understanding of distribution in a regulated industry to help grow Bhang's presence worldwide.

Ms. Collins is employed on a full time basis with the Resulting Issuer. Ms. Collins has signed a non-competition and non-disclosure agreement with the Resulting Issuer.

Heather Vigil | Vice President – Sales (Age 31)

Ms. Vigil has a proven track record of turning an untapped market base into revenue. Quickly rising through the ranks at Jackson Family Wines from sales executive to Regional Manager, Ms. Vigil has extensive experience with regulated products, luxury brands, and the three-tier distribution model. Ms. Vigil's career experience also includes working in high-end medical equipment sales where she regularly set internal sales records.

Ms. Vigil is employed on a full time basis with the Resulting Issuer. Ms. Vigil has signed a non-competition and non-disclosure agreement with the Resulting Issuer.

14. CAPITALIZATION

14.1 Issued Capital

To the best knowledge of the Corporation, the following table sets out the number of the Subordinate Voting Shares available in the Resulting Issuer's Public Float and Freely-Tradeable Float on a diluted and non-diluted basis:

	Number of Securities (non-diluted)	Number of Securities (fully-diluted)(1)	% of Issued (non-diluted)	% of Issued (fully diluted)
<u>Public Float</u>				
Total outstanding (A)	49,112,627	113,228,851	100%	100%
Held by Related Persons or employees of the Corporation or Related Person of the Corporation, or by persons or companies who beneficially own or control, directly or indirectly, more than a 5% voting position in the Corporation (or who would beneficially own or control, directly or indirectly, more than a 5% voting position in the Corporation upon exercise or	520,000	53,842,044	1%	47.6%

conversion of other securities held) (B)				
Total Public Float (A-B)	48,592,627	59,386,757	99%	52.4%
Freely-Tradeable Float				
Number of outstanding securities subject to resale restrictions, including restrictions imposed by pooling or other arrangements or in a shareholder agreement and securities held by control block holders (C)	11,522,051	68,156,180	23.5%	60.02%
Total Tradeable Float (A-C)	37,590,576	45,072,621	76.5%	39.80%

Note:

- (1) There will be 56,634.128 Multiple Voting Shares issued and outstanding immediately following the completion of the Transaction. Each Multiple Voting Share is convertible into 1,000 Subordinate Voting Shares at the option of the holder or upon certain triggering events.

Public Securityholders (Registered)

Class of Security

Size of Holding	Number of holders	Total number of securities
1 – 99 securities	850	2,265
100 – 499 securities	14	3,333
500 – 999 securities	4	2,250
1,000 – 1,999 securities	5	5,801
2,000 – 2,999 securities	4	8,830
3,000 – 3,999 securities	3	10,495
4,000 – 4,999 securities	Nil	Nil
5,000 or more securities	108	49,079,653
Total	988	49,112,627

Public Securityholders (Beneficial)

Class of Security

Size of Holding	Number of holders	Total number of securities
1 – 99 securities	2,030	60,040
100 – 499 securities	1,055	208,842

500 – 999 securities	216	141,878
1,000 – 1,999 securities	175	238,499
2,000 – 2,999 securities	46	162,153
3,000 – 3,999 securities	6	20,983
4,000 – 4,999 securities	4	17,637
5,000 or more securities	47	1,981,695
Unable to determine		324,180
Total	3,579	3,155,907

Non-Public Securityholders (Registered)

Class of Security

Size of Holding	Number of holders	Total number of securities
1 – 99 securities		
100 – 499 securities		
500 – 999 securities		
1,000 – 1,999 securities		
2,000 – 2,999 securities		
3,000 – 3,999 securities		
4,000 – 4,999 securities		
5,000 or more securities	7	520,000
Total	7	520,000

14.2 Convertible/Exchange Securities

The following table sets out details for securities of the Resulting Issuer convertible or exchangeable into Subordinate Voting Shares:

Instrument	Details of Security	Number of convertible/exchangeable securities outstanding	Number of listed securities issuable upon conversion/exercise
Options	32,000 options exercisable at C\$5.00 per share expiring December 31, 2019.	32,000	32,000

Options	12,130 options exercisable at C\$5.00 per share expiring December 31, 2020.	12,130	12,130
Warrants	5,591,316 subordinate voting share purchase warrants exercisable at C\$0.65 per share expiring July 9, 2021	5,591,316	5,591,316
Resulting Issuer Broker Warrants	431,100 broker warrants held by the Agents exercisable at C\$0.50 per share expiring July 9, 2020	431,100	431,100
Warrants underlying the Resulting Issuer Broker Warrants	215,550 common share purchase warrants exercisable at C\$0.65 per share expiring July 9, 2021	215,550	215,550
Promissory Notes	Convertible into 1,200,000 Subordinate Voting Shares at C\$0.50 per share for a period of 12 months	1,200,000	1,200,000
Multiple Voting Shares	56,634.128 Multiple Voting Shares are exchangeable for 56,634,128 Subordinate Voting Shares	56,634,128	56,634,128
TOTAL		64,116,224	64,116,224

15. EXECUTIVE COMPENSATION

For the purposes of this section, the “Named Executive Officers” or “NEOs” are the Chief Executive Officer and Chief Financial Officer of the Resulting Issuer and the three most highly compensated individuals whose total compensation was more than C\$150,000.

Determination of Compensation

Following the completion of the Transaction, it is anticipated that the Resulting Issuer Board will establish the Compensation Committee to assist the Resulting Issuer Board in its oversight of executive and director compensation. Further details relating to the Compensation Committee is set out in Section 13 – Directors and Officers. The Resulting Issuer Board is expected to adopt a written charter for the Compensation Committee that will establish, among other things, the Compensation Committee’s purpose and its responsibilities with respect to executive compensation. The charter of the Compensation will provide that, among other things, the Compensation Committee will be responsible for assisting the Resulting Issuer Board in its oversight of executive compensation, director compensation and executive compensation disclosure. It is anticipated that the independent directors of the Resulting Issuer will review and make recommendations to the Compensation Committee each year with respect to the executive compensation arrangements and employment agreements for the Named Executive Officers. For other non-executive employees, the decisions regarding compensation arrangements and employment agreements will be made by the Resulting Issuer Board. Furthermore, the Equity Incentive Plan will be administered by, and the award of any share based compensation awards will be recommended by the Compensation Committee and be approved by the Resulting Issuer Board.

The Resulting Issuer Board will consider industry standards and the financial situation of the Resulting Issuer when determining executive compensation. The Resulting Issuer Board will set

the compensation level of the Named Executive Officers in order to retain individuals of a high caliber and motivate their performance to achieve the Resulting Issuer’s strategic objectives. The compensation package of the Named Executive Officers will consist of short and long-term cash and equity incentives based on the achievement of the Resulting Issuer’s goals.

Compensation of Executives

The compensation of the Named Executive Officers will include three major elements: (a) base salaries; (b) equity based compensation; and (c) cash bonuses.

Base Salaries

Base salaries are intended to provide an appropriate level of fixed compensation that will assist in employee retention and recruitment. Base salaries will be determined on an individual basis, taking into consideration the past, current and potential contribution to the Resulting Issuer’s success, the position and responsibilities of the NEOs and competitive industry pay practices for other high growth, premium brand companies of similar size and revenue growth potential.

Equity-Based Compensation

In connection with the Transaction, the Corporation’s Shareholders approved the Equity Incentive Plan at the Corporation’s shareholders’ meeting. For further details in respect of the Equity Incentive Plan, please see “Options to Purchase Securities”.

Cash Bonuses

Annual bonuses will be awarded based on qualitative and quantitative performance standards and will reward performance of each NEO individually. The determination of an NEO’s performance may vary from year to year depending on economic conditions and conditions in the cannabis industry and may be based on measures such as stock price performance, the meeting of financial targets against budget (such as adjusted funds from operations), the meeting of acquisition objectives and balance sheet performance.

Pension and Other Benefit Plans

The Resulting Issuer does not intend to implement a pension plan, defined benefit plan, defined contribution plan or deferred compensation plan that provides for payments or benefits to Named Executive Officers at, following, or in connection with retirement.

Summary of Executive Compensation

The following table sets forth the anticipated compensation to be paid or awarded to the Named Executive Officers of the Resulting Issuer:

Table of Compensation Excluding Compensation Securities							
Name & position	Year	Salary, Consulting Fee, Retainer or Commission (\$)	Bonus (\$)⁽¹⁾	Committee or meeting fees (\$)⁽²⁾	Equity-based compensation (\$)	Value of all other compensation (\$)	Total compensation (\$)
Scott J.	2019	\$350,000	\$200,000	TBD	TBD	Nil	\$550,000

Van Rixel, Chairman, CEO and Director							
Thomas Stein, President	2019	\$300,000	TBD	N/A	\$250,000	Nil	\$550,000
Stephen Gledhill, CFO	2019	\$120,000	20,000	N/A	TBD	Nil	\$140,000
Jamie Pearson, COO and Director	2019	\$200,000	\$50,000	TBD	TBD	Nil	\$250,000
Samantha Ford- Collins, CMO	2019	\$150,000	\$25,000	N/A	TBD	Nil	\$175,000

Notes:

- (1) The total amount of all bonuses to be paid or payable in or with respect to fiscal 2019 has yet to be determined.
- (2) Cash compensation for director position has yet to be determined.

Employment Agreement with Scott J. Van Rixel

The Resulting Issuer has retained Scott Van Rixel to act as Chairman and Chief Executive Officer of the company, pursuant to an employment agreement dated July 9, 2019 (the “**Van Rixel Employment Agreement**”). The Van Rixel Employment Agreement has a term of five (5) years, with a renewal option for two (2) year rolling periods upon the agreement of Mr. Van Rixel and the Resulting Issuer.

Mr. Van Rixel receives a base salary of US\$350,000.00, which is reviewed annually by the Compensation Committee, and is eligible to receive an annual target bonus of up to fifty percent (50%) of such base salary depending on the achievement of certain objectives set by the Compensation Committee. No bonus is payable in the event Mr. Van Rixel’s employment with the Resulting Issuer ceases prior to the end of a given financial year. Additional discretionary bonuses may be awarded to Mr. Van Rixel, subject to the approval of the Board of Directors. Options to purchase shares may also be provided to Mr. Van Rixel as compensation.

The Van Rixel Employment Agreement may be terminated in the event of: (i) the death of Mr. Van Rixel; (ii) Mr. Van Rixel’s inability to render the services contemplated in the Van Rixel Employment Agreement, despite reasonable accommodation, for an aggregate of one hundred eighty (180) days during any three (3) year period; (iii) termination by the Resulting Issuer without cause; (iv) termination by the Resulting Issuer for cause; and (v) on ninety (90) days’ written notice from Mr. Van Rixel to the Resulting Issuer.

Employment Agreement with Thomas Stein

The Resulting Issuer has retained Thomas Stein to act as President of Bhang until completion of the reverse take-over of the Corporation by Bhang, at which time Mr. Stein will act as Chief

Executive Officer of Bhang and President of the Resulting Issuer, pursuant to an employment agreement dated April 22, 2019 (the “**Stein Employment Agreement**”). The Stein Employment Agreement commenced on April 29, 2019 and continues until terminated in accordance with its terms.

Mr. Stein receives a base salary of US\$300,000.00, which is reviewed annually by the Compensation Committee of Bhang’s board of directors, and will receive an annual bonus of no less than USD\$150,000 in the form of common shares, based on the fair market value at the time of the grant. Mr. Stein received a signing bonus of common shares valued at US\$100,000.00. Upon the successful completion of the reverse take-over of the Corporation by Bhang, Mr. Stein will be granted options to purchase 1,000,000 common shares of Bhang at an exercise price of C\$0.50 per common share. Base salary increases, bonuses and options to purchase common shares granted to Mr. Stein will be based on the achievement of measurable objectives set by Bhang’s board of directors, communicated to Mr. Stein in writing on an annual basis.

The Stein Employment Agreement may be terminated in the event of: (i) the death of Mr. Stein; (ii) Mr. Stein’s inability to render the services contemplated in the Stein Employment Agreement, despite reasonable accommodation, for an aggregate of one hundred eighty (180) days during any three (3) year period; (iii) termination by Bhang without cause; (iv) termination by Bhang for cause; and (v) on thirty (30) days’ written notice from Mr. Stein to Bhang.

Termination and Change of Control Benefits

Other than as disclosed herein, the Resulting Issuer will not have any contracts, agreements, plans or arrangements that provide for payments to a Named Executive Officer at, following or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, a change in control of the Resulting Issuer or a change in an NEO’s responsibilities.

- Under the Van Rixel Employment Agreement, in the event of termination without cause, Mr. Van Rixel is entitled to receive continuation of his base salary of US\$350,000.00 plus his average annual incentive compensation for the preceding two (2) fiscal years for up to two (2) years from the date of termination. Mr Van Rixel’s entitlement to such compensation terminates early in the event he earns employment compensation equal to or greater than his base salary.
- In the event of termination by the Resulting Issuer without cause, Mr. Stein is entitled to receive continuation of his base salary of US\$300,000.00 for one (1) year from the date of termination, plus his pro rata share of annual incentive compensation. Mr Stein’s entitlement to such compensation terminates early in the event he earns employment compensation equal to or greater than his base salary.

Summary Compensation for Directors

It is anticipated that the Resulting Issuer will pay compensation to its directors in the form of annual fees for attending meetings of the Resulting Issuer Board. Directors may receive additional compensation for acting as chairs of committees of the Resulting Issuer Board. Directors will also be entitled to receive stock options and other applicable awards and will be reimbursed for any out-of-pocket travel expenses incurred in order to attend meetings of the Resulting Issuer Board, committees of the Resulting Issuer Board or meetings of the shareholders of the Resulting Issuer. It is also anticipated that the Resulting Issuer will obtain customary insurance for the benefit of its directors and enter into indemnification agreements

with its directors pursuant to which the Resulting Issuer will agree to indemnify its directors to the extent permitted by applicable law.

16. INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

No individual who is, or at any time during the most recently completed financial year was, a director or executive officer of the Resulting Issuer, a proposed nominee for election as a director of the Resulting Issuer, and each associate of any such director, executive officer or proposed nominee: (a) is, or at any time since the beginning of the most recently completed financial year of the Resulting Issuer has been, indebted to the Resulting Issuer or any of its subsidiaries or (b) has or has had indebtedness to another entity that is, or at any time since the beginning of the most recently completed financial year has been, the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Resulting Issuer or any of its subsidiaries.

17. RISK FACTORS

Marijuana remains illegal under U.S. federal law

Marijuana is a Schedule 1 controlled substance and is illegal under federal U.S. law. Even in those states in which the use of marijuana has been legalized, its use remains a violation of federal law. Since federal law criminalizing the use of marijuana is not pre-empted by state laws that legalize its use, strict enforcement of federal law regarding marijuana would harm the Resulting Issuer's business, prospects, results of operation, and financial condition.

Federal Regulation of Marijuana in the United States

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical cannabis under the *Access to Cannabis for Medical Purposes Regulations* (Canada) and the proposed regulation of recreational cannabis under the *Cannabis Act* (Canada), investors are cautioned that in the United States, cannabis is largely regulated at the state level. To date, a total of 33 states, plus the District of Columbia, have legalized cannabis for comprehensive medical or recreational use, and 17 others have laws in place which recognize medical benefits for at least some cannabinoids.

Notwithstanding the permissive regulatory environment of cannabis at the state level, cannabis continues to be categorized as a Schedule 1 controlled substance under the Federal CSA in the United States and as such, remains illegal under federal law in the United States.

As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in August 2013 when then Deputy Attorney General, James Cole, authored a memorandum (the "**Cole Memorandum**") addressed to all United States district attorneys acknowledging that, notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several states had enacted laws relating to cannabis for medical purposes.

The Cole Memorandum outlined the priorities for the Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the Department of Justice never provided

specific guidelines for what regulatory and enforcement systems it deemed sufficient under the Cole Memorandum standard. In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the Department of Justice should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority.

In March 2017, then-newly appointed Attorney General Jeff Sessions again noted limited federal resources and acknowledged that much of the Cole Memorandum had merit. However, on January 4, 2018, Mr. Sessions issued a new memorandum that rescinded and superseded the Cole Memorandum effective immediately (the “**Sessions Memorandum**”)²⁴¹. The Sessions Memorandum stated, in part, that current law reflects “Congress’ determination that cannabis is a dangerous drug and cannabis activity is a serious crime”, and Mr. Sessions directed all U.S. Attorneys to enforce the laws enacted by Congress and to follow well-established principles when pursuing prosecutions related to cannabis activities. The inconsistency between federal and state laws and regulations is a major risk factor.

As a result of the Sessions Memorandum, federal prosecutors will now be free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws that may be inconsistent with federal prohibitions. No direction was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how active federal prosecutors will be in relation to such activities.

The DOJ is now headed by Attorney General William Barr, who was confirmed to such post by the Senate on February 14, 2019, following A.G. Sessions’ resignation in late 2018 and the interim tenure of Matthew Whitaker as Acting Attorney General. A.G. Barr, who also served in such position under President George H.W. Bush, announced that he did not foresee enforcement of federal cannabis laws against state-legal actors. “I’m not going to go after companies that have relied on the Cole memoranda,” Barr told Senator Cory Booker (D-N.J.) during his confirmation hearings. “My approach to this would be not to upset settled expectations and the reliance interest that have arisen as a result of the Cole memoranda and investments have been made.”

While Mr. Barr has made his stance toward the Cole Memorandum clear, he remains skeptical of the state-legal cannabis industry in general. He has indicated his support for a broad federal criminalization of cannabis, and declared in his confirmation hearings that “[i]t’s incumbent on the Congress to make a decision as to whether we are going to have a federal system or whether it’s going to be a central federal law.” While this position is somewhat contradictory with respect to his statements regarding the Cole Memorandum, it appears that Mr. Barr intends to refrain from initiating prosecutions against state-compliant actors at this time, and would likely look for Congressional action of some kind prior to changing this stance.

Mr. Barr has made no public comments regarding the FinCEN Memorandum. Because the FinCEN Memorandum is not a Department of Justice memorandum, but from the Department of the Treasury, Mr. Barr would not control its revocation. However, Mr. Barr’s stance toward the 2014 Cole Memo indicates that the FinCEN Memorandum will continue to guide his decisions regarding enforcement priorities.

²⁴¹ U.S. Dept. of Justice. (2018). *Memorandum for all United States Attorneys re: Marijuana Enforcement*. Washington, DC: US Government Printing Office. Retrieved from <https://www.justice.gov/opa/press-release/file/1022196/download>.

Neither the Sessions Memorandum nor Mr. Barr has discussed the treatment of medical cannabis by federal prosecutors, which is currently protected against enforcement by enacted legislation from United States Congress in the form of the Leahy Amendment to the Consolidated Appropriations Act of 2019, which prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding. Due to the ambiguity of the Sessions Memorandum, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law, but the Leahy Amendment does provide protection from prosecution for medical cannabis businesses.

When President Trump signed the omnibus appropriations bill containing the Leahy Amendment on February 15, 2019, he added a signing statement: “Division C, section 537, provides that the Department of Justice may not use any funds to prevent implementation of medical marijuana laws by various States and territories. I will treat this provision consistent with the President’s constitutional responsibility to faithfully execute the laws of the United States.” Inclusion of this signing statement does not appear at this time to indicate a new approach to enforcement of federal cannabis laws by the White House, but does illustrate the legal uncertainty surrounding the industry.

Federal law is not pre-empted by state law in these circumstances, so the federal government can prosecute criminal violations of federal cannabis laws despite the existence of state laws allowing such activity. The level of prosecutions of state-legal cannabis operations is entirely unknown; nonetheless the stated position of the current administration is hostile to legal cannabis, and furthermore may be changed at any time by the DOJ, to become even more aggressive. The Sessions Memorandum lays the groundwork for United States Attorneys to take their cues on enforcement priority from the federal law enforcement guidance set forth in the U.S. Attorney’s Manual (USAM). If the DOJ policy under Attorney General Jeff Sessions was to aggressively pursue financiers or equity owners of cannabis-related business, and United States Attorneys followed such DOJ policies through pursuing prosecutions, then the Resulting Issuer could face (i) seizure of its cash and other assets used to support or derived from its cannabis subsidiaries, (ii) the arrest of its employees, directors, officers, managers and investors, and charges of ancillary criminal violations of the Federal CSA for aiding and abetting and conspiring to violate the Federal CSA by virtue of providing financial support to cannabis companies that service or provide goods to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis.

Notably, current federal law (in the form of the Leahy Amendment) prevents the Department of Justice from expending funds to intervene with states’ rights to legalize cannabis for medical purposes. In the event Congress fails to renew this federal law in its next budget bill, the Leahy Amendment for medical cannabis operators will be void. Should the Leahy Amendment not be renewed upon expiration in subsequent spending bills there can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis businesses that are otherwise compliant with state law. Such potential proceedings could involve significant restrictions being imposed upon the Resulting Issuer or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on the Resulting Issuer’s business, revenues, operating results and financial condition as well as the Resulting Issuer’s reputation, even if such proceedings were concluded successfully in favour of the Resulting Issuer.

Now that the Cole Memorandum has been repealed by former Attorney General Jeff Sessions, the Department of Justice under Attorney General William Barr and the current administration or an aggressive federal prosecutor could allege that the Resulting Issuer and its Board and, potentially its shareholders, “aided and abetted” violations of federal law by providing finances

and services to its portfolio cannabis companies. Under these circumstances, it is possible that the federal prosecutor would seek to seize the assets of the Resulting Issuer, and to recover the “illicit profits” previously distributed to shareholders resulting from any of the foregoing financing or services. In these circumstances, the Resulting Issuer’s operations would cease, shareholders may lose their entire investment and directors, officers and/or shareholders may be left to defend any criminal charges against them at their own expense and, if convicted, be sent to federal prison.

On January 12, 2018, the Canadian Securities Administrators issued a statement that they were considering whether the disclosure-based approach for issuers with U.S. cannabis-related activities remains appropriate in light of the rescission of the Cole Memorandum. On February 8, 2018 the Canadian Securities Administrators published a staff notice (Staff Notice 51-352) setting out the Canadian Securities Administrator’s disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the United States cannabis industry.

There can be no assurance as to the position any new administration may take on cannabis and a new administration could decide to enforce the federal laws strongly. Any enforcement of current federal laws could cause significant financial damage to the Resulting Issuer and its shareholders. Further, future presidential administrations may want to treat marijuana differently and potentially enforce the federal laws more aggressively.

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Resulting Issuer, including its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded common shares. In addition, it is difficult to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Regulatory Risks

The Resulting Issuer will operate in a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

The Resulting Issuer will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Resulting Issuer, and therefore, its prospective returns.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Resulting Issuer and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Issuer's earnings and could make future capital investments or the Resulting Issuer's operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

International Regulatory Risks Generally

If the Resulting Issuer expands internationally or engage in the international sale of hemp-derived products, it will become subject to the laws and regulations of the foreign jurisdictions in which it operates, or in which it imports or exports products or materials, including but not limited to customs regulations in the importing and exporting countries. The laws governing hemp and CBD differ in various jurisdictions and are subject to change. Under the 1961 United Nation Single Convention, all extracts of the cannabis plant are considered Schedule I substances.

The varying laws and rapidly changing regulations may impact the Resulting Issuer's operations, including but not limited to the Resulting Issuer's ability to ensure compliance. In addition, the Resulting Issuer may avail itself of proposed legislative changes in certain jurisdictions to expand its product portfolio, which expansion may include business and regulatory compliance risks as yet undetermined. Failure by the Resulting Issuer to comply with the evolving regulatory framework in any jurisdiction could have a material adverse effect on the Resulting Issuer's business, financial condition and results of operations.

Leahy Amendment

The Leahy Amendment, as discussed above, prohibits the Department of Justice from spending funds appropriated by Congress to enforce the tenets of the Federal CSA against the medical cannabis industry in states which have legalized such activity. This amendment has historically been passed as an amendment to omnibus appropriations bills, which by their nature expire at the end of a fiscal year or other defined term. The Leahy Amendment will expire with the Fiscal Year 2019 on September 30, 2019. At such time, it may or may not be included in the Fiscal Year 2020 omnibus appropriations package or a continuing budget resolution, and its inclusion or non-inclusion, as applicable, is subject to political changes.

U.S. State Regulatory Uncertainty

The rulemaking process for cannabis operators at the state level in any state will be ongoing and result in frequent changes. As a result, a compliance program is essential to manage regulatory risk. All operating policies and procedures implemented in the operation will be compliance-based and derived from the state regulatory structure governing ancillary cannabis businesses and their relationships to state-licensed or permitted cannabis operators, if any. Notwithstanding the Resulting Issuer's efforts, regulatory compliance and the process of obtaining regulatory approvals can be costly and time-consuming. No assurance can be given that the Resulting Issuer will receive the requisite licenses, permits or cards to operate its businesses.

In addition, local laws and ordinances could restrict the Resulting Issuer's business activity. Although legal under the laws of the states in which the Resulting Issuer's business will operate, local governments have the ability to limit, restrict, and ban cannabis businesses from operating

within their jurisdiction. Land use, zoning, local ordinances, and similar laws could be adopted or changed, and have a material adverse effect on the Resulting Issuer's business.

The Resulting Issuer is aware that multiple states are considering special taxes or fees on businesses in the cannabis industry. It is a potential yet unknown risk at this time that other states are in the process of reviewing such additional fees and taxation. This could have a material adverse effect upon the Resulting Issuer's business, results of operations, financial condition or prospects.

Restricted access to banking

In February 2014, the Financial Crimes Enforcement Network ("FinCEN") bureau of the U.S. Treasury Department issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis business, including burdensome due diligence expectations and reporting requirements.²⁴² This guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the Department of Justice, FinCEN or other federal regulators. Thus, most banks and other financial institutions in the United States do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance, which can be amended or revoked at any time by the Trump Administration. In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis-related businesses. As a result, the Resulting Issuer may have limited or no access to banking or other financial services in the United States. In addition, federal money laundering statutes and Bank Secrecy Act regulations discourage financial institutions from working with any organization that sells a controlled substance, regardless of whether the state it resides in permits cannabis sales. The inability or limitation in the Resulting Issuer's ability to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Resulting Issuer to operate and conduct its business as planned or to operate efficiently.

Regulatory scrutiny of the Resulting Issuer's interests in the United States

For the reasons set forth above, the Resulting Issuer's interests in the United States cannabis market, and future licensing arrangements, may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. As a result, the Resulting Issuer may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Resulting Issuer's ability to carry on its business in the United States.

Constraints on marketing products

The development of the Resulting Issuer's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by government regulatory bodies. The regulatory environment in the United States limits the Resulting Issuer's ability to compete for market share in a manner similar to other industries. If the Resulting Issuer is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased

²⁴² Department of the Treasury Financial Crimes Enforcement Network. (2014). *Guidance re: BSA Expectations Regarding Marijuana-Related Businesses* (FIN-2014-G001). Retrieved from <https://www.fincen.gov/resources/statutes-regulations/guidance/bsa-expectations-regarding-marijuana-related-businesses>.

selling prices for its products, the Resulting Issuer's sales and operating results could be adversely affected.

Unfavorable tax treatment of cannabis businesses

Under Section 280E ("**Section 280E**") of the United States Internal Revenue Code of 1986 as amended (the "**U.S. Tax Code**"), "no deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted." This provision has been applied by the U.S. Internal Revenue Service to cannabis operations, prohibiting them from deducting expenses directly associated with the sale of cannabis. Section 280E therefore has a significant impact on the retail side of cannabis, but a lesser impact on cultivation and manufacturing operations. A result of Section 280E is that an otherwise profitable business may, in fact, operate at a loss, after taking into account its U.S. income tax expenses.

Risk of Criminal Prosecutions for Money Laundering.

Federal money laundering statutes, specifically U.S.C.A. § 1956 and § 1957 in addition to others, criminalize certain transactions involving the proceeds of activity which is itself criminal. It is possible that officers of the Resulting Issuer could be subject to prosecution for transacting on behalf of the Resulting Issuer. While there have been no recent prosecutions of investors in cannabis-related businesses for violation of either § 1956 or § 1957, this could change along with federal enforcement priorities. Loss of "illicit profits" is also a risk. Notwithstanding the foregoing, the FinCEN Memorandum outlines the circumstances under which banks may provide financial services to businesses involved in the cannabis space without triggering enforcement priorities.

Risk of RICO prosecution or civil liability.

The Racketeer Influenced Corrupt Organizations Act ("RICO") criminalizes the use of any profits from certain defined "racketeering" activities in interstate commerce. While intended to provide an additional cause of action against organized crime, due to the fact that cannabis is illegal under U.S. federal law, the production and sale of cannabis qualifies cannabis-related businesses as "racketeering" as defined by RICO. As such, all officers, managers and owners in a cannabis related business could be subject to criminal prosecution under RICO, which carries substantial criminal penalties.

RICO can create civil liability as well: persons harmed in their business or property by actions which would constitute racketeering under RICO often have a civil cause of action against such "racketeers," and can claim triple their amount of estimated damages in attendant court proceedings. The Resulting Issuer as well as its officers, managers and owners could all be subject to civil claims under RICO.

Risk of Civil Asset Forfeiture

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

Anti-money Laundering Laws and Regulations

The Resulting Issuer is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), the Criminal Code (Canada), as amended and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

In February 2014, the Financial Crimes Enforcement Network ('FinCEN') of the U.S. Department of the Treasury issued a memorandum providing instructions to banks seeking to provide services to marijuana related businesses (the FinCEN Memorandum). The FinCEN Memorandum states that in some circumstances, it may not be appropriate to prosecute banks that provide services to cannabis-related businesses for violations of federal money laundering laws. It refers to supplementary guidance that former Deputy Attorney General Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the Federal CSA. It is unclear at this time whether the current administration will follow the guidelines of the FinCEN Memorandum. Under U.S. federal law, banks or other financial institutions that provide a cannabis-related business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy. While this risk would appear to be diminished because Hemp-related activities that are in compliance with the 2014 and/or 2018 Farm Bill are not in violation of the Federal CSA, there is no certainty that such is the case.

If any of the Resulting Issuer's investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States or Canada were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Resulting Issuer to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Resulting Issuer has no current intention to declare or pay dividends on the Resulting Issuer Shares in the foreseeable future, the Resulting Issuer may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Denial of Deductibility of Certain Expenses

The Resulting Issuer may incur significant tax liabilities if the IRS continues to determine that certain expenses of businesses working with the cannabis plant are not permitted tax deductions under section 280E of the Code.

Section 280E of the Code prohibits businesses from deducting certain expenses associated with trafficking controlled substances (within the meaning of Schedule I and II of the Federal CSA). The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are permitted under applicable state laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly, and the bulk of operating costs and general administrative costs are not permitted to be deducted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses. Therefore, a minor non-

compliance with the 2014 Farm Bill and/or the 2018 Farm Bill and associated regulations could result in the Resulting Issuer's inability to deduct certain expenses and significant tax liabilities.

Liability for Actions of Employees, Contractors and Consultants

The Resulting Issuer could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against the Resulting Issuer.

The Resulting Issuer is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Resulting Issuer that violates: (i) government regulations; (ii) manufacturing standards; (iii) U.S. federal fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Resulting Issuer to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Resulting Issuer to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Resulting Issuer from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Resulting Issuer, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on its business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, the curtailment of the Resulting Issuer's operations or asset seizures, any of which could have a material adverse effect on the Issuer's business, financial condition and results of operations.

United States tax classification of the Resulting Issuer

The Resulting Issuer, which is and will continue to be a Canadian corporation as of the date of this Listing Statement, generally would be classified as a non-United States corporation under general rules of United States federal income taxation. Section 7874 of the U.S. Tax Code, however, contains rules that can cause a non- United States corporation to be taxed as a United States corporation for United States federal income tax purposes. Under section 7874 of the U.S. Tax Code, a corporation created or organized outside the United States. (i.e., a non-United States corporation) will nevertheless be treated as a United States corporation for United States federal income tax purposes (such treatment is referred to as an "Inversion") if each of the following three conditions are met (i) the non-United States corporation acquires, directly or indirectly, or is treated as acquiring under applicable United States Treasury Regulations, substantially all of the assets held, directly or indirectly, by a United States corporation, (ii) after the acquisition, the former stockholders of the acquired United States corporation hold at least 80% (by vote or value) of the shares of the non-United States corporation by reason of holding shares of the United States acquired corporation, and (iii) after the acquisition, the non-United States corporation's expanded affiliated group does not have substantial business activities in the non- United States corporation's country of organization or incorporation when compared to the expanded affiliated group's total business activities (clauses (i) – (iii), collectively, the "**Inversion Conditions**").

For this purpose, "expanded affiliated group" means a group of corporations where (i) the non-United States corporation owns stock representing more than 50% of the vote and value of at least one member of the expanded affiliated group, and (ii) stock representing more than 50% of the vote and value of each member is owned by other members of the group. The definition of an "expanded affiliated group" includes partnerships where one or more members of the

expanded affiliated group own more than 50% (by vote and value) of the interests of the partnership.

The Resulting Issuer intends to be treated as a United States corporation for United States federal income tax purposes under section 7874 of the U.S. Tax Code and is expected to be subject to United States federal income tax on its worldwide income. However, for Canadian tax purposes, the Resulting Issuer is expected, regardless of any application of section 7874 of the U.S. Tax Code, to be treated as a Canadian resident company (as defined in the Income Tax Act (Canada) (the “*ITA*”) for Canadian income tax purposes. As a result, the Resulting Issuer will be subject to taxation both in Canada and the United States which could have a material adverse effect on its financial condition and results of operations.

It is unlikely that the Resulting Issuer will pay any dividends on the common shares in the foreseeable future. However, dividends received by shareholders who are residents of Canada for purpose of the ITA will be subject to U.S. withholding tax. Any such dividends may not qualify for a reduced rate of withholding tax under the Canada-United States tax treaty. In addition, a foreign tax credit or a deduction in respect of foreign taxes may not be available.

Dividends received by U.S. shareholders will not be subject to U.S. withholding tax but will be subject to Canadian withholding tax. Dividends paid by the Resulting Issuer will be characterized as U.S. source income for purposes of the foreign tax credit rules under the U.S. Tax Code. Accordingly, U.S. shareholders generally will not be able to claim a credit for any Canadian tax withheld unless, depending on the circumstances, they have an excess foreign tax credit limitation due to other foreign source income that is subject to a low or zero rate of foreign tax.

Dividends received by shareholders that are neither Canadian nor U.S. shareholders will be subject to U.S. withholding tax and will also be subject to Canadian withholding tax. These dividends may not qualify for a reduced rate of U.S. withholding tax under any income tax treaty otherwise applicable to a shareholder of the Resulting Issuer, subject to examination of the relevant treaty.

Because the common shares will be treated as shares of a U.S. domestic corporation, the U.S. gift, estate and generation-skipping transfer tax rules generally apply to a non-U.S. shareholder of common shares.

Risks Related to the Regulatory Environment in Canada in Relation to the Business of the Resulting Issuer

Risks Related to the Ability to Trade Securities in Canada

For the reasons set forth above, the Resulting Issuer’s existing interests in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. It has been reported by certain publications in Canada that the Canadian Depository for Securities Limited may implement policies that would see its subsidiary, CDS Clearing and Depository Services Inc. (“**CDS**”), refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada’s central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, despite media reports to the contrary and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

On February 8, 2018, following discussions with the Canadian Securities Administrators (“**CSA**”) and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding (“**TMX MOU**”) with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The TMX MOU outlines the parties’ understanding of Canada’s regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers possible cannabis-related activities in the United States. The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there would be no CDS ban on the clearing of securities of issuers with possible cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of the Issuer Shares to make and settle trades. In particular, the Issuer Shares would become highly illiquid within the US as until an alternative was implemented, investors would have no ability to affect a trade of the issuer Shares through the facilities of a stock exchange.

Shareholders and potential investors are cautioned that:

- The activities of the Resulting Issuer are subject to evolving regulation that is subject to changes by governmental authorities in Canada and the US; and
- Although the TMX MOU confirms that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future.

Risks Associated from Additional Scrutiny by Canadian Regulators

For the reasons set forth above, the Resulting Issuer’s business in the United States may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Resulting Issuer may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Resulting Issuer’s ability operate in the United States.

Increased scrutiny by the Canadian regulators is likely to increase the cost of compliance and may adversely affect the profitability of the business of the Resulting Issuer.

EACH SHAREHOLDER SHOULD SEEK TAX ADVICE, BASED ON SUCH SHAREHOLDER’S PARTICULAR CIRCUMSTANCES, FROM AN INDEPENDENT TAX ADVISOR.

Security Risks

The business premises of the Resulting Issuer’s operating locations are targets for theft, diversion, and other security breaches. While the Resulting Issuer has implemented security measures at each location and continues to monitor and improve its security measures, its licensees’ cultivation, processing and dispensary facilities could be subject to break-ins, robberies and other breaches in security. If there was a breach in security and the Resulting Issuer’s licensees fell victim to a robbery or theft, the loss of cannabis plants, cannabis oils, cannabis flowers and cultivation and processing equipment could have a material adverse impact on the business, financial condition and results of operation of the Resulting Issuer.

Limited trademark protection

The Resulting Issuer will not be able to register any United States federal trademarks for its cannabis-derived THC products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a crime under the Federal CSA, the United States Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, the Resulting Issuer likely will be unable to protect its cannabis product trademarks beyond the geographic areas in which it conducts business. The use of its trademarks outside the states in which it operates by one or more other persons could have a material adverse effect on the value of such trademarks.

The Resulting Issuer May be Exposed to Infringement or Misappropriation Claims by Third Parties, Which, if Determined Adversely to the Resulting Issuer, Could Subject the Resulting Issuer to Significant Liabilities and Other Costs

The Resulting Issuer's success may likely depend on its ability to use and develop new extraction technologies, recipes, know-how and new strains of cannabis without infringing the intellectual property rights of third parties. The Resulting Issuer cannot assure that third parties will not assert intellectual property claims against it. The Resulting Issuer is subject to additional risks if entities licensing to it intellectual property do not have adequate rights in any such licensed materials. If third parties assert copyright or patent infringement or violation of other intellectual property rights against the Resulting Issuer, it will be required to defend itself in litigation or administrative proceedings, which can be both costly and time consuming and may significantly divert the efforts and resources of management personnel. An adverse determination in any such litigation or proceedings to which the Resulting Issuer may become a party could subject it to significant liability to third parties, require it to seek licenses from third parties, to pay ongoing royalties or subject the Resulting Issuer to injunctions prohibiting the development and operation of its applications.

Currency Fluctuations

Due to the Resulting Issuer's present operations in the United States, and its intention to continue future operations outside Canada, the Resulting Issuer is expected to be exposed to significant currency fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. All or substantially all of the Resulting Issuer's revenue will be earned in US dollars, but a portion of its operating expenses are incurred in Canadian dollars. The Resulting Issuer does not have currency hedging arrangements in place and there is no expectation that the Resulting Issuer will put any currency hedging arrangements in place in the future. Fluctuations in the exchange rate between the US dollar and the Canadian dollar, may have a material adverse effect on the Resulting Issuer's business, financial position or results of operations.

Lack of access to U.S. bankruptcy protections

Because the use of cannabis is illegal under federal law, many courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If the Resulting Issuer were to experience a bankruptcy, there is no guarantee that U.S. federal bankruptcy protections would be available to the Resulting Issuer, which would have a material adverse effect.

Potential FDA regulation of Marihuana (or cannabis as used herein)

Should the federal government legalize cannabis, it is possible that the FDA, would seek to regulate it under the Food, Drug and Cosmetics Act of 1938 (FDCA), as is already the case for many Hemp-derived CBD products of the Resulting Issuer. Additionally, the FDA may issue rules and regulations including good manufacturing practices, related to the growth, cultivation, harvesting and processing of cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, the impact would be on the cannabis industry is unknown, including what costs, requirements and possible prohibitions may be enforced. If the Resulting Issuer is unable to comply with the regulations or registration as prescribed by the FDA it may have an adverse effect on the Resulting Issuer's business, operating results and financial condition.

Risks Specifically Related to State Law and Policy Governing Hemp and Hemp Products

States take varying approaches to regulating the production and sale of hemp, hemp products, and hemp-derived CBD under the 2014 Farm Bill, the 2018 Farm Bill and state food and drug laws. In addition, many States are in the process of changing law and policy to align with the 2018 Farm Bill. While some States explicitly authorize and regulate the production and sale of hemp-derived CBD or otherwise provide legal protection for authorized individuals to engage in commercial hemp activities, other States maintain outdated drug laws that do not distinguish between marijuana, hemp and/or hemp-derived CBD, resulting in hemp being classified as a controlled substance under some state laws. In these states, sale of CBD, notwithstanding origin, is either restricted to state medical or adult-use marijuana program licensees or remains otherwise unlawful under state criminal laws. Additionally, a number of State laws and policies prohibit the sale of certain consumable CBD products based on the FDA's position that, pursuant to the FDCA it is unlawful ". . . to introduce food containing added CBD or THC into interstate commerce, or to market CBD or THC products as, or in, dietary supplements, regardless of whether the substances are hemp-derived." There is also significant confusion amongst state regulators and enforcement agencies as to the legality of hemp products. Although the Resulting Issuer believes that, as a result of the passage of the 2018 Farm Bill, states with prohibitive laws and policies will change their laws to explicitly authorize the Resulting Issuer's activities or that such changes in law or policy will at least be favorable to the Resulting Issuer's business, there can be no assurance that such laws or policies will change at all, or if changed, will be favorable to the Resulting Issuer's business operations. Further, Under the 2018 Farm Bill, States have express authority to adopt regulations that are more stringent than federal regulations, and therefore State regulation will likely continue to vary following implementation of the 2018 Farm Bill. There is risk that some States will keep or adopt restrictive regulations that prohibit certain activity and are unfavorable to Resulting Issuer's business operations. Variance in state regulation creates risk and increased costs of compliance for Resulting Issuer's business.

Given the constantly changing regulatory environment and varying interpretations by state regulatory and enforcement agencies as to the correct application and enforcement of applicable state laws and policies, there is risk that, given the scope of the Resulting Issuer's business activities, that the Resulting Issuer's operations are, or may become, non-compliant with one or more state laws or policies. Changes in law and policy, or more vigorous enforcement thereof, may negatively impact the Resulting Issuer's ability to operate in the US, increase compliance costs, or give rise to material liabilities, which could have a material adverse effect on the business, results of operations, and financial condition of the Resulting Issuer. Failure to comply with state policy or other state-imposed requirements may result in,

among other penalties, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions. While management believes that the Resulting Issuer will be able to obtain all licenses, permits, authorizations and approvals necessary to conduct its business and that the Resulting Issuer is properly operating within all applicable regulatory regimes, there can be no assurance that these beliefs are accurate or that laws or regulatory regimes will not be changed in a manner that would adversely impact the Resulting Issuer, including by requiring it to obtain certain licenses, permits, authorizations or approvals or requiring it to operate subject to a regulatory regime or by prohibiting operations in certain states. Any actions against the Resulting Issuer by state governmental authorities could have a material adverse effect on the Resulting Issuer's business, financial condition, and results of operations, including resulting in the Resulting Issuer having to cease operations in such jurisdictions, or entirely.

Change in Laws, Regulations and Guidelines

The Resulting Issuer's current and proposed operations are subject to a variety of laws, regulations and guidelines, including, but not limited to, those relating to the manufacture, management, transportation, storage and disposal of cannabis, as well as laws and regulations relating to health and safety (including but not limited to those governing consumable products), the conduct of operations and the protection of the environment. These laws and regulations are broad in scope, rapidly changing, and are subject to constantly evolving interpretations. If any changes to such laws, regulations or guidelines occur, which are matters beyond the control of the Resulting Issuer, the Resulting Issuer may incur significant costs in complying with such changes or it may be unable to comply therewith, which in turn may result in a material adverse effect on the Resulting Issuer's business, financial condition and results of operation. In addition, violations of these laws, or allegations of such violations, could disrupt certain aspects of the Resulting Issuer's business plan and result in a material adverse effect on certain aspects of its planned operations, including materially limiting or ceasing current or planned operations all together.

Changes in laws and regulations, more vigorous enforcement thereof, the imposition of restrictions on the Resulting Issuer's ability to operate in the US as a result of the federally illegal nature of cannabis in the US or other unanticipated events could require extensive changes to the Resulting Issuer's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Resulting Issuer.

While management believes that the Resulting Issuer will be able to obtain all licenses, permits, authorizations and approvals necessary to conduct its business and that the Resulting Issuer is properly operating within all applicable regulatory regimes, there can be no assurance that these beliefs are accurate or that laws or regulatory regimes will not be changed in a manner that would adversely impact the Resulting Issuer, including by requiring it to obtain certain licenses, permits, authorizations or approvals or requiring it to operate subject to a regulatory regime.

State-Imposed Restrictions Regarding the Production of Hemp and Sale of CBD

The Agriculture Improvement Act of 2018 (commonly known as the “**2018 Farm Bill**”) was signed into law on December 20, 2018. The 2018 Farm Bill, among other things, removes “hemp” (including any part of the cannabis plant containing 0.3% THC or less), its extracts, derivatives, and cannabinoids from the Federal CSA definition of “marihuana”, and allows for federally-sanctioned hemp production under the purview of the USDA, in coordination with state departments of agriculture that elect to have primary regulatory authority. States and Tribal governments can adopt their own regulatory plans, even if more restrictive than federal regulations, so long as the plans meet minimum federal standards and are approved by the USDA. Accordingly, the production and sale of hemp and hemp products may be limited or restricted in some states. Hemp production in jurisdictions that do not choose to submit their own plans (and that do not otherwise prohibit hemp production) will be governed by USDA regulation.

The USDA has stated that it will not begin approving state regulatory plans until the federal regulations have been promulgated. The USDA expects the federal regulations to be in place in time for the 2020 growing season. The 2018 Farm Bill also precludes states from prohibiting the transportation or shipment of hemp and hemp products that are produced under USDA-approved 2018 Farm Bill hemp programs.

“Hemp” as defined in the 2018 Farm Bill, “means the plant *Cannabis sativa* L., and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not with a THC concentration of not more than 0.3% on a dry weight basis.” While the 2018 Farm Bill removes hemp and hemp-derived products from the controlled substances list under the Federal CSA, it does not legalize CBD in every circumstance. The 2018 Farm Bill does not require states to amend state controlled substances laws and consequently, states are permitted to continue to classify hemp and/or CBD as a controlled substance under state law. In addition, CBD and other cannabinoids, if derived from marihuana as defined by the Federal CSA, remain a Schedule I substance under federal law.

To date, the vast majority of states have passed legislation related to industrial hemp, and at least forty-one (41) states allow hemp cultivation and production programs. However, state approaches to regulation vary and some states have limited programs or restrictions on certain activity. For example, some states prohibit the sale of CBD products outside of marijuana businesses, while other states prohibit the sale of hemp-derived CBD products altogether. Other states have laws that criminalize all parts of the cannabis plant (including “hemp,” as defined under the 2018 Farm Bill) or significantly limit activity related to the cannabis plant (including “hemp,” as defined under the 2018 Farm Bill). A number of state laws and regulations, including in major markets such as California, New York, and Ohio, currently contain restrictions limiting the types of hemp-derived products that may be sold and where such products may be sold. Accordingly, this patchwork of state laws may, for the foreseeable future, materially impact the Resulting Issuer’s business and financial condition, limit the accessibility of certain state markets, cause confusion amongst regulators, and increase legal and compliance costs.

Continued Applicability of the 2014 Farm Bill Pending the Implementation of the 2018 Farm Bill

Section 7606 of the Agricultural Act of 2014 (the “**2014 Farm Bill**”) will remain in effect until one (1) year after the USDA establishes regulations implementing the federal plans pursuant to the 2018 Farm Bill, at which point the 2014 Farm Bill will be repealed. The 2014 Farm Bill permits cultivation of hemp for research purposes (inclusive of market research) pursuant to state agricultural programs but leaves significant discretion to states as to how to implement such

programs. In addition, the DEA, FDA and USDA have taken the position, as set forth in 2016 guidance (the “**Statement of Principles**”), that under the 2014 Farm Bill (i) industrial hemp products may be sold “[f]or purposes of marketing research...but not for the purpose of general commercial activity” and (ii) such products may only be sold within or among states with agricultural pilot programs that allow such activity, but not in states where such sales are prohibited. The Statement of Principles is not legally binding and is widely disputed as invalid by many, including members of Congress, on the grounds that it exceeds DEA’s authority and contravenes the intent of the 2014 Farm Bill. Moreover, to date, the Statement of Principles has only been minimally enforced. However, as recently as February 27, 2019, the USDA referenced the Statement of Principles as “additional guidance” that remains applicable to the 2014 Farm Bill.

Because hemp has been removed from the definition of “marijuana” within the Federal CSA, the DEA can no longer assert authority over hemp and hemp products. Additionally, given the passage of the 2018 Farm Bill (which permits the commercial sale of Hemp and Hemp products produced in accordance with the 2018 Farm Bill and precludes states from prohibiting any interstate transportation or shipment of the same), it is also possible that the FDA and USDA will not enforce their position outlined in the Statement of Principles.

Regulatory Compliance Requirements and FDA’s Position on CBD and Certain Other Hemp Products

The production, labeling and distribution of the Resulting Issuer’s products are regulated by various federal, state and local laws and agencies. These laws and regulations change frequently and may restrict the sale of the Resulting Issuer’s products in certain states or entirely. In addition, governmental authorities may commence regulatory or legal proceedings, which could restrict the permissible scope of the Resulting Issuer’s product claims or the Resulting Issuer’s ability to sell its products in the future. The shifting compliance environment and the need to build and maintain robust systems to comply with different regulations in multiple jurisdictions increases the possibility that the Resulting Issuer may violate one or more of the requirements. If the Resulting Issuer’s operations are found to be in violation of any such laws or any other governmental regulations, the Resulting Issuer may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of the Resulting Issuer’s operations, any of which could adversely affect the Resulting Issuer’s business and financial results.

The 2018 Farm Bill expressly preserves the FDA’s authority to regulate certain products containing cannabis or cannabis-derived compounds under the federal Food, Drug, and Cosmetic Act (“**FDCA**”). Certain provisions of the FDCA preclude a substance from being considered a food and prohibit a substance from being marketed as a dietary supplement or dietary ingredient if such substance has been approved by the FDA as a new drug, or if such substance has been authorized for investigation as a new drug (“**IND**”) for which substantial clinical investigations have been instituted and for which the existence of such investigations has been made public (the “**Preclusion Rule**”). Because CBD was the subject of public drug trials and is the active ingredient in an FDA-approved drug (Epidiolex), the FDA takes the position that it is unlawful under the FDCA to introduce food containing added CBD into interstate commerce, or to market CBD products as, or in, dietary supplements, regardless of whether the substances are hemp-derived. Additionally, the FDA requires a cannabis product (hemp-derived or otherwise) that is marketed with a claim of structure/function therapeutic benefit, or with any other disease claim, and therefore intended for use as a drug, to be approved by the FDA for its intended use before it may be introduced into interstate commerce.

GW Pharmaceuticals' ("GW") investigational new drug application for Sativex, a cannabis-derived oral spray, was authorized by the FDA in 2006, likely triggering the Preclusion Rule as applied to dietary supplements, and GW initiated clinical trials in late 2007, triggering the Preclusion Rule as applied to food. Although the IND application and clinical investigations for Sativex predate the initial IND authorization for Epidiolex, Sativex has not yet received final FDA approval. However, on June 25, 2018, the FDA announced its official approval of GW's application for its new drug, Epidiolex. Epidiolex is a CBD-based oral solution developed for use in the treatment of seizures associated with two rare and severe forms of epilepsy, Lennox-Gastaut syndrome and Dravet syndrome. Although there are other FDA-approved drugs that contain synthetically produced THC, Epidiolex is the first FDA-approved drug that contains a purified drug substance derived from cannabis. Importantly, although substances that were marketed as a conventional food or dietary supplement before the new drug investigations were authorized or commenced are exempt from the Preclusion Rule, the FDA has concluded that, based on available evidence, this is not the case for CBD. Several states, including California, have followed the FDA's position. Further, many state food and drug laws mirror, or are substantially similar, to the FDCA, and the laws of many states include additional policies or regulations prohibiting the sale of certain hemp and/or CBD products intended for human or animal consumption.

Many stakeholders disagree with the FDA's position, noting that there is substantial uncertainty and different interpretations among state and federal regulatory agencies, legislators, academics and businesses as to whether the exception to the Preclusion Rule applies to CBD, and if so, whether it applies to all types of CBD products. Other stakeholders challenge the FDA's position on other grounds. Nevertheless, the FDA's position (as well as those state policies mirroring the FDA's position) could materially impact the Resulting Issuer's business and financial condition, limit the accessibility of certain state markets, cause confusion amongst regulators, and increase legal and compliance costs.

Although the Resulting Issuer believes that its operations are legal and comply with the FDCA, there is a risk that, given the FDA's position, the Resulting Issuer's sale and marketing of CBD or certain other hemp-derived products as a food additive or dietary ingredient may be in violation of the FDCA. Any determination by a court or federal agency affirming the FDA's position on CBD or that CBD is not permissible for use as a dietary ingredient, food ingredient, or is an adulterant, would have a materially adverse effect upon the Resulting Issuer and its business.

To date, the FDA has been clear in its position and has consistently repeated its position through public statements and enforcement. The FDA has enforced its position and asserted the Preclusion Rule through warning letters to companies marketing hemp and CBD products as dietary supplements, particularly where such marketing includes health and/or medical claims. State regulatory agencies have enforced similar policies through warning letters, seizures, and, in some cases, more serious legal action. The receipt of such a warning letter, a seizure of the Resulting Issuer's product, or any other legal action, could adversely affect the Resulting Issuer's business and financial results.

In addition, on December 20, 2018, the same day the 2018 Farm Bill was signed into law, FDA Commissioner Scott Gottlieb, M.D., released a statement on the agency's regulation of products containing cannabis and cannabis-derived compounds. The press release states that, "Congress explicitly preserved the agency's current authority to regulate products containing cannabis or cannabis-derived compounds under the [FDCA] and section 351 of the Public Health Service Act. In doing so, Congress recognized the agency's important public health role with respect to all the products it regulates. This allows the FDA to continue enforcing the law to protect patients and the public while also providing potential regulatory pathways for products containing cannabis and cannabis-derived compounds." The agency also announced that it is exploring pathways to consider whether there are circumstances in which certain cannabis-derived compounds might be permitted in a food or dietary supplement, but reiterated the agency's long-held position that certain provisions of the FDCA preclude CBD and THC from being used in food products and from being marketed as dietary supplements. Importantly, the FDA has authority to issue a regulation allowing the use of a pharmaceutical ingredient, such as CBD, in a food or dietary supplement, even if such pharmaceutical ingredient was not previously marketed as a food or dietary ingredient prior to the initiation of clinical drug trials. The FDA announced that it is exploring pathways to consider whether there are circumstances in which certain cannabis-derived compounds might be permitted in a food or dietary supplement and is forming a working group to consider the best approach for regulating CBD. Still, there is potential that future FDA regulation of CBD may not be favorable to the Resulting Issuer and that such regulations may limit, restrict, or prohibit the production and sale of the Resulting Issuer's products, which would have a material negative impact on the Resulting Issuer's business operations.

Failure to comply with the FDCA and applicable state law may result in, among other penalties, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions. Further, the Resulting Issuer's advertising is subject to regulation by both the Federal Trade Commission ("**FTC**") under the Federal Trade Commission Act and the FDA under the FDCA and its regulations, in addition to other potentially applicable law. In recent years, the FTC has initiated numerous investigations of dietary and nutritional supplement products and companies based on allegedly deceptive or misleading claims. At any point, enforcement strategies of a given agency can change as a result of other litigation in the space or changes in political landscapes, and could result in increased enforcement efforts, which would materially impact the Resulting Issuer's business. Additionally, some states also permit advertising and labeling laws to be enforced by their attorney general, who may seek relief for consumers, class action certifications, class-wide damages and product recalls of products sold by the Resulting Issuer. Private litigations may also seek relief for consumers, class action certifications, class-wide damages and product recalls of products sold by the Resulting Issuer. Any actions against the Resulting Issuer by governmental authorities or private litigants could have a material adverse effect on the Resulting Issuer's business, financial condition and results of operations.

Risks Specifically Related to the United States ("US") Regulatory System

The Resulting Issuer will operate in a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

The Resulting Issuer will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a

material adverse effect on the business, results of operations and financial condition of the Resulting Issuer and, therefore, on the Resulting Issuer's prospective returns. Further, the Resulting Issuer may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect its ability to conduct its business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact on the Resulting Issuer's financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

The hemp industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Resulting Issuer and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Resulting Issuer's earnings and could make future capital investments or the Resulting Issuer's operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

In case of non-compliance with the strict requirements of the 2014 and/or 2018 Farm Bill, the Resulting Issuer may be deemed involved in the cannabis industry in the US where local and state laws permit such activities or provide limited defenses to criminal prosecutions. The enforcement of relevant laws is a significant risk.

While the 2018 Farm Bill removes Hemp derived products from Schedule I status under the Federal CSA, the legislation does not legalize cannabis generally. Marijuana (or "cannabis" as used herein) continues to be categorized as a Schedule I controlled substance under the Federal CSA. Therefore, unless in strict compliance with the 2014 and/or 2018 Farm Bill, as applicable, cannabis-related activities such as cultivation, manufacture, importation, possession, use or distribution of cannabis, are illegal under U.S. federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Resulting Issuer of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against the Resulting Issuer. Any such proceedings brought against the Resulting Issuer may adversely affect the Resulting Issuer's operations and financial performance.

Because of the conflicting views between state legislatures and the federal government of the United States regarding cannabis and hemp, investments in hemp businesses in the United States are subject to inconsistent and constantly changing legislation, regulation, and enforcement. Unless and until the United States Congress amends the Federal CSA with respect to cannabis or the DEA reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which would adversely affect the current and future business of the Resulting Issuer in the United States. As a result of the tension between state and federal law, there could be a number of risks associated with the Resulting Issuer's future business in the United States.

Additionally, there can be no assurance that state laws within the U.S. legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that could make it extremely difficult or impossible to transact business in the cannabis industry. Federal actions against any individual or entity

engaged in the cannabis industry or a substantial repeal of cannabis related legislation could adversely affect the Resulting Issuer and its business.

Violations of any United States federal laws and regulations as they relate to the 2014 and 2018 Farm Bills could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the United States federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Resulting Issuer, including its reputation and ability to conduct business, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Resulting Issuer to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Risks Associated with Numerous Laws and Regulations

The production, labeling and distribution of the products that the Resulting Issuer plans to distribute are regulated by various federal, state and local agencies. These governmental authorities may commence regulatory or legal proceedings, which could restrict the permissible scope of the Resulting Issuer's product claims or the ability to sell its products in the future. The FDA and applicable state agencies regulate the Resulting Issuer's products to ensure that the products are not adulterated or misbranded.

The Resulting Issuer is subject to regulation by the FDA and other agencies as a result of the manufacture and sale of its Hemp-derived CBD products. State laws vary significantly as to regulation of hemp-derived CBD in consumable products. The shifting compliance environment, patchwork of state laws, and the need to build and maintain robust systems to comply with different regulations in multiple jurisdictions increases the possibility that the Resulting Issuer may violate one or more of the requirements. If the Resulting Issuer's operations are found to be in violation of any of such laws or any other governmental regulations, or perceived to be in violation, the Resulting Issuer may be subject to penalties or other negative effects, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of the Resulting Issuer's operations or asset seizures and the denial of regulatory applications (including those regulatory regimes outside of the scope of DEA and FDA jurisdiction, but which may rely on the positions of the DEA and FDA in the application of their respective regimes), any of which could adversely affect the Resulting Issuer's business and financial results.

Failure to comply with FDA requirements may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions. The Resulting Issuer's advertising is subject to regulation by the FTC under the Federal Trade Commission Act as well as subject to regulation by the FDA under the DSHEA, and applicable state laws. In recent years, the FTC has initiated numerous investigations of dietary and nutritional supplement products and companies based on allegedly deceptive or misleading claims. At any point, enforcement strategies of a given agency can change as a result of other litigation in the space or changes in political landscapes, and could result in increased enforcement efforts, which would materially impact the Resulting Issuer's business. Additionally, some states also permit advertising and labeling laws to be enforced by state attorney generals, who may seek relief for consumers, class action certifications, class wide damages and product recalls of products sold by the Resulting Issuer. Private litigations may also seek relief for consumers, class action certifications, class wide damages and product recalls of products sold by the Resulting Issuer. Any actions against the Resulting Issuer by governmental authorities or private litigants could

have a material adverse effect on the Resulting Issuer's business, financial condition and results of operations.

Uncertainty Caused by Potential Changes to Regulatory Framework

There is substantial uncertainty and different interpretations among federal, state and local regulatory agencies, legislators, academics and businesses as to the importation of derivatives from the Cannabis plant and the scope of 2014 Farm Bill-compliant hemp production and commercialization, the 2018 Farm Bill and the emerging regulation of cannabinoids. These different opinions include, but are not limited to, the regulation of cannabinoids by the DEA and or the FDA, as well as applicable state agencies, and the extent to which manufacturers of products containing imported raw materials and/or 2014 and 2018 Farm Bill-compliant cultivators and processors may engage in interstate commerce. The USDA and FDA are currently in the process of rulemaking to establish standards governing the production and sale of hemp products in the U.S., and there is uncertainty as to whether such rules will be unfavorable or could negatively impact operations. The uncertainties cannot be resolved without further federal, and perhaps even state-level, legislation, regulation or a definitive judicial interpretation of existing legislation and rules. If these uncertainties continue, they may have an adverse effect upon the introduction of the Issuer's products in different markets.

New Dietary Ingredient ("NDI") Objection by FDA

There is substantial uncertainty and different interpretations among state and federal regulatory agencies, legislators, academics and businesses as to whether cannabinoids were present in the food supply and marketed as such prior to October 15, 1994, or whether such inclusion of cannabinoids is otherwise approved by the FDA as dietary ingredients. The uncertainties cannot be resolved without further federal legislation, regulation or a definitive judicial interpretation of existing legislation and rules. A determination that hemp-derived cannabinoids were not present in the food supply, and marketed as dietary ingredients prior to October 15, 1994, are not otherwise permissible for use as a dietary ingredient, or are adulterants would have a materially adverse effect upon the Resulting Issuer and its business. The Resulting Issuer could be required to submit an 'NDI notification to the FDA with respect to its hemp extracts. If FDA objects to the Resulting Issuer's NDI notification or if the FDA determines that the Resulting Issuer was required to file an NDI and did not, this would have a materially adverse effect upon the Resulting Issuer and its business.

FDA Interpretation of IND Preclusion

The FDA has taken the position that CBD cannot be marketed as a dietary supplement because it has been the subject of investigation as a new drug (previously defined as "IND Preclusion"). There is evidence that GW Pharmaceuticals plc received authorization for its IND related to CBD in 2006. It is the FDA's interpretation of the IND Preclusion that the preclusion date is the date in which it authorized the drug for investigation. If the FDA were to enforce the IND Preclusion against the Resulting Issuer based on its interpretation of the legislation, this would materially and adversely impact the Resulting Issuer's business and financial condition.

Regulatory Approval and Permits

The Resulting Issuer may be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions where its products are manufactured and/or sold. There can be no assurance that the Resulting Issuer will be able to obtain or maintain any necessary licenses, permits or approvals. Any material delay or inability to receive these items is likely to delay

and/or inhibit the Resulting Issuer's ability to conduct its business, and would have an adverse effect on its business, financial condition and results of operations.

Environmental, Health and Safety Laws

The Resulting Issuer is subject to environmental, health and safety laws and regulations in each jurisdiction in which the Resulting Issuer operates. Such regulations govern, among other things, emissions of pollutants into the air, wastewater discharges, waste disposal, the investigation and remediation of soil and groundwater contamination, and the health and safety of the Resulting Issuer's employees. The Resulting Issuer may be required to obtain environmental permits from governmental authorities for certain current or proposed operations. The Resulting Issuer may not have been, nor may it be able to be at all times, in full compliance with such laws, regulations and permits. If the Resulting Issuer violates or fails to comply with these laws, regulations or permits, the Resulting Issuer could be fined or otherwise sanctioned by regulators.

As with other companies engaged in similar activities or that own or operate real property, the Resulting Issuer faces inherent risks of environmental liability at its current and historical production sites. Certain environmental laws impose strict and, in certain circumstances, joint and several liability on current or previous owners or operators of real property for the cost of the investigation, removal or remediation of hazardous substances as well as liability for related damages to natural resources. In addition, the Resulting Issuer may discover new facts or conditions that may change its expectations or be faced with changes in environmental laws or their enforcement that would increase its liabilities. Furthermore, its costs of complying with current and future environmental and health and safety laws, or the liabilities arising from past or future releases of, or exposure to, regulated materials, may have a material adverse effect on its business, financial condition and results of operations.

Product Viability

If the products the Resulting Issuer sells are not perceived to have the effects intended by the end user, its business may suffer and the business may be subject to products liability or other legal actions. Many of the Resulting Issuer's products contain innovative ingredients or combinations of ingredients. There is little long-term data available with respect to efficacy, unknown side effects and/or interaction with individual human biochemistry, or interaction with other drugs. Moreover, there is little long-term data available with respect to efficacy, unknown side effects and/or its interaction with individual animal biochemistry. As a result, the Resulting Issuer's products could have certain side effects if not taken as directed or if taken by an end user that has certain known or unknown medical conditions.

Success of Quality Control Systems

The quality and safety of the Resulting Issuer's products are critical to the success of its business and operations. As such, it is imperative that the Resulting Issuer's (and its service provider's) quality control systems operate effectively and successfully. Quality control systems can be negatively impacted by the design of the quality control systems, the quality training program, and adherence by employees to quality control guidelines. Although the Resulting Issuer strives to ensure that all of its service providers have implemented and adhere to high caliber quality control systems, any significant failure or deterioration of such quality control systems could have a material adverse effect on the Resulting Issuer's business and operating results.

Positive Test for THC or Banned Substances

The Resulting Issuer's products will be made from CBD extracted from Hemp in accordance with the 2014 and 2018 Farm Bills. Hemp-derived CBD products are made from Cannabis, which contains THC. As a result, certain products of the Resulting Issuer may contain low levels of THC. THC is considered an illegal substance in many jurisdictions. Moreover, regulatory framework for legal amounts of consumed THC is evolving. Whether or not ingestion of THC (at low levels or otherwise) is permitted in a particular jurisdiction, there may be adverse consequences to end users who test positive for trace amounts of THC attributed to use of the Resulting Issuer's products. In addition, certain metabolic processes in the body may cause certain molecules to convert to other molecules which may negatively affect the results of drug tests. Positive tests may adversely affect the end user's reputation, ability to obtain or retain employment and participation in certain athletic or other activities. A claim or regulatory action against the Resulting Issuer based on such positive test results could adversely affect the Resulting Issuer's reputation and could have a material adverse effect on its business and operational results.

Weather Patterns and Agricultural Operations Risks

The Resulting Issuer's business can be effected by unusual weather patterns. The production of some of its products relies on the availability and use of live plant material. Growing seasons, yields and harvesting operations can be impacted by weather patterns. In addition, severe weather, including drought and hail, can destroy a crop, which could result in no or limited industrial hemp to process. If the Resulting Issuer is unable to purchase hemp or contract farming arrangements, its ability to meet customer demand, generate sales, and maintain operations will be impacted.

The Resulting Issuer's business is dependent on the outdoor growth and production of industrial hemp, an agricultural product. As such, the risks inherent in engaging in agricultural businesses apply. Potential risks include low yields, the risk that crops may become diseased or victim to insects or other pests and contamination, or subject to extreme weather conditions such as excess rainfall, freezing temperature, or drought, all of which could result in low crop yields, decreased availability of industrial hemp, and higher acquisition prices. There can be no guarantee that an agricultural event will not adversely affect business and operating results.

Product Returns

Product returns are a customary part of the Resulting Issuer's business. Products may be returned for various reasons, including expiration dates or lack of sufficient sales volume. Any increase in product returns could reduce the Resulting Issuer's results of operations, negatively impact its operations and reputation, and increase costs to the business.

Transportation Risk

In order for customers of the Resulting Issuer to receive their product, the Resulting Issuer will rely on third party transportation services. This can cause logistical problems with, and delays in, end users obtaining their orders which the Resulting Issuer has no control over. Any delay by third party transportation services may adversely affect the Resulting Issuer's financial performance.

Moreover, transportation to and from the Resulting Issuer's facilities is critical. A breach of security during transport could have material adverse effects on the Resulting Issuer's business, financials and prospects. Any such breach could impact the Resulting Issuer's operations and financial performance.

Finally, until the 2018 Farm Bill is implemented and hemp is grown under 2018 Farm Bill programs, the 2018 Farm Bill's legal protections against states prohibiting the interstate transfer of hemp are likely not effective. Further, the laws of many states make the possession and/or transport of certain hemp products illegal, and there is significant confusion amongst state regulators and enforcement agencies as to the legality of hemp products. There have been multiple instances in which state or local law enforcement have seized hemp biomass being transported through its jurisdiction under the assumption that the hemp being transported was in-fact marijuana. The seizure(s) of hemp and/or hemp products by law enforcement, delays associated with testing of seized materials, or inconsistent or unfavorable testing results could result in the destruction, loss, or spoilage of transported hemp and/or hemp products. In other cases, state enforcement has arrested and criminally charged hemp transporters transporting product through its boundaries where state law does not classify hemp as legal, even where the hemp is lawfully grown in the originating jurisdiction. Even if the product that was seized is ultimately determined to be lawful and is subsequently returned, any such seizure of transported hemp and/or hemp products would have material adverse effects on the Resulting Issuer's business, financials, and prospects.

Reliance on Third-Party Suppliers, Manufacturers and Contractors

In spite of the Resulting Issuer's policy intention to produce Hemp-derived CBD products, the Resulting Issuer intends to maintain a full supply chain for the provision of products and services. Due to the uncertain regulatory landscape for regulating cannabis in the U.S., the Resulting Issuer and its potential third-party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Resulting Issuer's operations. Loss of the possible supply chain, manufacturers and contractors may have a material adverse effect on the Resulting Issuer's future potential business and operational results.

Price of Hemp based CBD Oil

The future trading price of the Resulting Issuer Shares and its financial results may be significantly and adversely affected by an increase in the price of Hemp and the price of Hemp-derived CBD oil. Given the highly regulated nature of the industry, the price of CBD is affected by numerous factors beyond the Resulting Issuer's control, including but not limited to, government regulation, taxation, interest rates, inflation or deflation, supply and demand, and general prevailing political and economic conditions. A general downturn in the CBD market could result in a significant decrease in the Resulting Issuer's revenue. Any such price decline may have a material adverse effect on the Resulting Issuer.

Industry Competition

The markets for businesses in the hemp and hemp-derived CBD industry is competitive and evolving. In particular, the Resulting Issuer faces strong competition from both existing and emerging companies that offer similar products, including in the hemp, marijuana, and pharmaceutical industries. Some of its current and potential competitors may have longer operating histories, greater financial, marketing and other resources and larger customer bases than the Resulting Issuer has.

Given the rapid changes affecting the global, national, and regional economies generally and the CBD industry, in particular, the Resulting Issuer may not be able to create and maintain a competitive advantage in the marketplace. The Resulting Issuer's success will depend on its ability to keep pace with any changes in such markets, especially in light of legal and regulatory changes. Its success will depend on the Resulting Issuer's ability to respond to, among other things, changes in the economy, market conditions, and competitive pressures. Any failure by

the Resulting Issuer to anticipate, comply with, or respond adequately to such changes could have a material adverse effect on its financial condition, operating results, liquidity, cash flow and operational performance.

Intra-Industry Competition

Changing Consumer Preferences and Customer Retention

As a result of changing consumer preferences, many dietary supplements and other innovative products attain financial success for a limited period of time. Even if the Resulting Issuer's products find retail success, there can be no assurance that any of its products will continue to see extended financial success. The Resulting Issuer's success will be significantly dependent upon its ability to develop new and improved product lines. Even if it is successful in introducing new products or developing its proposed products, a failure to gain consumer acceptance or to update products with compelling content could cause a decline in its products' popularity that could reduce revenues and harm the Resulting Issuer's business, operating results and financial condition. Failure to introduce new features and product lines and to achieve and sustain market acceptance could result in the Resulting Issuer being unable to meet consumer preferences and generate revenue which would have a material adverse effect on its profitability and financial results from operations.

The Resulting Issuer's success depends on its ability to attract and retain customers. There are many factors which could impact the Resulting Issuer's ability to attract and retain customers, including but not limited to the Resulting Issuer's ability to continually produce desirable and effective product, the successful implementation of the Resulting Issuer's customer acquisition plan and the continued growth in the aggregate number of people selecting CBD wellness products. The Resulting Issuer's failure to acquire and retain customers could have a material adverse effect on the Resulting Issuer's business, operating results and financial position.

Creating, Maintaining and Promoting the Resulting Issuer's Brand

Management believes that creating, maintaining and promoting the Resulting Issuer's brand is critical to expanding its customer base. Maintaining and promoting the Resulting Issuer's brand will depend largely on its ability to continue to provide quality, reliable and innovative products, which it may not do successfully. The Resulting Issuer may introduce new products or services that its customers do not like, which may negatively affect its brand and reputation. Maintaining and enhancing the Resulting Issuer's brand may require it to make substantial investments, and these investments may not achieve the desired goals. If the Resulting Issuer fails to successfully create, promote and maintain its brand or if it incurs excessive expenses in this effort, its business and financial results from operations could be materially adversely affected.

Unfavourable Publicity or Consumer Perception of CBD Products

Proposed Management of the Resulting Issuer believes the CBD industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of its products and perceptions of regulatory compliance. Consumer perception of the Resulting Issuer's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention, position of various politicians and political parties and non-governmental organizations and other publicity. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the CBD market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier

research reports, findings or publicity could have a material adverse effect on the demand for the Resulting Issuer's CBD products and the business, results of operations, financial condition and cash flows of the Resulting Issuer. The Resulting Issuer's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Resulting Issuer, the demand for CBD products, and the business, results of operations, financial condition and cash flows of the Resulting Issuer. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of CBD products in general, or the Resulting Issuer's products specifically, or associating the consumption of CBD products with illness or other negative effects or events, could have such a material adverse effect. Consumers, vendors, landlords/lessors, industry partners or third-party service providers may incorrectly perceive hemp products as marijuana thereby applying the unfavourable stigma of marijuana to the Resulting Issuer's products. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products legally, appropriately or as directed.

Inability to Sustain Pricing Models

Significant price fluctuations or shortages in the cost of materials may increase the Resulting Issuer's cost of goods sold and cause its results of operations and financial condition to suffer. If the Resulting Issuer is unable to secure materials at a reasonable price, it may have to alter or discontinue selling some of its products or attempt to pass along the cost to its customers, any of which could adversely affect its results of operations and financial condition.

Additionally, increasing costs of labour, freight and energy could increase its and its suppliers' cost of goods. If its suppliers are affected by increases in their costs of labour, freight and energy, they may attempt to pass these cost increases on to the Resulting Issuer. If the Resulting Issuer pays such increases, it may not be able to offset them through increases in its pricing, which could adversely affect its results of operations and financial condition.

Effectiveness and Efficiency of Advertising and Promotional Expenditures

The Resulting Issuer's future growth and profitability will depend on the effectiveness and efficiency of advertising and promotional expenditures, including its ability to (i) create greater awareness of its products; (ii) determine the appropriate creative message and media mix for future advertising expenditures; and (iii) effectively manage advertising and promotional costs in order to maintain acceptable operating margins. There can be no assurance that advertising and promotional expenditures will result in revenues in the future or will generate awareness of the Resulting Issuer's products or services. In addition, no assurance can be given that the Resulting Issuer will be able to manage its advertising and promotional expenditures on a cost-effective basis.

Additional Financings

If the Resulting Issuer is not able to sustain profitability or if it requires additional capital to fund growth or other initiatives, it may require additional equity or debt financing. There can be no assurances that the Resulting Issuer will be able to obtain additional financial resources on favorable commercial terms or at all. Failure to obtain such financial resources could affect the Resulting Issuer's plan for growth or result in the Resulting Issuer being unable to satisfy its obligations as they become due, either of which could have a material adverse effect on the business, results of operations and the financial condition of the Resulting Issuer.

Inability to Protect Intellectual Property

The Resulting Issuer's success is dependent upon its intangible property and technology. The Resulting Issuer relies upon copyrights, patents, trade secrets, unpatented proprietary know-how and continuing innovation to protect the intangible property, technology and information that is considered important to the development of the business. The Resulting Issuer relies on various methods to protect its proprietary rights, including confidentiality agreements with consultants, service providers and management that contain terms and conditions prohibiting unauthorized use and disclosure of confidential information. However, despite efforts to protect intangible property rights, unauthorized parties may attempt to copy or replicate intangible property, technology or processes. There can be no assurances that the steps taken by the Resulting Issuer to protect its intangible property, technology and information will be adequate to prevent misappropriation or independent third-party development of the Resulting Issuer's intangible property, technology or processes. It is likely that other companies can duplicate a production process similar to the Resulting Issuer's. To the extent that any of the above would occur, revenue could be negatively affected, and in the future, the Resulting Issuer may have to litigate to enforce its intangible property rights, which could result in substantial costs and divert management's attention and other resources.

The Resulting Issuer's ability to successfully implement its business plan depends in part on its ability to obtain, maintain and build brand recognition using its trademarks, service marks, trade dress, domain names and other intellectual property rights, including the Resulting Issuer's names and logos. If the Resulting Issuer's efforts to protect its intellectual property are unsuccessful or inadequate, or if any third party misappropriates or infringes on its intellectual property, the value of its brands may be harmed, which could have a material adverse effect on the Resulting Issuer's business and might prevent its brands from achieving or maintaining market acceptance.

The Resulting Issuer may be unable to obtain registrations for its intellectual property rights for various reasons, including FDCA or Federal CSA non-compliance, refusal by regulatory authorities to register trademarks or other intellectual property protections, prior registrations of which it is not aware, or it may encounter claims from prior users of similar intellectual property in areas where it operates or intends to conduct operations. This could harm its image, brand or competitive position and cause the Resulting Issuer to incur significant penalties and costs.

Trade Secrets may be Difficult to Protect

The Resulting Issuer's success depends upon the skills, knowledge and experience of its scientific and technical personnel, consultants and advisors, as well as contractors. Because the Resulting Issuer operates in a highly competitive industry, it relies in part on trade secrets to protect its proprietary products and processes. However, trade secrets are difficult to protect.

The enforcement of a claim alleging that a party illegally obtained and was using the Resulting Issuer's trade secrets could be difficult, expensive and time consuming and the outcome could be unpredictable. The failure to obtain or maintain meaningful trade secret protection could adversely affect the Resulting Issuer's competitive position.

Use of Customer Information and Other Personal and Confidential Information

The Resulting Issuer collects, process, maintains and uses data, including sensitive information on individuals, available to the Resulting Issuer through online activities and other customer interactions with its business. The Resulting Issuer's current and future marketing programs may depend on its ability to collect, maintain and use this information, and its ability to do so is

subject to evolving international, U.S. and Canadian laws and enforcement trends. The Resulting Issuer strives to comply with all applicable laws and other legal obligations relating to privacy, data protection and customer protection, including those relating to the use of data for marketing purposes. It is possible, however, that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another, conflict with other rules, conflict with the Resulting Issuer's practices or fail to be observed by its employees or business partners. If so, the Resulting Issuer may suffer damage to its reputation and be subject to proceedings or actions against it by governmental entities or others. Any such proceeding or action could hurt the Resulting Issuer's reputation, force it to spend significant amounts to defend its practices, distract its management or otherwise have an adverse effect on its business.

Global Economic Uncertainty

Demand for the Resulting Issuer's products and services are influenced by general economic and consumer trends beyond the Resulting Issuer's control. There can be no assurance that the Resulting Issuer's business and corresponding financial performance will not be adversely affected by general economic or consumer trends. In particular, global economic conditions are still tight, and if such conditions continue, recur or worsen, there can be no assurance that they will not have a material adverse effect on the Resulting Issuer's business, financial condition and results of operations.

Furthermore, such economic conditions have produced downward pressure on stock prices and on the availability of credit for financial institutions and corporations. If these levels of market disruption and volatility continue, the Resulting Issuer might experience reductions in business activity, increased funding costs and funding pressures, as applicable, a decrease in the market price of the Resulting Issuer Shares, a decrease in asset values, additional write-downs and impairment charges and lower profitability.

Future Sales of Issuer Shares by the Resulting Issuer Shareholders, Directors or Officers

Subject to compliance with applicable securities laws and the terms of the escrow described in section 11 "Escrowed Securities", the Resulting Issuer's, insiders, officers, directors, and their affiliates may sell some or all of their Issuer Shares in the future. No prediction can be made as to the effect, if any, such future sales of the Issuer Shares will have on the market price of the Resulting Issuer Shares prevailing from time to time. However, the future sale of a substantial number of the Resulting Issuer Shares by its insiders, officers, directors and their affiliates, or the perception that such sales could occur, could materially adversely affect prevailing market prices for the Resulting Issuer Shares.

Additional Resulting Issuer Shares issuable upon the exercise of stock options or the conversion of warrants may also be available for sale in the public market after the date of the listing of the Resulting Issuer Shares, which may also cause the market price of the Resulting Issuer Shares to fall. Accordingly, if substantial amounts of the Resulting Issuer Shares are sold in the public market, the market price could fall.

Domestic Supply Risk

The Resulting Issuer's business relies on full compliance under applicable laws and regulations relating to the sale of its products across the United States and internationally. The regulation of third-party suppliers may have a significant impact on the Resulting Issuer's business. Any enforcement activity or any additional uncertainties, including but not limited to changes in law which may arise in the future, could cause substantial interruption or cessation of the Resulting

Issuer's business, including adverse impacts to the Resulting Issuer's supply chain and distribution channels, and other civil and/or criminal penalties at the federal level.

Legality of contracts

Because the Resulting Issuer's contracts involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, the Resulting Issuer may face difficulties in enforcing its contracts in U.S. federal and certain state courts.

Unfavourable Publicity or Consumer Perception of CBD Products

Proposed Management of the Resulting Issuer believes the CBD industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of its products and perceptions of regulatory compliance. Consumer perception of the Resulting Issuer's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention, position of various politicians and political parties and non-governmental organizations and other publicity. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the CBD market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Resulting Issuer's CBD products and the business, results of operations, financial condition and cash flows of the Resulting Issuer. The Resulting Issuer's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Resulting Issuer, the demand for CBD products, and the business, results of operations, financial condition and cash flows of the Resulting Issuer. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of CBD products in general, or the Resulting Issuer's products specifically, or associating the consumption of CBD products with illness or other negative effects or events, could have such a material adverse effect. Consumers, vendors, landlords/lessors, industry partners or third-party service providers may incorrectly perceive hemp products as marijuana thereby applying the unfavourable stigma of marijuana to the Resulting Issuer's products. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products legally, appropriately or as directed.

Unfavourable publicity and/or unfavourable consumer perception could cause federal and state lawmakers to pass laws restricting the use, manufacturing and distribution of Hemp based CBD products. Such laws may have a negative impact on the operations and the financial performance of the Resulting Issuer.

The Resulting Issuer is a holding company

The Resulting Issuer is a holding company and essentially all of its assets are the capital stock of its operating subsidiary. As a result, investors in the Resulting Issuer are subject to the risks attributable to its operating subsidiary. As a holding company, the Resulting Issuer conducts substantially all of its business through its operating subsidiary, which generates substantially all of its revenues. Consequently, the Resulting Issuer's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its operating subsidiary and the distribution of those earnings to the Resulting Issuer. The ability of this entity to pay dividends and other distributions will depend on its operating results and will be subject to

applicable laws and regulations which require that solvency and capital standards be maintained by such entity and contractual restrictions contained in the instruments governing its debt. In the event of a bankruptcy, liquidation or reorganization of the Resulting Issuer's operating subsidiary, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of the operating subsidiary before the Resulting Issuer.

Sales of substantial amounts of Subordinate Voting Shares may have an adverse effect on the market price of the Subordinate Voting Shares

Sales of substantial amounts of Subordinate Voting Shares, or the availability of such securities for sale, could adversely affect the prevailing market prices for the Subordinate Voting Shares. A decline in the market prices of the Subordinate Voting Shares could impair the Resulting Issuer's ability to raise additional capital through the sale of securities should it desire to do so.

Volatile market price for the Subordinate Voting Shares

The market price for the Subordinate Voting Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which will be beyond the Resulting Issuer's control, including, but not limited to the following:

- actual or anticipated fluctuations in the Resulting Issuer's quarterly results of operations;
- recommendations by securities research analysts;
- changes in the economic performance or market valuations of companies in the industry in which the Resulting Issuer will operate;
- addition or departure of the Resulting Issuer's executive officers and other key personnel;
- release or expiration of transfer restrictions on outstanding Subordinate Voting Shares;
- sales or perceived sales of additional Subordinate Voting Shares;
- operating and financial performance that vary from the expectations of management, securities analysts and investors;
- regulatory changes affecting the Resulting Issuer's industry generally and its business and operations both domestically and abroad;
- announcements of developments and other material events by the Resulting Issuer or its competitors;
- fluctuations to the costs of vital production materials and services;
- changes in global financial markets and global economies and general market conditions, such as interest rates and pharmaceutical product price volatility;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Resulting Issuer or its competitors;
- operating and share price performance of other companies that investors deem comparable to the Resulting Issuer or from a lack of market comparable companies; and
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Resulting Issuer's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Subordinate Voting Shares may decline even if

the Resulting Issuer's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Resulting Issuer's operations could be adversely impacted, and the trading price of the Subordinate Voting Shares may be materially adversely affected.

Liquidity

The Resulting Issuer cannot predict at what prices the Subordinate Voting Shares of the Resulting Issuer will trade and there can be no assurance that an active trading market will develop or be sustained. Final approval of the CSE has not yet been obtained. There is a significant liquidity risk associated with an investment in the Resulting Issuer.

Increased costs as a result of being a public company

As a public issuer, the Resulting Issuer will be subject to the reporting requirements and rules and regulations under the applicable Canadian securities laws and rules of any stock exchange on which the Resulting Issuer's securities may be listed from time to time. Additional or new regulatory requirements may be adopted in the future. The requirements of existing and potential future rules and regulations will increase the Resulting Issuer's legal, accounting and financial compliance costs, make some activities more difficult, time-consuming or costly and may also place undue strain on its personnel, systems and resources, which could adversely affect its business, financial condition, and results of operations.

Future acquisitions or dispositions

Material acquisitions, dispositions and other strategic transactions involve a number of risks, including: (i) potential disruption of the Resulting Issuer's ongoing business; (ii) distraction of management; (iii) the Resulting Issuer may become more financially leveraged; (iv) the anticipated benefits and cost savings of those transactions may not be realized fully or at all or may take longer to realize than expected; (v) increasing the scope and complexity of the Resulting Issuer's operations; and (vi) loss or reduction of control over certain of the Resulting Issuer's assets. Additionally, the Resulting Issuer may issue additional Subordinate Voting Shares in connection with such transactions, which would dilute a shareholder's holdings in the Resulting Issuer.

The presence of one or more material liabilities of an acquired company that are unknown to the Resulting Issuer at the time of acquisition could have a material adverse effect on the business, results of operations, prospects and financial condition of the Resulting Issuer. A strategic transaction may result in a significant change in the nature of the Resulting Issuer's business, operations and strategy. In addition, the Resulting Issuer may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into the Resulting Issuer's operations.

Resulting Issuer's products

As a relatively new industry, there are not many established players in the recreational cannabis industry whose business model the Resulting Issuer can follow or build on the success of. Similarly, there is no information about comparable companies available for potential investors to review in making a decision about whether to invest in the Resulting Issuer.

Shareholders and investors should further consider, among other factors, the Resulting Issuer's prospects for success in light of the risks and uncertainties encountered by companies that, like the Resulting Issuer, are in their early stages. For example, unanticipated expenses and problems or technical difficulties may occur and they may result in material delays in the operation of the Resulting Issuer's business. The Resulting Issuer may not successfully address these risks and uncertainties or successfully implement its operating strategies. If the Resulting Issuer fails to do so, it could materially harm the Resulting Issuer's business to the point of having to cease operations and could impair the value of the common shares to the point investors may lose their entire investment.

The Resulting Issuer expects to commit significant resources and capital to develop and market existing products and new products and services. These products are relatively untested, and the Resulting Issuer cannot assure shareholders and investors that it will achieve market acceptance for these products, or other new products and services that the Resulting Issuer may offer in the future. Moreover, these and other new products and services may be subject to significant competition with offerings by new and existing competitors in the business. In addition, new products and services may pose a variety of challenges and require the Resulting Issuer to attract additional qualified employees. The failure to successfully develop and market these new products and services could seriously harm the Resulting Issuer's business, financial condition and results of operations.

Unknown environmental risks

There can be no assurance that the Resulting Issuer will not encounter hazardous conditions at the site of the real estate used to operate its businesses, such as asbestos or lead, in excess of expectations that may delay the development of its businesses. Upon encountering a hazardous condition, work at the facilities of the Resulting Issuer may be suspended. If the Resulting Issuer receives notice of a hazardous condition, it may be required to correct the condition prior to continuing construction. The presence of other hazardous conditions will likely delay construction and may require significant expenditure of the Resulting Issuer's resources to correct the condition. Such conditions could have a material impact on the investment returns of the Resulting Issuer.

Reliance on management

A risk associated with the production and sale of recreational cannabis is the loss of important staff members. Success of the Resulting Issuer will be dependent upon the ability, expertise, judgment, discretion and good faith of its senior management and key personnel. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Resulting Issuer's business, operating results or financial condition.

Insurance and uninsured risks

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

Although the Resulting Issuer intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Resulting Issuer may also be unable to

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

Emerging Industry

The recreational cannabis industry is emerging. There can be no assurance that an active and liquid market for shares of the Resulting Issuer will develop and shareholders may find it difficult to resell their Subordinate Voting Shares. Accordingly, no assurance can be given that the Resulting Issuer or its business will be successful.

Dependence on key inputs, suppliers and skilled labour

The marijuana business is dependent on a number of key inputs and their related costs including raw materials and supplies related to growing operations, as well as electricity, water and other local utilities. Cannabis cultivators in particular utilize a large amount of energy, making the cannabis supply chain in general highly vulnerable to rising energy costs. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition, results of operations or prospects of the Resulting Issuer. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the Resulting Issuer might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to the Resulting Issuer in the future. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition, results of operations or prospects of the Resulting Issuer.

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

Difficulty to forecast

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

Management of growth

The Resulting Issuer may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Resulting Issuer to manage growth effectively will require it to continue to implement and improve its operational and

financial systems and to expand, train and manage its employee base. The inability of the Resulting Issuer to deal with this growth may have a material adverse effect on the Resulting Issuer's business, financial condition, results of operations and prospects.

Internal controls

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

Litigation

The Resulting Issuer may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Resulting Issuer becomes involved be determined against the Resulting Issuer such a decision could adversely affect the Resulting Issuer's ability to continue operating and the market price for the Subordinate Voting Shares and could use significant resources. Even if the Resulting Issuer is involved in litigation and wins, litigation can redirect significant resources of Bhang and/or the Resulting Issuer.

Product Liability

The Resulting Issuer faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the sale of the Resulting Issuer's products would involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Resulting Issuer's products alone or in combination with other medications or substances could occur. The Resulting Issuer may be subject to various product liability claims, including, among others, that the Resulting Issuer's products caused injury or illness or death, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Resulting Issuer could result in increased costs, could adversely affect the Resulting Issuer's reputation with its clients and consumers generally, and could have a material adverse effect on the business, results of operations and financial condition of the Resulting Issuer. There can be no assurances that the Resulting Issuer will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Resulting Issuer's potential products.

Product recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Resulting Issuer's products are recalled due to an alleged product defect or for any other reason, the Resulting Issuer could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Resulting Issuer may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Recall of products could lead to adverse publicity, decreased demand for the Resulting Issuer's products and could have significant reputational and brand damage. Although the Resulting Issuer has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Resulting Issuer's significant brands were subject to recall, the image of that brand and the Resulting Issuer could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Resulting Issuer's products and could have a material adverse effect on the results of operations and financial condition of the Resulting Issuer. Additionally, product recalls may lead to increased scrutiny of the Resulting Issuer's operations by the FDA, or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Results of Future Clinical Research

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC). Although the Resulting Issuer believes that the articles, reports and studies support its beliefs regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, prospective purchasers of Subordinate Voting Shares should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those stated in this Listing Statement or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis or hemp, which could have a material adverse effect on the demand for the Resulting Issuer's products with the potential to lead to a material adverse effect on the Resulting Issuer's business, financial condition, results of operations or prospects.

Competition

The Resulting Issuer will face intense competition from other companies, some of which have longer operating histories and more financial resources and manufacturing and marketing experience than the Resulting Issuer. Increased competition by larger and better financed competitors could materially and adversely affect the proposed business, financial condition and results of operations of the Resulting Issuer.

Because of the early stage of the industry in which the Resulting Issuer operates, the Resulting Issuer expects to face additional competition from new entrants. If the number of users of recreational cannabis in the states in which the Resulting Issuer will operate its business increases, the demand for products will increase and the Resulting Issuer expects that

competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Resulting Issuer will require a continued high level of investment in research and development, marketing, sales and client support. The Resulting Issuer may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of its operations.

A decline in the price of the Subordinate Voting Shares could affect its ability to raise further working capital and adversely impact its ability to continue operations.

A prolonged decline in the price of the Subordinate Voting Shares could result in a reduction in the liquidity of its Subordinate Voting Shares and a reduction in the Resulting Issuer's ability to raise capital. Because a significant portion of the Resulting Issuer's operations have been and will be financed through the sale of equity securities, a decline in the price of its common stock could be especially detrimental to the Resulting Issuer's liquidity and its operations. Such reductions may force the Resulting Issuer to reallocate funds from other planned uses and may have a significant negative effect on the Resulting Issuer's business plan and operations, including its ability to develop new products and continue its current operations. If the Resulting Issuer's stock price declines, it can offer no assurance that the Resulting Issuer will be able to raise additional capital or generate funds from operations sufficient to meet its obligations. If the Resulting Issuer is unable to raise sufficient capital in the future, the Resulting Issuer may not be able to have the resources to continue its normal operations.

Impact on Resales into the United States

The Resulting Issuer Shares have not been, and will not be, registered under the U.S. Securities Act. Accordingly, the Resulting Issuer Shares are “restricted securities” as defined in Rule 144 under the U.S. Securities Act. Except with respect to an underwriters’ re-offer and re-sale of offered shares to qualified institutional buyers in the United States pursuant to Rule 144A under the U.S. Securities Act, the Resulting Issuer Shares may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any U.S. person, unless the transfer is registered under the U.S. Securities Act. The Resulting Issuer has no current intention to register the Resulting Issuer Shares under the U.S. Securities Act. If the Resulting Issuer does not register the Resulting Issuer Shares under the Securities Act, its shareholders will face restrictions in re-sale of the Resulting Issuer Shares, particularly in the United States or to U.S. persons. The Resulting Issuer Shares may bear a legend describing restrictions on transfer to persons and prohibiting hedging transactions in the Resulting Issuer Shares unless in compliance with the Securities Act.

Limited Control Over the Resulting Issuer’s Operations

Holders of the Resulting Issuer Shares will have limited control over changes in the Resulting Issuer’s policies and operations, which increases the uncertainty and risks of an investment in the Resulting Issuer. The board of directors of the Resulting Issuer will determine major policies, including policies regarding financing, growth, debt capitalization and any future dividends to Shareholders. Generally, the board of directors may amend or revise these and other policies without a vote of the holders of the Issuer Shares. The Board’s broad discretion in setting policies and the limited ability of holders of the Issuer Shares to exert control over those policies increases the uncertainty and risks of an investment in the Resulting Issuer.

Cyber Security Threats

The Resulting Issuer will rely on secure operations of information technology systems in the conduct of the Resulting Issuer’s operations. Access to and security of the information technology systems are critical to the Resulting Issuer’s proposed operations. Given that cyber risks cannot be fully mitigated and the evolving nature of these threats, the Resulting Issuer cannot assure that the Resulting Issuer’s information technology systems are fully protected from cybercrime or that the systems will not be inadvertently compromised, or without failures or defects. Disruptions to the Resulting Issuer’s information technology systems, including, without limitation, security breaches, power loss, theft, computer viruses, cyberattacks, natural disasters, and non-compliance by third party service providers and inadequate levels of cyber security expertise and safeguards of third party information technology service providers, may adversely affect the operations of the Resulting Issuer as well as present significant costs and risks including, without limitation, loss or disclosure of confidential, proprietary, personal or sensitive information and third party data, material adverse effect on the Resulting Issuer’s financial performance, compliance with the Resulting Issuer’s contractual obligations, compliance with applicable laws, damaged reputation, remediation costs, potential litigation, regulatory enforcement proceedings and heightened regulatory scrutiny.

Risk of Damage to Reputation and Negative Publicity

The Resulting Issuer's ability to retain existing management contracts and client relationships and to attract new business is dependent on the maintenance of its reputation. The Resulting Issuer is vulnerable to adverse market perception as it operates in an industry where a high level of integrity and investors trust is paramount. Any perceived, actual or alleged mismanagement, fraud or failure to satisfy the Resulting Issuer's responsibilities, or the negative publicity resulting from such activities or the allegation by a third party of such activities (whether well founded or not) associated with the Resulting Issuer, could have a material adverse effect on the financial condition, results or operations of the Resulting Issuer.

Newly established legal regime

The Resulting Issuer business activities will rely on newly established and/or developing laws and regulations in the states in which it operates. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect the Resulting Issuer's profitability or cause it to cease operations entirely. The cannabis industry may come under the scrutiny or further scrutiny by the FDA, Securities and Exchange Commission, the Department of Justice, the Financial Industry Regulatory Advisory or other federal or applicable state or nongovernmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical or nonmedical purposes in the United States. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding the industry may adversely affect the business and operations of the Resulting Issuer, including without limitation, the costs to remain compliant with applicable laws and the impairment of its business or the ability to raise additional capital.

General economic risks

The Resulting Issuer's operations could be affected by the economic context should the unemployment level, interest rates or inflation reach levels that influence consumer trends and spending and, consequently, impact the Resulting Issuer's sales and profitability.

Banking

Since the production and possession of cannabis is currently illegal under U.S. federal law and hemp was just recently legalized at the federal level, even though the Resulting Issuer is in material compliance with the laws governing hemp, it is possible that banks may refuse to open bank accounts for the deposit of funds from businesses involved with the hemp or cannabis industry in the U.S. The inability to open bank accounts with certain institutions could materially and adversely affect the business of the Resulting Issuer.

Creating, Maintaining and Promoting the Resulting Issuer's Brand

Management believes that creating, maintaining and promoting the Resulting Issuer's brand is critical to expanding its customer base. Maintaining and promoting the Resulting Issuer's brand will depend largely on its ability to continue to provide quality, reliable and innovative products, which it may not do successfully. The Resulting Issuer may introduce new products or services that its customers do not like, which may negatively affect its brand and reputation. Maintaining and enhancing the Resulting Issuer's brand may require it to make substantial investments, and these investments may not achieve the desired goals. If the Resulting Issuer fails to

successfully create, promote and maintain its brand or if it incurs excessive expenses in this effort, its business and financial results from operations could be materially adversely affected.

Risks Related to Acquiring Companies

The Resulting Issuer may acquire other companies in the future and there are risks inherent in any such acquisition. Specifically, there could be unknown or undisclosed risks or liabilities of such companies for which the Resulting Issuer is not sufficiently indemnified. Any such unknown or undisclosed risks or liabilities could materially and adversely affect the Resulting Issuer's financial performance and results of operations. The Resulting Issuer could encounter additional transaction and integration related costs or other factors such as the failure to realize all of the benefits from such acquisitions. All of these factors could cause dilution to the Resulting Issuer's earnings per share or decrease or delay the anticipated accretive effect of the acquisition and cause a decrease in the market price of the Resulting Issuer's securities. The Resulting Issuer may not be able to successfully integrate and combine the operations, personnel and technology infrastructure of any such acquired company with its existing operations. If integration is not managed successfully by the Resulting Issuer's management, the Resulting Issuer may experience interruptions in its business activities, deterioration in its employee and customer relationships, increased costs of integration and harm to its reputation, all of which could have a material adverse effect on the Resulting Issuer's business, financial condition and results of operations. The Resulting Issuer may experience difficulties in combining corporate cultures, maintaining employee morale and retaining key employees. The integration of any such acquired companies may also impose substantial demands on the management. There is no assurance that these acquisitions will be successfully integrated in a timely manner.

Conflicts of Interest

Certain of the employees, officers and directors of the Resulting Issuer may also be directors, officers, consultants or stakeholders of other companies or enterprises, some of which may be in similar sectors, and conflicts of interest may arise between their duties to the Resulting Issuer and their duties to or interests in such other companies or enterprises. Certain of such conflicts may be required to be disclosed in accordance with, and subject to, such procedures and remedies as applicable under the applicable corporate and securities laws, however, such procedures and remedies may not fully protect the Resulting Issuer.

Production Capacity

The current projected production capacity of Bhang's future manufacturing facility is only an estimate and is subject to a number of factors including plant design errors, dependence on certain production technologies and key personnel, among others. The failure of Bhang to achieve full production capacity at its proposed manufacturing facility could have a material adverse effect on the Resulting Issuer.

Limited Market for Securities

The Resulting Issuer Shares will trade on the CSE, however, there can be no assurance that an active and liquid market for the Resulting Issuer Shares will develop or be maintained in order to consider market equity funding.

Risk of Damage to Reputation and Negative Publicity

The Resulting Issuer's ability to retain existing management contracts and client relationships and to attract new business is dependent on the maintenance of its reputation. The Resulting Issuer is vulnerable to adverse market perception as it operates in an industry where a high level of integrity and investors trust is paramount. Any perceived, actual or alleged mismanagement, fraud or failure to satisfy the Resulting Issuer's responsibilities, or the negative publicity resulting from such activities or the allegation by a third party of such activities (whether well founded or not) associated with the Resulting Issuer, could have a material adverse effect on the financial condition, results or operations of the Resulting Issuer.

Risks in Fluctuations in Foreign Currency

Fluctuations in the value of Canadian and US currencies in which the Resulting Issuer may generate revenues or incur costs may be difficult to predict and could cause the Resulting Issuer to incur currency exchange losses. Receivables and liabilities in currencies other than the functional currency could also move adversely to the Resulting Issuer from the date of accrual by the Resulting Issuer to the date of actual settlement of receivables or liabilities in a currency other than the functional currency. A disparity between the accrual and settlement amounts due to currency exchange costs could have a material adverse effect on the Resulting Issuer's business. The Resulting Issuer cannot predict the effect of exchange rate fluctuations on future operating results. Future fluctuations in currency exchange rates could materially and adversely affect the Resulting Issuer's business. The Resulting Issuer does not hedge and does not plan to hedge against the foreign currency exposure.

Risk of Inability to Enforce Legal Rights in Certain Circumstances

In the event a dispute arises in another foreign jurisdiction, the Resulting Issuer may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of courts in Canada. Similarly, to the extent that the Resulting Issuer's assets are governed or located outside of Canada, investors may have difficulty collecting from the Resulting Issuer any judgments obtained in the Canadian courts and predicated on the civil liability provisions of securities legislation.

18. PROMOTERS

18.1 – 18.2 Promoters

No person or company is or has been within the two years prior to the date of this Listing Statement, a promoter of the Resulting Issuer.

19. LEGAL PROCEEDINGS

19.1 Legal Proceedings

There are no legal proceedings material to the Resulting Issuer to which the Resulting Issuer or a subsidiary of the Resulting Issuer is a party or of which any of their respective property is the subject matter and there are no such proceedings known to the Resulting Issuer to be contemplated.

19.2 Regulatory Actions

The Resulting Issuer is not subject to: (i) any penalties or sanctions imposed by a court relating to provincial and territorial securities legislation or by a securities regulatory authority within three years immediately preceding the date of this Listing Statement; or (ii) any other penalties or sanctions imposed by a court or regulatory body against the Resulting Issuer that are

necessary to contain full, true and plain disclosure of all material facts relating to the securities being listed. The Resulting Issuer has not entered into any settlement agreements before a court relating to provincial and territorial securities legislation or with a securities regulatory authority within the three years immediately preceding the date of this Listing Statement.

20. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except described below, no director or executive officer of the Resulting Issuer or person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10 percent of any class or series of the outstanding voting securities of the Resulting Issuer, or any associate or affiliate of any of the foregoing has or had any material interest, direct or indirect, in any transaction within the three years before the date of this Listing Statement, or in any proposed transaction, which has materially affected or will materially affect the Resulting Issuer or any of its subsidiaries.

Richard Sellers holds Resulting Issuer Shares representing more than 10% of the voting rights of the Resulting Issuer and is contracted by and performs services for Origin House. See Section 4.3(3) - *Production and Distribution (a) THC Products* for more details relating to the Resulting Issuer's relationship with Origin House.

21. AUDITORS, TRANSFER AGENTS AND REGISTRARS

21.1 Auditors

The auditors of the Corporation are RSM Canada LLP located at 11 King Street West, Unit 700, Toronto, ON M5H 4C7.

The auditors of Bhang are Forbes Andersen LLP located at 340 Richmond Street West, Toronto ON M5H 2G4.

The auditors of the Resulting Issuer will be MNP LLP, Chartered Professional Accountants, located at 111 Richmond Street West, Unit 300, Toronto, Ontario M5H 2G4.

21.2 Transfer Agent and Registrar

The transfer agent and registrar of the Corporation's common shares is, and the transfer agent and registrar of the Resulting Issuer's subordinate voting shares will be, Capital Transfer Agency Inc., at its offices located at 390 Bay Street, Suite 920, Toronto, Ontario M5H 2Y2.

22. MATERIAL CONTRACTS

During the course of the two years prior to the date of the Listing Statement, the Corporation has entered into the following material contracts, other than contracts entered into in the ordinary course of business:

- (a) the Definitive Agreement;
- (b) the Agency Agreement; and
- (c) Origin House License Agreement

23. INTEREST OF EXPERTS

Other than as provided below, there are no direct or indirect interests in the property of the Resulting Issuer or of a Related Person of the Resulting Issuer that have been received or are to be received by a person or company whose profession or business gives authority to a statement made by the person or company and who is named as having prepared or certified a part of the Listing Statement or prepared or certified a report or valuation included in this Listing Statement.

Forbes Andersen LLP, the auditor of Bhang, beneficially owns less than 1% of the Resulting Issuer Shares.

24. OTHER MATERIAL FACTS

24.1(1) CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

THIS SECTION IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT TAX ADVICE. THE ISSUER'S SHAREHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE RESULTING ISSUER SHARES ARISING UNDER THE U.S. FEDERAL ESTATE OR GIFT TAX LAWS OR UNDER THE LAWS OF ANY STATE, LOCAL OR NON-U.S. TAXING JURISDICTION OR UNDER ANY APPLICABLE INCOME TAX TREATY.

The following discussion is a summary of the material U.S. federal income tax considerations for U.S. Holders and Non-U.S. Holders (each as defined below) relating to the ownership and disposition of the Resulting Issuer Shares, but does not purport to be a complete analysis of all potential tax matters for consideration. The effects of tax laws, including by way of example only certain U.S. estate and gift tax laws, and any applicable state, local or non-U.S. tax laws are not discussed. This discussion is based on the United States Internal Revenue Code of 1986, as amended (the "**Code**"), Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the United States Internal Revenue Service (the "**IRS**"), in each instance in effect as of the date hereof. These authorities may change or be subject to differing interpretations. Any such change or differing interpretation may be applied retroactively in a manner that could adversely affect a holder of the Resulting Issuer Shares. The Resulting Issuer has not sought and will not seek any rulings from the IRS, or an opinion from legal counsel, regarding the matters discussed below. There can be no assurance the IRS or a court will not take a contrary position to that discussed below regarding the tax consequences of the purchase, ownership and disposition of the Resulting Issuer Shares.

For purposes of this discussion, a "U.S. Holder" is any beneficial owner of Resulting Issuer Shares after giving effect to the Transaction that is, for U.S. federal income tax purposes: (i) an individual who is a U.S. resident or U.S. citizen; (ii) a corporation, including any entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the U.S., any state within the U.S. or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source; or (iv) a trust that either (1) is subject to the primary supervision of a U.S. court and the control of one or more "United States persons" (within the meaning of Section 7701(a)(30) of the Code), or (2) has a valid election in effect to be treated as a United States person for U.S. federal income tax purposes. This discussion assumes that a U.S. Holder holds the Resulting Issuer Shares for investment for their own account. U.S. Holders holding Resulting Issuer Shares for any other purpose should

consult with their own tax advisors, as different rules from those described below will likely apply.

Tax Classification as a U.S. Domestic Corporation

As a result of the Transaction, pursuant to Section 7874(b) of the Code and the Treasury Regulations promulgated thereunder, notwithstanding that the Resulting Issuer is organized under the provisions of the OBCA, solely for U.S. federal income tax purposes, it is anticipated that the Resulting Issuer will be treated as a U.S. domestic corporation.

The Resulting Issuer anticipates that it will experience a number of significant and complicated U.S. federal income tax consequences as a result of being treated as a U.S. domestic corporation for U.S. federal income tax purposes, and this summary does not attempt to describe all such U.S. federal income tax consequences.

Generally, the Resulting Issuer will be subject to U.S. federal income tax on its worldwide taxable income (regardless of whether such income is “U.S. source” or “foreign source”) and will be required to file a U.S. federal income tax return annually with the IRS. The Resulting Issuer anticipates that it will also be subject to tax in Canada. It is unclear how the foreign tax credit rules under the Code will operate in certain circumstances, given the treatment of the Resulting Issuer as a U.S. domestic corporation for U.S. federal income tax purposes and the taxation of the Resulting Issuer in Canada. Accordingly, it is possible that the Resulting Issuer will be subject to double taxation with respect to all or part of its taxable income. It is anticipated that such U.S. and Canadian tax treatment will continue indefinitely and that the Resulting Issuer Shares will be treated indefinitely as shares in a U.S. domestic corporation for U.S. federal income tax purposes, notwithstanding future transfers. The remainder of this summary assumes that the Resulting Issuer will be treated as a U.S. domestic corporation for U.S. federal income tax purposes.

In addition, the Resulting Issuer’s income tax basis (computed for U.S. tax purposes) in the assets that it acquired through its acquisition of the equity interests in Bhang may be less than such assets’ fair market value. Therefore, the Resulting Issuer’s U.S. future income tax liability on its U.S. effectively connected income may be greater than if were not treated as a U.S. domestic corporation

Tax Considerations for U.S. Holders

Distributions

Distributions of cash or property on Resulting Issuer Shares will constitute dividends for U.S. federal income tax purposes to the extent paid from the Resulting Issuer’s current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Dividends will generally be taxable to a non-corporate U.S. Holder at the preferential rates applicable to long-term capital gains, provided that such holder meets certain holding period and other requirements. Distributions in excess thereof will first constitute a return of capital and be applied against and reduce a U.S. Holder’s adjusted tax basis in its Resulting Issuer Shares, but not below zero, and thereafter be treated as capital gain and will be treated as described under “– Sale or Other Taxable Disposition” below.

Dividends received by corporate U.S. Holders may be eligible for a dividends received deduction, subject to certain restrictions relating to, among others, the corporate U.S. Holder’s taxable income, holding period and debt financing.

Sale or Other Taxable Disposition

Upon the sale or other taxable disposition of Resulting Issuer Shares, a U.S. Holder will generally recognize capital gain or loss equal to the difference between (i) the amount realized by such U.S. Holder in connection with such sale or other taxable disposition, and (ii) such U.S. Holder's adjusted tax basis in such stock. Such capital gain or loss will generally be long-term capital gain or loss if the U.S. Holder's holding period respecting such stock is more than twelve months. U.S. Holders who are individuals are eligible for preferential rates of taxation respecting their long-term capital gains. Deductions for capital losses are subject to limitations. Dispositions through redemption or taxable or partially taxable reorganizations are potentially subject to different special rules, and U.S. Holders should consult their own tax advisors about these rules. No such transactions are currently contemplated.

Foreign Tax Credit Limitations

Because it is anticipated that the Resulting Issuer will be subject to tax both as a U.S. domestic corporation and as a Canadian corporation, a U.S. Holder may pay, through withholding, Canadian tax, as well as U.S. federal income tax, with respect to dividends paid on its Resulting Issuer Shares. For U.S. federal income tax purposes, a U.S. Holder may elect for any taxable year to receive either a credit or a deduction for all foreign income taxes paid by the holder during the year. However, recent U.S. tax legislation placed significant limitations on taxpayers' ability to deduct foreign taxes. Moreover, complex limitations apply to the foreign tax credit, including a general limitation that the credit cannot exceed the proportionate share of a taxpayer's U.S. federal income tax that the taxpayer's foreign source taxable income bears to the taxpayer's worldwide taxable income. In applying this limitation, items of income and deduction must be classified, under complex rules, as either foreign source or U.S. source. The status of the Resulting Issuer as a U.S. domestic corporation for U.S. federal income tax purposes will cause dividends paid by the Resulting Issuer to be treated as U.S. source rather than foreign source for this purpose. As a result, a foreign tax credit may be unavailable for any Canadian tax paid on dividends received from the Resulting Issuer. Similarly, to the extent a sale or disposition of the Resulting Issuer Shares by a U.S. Holder results in Canadian tax payable by the U.S. Holder (for example, because the Resulting Issuer Shares constitute "taxable Canadian property" within the meaning of the *Income Tax Act (Canada)*), a U.S. foreign tax credit may be unavailable to the U.S. Holder for such Canadian tax. In each case, however, the U.S. Holder may be able to take a deduction for the U.S. Holder's Canadian tax paid, provided that the U.S. Holder has not elected to credit other foreign taxes during the same taxable year.

The foreign tax credit and foreign tax deduction rules are complex, and each U.S. Holder should consult its own tax advisors regarding these rules.

Information Reporting and Backup Withholding

U.S. backup withholding (currently at a rate of 24%) is imposed upon certain payments to persons that fail (or are unable) to furnish the information required pursuant to U.S. information reporting requirements. Distributions to U.S. Holders will generally be exempt from backup withholding, provided the U.S. Holder meets applicable certification requirements, including providing a U.S. taxpayer identification number on a properly completed IRS Form W-9, or otherwise establishes an exemption. The Resulting Issuer must report annually to the IRS and to each U.S. Holder the amount of distributions and dividends paid to that U.S. Holder and the proceeds from the sale or other disposition of Resulting Issuer Shares, unless such U.S. Holder is an exempt recipient.

Backup withholding does not represent an additional tax. Any amounts withheld from a payment to a U.S. Holder under the backup withholding rules will generally be allowed as a credit against such U.S. Holder's U.S. federal income tax liability, and may entitle such U.S. Holder to a refund, provided the required information and returns are timely furnished by such U.S. Holder to the IRS.

Tax Considerations for Non-U.S. Holders

For purposes of this discussion, a "Non-U.S. Holder" is any beneficial owner of Resulting Issuer Shares after giving effect to the Transaction that is neither a "U.S. Holder" nor an entity treated as a partnership for U.S. federal income tax purposes.

Distributions

Distributions of cash or property on Resulting Issuer Shares will constitute dividends for U.S. federal income tax purposes to the extent paid from the Resulting Issuer's current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess thereof will first constitute a return of capital and be applied against and reduce a Non-U.S. Holder's adjusted tax basis in its Resulting Issuer Shares, but not below zero, and thereafter be treated as capital gain and will be treated as described under "– Sale or Other Taxable Disposition" below.

Subject to the discussions under "– Information Reporting and Backup Withholding" and under "– FATCA" below, any dividend paid to a Non-U.S. Holder of Resulting Issuer Shares that is not effectively connected with the Non-U.S. Holder's conduct of a trade or business within the U.S. will be subject to U.S. federal withholding tax at a rate of 30%, or such lower rate as may be specified under an applicable income tax treaty. In order to receive a reduced treaty rate, a Non-U.S. Holder must provide its financial intermediary with an IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable (or an appropriate successor form), properly certifying such holder's eligibility for the reduced rate. If a Non-U.S. Holder holds Resulting Issuer Shares through a financial institution or other agent acting on the Non-U.S. Holder's behalf, the Non-U.S. Holder will be required to provide appropriate documentation to such agent, and the Non-U.S. Holder's agent will then be required to provide such (or a similar) certification to us, either directly or through other intermediaries. A Non-U.S. Holder that does not timely furnish the required certification, but that qualifies for a reduced treaty rate, may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS. Non-U.S. Holders should consult their own tax advisors regarding their entitlement to benefits under any applicable income tax treaty.

Dividends paid to a Non-U.S. Holder that are effectively connected with the Non-U.S. Holder's conduct of a trade or business in the U.S. (or, if required by an applicable income tax treaty, are attributable to a U.S. permanent establishment, or fixed base, of the Non-U.S. Holder) generally will be exempt from the withholding tax described above and instead will be subject to U.S. federal income tax on a net income basis at the regular graduated U.S. federal income tax rates in the same manner as if the Non-U.S. Holder were a U.S. person. In such case, the Resulting Issuer will not have to withhold U.S. federal tax so long as the Non-U.S. Holder timely complies with the applicable certification and disclosure requirements. In order to obtain this exemption from withholding tax, a Non-U.S. Holder must provide its financial intermediary with an IRS Form W-8ECI properly certifying its eligibility for such exemption. Any such effectively connected dividends received by a corporate Non-U.S. Holder may be subject to an additional "branch profits tax" at a rate of 30% (or such lower rate as may be specified by an applicable income tax treaty), as adjusted for certain items. Non-U.S. Holders should consult their own tax advisors regarding any applicable tax treaties that may provide for different rules.

Sale or Other Taxable Disposition

Subject to the discussions under “– Information Reporting and Backup Withholding” and under “– FATCA” below, any gain realized on the sale or other disposition of Resulting Issuer Shares by a Non-U.S. Holder generally will not be subject to U.S. federal income tax unless: (i) the gain is effectively connected with the Non-U.S. Holder’s conduct of a trade or business in the U.S. (or, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment, or fixed base, of the Non-U.S. Holder); (ii) the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of disposition, and certain other conditions are met; or (iii) the rules of the Foreign Investment in Real Property Tax Act of 1980 (“**FIRPTA**”) apply to treat the gain as effectively connected with a U.S. trade or business.

A Non-U.S. Holder who has gain that is described in the first bullet point immediately above will be subject to U.S. federal income tax on the gain derived from the sale or other disposition pursuant to regular graduated U.S. federal income tax rates in the same manner as if it were a U.S. person. In addition, a corporate Non-U.S. Holder described in the first bullet point immediately above may be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits (or at such lower rate as may be specified by an applicable income tax treaty), as adjusted for certain items.

A Non-U.S. Holder who meets the requirements described in the second bullet point immediately above will be subject to a flat 30% tax (or a lower tax rate specified by an applicable tax treaty) on the gain derived from the sale or other disposition, which gain may be offset by certain U.S. source capital losses (even though the individual is not considered a resident of the U.S.), provided the Non-U.S. Holder has timely filed U.S. federal income tax returns with respect to such losses.

With respect to the third bullet point above, pursuant to FIRPTA, in general, a Non-U.S. Holder is subject to U.S. federal income tax in the same manner as a U.S. Holder on any gain realized on the sale or other disposition of a “U.S. real property interest” (“**USRPI**”). For purposes of these rules, a USRPI generally includes stock in a U.S. corporation (like Resulting Issuer Shares) assuming the U.S. corporation’s interests in U.S. real property constitute 50% or more, by value, of the sum of the U.S. corporation’s (i) assets used in a trade or business, (ii) U.S. real property interests, and (iii) interests in real property outside of the U.S. A U.S. corporation whose interests in U.S. real property constitute 50% or more, by value, of the sum of such assets is commonly referred to as a U.S. real property holding corporation (“**USRPHC**”). The Resulting Issuer is not, and does not anticipate becoming as a result of the Transaction, a USRPHC.

Information Reporting and Backup Withholding

With respect to distributions and dividends on Resulting Issuer Shares, the Resulting Issuer must report annually to the IRS and to each Non-U.S. Holder the amount of distributions and dividends paid to such Non-U.S. Holder and any tax withheld with respect to such distributions and dividends, regardless of whether withholding was required with respect thereto. Copies of the information returns reporting such dividends and distributions and withholding also may be made available to the tax authorities in the country in which the Non-U.S. Holder resides or is established under the provisions of an applicable income tax treaty, tax information exchange agreement or other arrangement. A Non-U.S. Holder will be subject to backup withholding for dividends and distributions paid to such Non-U.S. Holder unless either (i) such Non-U.S. Holder certifies under penalty of perjury that it is not a U.S. person (as defined in the Code), which certification is generally satisfied by providing a properly executed IRS Form W-8BEN, IRS

Form W-8BEN-E, or IRS Form W-8ECI (or appropriate successor form), and the payor does not have actual knowledge or reason to know that such holder is a U.S. person, or (ii) such Non-U.S. Holder otherwise establishes an exemption.

With respect to sales or other dispositions of Resulting Issuer Shares, information reporting and, depending on the circumstances, backup withholding will apply to the proceeds of a sale or other disposition of Resulting Issuer Shares within the U.S. or conducted through certain U.S.-related financial intermediaries, unless either (i) such Non-U.S. Holder certifies under penalty of perjury that it is not a U.S. person (as defined in the Code), which certification is generally satisfied by providing a properly executed IRS Form W-8BEN, IRS Form W-8BEN-E, or IRS Form W-8ECI (or appropriate successor form), and the payor does not have actual knowledge or reason to know that such holder is a U.S. person, or (ii) such Non-U.S. Holder otherwise establishes an exemption.

Whether with respect to distributions and dividends, or the sale or other disposition of Resulting Issuer Shares, backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a Non-U.S. Holder's U.S. federal income tax liability, if any, provided the required information is timely furnished to the IRS.

Foreign Account Tax Compliance Act ("FATCA")

Withholding taxes may be imposed pursuant to FATCA (Sections 1471 through 1474 of the Code) on certain types of payments made to non-U.S. financial institutions and certain other non-U.S. entities. Specifically, except as discussed below, a 30% withholding tax may be imposed on dividends on, or gross proceeds from the sale or other disposition (including certain distributions treated as a sale or other disposition) of, Resulting Issuer Shares paid to a "foreign financial institution" or a "non-financial foreign entity" (each as defined in the Code).

Such 30% FATCA withholding will not apply to a foreign financial institution if such institution undertakes certain diligence and reporting obligations, or otherwise qualifies for an exemption from these rules. The diligence and reporting obligations include, among others, entering into an agreement with the U.S. Department of Treasury pursuant to which the foreign financial institution must (i) undertake to identify accounts held by certain "specified United States persons" or "United States-owned foreign entities" (each as defined in the Code), (ii) annually report certain information about such accounts, and (iii) withhold 30% on certain payments to non-compliant foreign financial institutions and certain other account holders. Foreign financial institutions located in jurisdictions that have an intergovernmental agreement with the U.S. governing FATCA may be subject to different rules.

The 30% FATCA withholding will not apply to a non-financial foreign entity which either certifies that it does not have any "substantial United States owners" (as defined in the Code), furnishes identifying information regarding each substantial United States owner, or otherwise qualifies for an exemption from these rules.

Under the applicable Treasury Regulations and administrative guidance, withholding under FATCA (i) generally applies currently to payments of dividends on Subordinate Voting Shares, and (ii) will apply to payments of gross proceeds from the sale or other disposition of such stock (including certain distributions treated as a sale or other disposition) on or after January 1, 2019

25. FINANCIAL STATEMENTS

25.1 Financial Statements of the Corporation

Enclosed as Appendix “A” are the: (i) audited financial statements of the Corporation for the years ended September 30, 2018, 2017 and 2016, and (ii) the unaudited financial statements of the Corporation for the six month period ended March 31, 2019.

Enclosed as Appendix “D” is a copy of the unaudited pro forma consolidated statement of financial position as at September 30, 2018.

25.2 Financial Statements of Bhang

Enclosed as Appendix “C” are the: (i) audited financial statements of Bhang for the years ended December 31, 2018 and 2017, and (ii) the unaudited financial statements of Bhang for the three month period ended March 31, 2019.

CERTIFICATE OF THE ISSUER

Pursuant to a resolution duly passed by its Board of Directors, Bhang Inc., hereby applies for the listing of the above mentioned securities on the Canadian Securities Exchange. The foregoing contains full, true and plain disclosure of all material information relating to Bhang Inc. It contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in light of the circumstances in which it was made.

Dated this 9th day of July, 2019.

"Scott J. Van Rixel"

Scott J. Van Rixel
Chief Executive Officer and Director

"Stephen Gledhill"

Stephen Gledhill
Chief Financial Officer

"Jamie L. Pearson"

Jamie L. Pearson
Director

"William J. Waggoner"

William J. Waggoner
Director

CERTIFICATE OF THE TARGET

The foregoing contains full, true and plain disclosure of all material information relating to Bhang Corporation. It contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in light of the circumstances in which it was made.

Dated this 9th day of July, 2019.

"Scott J. Van Rixel"

Scott J. Van Rixel
Chief Executive Officer

"Stephen Gledhill"

Stephen Gledhill
Chief Financial Officer

"Jamie L. Pearson"

Scott J. Van Rixel
Director

"William J. Waggoner"

William J. Waggoner
Director

Appendix "A"

Financial Statements of the Corporation

(please see attached)

Consolidated Financial Statements

Pele Mountain Resources Inc.

**For the Years Ended September 30, 2018 and 2017
(Stated in Canadian Dollars)**

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and other financial information for this annual report were prepared by the management of Pele Mountain Resources Inc., reviewed by the Audit Committee of the Board of Directors, and approved by the Board of Directors.

Management is responsible for the preparation of the financial statements and believes that they fairly represent the Company's financial position and the results of operations in accordance with International Financial Reporting Standards. Management has included amounts in the Company's financial statements based on estimates, judgments, and policies that it believes reasonable in the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately in the Company's books and records.

RSM Canada LLP, Chartered Professional Accountants were appointed as auditors by the shareholders of the Company.

Signed "Martin Cooper"
President and CEO

Signed "Paul Andersen"
CFO and Vice President Finance

Toronto, Ontario
January 28, 2019



INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pele Mountain Resources Inc.

We have audited the accompanying consolidated financial statements of Pele Mountain Resources Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at September 30, 2018, and September 30, 2017, and the consolidated statements of comprehensive loss, changes in equity, and cash flow for the years ended September 30, 2018 and September 30, 2017 and a summary of 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, 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 audit 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 the auditors' 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, the auditor considers 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 in 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 Pele Mountain Resources Inc. and its subsidiaries as at September 30, 2018, and September 30, 2017 and its financial performance and its cash flows for the years ended September 30, 2018 and September 30, 2017 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicates the existence of material uncertainties that may cast significant doubt about the company's ability to continue as a going concern.

RSM Canada LLP

Licensed Public Accountants
Chartered Professional Accountants
Toronto, Ontario
January 28, 2019

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Pele Mountain Resources Inc.

Consolidated Statements of Financial Position

As at September 30, 2018 and 2017

Stated in Canadian Dollars

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 52,597	\$ 173,892
Prepaid expenses and other assets	38,176	52,191
	<u>90,773</u>	<u>226,083</u>
Property, Plant and Equipment (note 4)	-	10,629
	<u>\$ 90,773</u>	<u>\$ 236,712</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 347,965	\$ 1,510,962
Other loans payable - current portion (note 7)	-	102,334
	<u>347,965</u>	<u>1,613,296</u>
Shareholders' Equity		
Capital Stock (note 9)	38,324,374	37,315,374
Contributed Surplus	7,921,178	7,921,178
Accumulated Deficit	(46,502,744)	(46,613,136)
	<u>(257,192)</u>	<u>(1,376,584)</u>
	<u>\$ 90,773</u>	<u>\$ 236,712</u>

Basis of Presentation and Going Concern (note 2)

Resource Properties (note 5)

Commitments (note 13)

Subsequent Events (note 18)

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

Approved on behalf of the Board

Signed "Richard Cooper", Director

Signed "Martin Cooper", Director

Pele Mountain Resources Inc.

Consolidated Statements of Comprehensive Income (Loss)

For the Years Ended September 30, 2018 and 2017

Stated in Canadian Dollars

	2018	2017
Expenses		
Salaries and benefits	\$ 51,831	\$ 320,382
Publicity and investor relations	6,117	26,324
Listing and filing fees	25,236	62,824
Administrative	51,284	193,262
Professional fees	231,219	225,410
Directors' fees	-	25,350
Share-based compensation (note 11)	-	63,823
Energy project expenditures	-	35,060
Exploration and evaluation expenditures	(43,740)	109,931
Income on disposal of resource properties (note 5)	-	(380,000)
Finance charges	-	65,872
Amortization	675	4,692
Less:		
Interest income	(766)	-
Dividend income	-	(2,384)
Consulting income		(25,000)
Gain on settlement of debt (notes 7, 8, 9(ii), 9(iii) and 15(a))	(246,760)	(797,841)
Non-refundable deposits from letters of intent (note 14)	(97,280)	(20,000)
Loss on portfolio investments (note 6)	-	227,750
Write-off of accounts payable	(96,591)	-
Loss on disposition of property and equipment	8,383	2,354
	<u>110,392</u>	<u>(137,809)</u>
Income (Loss) Before Income Taxes	110,392	(137,809)
Deferred Income Tax Recovery (note 12(ii))	<u>-</u>	<u>-</u>
Net Income (Loss) and Comprehensive Income (Loss)	<u>\$ 110,392</u>	<u>\$ (137,809)</u>
Earnings (Loss) per Share - basic and diluted	<u>\$ 0.003</u>	<u>\$ (0.007)</u>
Weighted Average Number of Common Shares Outstanding - basic and diluted	<u>32,270,630</u>	<u>20,995,956</u>

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

Pele Mountain Resources Inc.

Consolidated Statements of Changes in Equity
For the Years Ended September 30, 2018 and 2017
Stated in Canadian Dollars

	<u>Capital Stock</u>		<u>Contributed Surplus</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance - October 1, 2016	20,959,353	\$ 37,305,374	\$ 7,857,355	\$ (46,475,327)	\$ (1,312,598)
Shares issued pursuant to loan payable (note 9(ii))	40,000	10,000	-	-	10,000
Share-based compensation expense (note 11)	-	-	63,823	-	63,823
Net loss for the year	-	-	-	(137,809)	(137,809)
Balance - September 30, 2017	<u>20,999,353</u>	<u>\$ 37,315,374</u>	<u>\$ 7,921,178</u>	<u>\$ (46,613,136)</u>	<u>\$ (1,376,584)</u>
	<u>Capital Stock</u>		<u>Contributed Surplus</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance - October 1, 2017	20,999,353	\$ 37,315,374	\$ 7,921,178	\$ (46,613,136)	\$ (1,376,584)
Shares issued pursuant to settlement of debt (note 9(iii))	15,143,843	1,009,000	-	-	1,009,000
Net income for the year	-	-	-	110,392	110,392
Balance - September 30, 2018	<u>36,143,196</u>	<u>\$ 38,324,374</u>	<u>\$ 7,921,178</u>	<u>\$ (46,502,744)</u>	<u>\$ (257,192)</u>

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

Pele Mountain Resources Inc.

Consolidated Statements of Cash Flow

For the Years Ended September 30, 2018 and 2017

Stated in Canadian Dollars

	2018	2017
Cash Flows from Operating Activities		
Cash paid to suppliers and employees	\$ (214,007)	\$ (534,311)
Cash received from client	-	25,000
Gross proceeds on sale of resource property	-	380,000
Resource property expenditures	(6,138)	-
Proceeds from letters of intent (note 14)	97,280	20,000
	<u>(122,865)</u>	<u>(109,311)</u>
Cash Flows from Investing Activities		
Proceeds from property, plant and equipment	1,570	-
Proceeds from sale of investments	-	225,894
Purchase of investments	-	(17,695)
	<u>1,570</u>	<u>208,199</u>
Cash Flows from Financing Activities		
Proceeds from loans	-	97,368
Repayment of loans	-	(58,000)
	<u>-</u>	<u>39,368</u>
Change in cash	(121,295)	138,256
Cash and cash equivalents - beginning of year	<u>173,892</u>	<u>35,636</u>
Cash and cash equivalents - end of year	<u>\$ 52,597</u>	<u>\$ 173,892</u>
Significant Non-Cash Transactions Not Disclosed Above		
Dividend payment in kind	<u>\$ -</u>	<u>\$ 2,375</u>
Gain on settlement of debt	<u>\$ 246,760</u>	<u>\$ 797,841</u>
Write-off of accounts payable	<u>\$ 96,591</u>	<u>\$ -</u>
Recovery of exploration and evaluation expenditures	<u>\$ 44,878</u>	<u>\$ -</u>

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

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

1. Nature of Operations

Pele Mountain Resources Inc. (the "Company") is a publicly listed company incorporated in Canada and continued under the Ontario Corporations Act. The Company's common shares trade on the TSX Venture Exchange under the symbol "GEM".

The registered address, principal address and records office of the Company is located at 66 Wellington Street West, Suite 4100, Toronto, Ontario.

The Company is a Canadian mineral company that was formed to acquire mineral resource properties in Canada and to carry out mineral exploration and development activities thereon in search of economic deposits of metals and minerals and has focused on generating and selling interests in mineral projects in Northern Ontario since 1996. The Company, either directly or through its wholly-owned subsidiaries, holds a number of mineral properties.

2. Basis of Presentation and Going Concern

These consolidated financial statements include the accounts of the Company and those of its wholly owned subsidiaries, Eco Ridge Development Corporation ("ERDC"), (formerly known as First Canadian Uranium Inc.), Pele Diamond Corporation ("Pele Diamond"), Pele Gold Corporation ("Pele Gold"), Mountain Pass Resources, Inc. ("Mountain Pass") and Sage Power Corporation ("Sage"). All intercompany accounts and transactions have been eliminated.

The Company's consolidated financial statements reflect the results of operations for the years ended September 30, 2018 and 2017, and the assets, liabilities and shareholders' equity as at September 30, 2018 and September 30, 2017.

a) Statement of Compliance

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company follows accounting policies under IFRS as disclosed in Note 3.

The policies applied in the Company's consolidated financial statements are based on IFRS effective as of September 30, 2018. The date the Board of Directors approved the statements is January 28, 2019.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

2. Basis of Presentation and Going Concern (continued)

b) Going Concern

The Company's ability to continue as a going concern is dependent upon, but not limited to, its ability to raise financing necessary to fund its exploration and development programs and general and administrative expenses, maintain its resource properties, discharge its liabilities as they become due and generate positive cash flows from operations. There is no certainty that the Company will be successful in raising financing given the current condition of the financial markets, and as such there is significant uncertainty the Company will be able to continue as a going concern.

The consolidated financial statements are prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of the business. Accordingly, these consolidated financial statements do not give effect to adjustments that may be necessary, should the Company be unable to continue as a going concern. If the going concern assumption is not used then the adjustments required to report the Company's assets and liabilities at liquidation values could be material to these consolidated financial statements.

c) Basis of Measurement

The Company's consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value.

d) Functional and Presentation Currency

The Company and its subsidiaries' functional currency is Canadian dollars and the consolidated financial statements are presented in Canadian dollars.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

a) Foreign Currency Transactions

The Company translates monetary assets and liabilities at the rate of exchange in effect at the statement of financial position date and non monetary assets and liabilities at historical exchange rates. Income and expenses are translated at average rates in the month they occur. Gains and losses on translation are recorded in the statement of comprehensive loss.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

3. Significant Accounting Policies (continued)

b) Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and highly liquid short-term money market investments such as bankers acceptance notes, treasury bills and guaranteed investment certificates. As at September 30, 2018 and 2017, the Company did not have any cash equivalents.

c) Property, Plant and Equipment

Property, plant and equipment ("PPE") are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the assets on the following basis and rates per annum:

Exploration equipment	30%, declining balance basis
Computer equipment	30%, declining balance basis
Computer software	30%, declining balance basis
Furniture and equipment	20%, declining balance basis
Leasehold improvements	straight line over term of lease

An item of PPE is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in income or loss for the period.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied by the Company prospectively.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of PPE that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

d) Impairment of Long Lived Assets

At the end of each reporting period, the Company reviews the carrying amounts of its PPE to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

3. Significant Accounting Policies (continued)

d) Impairment of Long Lived Assets (continued)

The recoverable amount of an asset is the higher of fair value less costs of disposal and value in use. 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 the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

e) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on the differences between the carrying amount of assets and liabilities on the statement of financial position and their corresponding tax value, using the substantively enacted tax rates expected to apply when these temporary differences are reversed. Deferred income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is probable that they will be realized. Income tax expense is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity.

Deferred tax liabilities are recognized for all temporary differences except when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

3. Significant Accounting Policies (continued)

f) Share-based Payments

Equity-settled share based payments to employees (including directors and senior executives) and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of the share-based payment is measured by reference to the fair value of the equity instrument granted, which in turn is determined using the Black-Scholes option-pricing model on the date of the grant, with management's assumptions for the risk-free rate, dividend yield, volatility factors of the expected market price of the Company's common shares, expected forfeitures and the life of the options.

The fair value of the equity-settled share based payments is expensed over the period in which the performance and/or service conditions are fulfilled, ending on the date in which the grantee becomes fully entitled to the award, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. Vesting assumptions are reviewed at each reporting date to ensure they reflect current expectations.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the service. When the Company settles outstanding debts with equity, the equity is valued at the fair value on the date the equity is issued. Any difference in the value of the debt settled and the fair value of equity issued is recognized as a gain or loss on settlement of debt on the consolidated statement of comprehensive loss.

When the terms of equity-settled options previously granted are modified, the minimum expense recognized is the expense as if the terms had not been modified. The entity shall recognize the effects of modifications that increase the total fair value of the share-based payment arrangement.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

3. Significant Accounting Policies (continued)

g) Decommissioning Liabilities

The Company's mining exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and are generally becoming more restrictive. The Company has made, and intends to make in the future, expenditures to comply with such laws and regulations or constructive obligations.

Accrued site closure costs are recorded at the time an environmental disturbance occurs, and are measured at the Company's best estimate of the expected value of future cash flows required to reclaim the disturbance upon site closure, discounted to their net present value. The net present value is determined using a pre-tax discount rate that is specific to the liability. The estimated net present value is re-measured on an annual basis or when changes in circumstances occur and/or new material information becomes available. Increases or decreases to the provision arise due to changes in legal or regulatory requirements, the extent of environmental remediation required and cost estimates. The net present value of the estimated costs of these changes is recorded in the period in which the change is identified and quantifiable.

Upon initial recognition of site closure costs, there is a corresponding increase to the carrying amounts of related assets and the cost is amortized as an expense on a unit-of-production basis over the life of the related assets. The value of the provision is progressively increased over the life of the operation as the effect of discounting unwinds, such increase is recognized as interest expense.

As at September 30, 2018 and September 30, 2017, the Company has not incurred and is not committed to any material decommissioning obligations in respect of its mineral exploration properties.

h) Other Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

3. Significant Accounting Policies (continued)

i) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is recognized as a finance lease obligation within long-term debt.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are included in the capitalized value of the asset.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

j) Earnings (Loss) Per Share

Earnings (loss) per share is computed by dividing the earnings (loss) for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted earnings (loss) per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. During the years ended September 30, 2018 and 2017, all the outstanding stock options, warrants and brokers' compensation warrants were anti-dilutive.

k) 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.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

3. Significant Accounting Policies (continued)

l) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities recorded at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities recorded at fair value through profit or loss are recognized immediately in the consolidated Statement of Comprehensive Income (Loss).

Financial Assets

The Company recognizes all financial assets initially at fair value and classifies them into one of the following specified categories: fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM"), held for trading ("HFT"), available-for-sale ("AFS") and loans and receivables. HTM instruments and loans and receivables are measured at amortized cost. AFS and HFT instruments are measured at fair value with AFS unrealized gains and losses recognized in other comprehensive income while unrealized gains and losses on HFT instruments are recognized in profit or loss for the period. Investments in AFS and HFT securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss for the period.

The fair value of financial instruments traded in active markets (such as FVTPL and AFS securities) is based on quoted market prices at the date of the Statement of Financial Position. The quoted market price used for financial assets held by the Company is the current bid price.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

3. Significant Accounting Policies (continued)

l) Financial Instruments (continued)

Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. When impairment has incurred, the cumulative loss is recognized in the statement of comprehensive income (loss). For financial assets carried at cost or amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the recoverable amount, determined as the higher of the estimated fair value and the discounted future cash flows generated from use. The projections of future cash flows take into account the relevant operating plans and management's best estimate of the most probable set of conditions anticipated to prevail. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of comprehensive income (loss) in the year. Impairment losses may be reversed in subsequent years.

Financial Liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss for the period. Other financial liabilities including borrowings are initially measured at fair value net of transaction costs, and subsequently measured at amortized cost using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Company's financial assets and liabilities are classified and subsequently measured as follows:

<u>Asset/Liability</u>	<u>Classification</u>	<u>Subsequent Measurement</u>
Cash and cash equivalents	FVTPL	Fair value through profit or loss
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Other loans payable	Other financial liabilities	Amortized cost

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

3. Significant Accounting Policies (continued)

m) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs. Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in the consolidated Statement of Comprehensive Income (Loss) on the purchase, sale, issue or cancellation of the Company's own equity instruments. In situations where the Company issues an equity instrument that includes a common share and warrant component, the Company estimates the fair value of the warrant component at the issuance date using the Black Scholes pricing model. The estimated fair value of the warrants is recognized as contributed surplus in the consolidated statement of financial position.

n) Critical Accounting Judgments and Estimation Uncertainties

The preparation of the consolidated financial statements in conformity with IFRS requires that the Company's management make critical judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates are accounted for prospectively. The Company has identified the following critical accounting policies under which significant judgments, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the consolidated financial statements.

Property, Plant and Equipment - Estimated Useful Lives

Management estimates the useful lives of PPE based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of PPE for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's PPE in the future.

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility, forfeiture rate and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 11.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

3. Significant Accounting Policies (continued)

n) Critical Accounting Judgments and Estimation Uncertainties (continued)

Deferred Taxes

The Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which it is probable the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Exploration and Evaluation Expenditures

Exploration and evaluation expenditures include costs which are directly attributable to acquisition, surveying, geological, geochemical, geophysical, exploration and resource drilling, land maintenance, sampling and assessing technical feasibility and commercial viability. These expenditures are expensed as incurred.

Fair Value of Common Shares Issued Pursuant to Settlement of Debt

The Company estimates the fair value of common shares issued pursuant to settlement of debt based on the quoted market price of the Company's shares on the date the common shares are issued.

o) Future Accounting Policies

IFRS 9, Financial instruments ("IFRS 9") was issued by the IASB in July 2014 and will replace IAS 39, Financial Instruments: recognition and measurement ("IAS 39"). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released in July 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

3. Significant Accounting Policies (continued)

o) Future Accounting Policies (continued)

IFRS 16 Leases was issued in January 2016 and replaces IAS 17 Leases. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. If the lease was classified as a finance lease, a lease liability was included on the statement of financial position. IFRS 16 now requires lessees to recognize a right of use asset and lease liability reflecting future lease payments for virtually all lease contracts. The right of use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability accrues interest. The IASB has included an exemption for certain short term leases and leases of low value assets; however, this exemption can only be applied by lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and obtain substantially all the economic benefits from that use. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15, Revenue from Contracts with Customers, is also applied. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

4. Property, Plant and Equipment

	Exploration Equipment	Computer Equipment	Computer Software	Furniture & Equipment	Leasehold Improvements	Total
Cost						
Balance - September 30, 2016	\$ 152,659	\$ 52,569	\$ 9,612	\$ 27,951	\$ 95,409	\$ 338,200
Additions	-	-	-	-	-	-
Disposals	(152,659)	-	-	-	(95,409)	(248,068)
Balance - September 30, 2017	-	52,569	9,612	27,951	-	90,132
Additions	-	-	-	-	-	-
Disposals	-	(52,569)	(9,612)	(27,951)	-	(90,132)
Balance - September 30, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accumulated Amortization						
Balance - September 30, 2016	\$ 149,295	\$ 44,929	\$ 9,038	\$ 21,854	\$ 95,409	\$ 320,525
Amortization for the period	1,010	2,290	172	1,220	-	4,692
Disposals	(150,305)	-	-	-	(95,409)	(245,714)
Balance - September 30, 2017	-	47,219	9,210	23,074	-	79,503
Amortization for the period	-	401	30	244	-	675
Disposals	-	(47,620)	(9,240)	(23,318)	-	(80,178)
Balance - September 30, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Book Value						
As at September 30, 2017	\$ -	\$ 5,350	\$ 402	\$ 4,877	\$ -	\$ 10,629
As at September 30, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

During the year ended September 30, 2018, the Company disposed of all of its property, plant and equipment with an aggregate net book value of \$9,953 for proceeds of \$1,570 resulting in a loss on disposition of \$8,383.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

5. Resource Properties

The cumulative spending on each of the Company's properties is as follows:

	October 1, 2017	Net Additions (Recoveries)	Dispositions	September 30, 2018
Eco Ridge Project (i)	\$ 50,189	\$ (44,878)	\$ -	\$ 5,311
Ardeen Gold Project (ii)	-	-	-	-
Mountain Pass Project (v)	-	1,138	-	1,138
	<u>\$ 50,189</u>	<u>\$ (43,740)</u>	<u>\$ -</u>	<u>\$ 6,449</u>
Timmins Project (iii) ⁽¹⁾	\$ (122,796)	\$ -	\$ -	\$ (122,796)
Sudbury Project (iv) ⁽¹⁾	(78,720)	-	-	(78,720)
	<u>\$ (201,516)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (201,516)</u>
	October 1, 2016	Net Additions (Recoveries)	Dispositions	September 30, 2017
Eco Ridge Project (i)	\$ 16,420,706	\$ (271,628)	\$(16,098,889)	\$ 50,189
Ardeen Gold Project (ii)	-	-	-	-
Mountain Pass Project (v)	672,529	1,559	(674,088)	-
	<u>\$ 17,093,235</u>	<u>\$ (270,069)</u>	<u>\$(16,772,977)</u>	<u>\$ 50,189</u>
Timmins Project (iii) ⁽¹⁾	\$ (122,796)	\$ -	\$ -	\$ (122,796)
Sudbury Project (iv) ⁽¹⁾	(78,720)	-	-	(78,720)
	<u>\$ (201,516)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (201,516)</u>

⁽¹⁾ The Company had received consideration from its joint venture partners or optionees in excess of its costs incurred to date.

(i) Eco Ridge Mine Project (Elliot Lake, Ontario)

The Eco Ridge Project, owned 100% by Eco Ridge Development Corporation, a wholly owned subsidiary of the Company, was located in Elliot Lake, Ontario. The Eco Ridge property included over 8,600 contiguous hectares comprised of 394 mining claim units and three Mining Leases.

Following an internal review of its Eco Ridge project, the Company's Board concluded that due to continuing weak uranium and rare earth prices, Eco Ridge remained uneconomic and offered limited short or mid-term benefit to shareholders. Moreover, due to prevailing weak rare earth prices, the Company had also been unable to generate the necessary support for its proposed monazite processing facility in Elliot Lake. Therefore, the Company entered into a sale agreement with an arm's-length purchaser to sell the claims, surface rights and leases comprising Eco Ridge for gross proceeds of \$380,000 payable in cash, which closed on June 1, 2017.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

5. Resource Properties (continued)

(ii) Ardeen Gold Project (Moss Lake, Thunder Bay, Ontario)

During the year ended September 30, 2016, the Company entered into a purchase agreement, along with Chalice Gold Mines ("Chalice"), whereby their respective operating subsidiaries sold their respective interests in the Ardeen Gold Project to Kesselrun Resources Ltd. In consideration for the sale, Kesselrun has agreed to issue Chalice and the Company 4,000,000 common shares of Kesselrun and a package of Net Smelter Return (NSR) royalties. In addition, the Company (and Chalice) was granted certain NSR royalties over certain mining claims. In combination with preexisting NSRs, the property will be subject to an overall 2.5% NSR royalty over certain mining claims and a 2% NSR royalty on the remaining mining claims. The NSRs are subject to certain buyback clauses, which going forward will be for the benefit of Kesselrun. On August 9, 2016, the transaction closed and as 49% owner of the Ardeen Gold Project, the Company received 1,960,000 shares of Kesselrun and a pro rata share of the royalty package. Following the issuance of the Kesselrun shares, the Company held approximately 5.5% of the issued and outstanding shares of Kesselrun which has subsequently been sold (see note 6(b)).

Under the terms of the purchase and sale agreement pursuant to which the Company acquired its interest in the Ardeen Gold Project, the Company is required to issue an aggregate of 24,000 common shares to the vendors contingent on the property going into commercial production.

(iii) Timmins Project (Timmins, Ontario)

The Company has a 100% registered interest in 2 mining claims (September 30, 2017 - 3 mining claims) located 35 kilometres south of Timmins in northern Ontario. These mining claims are comprised of 11 mining claim units (September 30, 2017 - 11 mining claim units).

During the year ended September 30, 2008, the Company entered into a purchase and sale agreement with Fletcher Nickel Inc. ("Fletcher") to sell its 100% interest in the Timmins Project to Fletcher. As at September 30, 2009, the Company had received cash payments totaling \$175,000 and 600,000 Fletcher shares with a total fair value of \$420,000 as at the time of issuance, and these amounts had been recorded as a reduction to the carrying value of the Timmins Project.

However, Fletcher failed to make the remaining payments that were due pursuant to the purchase and sale agreement. During the year ended September 30, 2010, Fletcher and the Company agreed to terminate the purchase and sale agreement and the Timmins Project continues to be 100% owned by the Company.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

5. Resource Properties (continued)

(iv) Sudbury Project (Sudbury, Ontario)

During the year ended September 30, 2005, the Company acquired by way of purchase and staking, a 100% undivided legal and beneficial interest in certain mining claims in the Sudbury Mining Camp of northern Ontario. It includes 4 mining claims (September 30, 2017 - 4 mining claims) comprised of 52 mining claim units (September 30, 2017 - 52 mining claim units) covering approximately 830 hectares. The vendor was reimbursed for the costs of staking and recording these claims and was granted a 1.5% NSR. The Company may, at its option, repurchase 1% of the NSR from the vendor for \$1,000,000.

During the year ended September 30, 2006, the Company entered into an option agreement with Wallbridge Mining Company Ltd. ("Wallbridge"). Wallbridge has the right to earn a 60% interest by issuing 1,050,000 common shares to the Company (of which all 1,050,000 shares have been issued) and incurring \$1,200,000 in exploration expenditures by December 31, 2009. Wallbridge has the right to increase its interest to 72.5% by completing a bankable feasibility study and arranging the financing for the project through to commercial production.

Wallbridge has fulfilled its commitments under the Option Agreement and, accordingly, a new Joint Venture with the Company was established January 1, 2010, with Wallbridge owning 60% and the Company owning a 40% interest in the Joint Venture. Wallbridge has incurred exploration expenditures to increase its ownership interest in the Joint Venture to 64% as of September 30, 2018 (September 30, 2017 - 64%), and accordingly, the Company owns a 36% interest (September 30, 2017 - 36%).

Subsequent to the year ended September 30, 2018, the Company entered into a termination and release agreement with Wallbridge, pursuant to which the Company transferred its 36% interest in and to the underlying mining claims and interests to Wallbridge in exchange for a mutual termination of the Option Agreement and Joint Venture and mutual full and final releases in respect of same.

(v) Mountain Pass Project (Mountain Pass, California)

During the year ended September 30, 2012, the Company acquired mining claims comprising 75 contiguous hectares located in south-eastern California in exchange for 4,000,000 common shares of the Company. The seller agreed to a 12 month contractual hold period on its shares after closing. The seller has retained a 2% production royalty (the "Production Royalty") on all minerals mined on the property, subject to the right of the Company to buy back 1% of the Production Royalty for 2,000,000 United States Dollars, escalated annually by a factor equal to the Producer Price Index.

In addition to a Phase 1 Exploration Program completed during the year ended September 30, 2014, the Company must complete a total of 2,000,000 United States Dollars of exploration work on the property by September 26, 2017. The Phase 1 Exploration Program includes: compilation of historic data, geological mapping, radiometric survey, sampling of pits and trenches, surface sampling, petrological analysis, mineralogical analysis and drill program planning.

As Mountain Pass failed to meet its 2,000,000 United States Dollars expenditure requirement by September 26, 2017, and as a consequence of ongoing discussions with the previous owner since 2016, the claims are in the process of being transferred back to the original owner.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

5. Resource Properties (continued)

(vi) Festival Project (Wawa, Ontario)

In 2004, Goldcorp Inc. and Company began exploring the Festival Project, north of Wawa. The Festival Project is owned by the Company and Goldcorp Inc. under a joint venture that was entered into in 2006 with each company owning 50%. In 2010 the original 101 square kilometre exploration license for the Festival Project expired and the Project was consequently written off by the Company due to inactivity.

In 2013, the Company and Goldcorp Inc. reactivated the joint venture on the Festival Project. Goldcorp entered into a License Agreement on behalf of the joint venture for a Licensed Area covering a total area of 52 square kilometres. The Licensed Area straddles the interpreted western extension of the Goudreau Localsh Deformation Zone ("GLDZ"), host to Richmond's Island Gold Mine as well as several past-producing gold mines including Argonaut's Magino Mine. The term of the License is for five years commencing on January 1, 2013 and may be extended for an additional 5-year term. All minerals produced and marketed from the Licensed Area are subject to a 3% royalty payable to the Licensor.

Goldcorp is funding and operating the Festival Project Joint Venture with the Company electing not to contribute its pro rata share. Accordingly, Goldcorp's interest has increased to approximately 55% of the joint venture and the Company's interest is approximately 45%. The License expired on January 1, 2018 without being renewed. Goldcorp and the Company are in the process of terminating the Festival Project joint venture pending final reconciliation of the joint venture accounts. In this regard, to the extent there is any funding shortfall on the Company's behalf, the Company shall exercise its right to elect to satisfy its obligations, if any, though further dilution of its joint venture interest as it has done in the past.

6. Portfolio Investments

a) Zara Resources Inc.

During the year ended September 30, 2013, the Company acquired 2,250,000 common shares of Zara Resources Inc. ("Zara") and 4,750,000 non-voting convertible 5% Preference Shares of Zara Resources Inc. in satisfaction of the purchase price of \$700,000 related to the divestiture of the Pigeon River project. During the year ended September 30, 2013, the Company sold all 2,250,000 of the common shares at a realized loss of \$102,508. The Preference Shares are convertible at the exclusive option of Zara at an exchange ratio equal to the original issue price of the Zara common shares of \$0.10 per share, divided by the current market price of the Zara common shares, which is defined as being its 10 day weighted average closing price (the "Exchange Ratio").

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

6. Portfolio Investments (continued)

a) Zara Resources Inc. (continued)

The 5% dividends declared on the Preference Shares rank in priority to dividends payable on any other class of shares issued by Zara, and any accumulation of dividends will bear interest at 5% per annum. The 5% dividends are payable in common shares of Zara based on the Exchange Ratio.

During the year ended September 30, 2015, the Company determined the Preferred Shares to be fully impaired.

Zara is a junior resource company based in Toronto, Ontario, whose common shares are listed for trading on the Canadian National Stock Exchange (CNSX). As the common shares of Zara are thinly traded and there is no public market for the Preference Shares which are not listed, posted or quoted for trading on any exchange or quotation system, these securities are illiquid.

During the period ended March 31, 2017, the Company received an additional 475,000 common shares of Zara as a dividend payment in kind on its Zara preferred shares. The 475,000 preferred shares held by the Company were then converted into 950,000 common shares. The Company sold all 1,425,000 common shares for proceeds of \$20,000.

The Company's holdings are summarized below:

Zara Preferred Shares

	Number of Shares	Cost	Fair Value
Balance - September 30, 2016	475,000	475,000	-
Conversion to common shares	(475,000)	(475,000)	-
Balance -September 30, 2017 and September 30, 2018	-	\$ -	\$ -

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

6. Portfolio Investments (continued)

a) Zara Resources Inc. (continued)

Zara Common Shares

	Number of Shares	Cost	Fair Value
Balance - September 30, 2016	475,000	11,875	2,375
Sale at \$0.005 per share	(475,000)	(11,875)	(2,240)
Dividend payment in kind	475,000	2,375	2,375
Conversion of preferred shares	950,000	475,000	4,750
Sale at \$0.014 per share	(1,425,000)	(477,375)	(20,000)
Gain on sale	-	-	12,740
Balance - September 30, 2017 and September 30, 2018	-	\$ -	\$ -

b) Kesselrun Resources Ltd.

During the year ended September 30, 2017, the company sold its shares in Kesselrun Resources Ltd. The shares originated to the Company as part of the consideration received in the purchase agreement for the Ardeen Project in Note 5 (ii):

	Number of Shares	Cost	Fair Value
Balance - September 30, 2016	1,960,000	527,400	431,200
Sale of shares	(1,960,000)	(527,400)	(185,960)
Loss on sale	-	-	(245,240)
Balance - September 30, 2017 and September 30, 2018	-	\$ -	\$ -

c) Manulife Premium Investment Savings Account

	Number of Units	Cost	Fair Value
Balance - September 30, 2016	1,770	\$ 17,695	\$ 17,695
Sale of units at \$10	(1,770)	(17,695)	(17,695)
Balance - September 30, 2017 and September 30, 2018	-	\$ -	\$ -

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

7. Other Loans Payable

- a) During the year ended September 30, 2016, the Company entered into a \$100,000 loan agreement with an arm's length lender. The loan carries an interest rate of 6% per annum. In addition, once the loan is repaid from the first proceeds from sale of the Kesselrun shares, the Company is required to pay 50% of any additional proceeds from the sale of the Kesselrun shares less initial principal, interest, commission fees, and bank charges. During the year ended September 30, 2016, \$50,000 of the loan proceeds were advanced to the Company with the remaining \$50,000 received during the period ended December 31, 2016. As consideration for the loan, the Company issued 400,000 of its common shares ("Bonus Shares") to the lender at an issue price of \$0.50 per share upon receipt of the final \$50,000. The Bonus Shares are subject to a statutory hold period of four months from the date of issuance. The Company is to repay the loan from the first proceeds realized from the sale of the Company's shares of Kesselrun Resources Ltd. unless otherwise authorized by the lender. During the year ended September 30, 2017, the Company sold all of its shares in Kesselrun Resources Ltd. The lender authorized the Company to use certain of the proceeds from the sale of shares of Kesselrun for uses other than the repayment of the loan and for interest to cease accruing as at June 15, 2017. The principal and interest is past due. Interest payable of \$4,124 and \$40,872 of proceeds payable has been accrued up to June 15, 2017 and is included in accounts payable and accrued liabilities. During the year ended September 30, 2017, the Company repaid \$58,000 to the arm's length lender. During the year ended September 30, 2018, the Company settled the outstanding principal of \$42,000 and accounts payable and accrued liabilities of \$45,000 by issuing 966,667 common shares (see note 9(iii)).
- b) During the year ended September 30, 2016, the Company was advanced 10,000 United States Dollars (\$12,770 CAD as at September 30, 2017) by an arm's length lender to maintain the Company's Mountain Pass Project. The advance is non-interest bearing and is payable on demand that requires more than one year notice. During the year ended September 30, 2017, the Company received an additional advance of 10,000 United States Dollars (\$12,368 CAD) with the same terms and conditions as the previous advance. During the current year ended September 30, 2018, the Company issued 385,045 common shares in full settlement of this loan (see note 9(iii)).
- c) During the year ended September 30, 2017, the Company borrowed \$35,000 from a company controlled by a director of the Company. The loan carries an interest rate of 12% calculated daily with principal and interest due on or before July 25, 2017, which was subsequently extended to August 15, 2017. Interest payable of \$2,094 had been accrued to September 30, 2017, and was included in accounts payable and accrued liabilities as at September 30, 2017. In addition to the loan, a placement fee of \$5,000 was payable by the Company upon maturity of the loan. Finance charges payable of \$5,000 were included in accounts payable and accrued liabilities as at September 30, 2017. During the year ended September 30, 2018, the Company settled the loan payable of \$35,000 and accounts payable and accrued liabilities of \$7,094 by issuing 249,036 common shares (see note 9(iii)).

As at September 30, 2018, there are no other loans payable. A summary of other loans payable outstanding as at September 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
(a)	\$ -	\$ 42,000
(b)	-	25,334
(c)	-	35,000
	-	102,334
Less: amounts due within one year	-	(102,334)
	<u>\$ -</u>	<u>\$ -</u>

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

8. Debt Settlement

During the year ended September 30, 2017, the Company settled wages payable of \$867,841 to a former officer and director of the company. As the debt was settled for an amount less than its carrying value, a gain of \$787,841 related to the settlement of debt has been recognized in the statement of comprehensive income (loss) for the year ended September 30, 2017.

9. Capital Stock

Authorized

Unlimited common shares

Issued

	<u>Number (iii)</u>	<u>Amount</u>
Balance - September 30, 2016 (i)	20,959,353	\$ 37,305,374
Issued pursuant to loan agreement (ii)	40,000	10,000
Balance - September 30, 2017	20,999,353	37,315,374
Issued pursuant to debt settlement (iii)	15,143,843	1,009,000
Balance - September 30, 2018	<u>36,143,196</u>	<u>\$ 38,324,374</u>

- (i) The Company is conditionally committed to issue an additional 24,000 common shares as described in Note 5(ii).
- (ii) During the year ended September 30, 2017, the Company issued 40,000 common shares to an arm's length lender pursuant to a loan agreement as described in Note 7(a) at an issue price of \$0.50 per share. The Company has recognized a finance charge expense of \$20,000 and a gain on settlement of debt of \$10,000 during the year ended September 30, 2017 with respect to the issuance of these shares.
- (iii) During the year ended September 30, 2018, pursuant to several debt settlement agreements to settle various accounts payable and other loans payable (see note 7), the Company issued 15,143,843 common shares from treasury with a fair value, based on the market prices of the shares as at the date of issuance, of \$1,009,000 in full and final satisfaction of \$1,229,679 of indebtedness, including a total of \$94,221 of indebtedness owed by the Company to related party creditors that was forgiven.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

10. Stock Options, Warrants and Shareholders Rights Plan

(i) Stock Options

The Company maintains a Stock Option Plan (the “Plan”) for the benefit of directors, officers, employees and consultants. The maximum number of common shares reserved for issuance and available for purchase pursuant to options granted under the Plan cannot exceed 10% of the total number of common shares of the Company issued and outstanding at the date of any grant made. In addition, the aggregate number of shares so reserved for issuance to one person may not exceed 5% of the issued and outstanding shares in any given 12 month period. Options pursuant to the Plan are granted at the discretion of the Board of Directors, vest at schedules determined by the Board, and have an exercise price of not less than that permitted by the stock exchange on which the shares are listed.

The following summarizes the stock option activities:

	Year ended September 30, 2018		Year ended September 30, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	1,715,000	\$ 0.60	2,073,000	\$ 0.80
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	(1,103,700)	(0.62)	(358,000)	(1.40)
Outstanding at year end	611,300	\$ 0.64	1,715,000	\$ 0.60
Exercisable at year end	611,300	\$ 0.64	1,715,000	\$ 0.60

The Company had the following stock options outstanding at September 30, 2018:

Number of Options	Exercisable	Exercise Price	Expiry Date
170,000	170,000	\$ 1.000	December 31, 2018
320,000	320,000	\$ 0.500	December 31, 2019
121,300	121,300	\$ 0.500	December 31, 2020
611,300	611,300		

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

10. Stock Options, Warrants and Shareholders Rights Plan (continued)

(ii) Warrants

All of the outstanding warrants were issued in conjunction with the issuance of common shares. The fair value of warrants issued and outstanding is reflected in contributed surplus. Amounts for warrants that are subsequently exercised are transferred from contributed surplus to capital stock.

The following summarizes the warrant activities:

	Year ended September 30, 2018		Year ended September 30, 2017	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Beginning balance	2,276,823	\$ 0.60	2,922,541	\$ 0.60
Expired	(1,146,923)	0.70	(645,718)	(0.20)
Outstanding and exercisable at period end	1,129,900	\$ 0.50	2,276,823	\$ 0.60

The Company had the following warrants outstanding at September 30, 2018:

Number of Warrants	Series	Type of Share	Exercise Price	Expiry Date
525,000	EEE	Common shares	\$ 0.50	November 20, 2018
504,900	HHH	Common shares	\$ 0.50	February 4, 2019
100,000	HHH	Common shares	\$ 0.50	February 5, 2019
<u>1,129,900</u>				

(iii) Shareholders' Rights Plan

The Company's Board of Directors approved a shareholders' rights plan ("Rights Plan"), effective January 31, 2007, which was ratified at the 2007, 2010, 2013 and 2016 annual shareholders' meetings. This Rights Plan is intended to ensure, to the extent possible, that all shareholders of the Company are treated equally and fairly in connection with any take over bid for the Company, and was designed to discourage discriminatory or unfair bids and to provide management, if appropriate, with sufficient time to pursue alternatives to maximize shareholder value.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

11. Share-Based Compensation

During the year ended September 30, 2017, the Company modified the expiry date of certain stock options granted to employees who were terminated. The Company calculated the fair value of the modified stock options at the date of modification based on the Black-Scholes pricing model, using the following weighted average assumptions:

	<u>2017</u>
Share price	\$0.20
Expected dividend yield	Nil
Risk-free interest rate	0.66%
Expected life	1
Expected volatility	157.59%
Exercise price	\$0.61

The difference between the fair values as at the modification date and the fair value upon the original grant of \$63,823 was included in stock-based compensation expense for the year ended September 30, 2017.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Expected volatility was determined based on the Company's historical stock price. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options. Stock options issued to non-employees were valued using the fair value of the equity instrument granted in the absence of a reliable estimate of the fair value of the services received.

12. Income Taxes

(i) Income Tax Expense

The following table reconciles income taxes calculated at combined Canadian federal/provincial tax rates with the income tax recovery in the interim consolidated financial statements:

	<u>2018</u>	<u>2017</u>
Income (loss) before income taxes	\$ 110,392	\$ (137,809)
Statutory rate	26.50 %	26.50 %
Expected income tax recovery	\$ 29,254	\$ (36,518)
Stock-based compensation and other non-deductible expenses	(25,597)	77,672
Tax expense (benefit) relating to the origination and reversal of temporary differences	(131,668)	1,243
True up of prior year balances and other	-	(8,165)
Losses and other deductions for which no benefit has been recognized	128,011	(34,232)
Income tax expense (recovery)	<u>\$ -</u>	<u>\$ -</u>

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

12. Income Taxes (continued)

(ii) Deferred Taxes

The temporary differences that give rise to deferred income tax assets and deferred income tax liabilities are presented below:

	<u>2018</u>	<u>2017</u>
Deferred Tax Assets		
Amounts related to tax loss and credit carry forwards	\$ 850,291	\$ 728,191
Property, plant and equipment	-	55,348
Resource properties	3,560,890	3,496,502
Share issuance costs	4,487	7,616
	<u>4,415,668</u>	<u>4,287,657</u>
Deferred taxes not recognized	(4,415,668)	(4,287,657)
Net deferred tax liabilities	<u>\$ -</u>	<u>\$ -</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income tax liabilities result primarily from amounts not deductible for accounting purposes until future periods. Deferred income tax assets result primarily from operating tax loss carry forwards and have been offset against deferred income tax liabilities.

(iii) Loss Carry Forwards

The Company has non-capital losses of approximately \$2,670,454 available for carry forward. These losses expire as follows:

2026	\$ 307,376
2027	1,554
2028	175
2029	168,265
2030	283,049
2031	391,437
2032	376,598
2033	299,565
2034	291,890
2035	218,576
2036	65,831
2037	213
2038	<u>265,925</u>
	<u>\$ 2,670,454</u>

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
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13. Commitments

The Company is committed to issue an additional 24,000 common shares as part of the consideration for the acquisition of the Ardeen Gold Project property described in note 5(ii) contingent on the property going into commercial production.

Additional commitments related to the Company's resource properties are separately disclosed in note 5.

14. Letter of Intent

During the year ended September 30, 2018, the Company entered into a non-binding letter of intent with an arm's length party with respect to a potential transaction pursuant to which the Company would acquire 100% ownership of the other party via a business combination transaction that would constitute a reverse take-over and change of control of the Company. In partial consideration for a mutual non-solicitation and exclusivity provision included in the letter of intent, the Company received non-refundable payments from the other party of \$97,280, in aggregate, for working capital purposes during the twelve months ended September 30, 2018. Subsequent to the year ended September 30, 2018, the Company and the other party entered into a definitive agreement as contemplated by the letter of intent (see note 18).

During the year ended September 30, 2017, the Company received a nonrefundable deposit of \$20,000 in connection with a nonbinding letter of intent with respect to a potential transaction involving one of the Company's properties. During the year ended September 30, 2017, this non-binding letter of intent expired.

15. Related Party Transactions

During the year ended September 30, 2018, the Company entered into the following related party transactions:

- a) Consulting fees and Salary of \$19,000 (2017 - \$60,000) was earned by Martin Cooper, a director and officer of the Company. Pursuant to a debt settlement agreement, this director and officer agreed to a final payment of \$42,750, in full satisfaction of total indebtedness of \$157,500, \$17,750 of which was paid during the year ended September 30, 2018. As at September 30, 2018, accounts payable and accrued liabilities included \$40,000 (2017 - \$157,500) payable to this director and officer. Included in this balance is the remaining \$25,000 included in the debt settlement and salary of \$15,000 earned during the year ended September 30, 2018.
- b) Legal fees of \$167,415 (2017 - \$106,336) were incurred with a law firm in which Steven Rukavina, a director and officer of the Company is a partner. Pursuant to a debt settlement agreement, the Company issued 3,238,072 common shares to this law firm to settle debt of \$220,189 (see note 9(iii)). As at September 30, 2018, accounts payable and accrued liabilities included \$154,465 (2017 - \$196,125) payable to this law firm.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

15. Related Party Transactions (continued)

- c) Accounting fees of \$51,000 (2017 - \$42,000) were incurred with an accounting firm in which Paul Andersen, an officer of the Company is a partner. Pursuant to a debt settlement agreement, the Company issued 2,961,469 common shares to this accounting firm to settle debt of \$201,380 (see note 9(iii)). As at September 30, 2018, accounts payable and accrued liabilities included \$71,850 (2017 - \$202,212) accrued to this accounting firm.
- d) Pursuant to a debt settlement agreement with a company in which John Wilkinson, a director of the Company is an officer, the Company waived debt of \$39,089 and the company issued 383,227 common shares to this company to settle the remaining debt of \$26,059 (see note 9(iii)). As at September 30, 2018, accounts payable and accrued liabilities included \$Nil (2017 - \$52,853) payable to this director.
- e) Compensation earned by directors and other members of key management personnel for the year ended September 30 were as follows:

	<u>2018</u>	<u>2017</u>
Salaries and benefits (CEO and CFO)	\$ 49,000	\$ 216,667
Directors' fees	-	25,350
Share-based compensation (Officers and Directors)	-	60,372
	<u>\$ 49,000</u>	<u>\$ 302,389</u>

As at September 30, 2018, accounts payable and accrued liabilities included \$Nil (2017 - \$51,100) of directors' fees and \$15,000 (2017 - \$127,500) of wages payable.

- f) Other related party transactions are disclosed in notes 7(c) and 8.

16. Financial Instruments and Other Risks

IFRS 7 establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1	quoted prices in active markets for identical assets or liabilities;
Level 2	inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
Level 3	inputs for the asset or liability that are not based upon observable market data

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As at September 30, 2018, the Company's cash and cash equivalents are categorized as Level 1 measurement.

Fair Values

Except as disclosed elsewhere in these financial statements, the carrying amounts for the Company's financial instruments approximate their fair values because of the short-term nature of these items.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

16. Financial Instruments and Other Risks (continued)

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

The Company is not exposed to any significant credit risk as at September 30, 2018. The Company's cash and cash equivalents are either on deposit with two highly rated banking groups in Canada or invested in bankers acceptance notes or guaranteed investment certificates issued by two highly rated Canadian banking groups.

Liquidity Risk

Liquidity risk is the risk that an entity will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2018, the Company has current assets of \$90,773 (2017 - \$236,712) and current liabilities of \$347,965 (2017 - 1,613,296). All of the Company's current receivables have contractual maturities of less than 120 days and are subject to normal trade terms. Of the Company's current financial liabilities, \$129,824 have contractual maturities of more than 120 days. The balance of the Company's current financial liabilities of \$218,141 have contractual maturities of less than 120 days and are subject to normal trade terms. The Company has a working capital deficiency of \$257,192 (2017 - \$1,376,584) as at September 30, 2018.

Market Risk

(i) Interest rate risk

The Company has cash and cash equivalents balances and the Company's current policy is to invest any excess cash in highly liquid money market investments such as bankers acceptance notes, treasury bills and guaranteed investment certificates. These short term money market investments are subject to interest rate fluctuations.

(ii) Foreign currency risk

The Company's functional currency is the Canadian dollar. The majority of the Company's purchases are transacted in Canadian dollars. As at September 30, 2018, the Company had accounts payable of \$510 (2017 - \$81,736) denominated in US currency. The Company has loans payable of \$Nil (2017 - \$25,334) denominated in US currency. At September 30, 2018, if the Canadian Dollar had weakened (strengthened) 10 percent against the United States Dollar with all other variables held constant, the net loss for the year would have been \$8 (2017 - \$10,390) higher (lower).

(iii) Price risk

The prices of metals and minerals fluctuate widely and are affected by many factors outside of the Company's control. The prices of metals and minerals and future expectation of such prices have a significant impact on the market sentiment for investment in mining and mineral exploration companies. This in turn may impact the Company's ability to raise equity financing for its long term working capital requirements.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

16. Financial Instruments and Other Risks (continued)

Market Risk (continued)

(iv) Sensitivity Analysis

Based on management's knowledge and experiences of the financial markets, the Company's management believes the following movements are "reasonably possible" over a three month period.

As at September 30, 2018, none of the Company's cash and cash equivalents is at fixed interest rates beyond the next three months and is not subject to interest rate fluctuations within the next three months.

17. Capital Disclosures

The Company includes equity, comprised of issued capital stock, contributed surplus and deficit, in the definition of capital.

The Company's objectives when managing capital are as follows:

- (i) to safeguard the Company's assets and ensure the Company's ability to continue as a going concern;
- (ii) to raise sufficient capital to finance its exploration and development activities on its Eco Ridge Mine Project; and
- (iii) to raise sufficient capital to meet its general and administrative expenditures, and to explore and develop its other resource properties.

The Company manages its capital structure and makes adjustments to it, based on the general economic conditions, the Company's short term working capital requirements, and its planned exploration and development program expenditure requirements.

As the Company is in the exploration stage, its principal source of capital is from the issuance of common shares. In order to achieve its objectives, the Company expects to spend its existing working capital and raise additional funds as required.

The Company does not have any externally imposed capital requirements.

18. Subsequent Events

Subsequent to the year ended September 30, 2018:

- a) 170,000 stock options expired unexercised.
- b) 525,000 series EEE warrants expired unexercised.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2018 and 2017

18. Subsequent Events (continued)

- c) The Company entered into a definitive agreement (the "Definitive Agreement") with Bhang Corporation ("Bhang") to acquire a 100% interest in Bhang via a business combination transaction (the "Transaction"). The Company will acquire the 100% interest in Bhang by way of a share exchange between the Company and all of the shareholders of Bhang, which will constitute a reverse takeover of the Company (the "Bhang Acquisition"). Pursuant to the Bhang Acquisition, the issued and outstanding shares of Bhang will be exchanged for approximately 90,000,000 post-consolidated shares of the Company for a deemed anticipated price of \$0.50 per share, with a portion of the shares being allocated as multiple voting shares.

Prior to the completion of the Transaction, the Company will effect a consolidation which is anticipated to result in a consolidation of 10 pre-consolidated shares common shares of the Company for 1 post-consolidated share, but in any event shall not exceed 15 pre-consolidated common shares of the Company for 1 post-consolidated common share.

As provided for in the Definitive Agreement, Bhang shall continue funding the Company \$10,000 per month to meet the Company's working capital needs, as well as agreeing to be responsible for all of the Company's reasonable costs and expenses associated with the Transaction pending its completion.

- d) The Company completed an amalgamation of its Ontario subsidiaries, ERDC, Pele Diamond, Pele Gold and Sage to form one wholly-owned subsidiary effective January 1, 2019. The name of the amalgamated subsidiary is Sage Power Corporation.

An additional subsequent event is disclosed in note 5(iv).

Consolidated Financial Statements

Pele Mountain Resources Inc.

**For the Years Ended September 30, 2017 and 2016
(Stated in Canadian Dollars)**

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and other financial information for this annual report were prepared by the management of Pele Mountain Resources Inc., reviewed by the Audit Committee of the Board of Directors, and approved by the Board of Directors.

Management is responsible for the preparation of the financial statements and believes that they fairly represent the Company's financial position and the results of operations in accordance with International Financial Reporting Standards. Management has included amounts in the Company's financial statements based on estimates, judgements, and policies that it believes reasonable in the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately in the Company's books and records.

RSM Canada LLP, Chartered Professional Accountants were appointed as auditors by the shareholders of the Company.

Signed "Martin Cooper"
President and CEO

Signed "Paul Andersen"
CFO and Vice President Finance

Toronto, Ontario
January 29, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pele Mountain Resources Inc.

We have audited the accompanying consolidated financial statements of Pele Mountain Resources Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at September 30, 2017, and September 30, 2016, and the consolidated statements of comprehensive loss, changes in equity, and cash flow for the years ended September 30, 2017 and September 30, 2016 and a summary of 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, 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 audit 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 the auditors' 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, the auditor considers 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 controls. 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 in 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 Pele Mountain Resources Inc. and its subsidiaries as at September 30, 2017, and September 30, 2016 and its financial performance and its cash flows for the years ended September 30, 2017 and September 30, 2016 in accordance with International Financial Reporting Standards.

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Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicates the existence of material uncertainties that may cast significant doubt about the company's ability to continue as a going concern.

RSM Canada LLP

Licensed Public Accountants
Chartered Professional Accountants
January 29, 2018

Pele Mountain Resources Inc.

Consolidated Statements of Financial Position

As at September 30, 2017 and 2016

Stated in Canadian Dollars

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 173,892	\$ 35,636
Prepaid expenses and other assets	52,191	33,960
Portfolio investments (note 6)	-	433,575
	226,083	503,171
Portfolio Investment - Long Term (note 6)	-	-
Property, Plant and Equipment (note 4)	10,629	17,675
	<u>\$ 236,712</u>	<u>\$ 520,846</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,510,962	\$ 1,770,674
Other loans payable - current portion (note 7)	102,334	-
	1,613,296	1,770,674
Other Loans Payable (note 7)	-	62,770
	<u>1,613,296</u>	<u>1,833,444</u>
Shareholders' Equity		
Capital Stock (note 9)	37,315,374	37,305,374
Contributed Surplus	7,921,178	7,857,355
Accumulated Deficit	(46,613,136)	(46,475,327)
	<u>(1,376,584)</u>	<u>(1,312,598)</u>
	<u>\$ 236,712</u>	<u>\$ 520,846</u>

Basis of Presentation and Going Concern (note 2)

Resource Properties (note 5)

Commitments (note 13)

Subsequent Event (note 18)

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

Approved on behalf of the Board

Signed "Martin Cooper", Director

Signed "Richard Cooper", Director

Pele Mountain Resources Inc.

Consolidated Statements of Comprehensive Income (Loss)

For the Years Ended September 30, 2017 and 2016

Stated in Canadian Dollars

	2017	2016
Expenses		
Salaries and benefits	\$ 320,382	\$ 690,956
Publicity and investor relations	26,324	79,583
Listing and filing fees	62,824	76,030
Administrative	193,262	203,804
Professional fees	225,410	149,407
Directors' fees	25,350	29,400
Share-based compensation (note 11)	63,823	179,617
Energy project expenditures	35,060	20,902
Exploration and evaluation expenditures	109,931	235,803
Income on disposal of resource properties (note 5)	(380,000)	(527,400)
Finance charges	65,872	-
Amortization	4,692	6,029
Less:		
Interest income	-	(9)
Dividend income	(2,384)	(11,875)
Consulting income	(25,000)	
Gain on settlement of debt (note 8 and 9iii)	(797,841)	-
Non-refundable deposit from letter of intent (note 14)	(20,000)	-
Loss on portfolio investments (note 6)	227,750	3,059
Change in fair value of portfolio investments (note 6)	-	105,700
Loss on disposition of property and equipment	2,354	-
	<u>(137,809)</u>	<u>(1,241,006)</u>
Loss Before Income Taxes	(137,809)	(1,241,006)
Deferred Income Tax Recovery (note 12)	<u>-</u>	<u>84,164</u>
Net Loss and Comprehensive Loss	<u>\$ (137,809)</u>	<u>\$ (1,156,842)</u>
Loss per Share - basic and diluted	<u>\$ (0.007)</u>	<u>\$ (0.06)</u>
Weighted Average Number of Common Shares Outstanding - basic and diluted	<u>20,995,956</u>	<u>20,377,556</u>

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

Pele Mountain Resources Inc.

Consolidated Statements of Changes in Equity
For the Years Ended September 30, 2017 and 2016
Stated in Canadian Dollars

	Capital Stock		Contributed Surplus	Accumulated Deficit	Total
	Shares	Amount			
Balance - October 1, 2015	18,887,035	\$ 36,641,533	\$ 7,422,467	\$ (45,318,485)	\$ (1,254,485)
Shares issued pursuant to private placements	1,758,818	537,767	-	-	537,767
Shares issued pursuant to debt settlement	278,500	139,250	-	-	139,250
Warrants issued pursuant to private placement	-	-	257,478	-	257,478
Shares issued on exercise of stock options	35,000	22,025	(4,525)	-	17,500
Share issuance costs - cash	-	(32,883)	-	-	(32,883)
Share issuance costs - compensation warrants	-	(2,318)	2,318	-	-
Share-based compensation expense	-	-	179,617	-	179,617
Net loss for the year	-	-	-	(1,156,842)	(1,156,842)
Balance - September 30, 2016	20,959,353	\$ 37,305,374	\$ 7,857,355	\$ (46,475,327)	\$ (1,312,598)

	Capital Stock		Contributed Surplus	Accumulated Deficit	Total
	Shares	Amount			
Balance - October 1, 2016	20,959,353	\$ 37,305,374	\$ 7,857,355	\$ (46,475,327)	\$ (1,312,598)
Shares issued pursuant to loan payable (note 9iii)	40,000	10,000	-	-	10,000
Share-based compensation expense (note 11)	-	-	63,823	-	63,823
Net loss for the year	-	-	-	(137,809)	(137,809)
Balance - September 30, 2017	20,999,353	\$ 37,315,374	\$ 7,921,178	\$ (46,613,136)	\$ (1,376,584)

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

Pele Mountain Resources Inc.

Consolidated Statements of Cash Flow

For the Years Ended September 30, 2017 and 2016

Stated in Canadian Dollars

	2017	2016
Cash Flows from Operating Activities		
Cash paid to suppliers and employees	\$ (534,311)	\$ (765,380)
Cash received from client	25,000	-
Interest income received	-	9
Gross proceeds on sale of resource property	380,000	-
Proceeds from Letter of Intent	20,000	-
	<u>(109,311)</u>	<u>(765,371)</u>
Cash Flows from Investing Activities		
Acquisition of property, plant and equipment	-	(2,130)
Proceeds from sale of investments	225,894	1,646
Purchase of investments	(17,695)	-
Proceeds from sale of Zara Resources Inc.	-	-
	<u>208,199</u>	<u>(484)</u>
Cash Flows from Financing Activities		
Issuance of capital stock and warrants	-	671,009
Issuance costs	-	(32,883)
Proceeds from loans	97,368	62,770
Repayment of loans	(58,000)	-
	<u>39,368</u>	<u>700,896</u>
Change in cash	138,256	(64,959)
Cash and cash equivalents - beginning of year	<u>35,636</u>	<u>100,595</u>
Cash and cash equivalents - end of year	<u>\$ 173,892</u>	<u>\$ 35,636</u>
Significant Non-Cash Transactions Not Disclosed Above		
Dividend payment in kind	\$ 2,375	\$ 11,875
Gain on settlement of debt	\$ 797,841	\$ -

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

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

1. Nature of Operations

Pele Mountain Resources Inc. (the "Company") is a publicly listed company incorporated in Canada and continued under the Ontario Corporations Act. The Company's common shares trade on the TSX Venture Exchange under the symbol "GEM".

The registered address, principal address and records office of the Company is located at 66 Wellington Street West, Suite 4100, Toronto, Ontario.

The Company is a Canadian mineral company that was formed to acquire mineral resource properties in Canada and to carry out mineral exploration and development activities thereon in search of economic deposits of metals and minerals and has focused on generating and selling interests in mineral projects in Northern Ontario since 1996. The Company, either directly or through its wholly-owned subsidiaries, holds a number of mineral properties.

2. Basis of Presentation and Going Concern

These consolidated financial statements include the accounts of the Company and those of its wholly owned subsidiaries, Eco Ridge Development Corporation ("ERDC"), (formerly known as First Canadian Uranium Inc.), Pele Diamond Corporation ("Pele Diamond"), Pele Gold Corporation ("Pele Gold"), Mountain Pass Resources, Inc. ("Mountain Pass") and Sage Power Corporation ("Sage"). All intercompany accounts and transactions have been eliminated.

The Company's consolidated financial statements reflect the results of operations for the years ended September 30, 2017 and 2016, and the assets, liabilities and shareholders' equity as at September 30, 2017 and September 30, 2016.

a) Statement of Compliance

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company follows accounting policies under IFRS as disclosed in Note 3.

The policies applied in the Company's consolidated financial statements are based on IFRS effective as of September 30, 2017. The date the Board of Directors approved the statements is January 29, 2018.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

2. Basis of Presentation and Going Concern (continued)

b) Going Concern

The Company's ability to continue as a going concern is dependent upon, but not limited to, its ability to raise financing necessary to fund its exploration and development programs and general and administrative expenses, maintain its resource properties, discharge its liabilities as they become due and generate positive cash flows from operations. There is no certainty that the Company will be successful in raising financing given the current condition of the financial markets, and as such there is significant uncertainty the Company will be able to continue as a going concern.

The consolidated financial statements are prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of the business. Accordingly, these consolidated financial statements do not give effect to adjustments that may be necessary, should the Company be unable to continue as a going concern. If the going concern assumption is not used then the adjustments required to report the Company's assets and liabilities at liquidation values could be material to these consolidated financial statements.

c) Basis of Measurement

The Company's consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value.

d) Functional and Presentation Currency

The Company and its subsidiaries' functional currency is Canadian dollars and the consolidated financial statements are presented in Canadian dollars.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

a) Foreign Currency Transactions

The Company translates monetary assets and liabilities at the rate of exchange in effect at the statement of financial position date and non monetary assets and liabilities at historical exchange rates. Income and expenses are translated at average rates in the month they occur. Gains and losses on translation are recorded in the statement of comprehensive loss.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

3. Significant Accounting Policies (continued)

b) Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and highly liquid short-term money market investments such as bankers acceptance notes, treasury bills and guaranteed investment certificates. As at September 30, 2017 and 2016, the Company did not have any cash equivalents.

c) Property, Plant and Equipment

Property, plant and equipment ("PPE") are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the assets on the following basis and rates per annum:

Exploration equipment	30%, declining balance basis
Computer equipment	30%, declining balance basis
Computer software	30%, declining balance basis
Furniture and equipment	20%, declining balance basis
Leasehold improvements	straight line over term of lease

An item of PPE is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in income or loss for the period.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied by the Company prospectively.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of PPE that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

d) Impairment of Long Lived Assets

At the end of each reporting period, the Company reviews the carrying amounts of its PPE to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

3. Significant Accounting Policies (continued)

d) Impairment of Long Lived Assets (continued)

The recoverable amount of an asset is the higher of fair value less costs of disposal and value in use. 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 the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

e) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on the differences between the carrying amount of assets and liabilities on the statement of financial position and their corresponding tax value, using the substantively enacted tax rates expected to apply when these temporary differences are reversed. Deferred income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is probable that they will be realized. Income tax expense is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity.

Deferred tax liabilities are recognized for all temporary differences except when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

3. Significant Accounting Policies (continued)

f) Share-based Payments

Equity-settled share based payments to employees (including directors and senior executives) and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of the share-based payment is measured by reference to the fair value of the equity instrument granted, which in turn is determined using the Black-Scholes option-pricing model on the date of the grant, with management's assumptions for the risk-free rate, dividend yield, volatility factors of the expected market price of the Company's common shares, expected forfeitures and the life of the options.

The fair value of the equity-settled share based payments is expensed over the period in which the performance and/or service conditions are fulfilled, ending on the date in which the grantee becomes fully entitled to the award, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. Vesting assumptions are reviewed at each reporting date to ensure they reflect current expectations.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the service. When the Company settles outstanding debts with equity, the equity is valued at the fair value on the date the equity is issued. Any difference in the value of the debt settled and the fair value of equity issued is recognized as a gain or loss on settlement of debt on the consolidated statement of comprehensive loss.

When the terms of equity-settled options previously granted are modified, the minimum expense recognized is the expense as if the terms had not been modified. The entity shall recognize the effects of modifications that increase the total fair value of the share-based payment arrangement.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

3. Significant Accounting Policies (continued)

g) Decommissioning Liabilities

The Company's mining exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and are generally becoming more restrictive. The Company has made, and intends to make in the future, expenditures to comply with such laws and regulations or constructive obligations.

Accrued site closure costs are recorded at the time an environmental disturbance occurs, and are measured at the Company's best estimate of the expected value of future cash flows required to reclaim the disturbance upon site closure, discounted to their net present value. The net present value is determined using a pre-tax discount rate that is specific to the liability. The estimated net present value is re-measured on an annual basis or when changes in circumstances occur and/or new material information becomes available. Increases or decreases to the provision arise due to changes in legal or regulatory requirements, the extent of environmental remediation required and cost estimates. The net present value of the estimated costs of these changes is recorded in the period in which the change is identified and quantifiable.

Upon initial recognition of site closure costs, there is a corresponding increase to the carrying amounts of related assets and the cost is amortized as an expense on a unit-of-production basis over the life of the related assets. The value of the provision is progressively increased over the life of the operation as the effect of discounting unwinds, such increase is recognized as interest expense.

As at September 30, 2017 and September 30, 2016, the Company has not incurred and is not committed to any material decommissioning obligations in respect of its mineral exploration properties.

h) Other Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

3. Significant Accounting Policies (continued)

i) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is recognized as a finance lease obligation within long-term debt.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are included in the capitalized value of the asset.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

j) Loss Per Share

Loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. During the years ended September 30, 2017 and 2016, all the outstanding stock options, warrants and brokers' compensation warrants were anti-dilutive.

k) 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.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

3. Significant Accounting Policies (continued)

l) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities recorded at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities recorded at fair value through profit or loss are recognized immediately in the consolidated Statement of Comprehensive Loss.

Financial Assets

The Company recognizes all financial assets initially at fair value and classifies them into one of the following specified categories: fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM"), held for trading ("HFT"), available-for-sale ("AFS") and loans and receivables. HTM instruments and loans and receivables are measured at amortized cost. AFS and HFT instruments are measured at fair value with AFS unrealized gains and losses recognized in other comprehensive income while unrealized gains and losses on HFT instruments are recognized in profit or loss for the period. Investments in AFS and HFT securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss for the period.

The fair value of financial instruments traded in active markets (such as FVTPL and AFS securities) is based on quoted market prices at the date of the Statement of Financial Position. The quoted market price used for financial assets held by the Company is the current bid price.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

3. Significant Accounting Policies (continued)

l) Financial Instruments (continued)

Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. When impairment has incurred, the cumulative loss is recognized in the statement of comprehensive loss. For financial assets carried at cost or amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the recoverable amount, determined as the higher of the estimated fair value and the discounted future cash flows generated from use. The projections of future cash flows take into account the relevant operating plans and management's best estimate of the most probable set of conditions anticipated to prevail. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of comprehensive loss in the year. Impairment losses may be reversed in subsequent years.

Financial Liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss for the period. Other financial liabilities including borrowings are initially measured at fair value net of transaction costs, and subsequently measured at amortized cost using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Company's financial assets and liabilities are classified and subsequently measured as follows:

<u>Asset/Liability</u>	<u>Classification</u>	<u>Subsequent Measurement</u>
Cash and cash equivalents	FVTPL	Fair value through profit or loss
Portfolio investments	Held for trading	Fair value through profit or loss
Portfolio investment - long term	Available for sale	Cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Other loans payable	Other financial liabilities	Amortized cost

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

3. Significant Accounting Policies (continued)

m) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs. Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in the consolidated Statement of Comprehensive Income (Loss) on the purchase, sale, issue or cancellation of the Company's own equity instruments. In situations where the Company issues an equity instrument that includes a common share and warrant component, the Company estimates the fair value of the warrant component at the issuance date using the Black Scholes pricing model. The estimated fair value of the warrants is recognized as contributed surplus in the consolidated statement of financial position.

n) Critical Accounting Judgments and Estimation Uncertainties

The preparation of the consolidated financial statements in conformity with IFRS requires that the Company's management make critical judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates are accounted for prospectively. The Company has identified the following critical accounting policies under which significant judgments, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the consolidated financial statements.

Property, Plant and Equipment - Estimated Useful Lives

Management estimates the useful lives of PPE based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of PPE for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's PPE in the future.

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility, forfeiture rate and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 11.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

3. Significant Accounting Policies (continued)

n) Critical Accounting Judgments and Estimation Uncertainties (continued)

Deferred Taxes

The Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which it is probable the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Exploration and Evaluation Expenditures

Exploration and evaluation expenditures include costs which are directly attributable to acquisition, surveying, geological, geochemical, geophysical, exploration and resource drilling, land maintenance, sampling and assessing technical feasibility and commercial viability. These expenditures are expensed as incurred.

o) Future Accounting Policies

IFRS 9, Financial instruments (“IFRS 9”) was issued by the IASB in July 2014 and will replace IAS 39, Financial Instruments: recognition and measurement” (“IAS 39”). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released in July 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

IFRS 15, Revenue from Contracts and Customers (“IFRS 15”) was issued by the IASB in May 2014, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

3. Significant Accounting Policies (continued)

o) Future Accounting Policies (continued)

IFRS 16 Leases was issued in January 2016 and replaces IAS 17 Leases. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. If the lease was classified as a finance lease, a lease liability was included on the statement of financial position. IFRS 16 now requires lessees to recognize a right of use asset and lease liability reflecting future lease payments for virtually all lease contracts. The right of use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability accrues interest. The IASB has included an exemption for certain short term leases and leases of low value assets; however, this exemption can only be applied by lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and obtain substantially all the economic benefits from that use. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15, Revenue from Contracts with Customers, is also applied. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

4. Property, Plant and Equipment

	Exploration Equipment	Computer Equipment	Computer Software	Furniture & Equipment	Leasehold Improvements	Total
Cost						
Balance - October 1, 2015	\$ 152,659	\$ 50,439	\$ 9,612	\$ 27,951	\$ 95,409	\$ 336,070
Additions	-	2,130	-	-	-	2,130
Disposals	-	-	-	-	-	-
Balance - September 30, 2016	152,659	52,569	9,612	27,951	95,409	338,200
Additions	-	-	-	-	-	-
Disposals	(152,659)	-	-	-	(95,409)	(248,068)
Balance - September 30, 2017	\$ -	\$ 52,569	\$ 9,612	\$ 27,951	\$ -	\$ 90,132
Accumulated Amortization						
Balance - October 1, 2015	\$ 147,853	\$ 42,112	\$ 8,792	\$ 20,330	\$ 95,409	\$ 314,496
Amortization for the period	1,442	2,817	246	1,524	-	6,029
Balance - September 30, 2016	149,295	44,929	9,038	21,854	95,409	320,525
Amortization for the period	1,010	2,290	172	1,220	-	4,692
Disposals	(150,305)	-	-	-	(95,409)	(245,714)
Balance - September 30, 2017	\$ -	\$ 47,219	\$ 9,210	\$ 23,074	\$ -	\$ 79,503
Net Book Value						
As at September 30, 2016	\$ 3,364	\$ 7,640	\$ 574	\$ 6,097	\$ -	\$ 17,675
As at September 30, 2017	\$ -	\$ 5,350	\$ 402	\$ 4,877	\$ -	\$ 10,629

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

5. Resource Properties

The cumulative spending on each of the Company's properties is as follows:

	October 1, 2016	Net Additions (Recoveries)	Dispositions	September 30, 2017
Eco Ridge Project (i)	\$ 16,420,706	\$ (271,628)	\$(16,098,889)	\$ 50,189
Ardeen Gold Project (ii)	-	-	-	-
Mountain Pass Project (v)	672,529	1,559	(674,088)	-
	<u>\$ 17,093,235</u>	<u>\$ (270,069)</u>	<u>\$(16,772,977)</u>	<u>\$ 50,189</u>
Timmins Project (iii) ⁽¹⁾	\$ (122,796)	\$ -	\$ -	\$ (122,796)
Sudbury Project (iv) ⁽¹⁾	(78,720)	-	-	(78,720)
	<u>\$ (201,516)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (201,516)</u>
	October 1, 2015	Net Additions (Recoveries)	Dispositions	September 30, 2016
Eco Ridge Project (i)	\$ 16,192,388	\$ 228,318	\$ -	\$ 16,420,706
Ardeen Gold Project (ii)	3,188,445	51	(3,188,496)	-
Mountain Pass Project (v)	665,095	7,434	-	672,529
	<u>\$ 20,045,928</u>	<u>\$ 235,803</u>	<u>\$(3,188,496)</u>	<u>\$ 17,093,235</u>
Timmins Project (iii) ⁽¹⁾	\$ (122,796)	\$ -	\$ -	\$ (122,796)
Sudbury Project (iv) ⁽¹⁾	(78,720)	-	-	(78,720)
	<u>\$ (201,516)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (201,516)</u>

⁽¹⁾ The Company had received consideration from its joint venture partners or optionees in excess of its costs incurred to date.

(i) Eco Ridge Mine Project (Elliot Lake, Ontario)

The Eco Ridge Project, owned 100% by Eco Ridge Development Corporation, a wholly owned subsidiary of the Company, was located in Elliot Lake, Ontario. The Eco Ridge property included over 8,600 contiguous hectares comprised of 394 mining claim units and three Mining Leases.

Following an internal review of its Eco Ridge project, Pele's Board concluded that due to continuing weak uranium and rare earth prices, Eco Ridge remained uneconomic and offered limited short or mid-term benefit to shareholders. Moreover, due to prevailing weak rare earth prices, Pele had also been unable to generate the necessary support for its proposed monazite processing facility in Elliot Lake. Therefore, the Company entered into a sale agreement with an arm's-length purchaser to sell the claims, surface rights and leases comprising Eco Ridge for gross proceeds of \$380,000 payable in cash, which closed on June 1, 2017.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

5. Resource Properties (continued)

(ii) Ardeen Gold Project (Moss Lake, Thunder Bay, Ontario)

During the year ended September 30, 2016, the Company entered into a purchase agreement, along with Chalice Gold Mines ("Chalice"), whereby their respective operating subsidiaries will sell their respective interests in the Ardeen Gold Project to Kesselrun Resources Ltd. In consideration for the sale, Kesselrun has agreed to issue Chalice and the Company 4,000,000 common shares of Kesselrun and a package of Net Smelter Return (NSR) royalties. The Company (and Chalice) will be granted certain NSR royalties over certain mining claims. In combination with preexisting NSRs, the property will be subject to an overall 2.5% NSR royalty over certain mining claims and a 2% NSR royalty on the remaining mining claims. The NSRs are subject to certain buyback clauses, which going forward will be for the benefit of Kesselrun. On August 9, 2016, the transaction closed and as 49% owner of the Ardeen Gold Project, the Company received 1,960,000 shares of Kesselrun and a pro rata share of the royalty package. Following the issuance of the Kesselrun shares, the Company held approximately 5.5% of the issued and outstanding shares of Kesselrun.

(iii) Timmins Project (Timmins, Ontario)

The Company has a 100% registered interest in 3 mining claims (September 30, 2016 - 4 mining claims) located 35 kilometres south of Timmins in northern Ontario. These mining claims are comprised of 11 mining claim units (September 30, 2016 - 22 mining claim units).

During the year ended September 30, 2008, the Company entered into a purchase and sale agreement with Fletcher Nickel Inc. ("Fletcher") to sell its 100% interest in the Timmins Project to Fletcher. As at September 30, 2009, the Company had received cash payments totaling \$175,000 and 600,000 Fletcher shares with a total fair value of \$420,000 as at the time of issuance, and these amounts had been recorded as a reduction to the carrying value of the Timmins Project.

However, Fletcher failed to make the remaining payments that were due pursuant to the purchase and sale agreement. During the year ended September 30, 2010, Fletcher and the Company agreed to terminate the purchase and sale agreement and the Timmins Project continues to be 100% owned by the Company.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

5. Resource Properties (continued)

(iv) Sudbury Project (Sudbury, Ontario)

During the year ended September 30, 2005, the Company acquired by way of purchase and staking, a 100% undivided legal and beneficial interest in certain mining claims in the Sudbury Mining Camp of northern Ontario. It includes 4 mining claims (September 30, 2016 - 4 mining claims) comprised of 52 mining claim units (September 30, 2016 - 52 mining claim units) covering approximately 830 hectares. The vendor was reimbursed for the costs of staking and recording these claims and was granted a 1.5% NSR. The Company may, at its option, repurchase 1% of the NSR from the vendor for \$1,000,000.

During the year ended September 30, 2006, the Company entered into an option agreement with Wallbridge Mining Company Ltd. ("Wallbridge"). Wallbridge has the right to earn a 60% interest by issuing 1,050,000 common shares to the Company (of which all 1,050,000 shares have been issued) and incurring \$1,200,000 in exploration expenditures by December 31, 2009. Wallbridge has the right to increase its interest to 72.5% by completing a bankable feasibility study and arranging the financing for the project through to commercial production.

Wallbridge has fulfilled its commitments under the Option Agreement and, accordingly, a new Joint Venture with Pele was established January 1, 2010, with Wallbridge owning 60% and Pele owning a 40% interest in the Joint Venture. Wallbridge has incurred exploration expenditures to increase its ownership interest in the Joint Venture to 64% as of September 30, 2017 (September 30, 2016 - 64%), and accordingly, the Company owns a 36% interest (September 30, 2016 - 36%).

(v) Mountain Pass Project (Mountain Pass, California)

During the year ended September 30, 2012, the Company acquired mining claims comprising 75 contiguous hectares located in south-eastern California in exchange for 4,000,000 common shares of the Company. The seller agreed to a 12 month contractual hold period on its shares after closing. The seller has retained a 2% production royalty (the "Production Royalty") on all minerals mined on the property, subject to the right of the Company to buy back 1% of the Production Royalty for 2,000,000 United States Dollars, escalated annually by a factor equal to the Producer Price Index.

In addition to a Phase 1 Exploration Program completed during the year ended September 30, 2014, the Company must complete a total of 2,000,000 United States Dollars of exploration work on the property by September 26, 2017. The Phase 1 Exploration Program includes: compilation of historic data, geological mapping, radiometric survey, sampling of pits and trenches, surface sampling, petrological analysis, mineralogical analysis and drill program planning.

The Company failed to meet its 2,000,000 United States Dollars expenditure requirement by September 26, 2017, and the claims are in the process of being transferred back to the original owner.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

5. Resource Properties (continued)

(vi) Festival Project (Wawa, Ontario)

In 2004, Goldcorp Inc. and Pele began exploring the Festival Project, north of Wawa. The Festival Project is owned by Pele Mountain and Goldcorp Inc. under a joint venture that was entered into in 2006 with each company owning 50%. In 2010 the original 101 square kilometre exploration license for the Festival Project expired and the Project was consequently written off by Pele due to inactivity.

In 2013, the Company and Goldcorp Inc. reactivated the joint venture on the Festival Project. Goldcorp entered into a License Agreement on behalf of the joint venture for a Licensed Area covering a total area of 52 square kilometres. The Licensed Area straddles the interpreted western extension of the Goudreau Localsh Deformation Zone ("GLDZ"), host to Richmond's Island Gold Mine as well as several past-producing gold mines including Argonaut's Magino Mine. The term of the License is for five years commencing on January 1, 2013 and may be extended for an additional 5-year term. All minerals produced and marketed from the Licensed Area are subject to a 3% royalty payable to the Licensor.

Goldcorp is funding and operating the Festival Project Joint Venture with Pele electing not to contribute its pro rata share. Accordingly, Goldcorp's interest has increased to approximately 51% of the joint venture and Pele's interest is approximately 49%. New work on the property will impact the relative percentage ownership of each party in the joint venture.

6. Portfolio Investments

a) Zara Resources Inc.

During the year ended September 30, 2013, the Company acquired 2,250,000 common shares of Zara Resources Inc. ("Zara") and 4,750,000 non-voting convertible 5% Preference Shares of Zara Resources Inc. in satisfaction of the purchase price of \$700,000 related to the divestiture of the Pigeon River project. The Preference Shares are convertible at the exclusive option of Zara at an exchange ratio equal to the original issue price of the Zara common shares of \$0.10 per share, divided by the current market price of the Zara common shares, which is defined as being its 10 day weighted average closing price (the "Exchange Ratio").

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

6. Portfolio Investments (continued)

a) Zara Resources Inc. (continued)

The 5% dividends declared on the Preference Shares rank in priority to dividends payable on any other class of shares issued by Zara, and any accumulation of dividends will bear interest at 5% per annum. The 5% dividends are payable in common shares of Zara based on the Exchange Ratio.

During the year ended September 30, 2015, the Company determined the Preferred Shares to be fully impaired.

Zara is a junior resource company based in Toronto, Ontario, whose common shares are listed for trading on the Canadian Stock Exchange (CSE). As the common shares of Zara are thinly traded and there is no public market for the Preference Shares which are not listed, posted or quoted for trading on any exchange or quotation system, these securities are illiquid.

During the period ended March 31, 2017, the Company received an additional 475,000 common shares of Zara as a dividend payment in kind on its Zara preferred shares. The 475,000 preferred shares held by the Company were then converted into 950,000 common shares. The Company sold all 1,425,000 common shares for proceeds of \$20,000.

The Company's holdings are summarized below:

Zara Preferred Shares

	Number of Shares	Cost	Fair Value
Balance - September 30, 2015	4,750,000	\$ 475,000	\$ -
One for ten share consolidation	(4,275,000)	-	-
Balance - September 30, 2016	475,000	475,000	-
Conversion to common shares	(475,000)	(475,000)	-
Balance - September 30, 2017	-	\$ -	\$ -
Gain on conversion to common shares			<u>\$ 4,750</u>

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

6. Portfolio Investments (continued)

a) Zara Resources Inc. (continued)

Zara Common Shares

	Number of Shares	Cost	Fair Value
Balance - September 30, 2015	940,900	\$ 4,705	\$ 4,705
One for ten share consolidation	(846,810)	-	-
Dividend payment in kind	475,000	11,875	11,875
Sale at \$0.05 per share	(94,090)	(4,705)	(4,705)
Change in fair value	-	-	(9,500)
Balance - September 30, 2016	475,000	11,875	2,375
Sale at \$0.005 per share	(475,000)	(11,875)	(2,240)
Dividend payment in kind	475,000	2,375	2,375
Conversion of preferred shares	950,000	475,000	4,750
Sale at \$0.014 per share	(1,425,000)	(477,375)	(20,000)
Gain on sale	-	-	12,740
Balance - September 30, 2017	-	\$ -	\$ -

b) Kesselrun Resources Ltd.

During the year ended September 30, 2017, the company sold its shares in Kesselrun Resources Ltd. The shares originated to the Company as part of the consideration received in the purchase agreement for the Ardeen Project in Note 5 (ii):

	Number of Shares	Cost	Fair Value
Balance - October 1, 2014 and September 30, 2015	-	\$ -	\$ -
Shares received as consideration for sale	1,960,000	527,400	527,400
Change in fair value	-	-	(96,200)
Balance - September 30, 2016	1,960,000	527,400	431,200
Sale of shares	(1,960,000)	(527,400)	(185,960)
Loss on sale	-	-	(245,240)
Balance - September 30, 2017	-	\$ -	\$ -

c) Manulife Premium Investment Savings Account

	Number of Units	Cost	Fair Value
Balance - September 30, 2016	1,770	\$ 17,695	\$ 17,695
Sale of units at \$10	(1,770)	(17,695)	(17,695)
Balance - September 30, 2017	-	\$ -	\$ -

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

7. Other Loans Payable

- a) During the year ended September 30, 2016, the Company entered into a \$100,000 loan agreement with an arm's length lender. The loan carries an interest rate of 6% per annum. In addition, once the loan is repaid from the first proceeds from sale of the Kesselrun shares, the Company is required to pay 50% of any additional proceeds from the sale of the Kesselrun shares less initial principal, interest, commission fees, and bank charges. During the year ended September 30, 2016, \$50,000 of the loan proceeds were advanced to the Company with the remaining \$50,000 received during the period ended December 31, 2016. As consideration for the loan, the Company issued 40,000 of its common shares ("Bonus Shares") to the lender at an issue price of \$0.50 per share upon receipt of the final \$50,000. The Bonus Shares are subject to a statutory hold period of four months from the date of issuance. The Company is to repay the loan from the first proceeds realized from the sale of the Company's shares of Kesselrun Resources Ltd. unless otherwise authorized by the lender. During the year ended September 30, 2017, the Company sold all of its shares in Kesselrun Resources Ltd. The lender authorized the Company to use certain of the proceeds from the sale of shares of Kesselrun for uses other than the repayment of the loan and for interest to cease accruing as at June 15, 2017. The principal and interest is past due. Interest payable of \$4,124 and \$40,872 of proceeds payable has been accrued up to June 15, 2017 and is included in accounts payable and accrued liabilities. During the year ended September 30, 2017, the Company repaid \$58,000 to the arm's length lender. Subsequent to September 30, 2017, the Company settled the outstanding principal of \$100,000 and accounts payable and accrued liabilities of \$45,000 by issuing 966,667 common shares (see note 18).
- b) During the year ended September 30, 2016, the Company was advanced 10,000 United States Dollars (\$12,770 CAD as at September 30, 2017) by an arm's length lender to maintain the Company's Mountain Pass Project. The advance is non-interest bearing and is payable on demand that requires more than one year notice. During the year ended September 30, 2017, the Company received an additional advance of 10,000 United States Dollars (\$12,368 CAD) with the same terms and conditions as the previous advance. Subsequent to September 30, 2017, the Company issued 385,045 common shares in full settlement of this loan (see note 18).
- c) During the year ended September 30, 2017, the Company borrowed \$35,000 from a company controlled by a director of the Company. The loan carries an interest rate of 12% calculated daily with principal and interest due on or before July 25, 2017, which was subsequently extended to August 15, 2017. Interest payable of \$2,094 has been accrued to September 30, 2017, and is included in accounts payable and accrued liabilities as at September 30, 2017. In addition to the loan, a placement fee of \$5,000 is payable by the Company upon maturity of the loan. Finance charges payable of \$5,000 have been included in accounts payable and accrued liabilities as at September 30, 2017. Subsequent to September 30, 2017, the Company settled the loan payable of \$35,000 and accounts payable and accrued liabilities of \$7,094 by issuing 249,036 common shares (see note 18).

A summary of other loans payable outstanding as at September 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
(a)	\$ 42,000	\$ 50,000
(b)	25,334	12,770
(c)	35,000	-
	<u>102,334</u>	<u>62,770</u>
Less: amounts due within one year	(102,334)	-
	<u>\$ -</u>	<u>\$ 62,770</u>

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

8. Debt Settlement

During the year ended September 30, 2017, the Company settled wages payable of \$867,841 to a former director of the company. As the debt was settled for an amount less than its carrying value, a gain of \$787,841 related to the settlement of debt has been recognized in the statement of comprehensive income (loss) for the year ended September 30, 2017.

9. Capital Stock

Authorized

Unlimited common shares

Issued

	<u>Number (iii)</u>	<u>Amount</u>
Balance - October 1, 2015	18,887,035	\$ 36,641,533
Issued for private placements	1,758,818	537,767
Issued pursuant to debt settlement	278,500	139,250
Issued on exercise of stock options	35,000	22,025
Less: Share issuance costs - cash	-	(32,883)
Less: Share issuance costs - compensation warrants	-	(2,318)
	<hr/>	<hr/>
Balance - September 30, 2016	20,959,353	\$ 37,305,374
Issued pursuant to loan agreement (ii)	40,000	10,000
	<hr/>	<hr/>
Balance - September 30, 2017	<u>20,999,353</u>	<u>\$ 37,315,374</u>

(i) The Company is conditionally committed to issue an additional 24,000 common shares as described in Note 13(ii).

ii) Share issuances during the year ended September 30, 2016 consisted of the following:

- a) issued 213,418 flow-through units pursuant to a non-brokered private placement at a purchase price of \$0.50 per unit for gross proceeds \$106,709 of which \$24,756 was allocated to warrants and \$29,924 was allocated to other liabilities. Each unit is comprised of one flow-through common share and one share purchase warrant, where each whole warrant entitles the holder to purchase one additional non-flow-through common share of the Company at a price of \$0.70 per share until May 20, 2017. Three directors of the Company participated in the Offering, acquiring 95,400 units.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

9. Capital Stock (continued)

- b) issued 525,000 units pursuant to a non-brokered private placement at a purchase price of \$0.50 per unit for gross proceeds \$262,500 of which \$84,000 was allocated to warrants. Each unit is comprised of one common share and one share purchase warrant, where each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.50 per share until November 20, 2018. Three directors of the Company participated in the Offering, acquiring 420,000 units.

In connection with the private placements discussed in a) and b) above, the Company paid cash fees of \$2,800 to eligible persons (the "Finders") and issued 5,600 Compensation Warrants with a fair value of \$466 to the Finders. Each Compensation Warrant entitles the holder to acquire one common share of the Company at \$0.50 per share until November 20, 2016.

- c) issued 35,000 shares as a result of a stock option exercise for gross proceeds of \$17,500.
- d) issued 415,500 flow-through units at a purchase price of \$0.50 per unit for aggregate gross proceeds of \$207,750, of which \$51,938 was allocated to warrants and \$54,240 was allocated to other liabilities. Each unit consists of one common share and one common share purchase warrant, with each warrant exercisable to acquire one common share of the Company at \$0.70 until August 4, 2017. Two directors of the Company participated in the Offering, acquiring 105,500 units.
- e) issued 504,900 units at a price of \$0.50 each for aggregate gross proceeds of \$252,450, of which \$80,784 was allocated to warrants. Each unit consists of one common share and one common share purchase warrant, with each warrant exercisable to acquire one common share of the Company at \$0.50 until February 4, 2019. Two directors of the Company participated in the Offering, acquiring 404,900 units.
- f) issued 100,000 units at a price of \$0.50 each for aggregate gross proceeds of \$50,000, of which \$16,000 was allocated to warrants. Each unit consists of one common share and one common share purchase warrant, with each warrant exercisable to acquire one common share of the Company at \$0.50 until February 5, 2019.

In connection with the private placements discussed in d), e) and f) above, the Company paid cash fees of \$5,600 to eligible persons (the "Finders") and issued 11,200 Compensation Warrants to the Finders. Each Compensation Warrant entitles the holder upon exercise to acquire one common share of the Company at \$0.50 per share until February 4, 2017.

- g) entered into shares-for-debt agreements with certain creditors, pursuant to which the Company issued 278,500 common shares, at a deemed price of \$0.50 per common share, to satisfy aggregate debts of \$139,250. Of these amounts, 192,593 common shares were issued to a law firm in which a director and officer of the Company is a partner to settle debt of \$96,297.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

9. Capital Stock (continued)

The fair value allocated to the warrants and compensation warrants was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Share price	\$0.40
Expected dividend yield	Nil
Risk-free interest rate	0.46%
Expected life	2.45 years
Expected volatility	94.51%
Exercise price	\$0.60

Warrant pricing models require the input of highly subjective assumptions including the expected price volatility. Expected volatility was determined using the historical volatility of the Company's shares for a period equal to the estimated life of the warrant. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's compensation warrants. The compensation warrants were valued using the fair value of the equity instrument granted in the absence of a reliable estimate of the fair value of the services received.

- (iii) During the year ended September 30, 2017, the Company issued 40,000 common shares to an arm's length lender pursuant to a loan agreement as described in Note 7(a) at an issue price of \$0.50 per share. The Company has recognized a finance charge expense of \$20,000 and a gain on settlement of debt of \$10,000 during the year ended September 30, 2017 with respect to the issuance of these shares.
- (iv) The Company has completed a share consolidation of the Company's issued and outstanding common shares on the basis of ten (10) pre-consolidation shares to one (1) post-consolidation share. The Consolidation reduced the number of issued and outstanding common shares of the Company from 209,996,930 pre-Consolidation common shares to approximately 20,999,353 post-Consolidation common shares. The schedule above, and all references to shares, options and warrants throughout the financial statements have been updated to reflect the number of post-consolidation securities.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

10. Stock Options, Warrants and Shareholders Rights Plan

(i) Stock Options

The Company maintains a Stock Option Plan (the “Plan”) for the benefit of directors, officers, employees and consultants. The maximum number of common shares reserved for issuance and available for purchase pursuant to options granted under the Plan cannot exceed 10% of the total number of common shares of the Company issued and outstanding at the date of any grant made. In addition, the aggregate number of shares so reserved for issuance to one person may not exceed 5% of the issued and outstanding shares in any given 12 month period. Options pursuant to the Plan are granted at the discretion of the Board of Directors, vest at schedules determined by the Board, and have an exercise price of not less than that permitted by the stock exchange on which the shares are listed.

The following summarizes the stock option activities:

	Year ended September 30, 2017		Year ended September 30, 2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	2,073,000	\$ 0.80	1,538,625	\$ 1.00
Granted	-	-	752,375	0.50
Exercised	-	-	(35,000)	(0.50)
Expired	(358,000)	(1.40)	(183,000)	(1.30)
Outstanding at year end	1,715,000	\$ 0.60	2,073,000	\$ 0.80
Exercisable at year end	1,715,000	\$ 0.60	2,073,000	\$ 0.80

The Company had the following stock options outstanding at September 30, 2017:

Number of Options	Exercisable	Exercise Price	Expiry Date
67,500	67,500	\$ 0.500	May 31, 2018
30,000	30,000	\$ 1.000	May 31, 2018
756,200	756,200	\$ 0.500	June 1, 2018
200,000	200,000	\$ 1.000	June 1, 2018
195,000	195,000	\$ 1.000	December 31, 2018
345,000	345,000	\$ 0.500	December 31, 2019
121,300	121,300	\$ 0.500	December 31, 2020
1,715,000	1,715,000		

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

10 Stock Options, Warrants and Shareholders Rights Plan (continued)

(ii) Warrants

All of the outstanding warrants were issued in conjunction with the issuance of common shares. The fair value of warrants issued and outstanding is reflected in contributed surplus. Amounts for warrants that are subsequently exercised are transferred from contributed surplus to capital stock.

The following summarizes the warrant activities:

	Year ended September 30, 2017		Year ended September 30, 2016	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Beginning balance	2,922,541	\$ 0.60	1,715,679	\$ 0.90
Issued	-	-	1,775,618	0.60
Expired	(645,718)	0.20	(568,756)	1.20
Outstanding and exercisable at period end	<u>2,276,823</u>	<u>\$ 0.60</u>	<u>2,922,541</u>	<u>\$ 0.60</u>

The Company had the following warrants outstanding at September 30, 2017:

Number of Warrants	Series	Type of Share	Exercise Price	Expiry Date
175,703	BBB	Common shares	\$ 0.70	December 24, 2017
801,220	CCC	Common shares	\$ 0.70	April 13, 2018
170,000	DDD	Common shares	\$ 0.70	May 25, 2018
525,000	EEE	Common shares	\$ 0.50	November 20, 2018
504,900	HHH	Common shares	\$ 0.50	February 4, 2019
100,000	HHH	Common shares	\$ 0.50	February 5, 2019
<u>2,276,823</u>				

(iii) Shareholders' Rights Plan

The Company's Board of Directors approved a shareholders' rights plan ("Rights Plan"), effective January 31, 2007, which was ratified at the 2007, 2010, 2013 and 2016 annual shareholders' meetings. This Rights Plan is intended to ensure, to the extent possible, that all shareholders of the Company are treated equally and fairly in connection with any take over bid for the Company, and was designed to discourage discriminatory or unfair bids and to provide management, if appropriate, with sufficient time to pursue alternatives to maximize shareholder value.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

11. Share-Based Compensation

During the year ended September 30, 2017, the Company modified the expiry date of certain stock options granted to employees who were terminated. The Company calculated the fair value of the modified stock options at the date of modification based on the Black-Scholes pricing model, using the following weighted average assumptions:

	<u>2017</u>	<u>2016</u>
Share price	\$0.20	N/A
Expected dividend yield	Nil	N/A
Risk-free interest rate	0.66%	N/A
Expected life	1	N/A
Expected volatility	157.59%	N/A
Exercise price	\$0.61	N/A

The difference between the fair values as at the modification date and the fair value upon the original grant of \$63,823 (2016 - \$Nil) was included in stock-based compensation expense for the year ended September 30, 2017.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Expected volatility was determined based on the Company's historical stock price. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options. Stock options issued to non-employees were valued using the fair value of the equity instrument granted in the absence of a reliable estimate of the fair value of the services received.

12. Income Taxes

(i) Income Tax Expense

The following table reconciles income taxes calculated at combined Canadian federal/provincial tax rates with the income tax recovery in the interim consolidated financial statements:

	<u>2017</u>	<u>2016</u>
Loss before income taxes	\$ (137,809)	\$ (1,241,006)
Statutory rate	26.50 %	26.50 %
Expected income tax recovery	\$ (36,518)	\$ (328,867)
Stock-based compensation and other non-deductible expenses	77,672	49,585
Tax expense (benefit) relating to the origination and reversal of temporary differences	1,243	28,776
True up of prior year balances and other	(8,165)	(55,490)
Losses and other deductions for which no benefit has been recognized	(34,232)	221,832
Income tax expense (recovery)	<u>\$ -</u>	<u>\$ (84,164)</u>

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

12. Income Taxes (continued)

(ii) Deferred Taxes

The temporary differences that give rise to deferred income tax assets and deferred income tax liabilities are presented below:

	<u>2017</u>	<u>2016</u>
Deferred Tax Assets		
Amounts related to tax loss and credit carry forwards	\$ 728,191	\$ 919,135
Property, plant and equipment	55,348	93,935
Resource properties	3,496,502	3,337,363
Share issuance costs	7,616	11,867
	<u>4,287,657</u>	<u>4,362,300</u>
Deferred taxes not recognized	(4,287,657)	(4,362,300)
Net deferred tax liabilities	<u>\$ -</u>	<u>\$ -</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income tax liabilities result primarily from amounts not deductible for accounting purposes until future periods. Deferred income tax assets result primarily from operating tax loss carry forwards and have been offset against deferred income tax liabilities.

(iii) Loss Carry Forwards

The Company has non-capital losses of approximately \$2,694,767 available for carry forward. These losses expire as follows:

2026	\$ 441,622
2027	199
2028	175
2029	168,265
2030	283,049
2031	390,458
2032	376,566
2033	307,514
2034	291,606
2035	218,316
2036	216,784
2037	213
	<u>\$ 2,694,767</u>

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

13. Commitments

- (i) The Company is committed under lease contracts for the rental of its premises. Annual minimum lease payments are required as follows:

2018	\$	<u>8,386</u>
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- (ii) The Company is committed to issue an additional 24,000 common shares as part of the consideration for the acquisition of the Ardeen Gold Project property described in note 5(ii) contingent on the property going into commercial production.

Additional commitments related to the Company's resource properties are separately disclosed in note 5.

14. Letter of Intent

During the year ended September 30, 2017, the Company received a nonrefundable deposit of \$20,000 in connection with a nonbinding letter of intent with respect to a potential transaction involving one of the Company's properties. During the year ended September 30, 2017, this nonbinding letter of intent expired.

15. Related Party Transactions

During the year ended September 30, 2017, the Company entered into the following related party transactions:

- a) Consulting fees and salary of \$60,000 (2016 - \$87,000) was earned by Martin Cooper, a director and officer of the Company. As at September 30, 2017, accounts payable and accrued liabilities included \$157,500 (2016 - \$97,500) payable to this director and officer.
- b) Legal fees of \$106,336 (2016 - \$89,830) were incurred with a law firm in which Steven Rukavina, a director and officer of the Company is a partner. As at September 30, 2017, accounts payable and accrued liabilities included \$196,125 (2016 - \$120,184) payable to this law firm.
- c) Accounting fees of \$42,000 (2016 - \$45,000) were incurred with an accounting firm in which Paul Andersen, an officer of the Company is a partner. As at September 30, 2017, accounts payable and accrued liabilities included \$202,212 (2016 - \$150,155) accrued to this accounting firm.
- d) Consulting fees of \$Nil (2016 - \$72,700) were incurred with a company in which John Wilkinson, a director of the Company, is an officer. As at September 30, 2017, accounts payable and accrued liabilities included \$52,853 (2016 - \$57,654) payable to this director.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

15. Related Party Transactions (continued)

- e) Compensation earned by directors and other members of key management personnel for the year ended September 30 were as follows:

	<u>2017</u>		<u>2016</u>
Salaries and benefits (CEO and CFO)	\$ 216,667	\$	306,000
Retention bonus (CEO)	-		212,500
Directors' fees	25,350		29,400
Share-based compensation (Officers and Directors)	60,372		158,917
	<u>\$ 302,389</u>	<u>\$</u>	<u>706,817</u>

As at September 30, 2017, accounts payable and accrued liabilities included \$51,100 (2016 - \$25,750) of directors' fees and \$127,500 (2016 - \$748,675) of wages payable.

- f) The Company earned consulting fees of \$25,000 with a company in which Wayne Richardson, the Chairman and director of the Company is the President.
- g) Other related party transactions are disclosed in notes 7(c) and 8.

16. Financial Instruments and Other Risks

IFRS 7 establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1	quoted prices in active markets for identical assets or liabilities;
Level 2	inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
Level 3	inputs for the asset or liability that are not based upon observable market data

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As at September 30, 2017, the Company's cash and cash equivalents are categorized as Level 1 measurement. As at September 30, 2016, the Company's portfolio investments in the common shares of Zara Resources Inc. and Kesselrun Resources were categorized as Level 1 measurement and the portfolio investments in the preferred shares of Zara were categorized as Level 2 measurement.

Fair Values

Except as disclosed elsewhere in these financial statements, the carrying amounts for the Company's financial instruments approximate their fair values because of the short-term nature of these items.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

16. Financial Instruments and Other Risks (continued)

Credit Risk

The Company is not exposed to any significant credit risk as at September 30, 2017. The Company's cash and cash equivalents are either on deposit with two highly rated banking groups in Canada or invested in bankers acceptance notes or guaranteed investment certificates issued by two highly rated Canadian banking groups.

Liquidity Risk

Liquidity risk is the risk that an entity will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2017, the Company has current assets of \$226,083 (2016 - \$503,171) and current liabilities of \$1,613,296 (2016 - \$1,770,674). All of the Company's current financial liabilities and receivables have contractual maturities of less than 120 days and are subject to normal trade terms. The Company has a working capital deficiency of \$1,387,213 (2016 - \$1,267,503) as at September 30, 2017.

Market Risk

(i) Interest rate risk

The Company has cash and cash equivalents balances and the Company's current policy is to invest any excess cash in highly liquid money market investments such as bankers acceptance notes, treasury bills and guaranteed investment certificates. These short term money market investments are subject to interest rate fluctuations.

(ii) Foreign currency risk

The Company's functional currency is the Canadian dollar. The majority of the Company's purchases are transacted in Canadian dollars. As at September 30, 2017, the Company had accounts payable of \$81,736 (2016 - \$54,485) denominated in US currency. The Company has loans payable of \$25,334 (2016 - \$12,770) denominated in US currency. At September 30, 2017, if the Canadian Dollar had weakened (strengthened) 10 percent against the United States Dollar with all other variables held constant, the net loss for the year would have been \$10,390 (2016 - \$8,460) higher (lower).

(iii) Price risk

The prices of metals and minerals fluctuate widely and are affected by many factors outside of the Company's control. The prices of metals and minerals and future expectation of such prices have a significant impact on the market sentiment for investment in mining and mineral exploration companies. This in turn may impact the Company's ability to raise equity financing for its long term working capital requirements.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

16. Financial Instruments and Other Risks (continued)

Market Risk (continued)

(v) Sensitivity Analysis

Based on management's knowledge and experiences of the financial markets, the Company's management believes the following movements are "reasonably possible" over a three month period.

As at September 30, 2017, none of the Company's cash and cash equivalents is at fixed interest rates beyond the next three months and is not subject to interest rate fluctuations within the next three months.

17. Capital Disclosures

The Company includes equity, comprised of issued capital stock, contributed surplus and deficit, in the definition of capital.

The Company's objectives when managing capital are as follows:

- (i) to safeguard the Company's assets and ensure the Company's ability to continue as a going concern;
- (ii) to raise sufficient capital to finance its exploration and development activities on its Eco Ridge Mine Project; and
- (iii) to raise sufficient capital to meet its general and administrative expenditures, and to explore and develop its other resource properties.

The Company manages its capital structure and makes adjustments to it, based on the general economic conditions, the Company's short term working capital requirements, and its planned exploration and development program expenditure requirements.

As the Company is in the exploration stage, its principal source of capital is from the issuance of common shares. In order to achieve its objectives, the Company expects to spend its existing working capital and raise additional funds as required.

The Company does not have any externally imposed capital requirements.

18. Subsequent Event

Subsequent to the year ended September 30, 2017, pursuant to several debt settlement agreements to settle various accounts payable and other loans payable, the Company issued 15,143,843 common shares from treasury in full and final satisfaction of \$1,051,195 of indebtedness, and a total of \$94,221 of indebtedness owed by the Company to related party creditors was forgiven.

Consolidated Financial Statements

Pele Mountain Resources Inc.

**For the Years Ended September 30, 2016 and 2015
(Stated in Canadian Dollars)**

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and other financial information for this annual report were prepared by the management of Pele Mountain Resources Inc., reviewed by the Audit Committee of the Board of Directors, and approved by the Board of Directors.

Management is responsible for the preparation of the financial statements and believes that they fairly represent the Company's financial position and the results of operations in accordance with International Financial Reporting Standards. Management has included amounts in the Company's financial statements based on estimates, judgements, and policies that it believes reasonable in the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately in the Company's books and records.

Collins Barrow Toronto LLP, Chartered Professional Accountants were appointed as auditors by the shareholders of the Company.

"Alan Shefsky"
President and CEO

"Paul Andersen"
CFO and Vice President Finance

Toronto, Ontario
January 24, 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pele Mountain Resources Inc.

We have audited the accompanying consolidated financial statements of Pele Mountain Resources Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at September 30, 2016, September 30, 2015, and October 01, 2014 and the consolidated statements of comprehensive loss, changes in equity, and cash flow for the years ended September 30, 2016 and September 30, 2015 and a summary of 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, 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 audit 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 the auditors' 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, the auditor considers 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 controls. 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 in 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 Pele Mountain Resources Inc. and its subsidiaries as at September 30, 2016, September 30, 2015, and October 01, 2014 and its financial performance and its cash flows for the years ended September 30, 2016 and September 30, 2015 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicates the existence of material uncertainties that may cast significant doubt about the company's ability to continue as a going concern.

Collins Barrow Toronto LLP

Collins Barrow Toronto LLP
Licensed Public Accountants
Chartered Professional Accountants
January 24, 2017

Pele Mountain Resources Inc.

Consolidated Statements of Financial Position

As at September 30, 2016 and 2015, and as at October 1, 2014

Stated in Canadian Dollars

	September 30, 2016	September 30, 2015	October 1, 2014
		Restated (note 4)	Restated (note 4)
Assets			
Current Assets			
Cash and cash equivalents	\$ 35,636	\$ 100,595	\$ 197,433
Prepaid expenses and other assets	33,960	29,125	63,929
Portfolio investments (note 7)	433,575	4,705	12,094
	503,171	134,425	273,456
Portfolio Investment - Long Term (note 7)	-	-	211,949
Property, Plant and Equipment (note 5)	17,675	21,574	29,458
	<u>\$ 520,846</u>	<u>\$ 155,999</u>	<u>\$ 514,863</u>
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 1,770,674	\$ 1,410,484	\$ 1,339,864
Other Loans Payable (note 9)	62,770	-	-
	<u>1,833,444</u>	<u>1,410,484</u>	<u>1,339,864</u>
Shareholders' Equity			
Capital Stock (note 10)	37,305,374	36,641,533	36,084,934
Contributed Surplus	7,857,355	7,422,467	7,109,717
Accumulated Deficit	(46,475,327)	(45,318,485)	(44,019,652)
	<u>(1,312,598)</u>	<u>(1,254,485)</u>	<u>(825,001)</u>
	<u>\$ 520,846</u>	<u>\$ 155,999</u>	<u>\$ 514,863</u>

Basis of Presentation and Going Concern (note 2)

Resource Properties (notes 4, 6)

Commitments (note 14)

Subsequent Events (note 18)

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

Approved on behalf of the Board

"Alan Shefsky", Director

"Martin Cooper", Director

Pele Mountain Resources Inc.

Consolidated Statements of Comprehensive Loss
For the Years Ended September 30, 2016 and 2015
Stated in Canadian Dollars

	2016	2015
		Restated (note 4)
Expenses		
Salaries and benefits	\$ 690,956	\$ 590,755
Publicity and investor relations	79,583	25,545
Listing and filing fees	76,030	63,387
Administrative	203,804	196,037
Professional fees	149,407	128,488
Directors' fees	29,400	36,850
Share-based compensation (note 12)	179,617	143,454
Energy project expenditures	20,902	-
Exploration and evaluation expenditures (recoveries)	235,803	(63,831)
Income on disposal of resource properties (note 7)	(527,400)	-
Amortization	6,029	7,884
Less:		
Interest Income	(9)	(324)
Dividend Income	(11,875)	(4,705)
Gain on settlement of debt (note 8)	-	(11,012)
Loss (gain) on portfolio investments (note 7)	3,059	(2,931)
Change in fair value of portfolio investments (note 7)	105,700	211,949
	<u>(1,241,006)</u>	<u>(1,321,546)</u>
Loss Before Income Taxes	(1,241,006)	(1,321,546)
Deferred Income Tax Recovery (note 13)	84,164	22,713
Net Loss and Comprehensive Loss	<u>\$ (1,156,842)</u>	<u>\$ (1,298,833)</u>
Loss per Share - basic and diluted	<u>\$ (0.006)</u>	<u>\$ (0.007)</u>
Weighted Average Number of Common Shares Outstanding - basic and diluted	<u>203,775,555</u>	<u>182,628,403</u>

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

Pele Mountain Resources Inc.

Consolidated Statements of Changes in Equity
For the Years Ended September 30, 2016 and 2015
Stated in Canadian Dollars

	Capital Stock		Contributed Surplus	Accumulated Deficit	Total
	Shares	Amount			
Balance - October 1, 2014 (Restated)	173,523,598	\$ 36,084,934	\$ 7,109,717	\$ (44,019,652)	\$ (825,001)
Shares issued pursuant to private placements (note 10ii)	11,469,229	381,431	-	-	381,431
Shares issued pursuant to debt settlement (note 10ii)	3,680,922	184,046	-	-	184,046
Warrants issued pursuant to private placement (note 10ii)	-	-	169,318	-	169,318
Shares issued on exercise of stock options (note 10ii)	200,000	10,780	(780)	-	10,000
Share issuance costs - cash (note 10ii)	-	(18,900)	-	-	(18,900)
Share issuance costs - compensation warrants (note 10ii)	-	(758)	758	-	-
Share-based compensation expense (note 12)	-	-	143,454	-	143,454
Net loss for the year	-	-	-	(1,298,833)	(1,298,833)
Balance - September 30, 2015 (Restated)	188,873,749	\$ 36,641,533	\$ 7,422,467	\$ (45,318,485)	\$ (1,254,485)

	Capital Stock		Contributed Surplus	Accumulated Deficit	Total
	Shares	Amount			
Balance - October 1, 2015 (Restated)	188,873,749	\$ 36,641,533	\$ 7,422,467	\$ (45,318,485)	\$ (1,254,485)
Shares issued pursuant to private placements (note 10iii)	17,588,180	537,767	-	-	537,767
Shares issued pursuant to debt settlement (notes 8, 11iii)	2,785,001	139,250	-	-	139,250
Warrants issued pursuant to private placement (note 10iii)	-	-	257,478	-	257,478
Shares issued on exercise of stock options (note 10iii)	350,000	22,025	(4,525)	-	17,500
Share issuance costs - cash (note 10iii)	-	(32,883)	-	-	(32,883)
Share issuance costs - compensation warrants (note 10iii)	-	(2,318)	2,318	-	-
Share-based compensation expense (note 12)	-	-	179,617	-	179,617
Net loss for the year	-	-	-	(1,156,842)	(1,156,842)
Balance - September 30, 2016	209,596,930	\$ 37,305,374	\$ 7,857,355	\$ (46,475,327)	\$ (1,312,598)

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

Pele Mountain Resources Inc.

Consolidated Statements of Cash Flow

For the Years Ended September 30, 2016 and 2015

Stated in Canadian Dollars

	2016	2015
		Restated (note 4)
Cash Flows from Operating Activities		
Cash paid to suppliers and employees	\$ (765,380)	\$ (676,749)
Interest income received	9	324
	<u>(765,371)</u>	<u>(676,425)</u>
Cash Flows from Investing Activities		
Acquisition of property, plant and equipment	(2,130)	-
Proceeds from sale of investments	1,646	15,025
	<u>(484)</u>	<u>15,025</u>
Cash Flows from Financing Activities		
Issuance of capital stock and warrants	671,009	583,462
Issuance costs	(32,883)	(18,900)
Proceeds from loans	62,770	-
	<u>700,896</u>	<u>564,562</u>
Change in cash	(64,959)	(96,838)
Cash and cash equivalents - beginning of year	<u>100,595</u>	<u>197,433</u>
Cash and cash equivalents - end of year	<u>\$ 35,636</u>	<u>\$ 100,595</u>

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

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

1. Nature of Operations

Pele Mountain Resources Inc. (the "Company") is a publicly listed company incorporated in Canada and continued under the Ontario Corporations Act. The Company's common shares trade on the TSX Venture Exchange under the symbol "GEM".

The registered address, principal address and records office of the Company is located at 2200 Yonge Street, Unit 905, Toronto, Ontario.

The Company holds a 100% interest in the Eco Ridge Project which has large NI 43-101 uranium and rare earth resources. The Company has also begun to assess the potential to develop energy and energy storage projects in Northern Ontario. The Company's continued existence is dependent upon the discovery of economically recoverable reserves or the successful development of one of the Company's other projects including the rare earth processing or energy projects and the ability of the Company to obtain the necessary financing to develop these properties and projects.

2. Basis of Presentation and Going Concern

These consolidated financial statements include the accounts of the Company and those of its wholly owned subsidiaries, Eco Ridge Development Corporation ("ERDC"), (formerly known as First Canadian Uranium Inc.), Pele Diamond Corporation ("Pele Diamond"), Pele Gold Corporation ("Pele Gold") and Mountain Pass Resources, Inc. ("Mountain Pass"). All intercompany accounts and transactions have been eliminated.

The Company's consolidated financial statements reflect the results of operations for the years ended September 30, 2016 and 2015, and the assets, liabilities and shareholders' equity as at September 30, 2016, September 30, 2015 and October 1, 2014.

a) Statement of Compliance

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company follows accounting policies under IFRS as disclosed in Note 3.

The policies applied in the Company's consolidated financial statements are based on IFRS effective as of September 30, 2016. The date the Board of Directors approved the statements is January 20, 2017.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

2. Basis of Presentation and Going Concern (continued)

b) Going Concern

The Company's ability to continue as a going concern is dependent upon, but not limited to, its ability to raise financing necessary to fund its exploration and development programs and general and administrative expenses, maintain its resource properties, discharge its liabilities as they become due and generate positive cash flows from operations. There is no certainty that the Company will be successful in raising financing given the current condition of the financial markets, and as such there is significant uncertainty the Company will be able to continue as a going concern.

The consolidated financial statements are prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of the business. Accordingly, these consolidated financial statements do not give effect to adjustments that may be necessary, should the Company be unable to continue as a going concern. If the going concern assumption is not used then the adjustments required to report the Company's assets and liabilities at liquidation values could be material to these consolidated financial statements.

c) Basis of Measurement

The Company's consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value.

d) Functional and Presentation Currency

The Company and its subsidiaries' functional currency is Canadian dollars and the consolidated financial statements are presented in Canadian dollars.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated. During the year ended September 30, 2016, the Company retrospectively changed its accounting policy for exploration and evaluation expenditures. See note 4.

a) Foreign Currency Transactions

Items included in the consolidated financial statements of the Company and each of its subsidiaries (the "Group") are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's consolidated financial statements are presented in Canadian dollars. Costs are primarily incurred in Canadian dollars, and as such, it is also the Company and its subsidiaries' functional currency.

The Company translates foreign currency monetary assets and liabilities at the rate of exchange in effect at the statement of financial position date and foreign currency non monetary assets and liabilities at historical exchange rates. Income and expenses are initially translated at average rates in the month they occur which approximates the spot rate at the date of the initial transaction. Gains and losses on translation are recorded in the statement of comprehensive loss.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

3. Significant Accounting Policies (continued)

b) Cash and Cash Equivalents

Cash and cash equivalents include bank deposits. As at September 30, 2016 and 2015, the Company did not have any cash equivalents.

c) Property, Plant and Equipment

Property, plant and equipment ("PPE") are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the assets on the following basis and rates per annum:

Exploration equipment	30%, declining balance basis
Computer equipment	30%, declining balance basis
Computer software	30%, declining balance basis
Furniture and equipment	20%, declining balance basis
Leasehold improvements	straight line over term of lease

An item of PPE is derecognized upon disposal, when no future economic benefits are expected to arise from the continued use or disposal of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in income or loss for the period.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied by the Company prospectively.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of PPE that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

d) Impairment of Long Lived Assets

At the end of each reporting period, the Company reviews the carrying amounts of its PPE to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

3. Significant Accounting Policies (continued)

d) Impairment of Long Lived Assets (continued)

The recoverable amount of an asset is the higher of fair value less costs of disposal and value in use. 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 the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

e) Flow-through Financing

The Company has financed a portion of its exploration activities through the issuance of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investors. Proceeds received on the issuance of such shares have been credited to capital stock.

The issue of flow through shares is in substance an issue of ordinary shares and the sale of tax deductions. The sale of tax deductions is measured using the relative fair value method. At the time the flow through shares are issued, the sale of tax deductions is deferred and is presented as other liabilities in the statement of financial position, because the Company has not yet fulfilled its obligation to pass on the tax deductions to the investor. When the Company fulfills its obligation:

- (i) the sale of tax deductions is recognized in the income statement as a reduction of the deferred tax expense; and
- (ii) a deferred tax liability is recognized, in accordance with IAS 12, Income Taxes, for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset in the statement of financial position and its tax base.

The obligation is fulfilled when the eligible expenditures are incurred.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

3. Significant Accounting Policies (continued)

f) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on the differences between the carrying amount of assets and liabilities on the statement of financial position and their corresponding tax value, using the substantively enacted tax rates expected to apply when these temporary differences are reversed. Deferred income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is probable that they will be realized. Income tax expense is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity.

Deferred tax liabilities are recognized for all temporary differences except when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

g) Share-based Payments

Equity-settled share based payments to employees (including directors and senior executives) and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of the share-based payment is measured by reference to the fair value of the equity instrument granted, which in turn is determined using the Black-Scholes option-pricing model on the date of the grant, with management's assumptions for the risk-free rate, dividend yield, volatility factors of the expected market price of the Company's common shares, expected forfeitures and the life of the options.

The fair value of the equity-settled share based payments is expensed over the period in which the performance and/or service conditions are fulfilled, ending on the date in which the grantee becomes fully entitled to the award, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. Vesting assumptions are reviewed at each reporting date to ensure they reflect current expectations.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the service. When the Company settles outstanding debts with equity, the equity is valued at the fair value on the date the equity is issued. Any difference in the value of the debt settled and the fair value of equity issued is recognized as a gain or loss on settlement of debt on the consolidated statement of comprehensive loss.

h) Decommissioning Liabilities

The Company's mining exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and are generally becoming more restrictive. The Company has made, and intends to make in the future, expenditures to comply with such laws and regulations or constructive obligations.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

3. Significant Accounting Policies (continued)

h) Decommissioning Liabilities (continued)

Accrued site closure costs are recorded at the time an environmental disturbance occurs, and are measured at the Company's best estimate of the expected value of future cash flows required to reclaim the disturbance upon site closure, discounted to their net present value. The net present value is determined using a pre-tax discount rate that is specific to the liability. The estimated net present value is re-measured on an annual basis or when changes in circumstances occur and/or new material information becomes available. Increases or decreases to the provision arise due to changes in legal or regulatory requirements, the extent of environmental remediation required and cost estimates. The net present value of the estimated costs of these changes is recorded in the period in which the change is identified and quantifiable.

Upon initial recognition of site closure costs, there is a corresponding increase to the carrying amounts of related assets and the cost is amortized as an expense on a unit-of-production basis over the life of the related assets. The value of the provision is progressively increased over the life of the operation as the effect of discounting unwinds, such increase is recognized as interest expense.

As at September 30, 2016 and September 30, 2015, the Company has not incurred and is not committed to any material decommissioning obligations in respect of its mineral exploration properties.

i) Other Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

j) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is recognized as a finance lease obligation within long-term debt.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are included in the capitalized value of the asset.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

3. Significant Accounting Policies (continued)

j) Leases (continued)

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

k) Loss Per Share

Loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. During the periods ended September 30, 2016 and 2015, all the outstanding stock options, warrants and brokers' compensation warrants were anti-dilutive.

l) 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.

m) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities recorded at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities recorded at fair value through profit or loss are recognized immediately in the consolidated Statement of Comprehensive Loss.

Financial Assets

The Company recognizes all financial assets initially at fair value and classifies them into one of the following specified categories: fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM"), held for trading ("HFT"), available-for-sale ("AFS") and loans and receivables. HTM instruments and loans and receivables are measured at amortized cost. AFS and HFT instruments are measured at fair value with AFS unrealized gains and losses recognized in other comprehensive income while unrealized gains and losses on HFT instruments are recognized in profit or loss for the period. Investments in AFS and HFT securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss for the period.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

3. Significant Accounting Policies (continued)

m) Financial Instruments (continued)

Financial Assets (continued)

The fair value of financial instruments traded in active markets (such as FVTPL, HFT and AFS securities) is based on quoted market prices at the date of the Statement of Financial Position. The quoted market price used for financial assets held by the Company is the current bid price.

Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. When impairment has incurred, the cumulative loss is recognized in the statement of comprehensive loss. For financial assets carried at cost or amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the recoverable amount, determined as the higher of the estimated fair value and the discounted future cash flows generated from use. The projections of future cash flows take into account the relevant operating plans and management's best estimate of the most probable set of conditions anticipated to prevail. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of comprehensive loss in the year. Impairment losses may be reversed in subsequent years.

Financial Liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss for the period. Other financial liabilities including borrowings are initially measured at fair value net of transaction costs, and subsequently measured at amortized cost using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

3. Significant Accounting Policies (continued)

m) Financial Instruments (continued)

The Company's financial assets and liabilities are classified and subsequently measured as follows:

<u>Asset/Liability</u>	<u>Classification</u>	<u>Subsequent Measurement</u>
Cash and cash equivalents	FVTPL	Fair value through profit or loss
Portfolio investments	Held for trading	Fair value through profit or loss
Portfolio investments - long term	Available for sale	Cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Other loans payable	Other financial liabilities	Amortized cost

n) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs. Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in the consolidated Statement of Comprehensive Income (Loss) on the purchase, sale, issue or cancellation of the Company's own equity instruments. In situations where the Company issues an equity instrument that includes a common share and warrant component, the Company uses the relative fair value approach in determining the value assigned to the common shares and warrants in accordance with the Black Scholes option pricing model. The estimated fair value of the warrants is recognized as contributed surplus in the consolidated statement of financial position.

o) Critical Accounting Judgments and Estimation Uncertainties

The preparation of the consolidated financial statements in conformity with IFRS requires that the Company's management make critical judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates are accounted for prospectively. The Company has identified the following critical accounting policies under which significant judgments, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the consolidated financial statements.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

3. Significant Accounting Policies (continued)

o) Critical Accounting Judgments and Estimation Uncertainties (continued)

Property, Plant and Equipment - Estimated Useful Lives

Management estimates the useful lives of PPE based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of PPE for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's PPE in the future.

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility, forfeiture rate and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 12.

Deferred Taxes

The Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which it is probable the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Flow-Through Share Premium

The Company estimates the premium paid for flow-through shares using the relative fair value method. The premium is recorded as a liability which is extinguished when the tax effect of the temporary differences, resulting from the renunciation, is recorded.

Fair Value of Portfolio Investments

The determination of fair value of portfolio investments not quoted in an active market or with significant unobservable inputs involves management estimates. Where the fair values of financial assets recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

3. Significant Accounting Policies (continued)

p) Exploration and Evaluation Expenditures

Acquisition costs and deferred exploration and evaluation expenditures incurred prior to the establishment of technical feasibility and commercial viability of extracting mineral resources and prior to a decision to proceed with mine development are charged to operations as incurred. Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized. This includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit. Currently, all acquisition costs and exploration and evaluation expenditures are expensed as incurred.

q) Resource Property Sales

When a resource property is sold any gain or loss arising on disposal of the property, determined as the difference between the disposal proceeds and the costs of disposal, is recognized in the consolidated statement comprehensive loss for the year.

r) Joint Arrangements

The Company determines whether the joint arrangement entered into by the Company is a joint operation or a joint venture based upon the rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Where the Company determines the joint arrangement represents a joint operation, the Company accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Where the Company determines the joint arrangement represents a joint venture, the Company recognizes its interest in a joint venture as an investment and accounts for this investment using the equity method, whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Company's share of the net assets of the joint venture. The Company's share of the joint venture's profit or loss and other comprehensive income (loss) is included in Company's profit or loss and other comprehensive income (loss), respectively.

The Company accounts for its joint arrangements as joint operations.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

3. Significant Accounting Policies (continued)

s) Future Accounting Policies

The accounting pronouncements detailed in this note have been issued but are not yet effective.

IFRS 9, Financial instruments (“IFRS 9”) was issued by the IASB in July 2014 and will replace IAS 39, Financial Instruments: recognition and measurement” (“IAS 39”). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released in July 2014 also introduce an expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

IFRS 15, Revenue from Contracts and Customers (“IFRS 15”) was issued by the IASB in May 2014, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

IFRS 16, Leases (“IFRS 16”) was issued by the IASB in January 2016, and will replace IAS 17 Leases. IFRS 16 specifies the methodology to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases except for short-term leases and leases with low value assets. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has also been adopted. A lessee will apply IFRS 16 to its leases either retrospectively to each prior reporting period presented; or retrospectively with the cumulative effect of initially applying IFRS 16 being recognized at the date of initial application. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

4. Change in Accounting Policy

During the year ended September 30, 2016, the Company retrospectively changed its accounting policy for exploration and evaluation expenditures. Previously, the Company capitalized acquisition costs and deferred exploration and evaluation expenditures of mineral properties to the specific mineral properties, net of recoveries received. Under the new policy, acquisition costs and deferred exploration and evaluation expenditures incurred prior to the establishment of technical feasibility and commercial viability of extracting mineral resources and prior to a decision to proceed with mine development are charged to operations as incurred. As required by IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the Company included the restated consolidated statement of financial position as at October 1, 2014. Management considers this accounting policy to provide more reliable and relevant information and more clearly represents the Company's activities.

The consolidated financial statement impact as at October 1, 2014 is as follows:

	As previously reported	Effect of change in accounting policy	As restated
Consolidated Statements of Financial Position (Summary)			
Resource properties (asset)	\$ 20,109,759	\$ (20,109,759)	-
Total assets	20,624,622	(20,109,759)	514,863
Resource properties (liability)	201,516	(201,516)	-
Deferred Income Taxes	1,277,881	(1,277,881)	-
Total liabilities	2,819,261	(1,479,397)	1,339,864
Deficit	(25,389,290)	(18,630,362)	(44,019,652)
Total shareholders' equity	17,805,361	(18,630,362)	(825,001)
Total liabilities and shareholders' equity	\$ 20,624,622	\$ (20,109,759)	\$ 514,863

The consolidated financial statement impact as at September 30, 2015 is as follows:

	As previously reported	Effect of change in accounting policy	As restated
Consolidated Statements of Financial Position (Summary)			
Resource properties (asset)	\$ 19,380,833	\$ (19,380,833)	-
Total assets	19,536,832	(19,380,833)	155,999
Deferred income taxes	892,173	(892,173)	-
Total liabilities	2,302,657	(892,173)	1,410,484
Deficit	(26,829,825)	(18,488,660)	(45,318,485)
Total shareholders' equity	17,234,175	(18,488,660)	(1,254,485)
Total liabilities and shareholders' equity	\$ 19,536,832	\$ (19,380,833)	\$ 155,999

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

4. Change in Accounting Policy (continued)

The consolidated financial statement impact for the year ended September 30, 2015 is as follows:

	As previously reported	Effect of change in accounting policy	As restated
Consolidated Statements of Comprehensive Loss (Summary)			
Exploration and evaluation expenditures	\$ -	\$ (63,831)	\$ (63,831)
Write off of resource properties	463,579	(463,579)	-
Deferred income tax recovery	(408,421)	385,708	(22,713)
Net loss and comprehensive loss	1,440,535	(141,702)	1,298,833
Loss per share	\$ (0.008)	\$ 0.001	\$ (0.007)
	As previously reported	Effect of change in accounting policy	As restated
Consolidated Statements of Cash Flow (Summary)			
Cash paid to suppliers and employees	\$ (554,474)	\$ (122,275)	\$ (676,749)
Cash flows from operating activities	(554,150)	(122,275)	(676,425)
Resource properties expenditures	(122,275)	122,275	-
Cash flows from investing activities	(107,250)	122,275	15,025
Change in cash	\$ -	\$ -	\$ -

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

5. Property, Plant and Equipment

	Exploration Equipment	Computer Equipment	Computer Software	Furniture & Equipment	Leasehold Improvements	Total
Cost						
Balance - October 1, 2014	\$ 152,659	\$ 50,439	\$ 9,612	\$ 27,951	\$ 95,409	\$ 336,070
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance - September 30, 2015	152,659	50,439	9,612	27,951	95,409	336,070
Additions	-	2,130	-	-	-	2,130
Disposals	-	-	-	-	-	-
Balance - September 30, 2016	\$ 152,659	\$ 52,569	\$ 9,612	\$ 27,951	\$ 95,409	\$ 338,200
Accumulated Amortization						
Balance - October 1, 2014	\$ 145,793	\$ 38,544	\$ 8,441	\$ 18,425	\$ 95,409	\$ 306,612
Amortization for the period	2,060	3,568	351	1,905	-	7,884
Balance - September 30, 2015	147,853	42,112	8,792	20,330	95,409	314,496
Amortization for the period	1,442	2,817	246	1,524	-	6,029
Balance - September 30, 2016	\$ 149,295	\$ 44,929	\$ 9,038	\$ 21,854	\$ 95,409	\$ 320,525
Net Book Value						
As at September 30, 2015	\$ 4,806	\$ 8,327	\$ 820	\$ 7,621	\$ -	\$ 21,574
As at September 30, 2016	\$ 3,364	\$ 7,640	\$ 574	\$ 6,097	\$ -	\$ 17,675

6. Resource Properties

The cumulative spending on each of the Company's properties is as follows:

	October 1, 2015	Net Additions (Recoveries)	Dispositions	September 30, 2016
Eco Ridge Project (i)	\$ 16,192,388	\$ 228,318	\$ -	\$ 16,420,706
Ardeen Gold Project (ii)	3,188,445	51	(3,188,496)	-
Mountain Pass Project (v)	665,095	7,434	-	672,529
	<u>\$ 20,045,928</u>	<u>\$ 235,803</u>	<u>\$ (3,188,496)</u>	<u>\$ 17,093,235</u>
Timmins Project (iii) ⁽¹⁾	\$ (122,796)	\$ -	\$ -	\$ (122,796)
Sudbury Project (iv) ⁽¹⁾	(78,720)	-	-	(78,720)
	<u>\$ (201,516)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (201,516)</u>
	October 1, 2014	Net Additions (Recoveries)	Dispositions	September 30, 2015
Eco Ridge Project (i)	\$ 16,263,796	\$ (71,408) ⁽²⁾	\$ -	\$ 16,192,388
Ardeen Gold Project (ii)	3,188,439	6	-	3,188,445
Mountain Pass Project (v)	657,524	7,571	-	665,095
	<u>\$ 20,109,759</u>	<u>\$ (63,831)</u>	<u>\$ -</u>	<u>\$ 20,045,928</u>
Timmins Project (iii) ⁽¹⁾	\$ (122,796)	\$ -	\$ -	\$ (122,796)
Sudbury Project (iv) ⁽¹⁾	(78,720)	-	-	(78,720)
	<u>\$ (201,516)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (201,516)</u>

⁽¹⁾ The Company had received consideration from its joint venture partners or optionees in excess of its costs incurred to date.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

6. Resource Properties (continued)

⁽²⁾ The Company incurred \$226,593 in expenditures during the year ended September 30, 2015. This was offset by a recovery of \$298,001 through settlements with creditors. See part (i) for more detail.

(i) Eco Ridge Project (Elliot Lake, Ontario)

The Eco Ridge Project is currently comprised of 394 mining claim units (September 30, 2015 - 394 mining claim units) and three mining leases (September 30, 2015 - two) covering approximately 8,600 hectares (September 30, 2015 - 7,284 hectares) in northern Ontario.

During the year ended September 30, 2005, the Company acquired a 100% beneficial interest in its original Elliot Lake uranium property by way of staking. It included a total of 15 mining claims (comprised of 122 mining claim units) covering nearly 2,023 hectares.

During the year ended September 30, 2007, the Company expanded its Elliot Lake Project through the following acquisitions:

- a) entered into a purchase agreement with CanAlaska Uranium Ltd. ("CanAlaska") to purchase a 100% interest in five unpatented mining claims comprising the Pardee Uranium Property (the "Pardee Claim Group"). The Pardee Claim Group includes 60 mining claim units located east of the city of Elliot Lake covering approximately 970 hectares and tying on to the southern boundary of one of the Company's original Elliot Lake claim blocks.

As consideration for the purchase, the Company paid to CanAlaska a total of \$13,000 in cash, issued 60,000 common shares in the capital of the Company at the aggregate fair value of \$12,000 and agreed to complete and file certain qualified assessment work. CanAlaska has retained a 1.75% Net Smelter Return Royalty (the "NSR Royalty") on the Pardee Claim Group, of which 1.0% can be bought back by the Company for a total of \$1,000,000.

- b) purchased a 100% interest in 101 mining claim units, known as the Platina Claim Group (the "Platina Claim Group") along the eastern and southern boundaries of its Eco Ridge Project from Precambrian Ventures Ltd. ("Precambrian"). Pursuant to the original purchase and an amending agreement, the Company has paid \$80,000 in cash and issued 425,000 common shares to Precambrian. The amending agreement also requires the payment of up to an additional \$150,000 in cash subject to, and in accordance with, the following conditions and provisions:

- \$75,000 on the twentieth day after the completion of a positive feasibility study in respect of the Platina Claim Group; and
- \$75,000 on the twentieth day after commencement of commercial production in respect of the Platina Claim Group.
- Precambrian continues to retain a 1.75% NSR royalty, of which the Company may buy back 1% for \$1,000,000.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

6. Resource Properties (continued)

(i) Eco Ridge Project (continued)

- c) purchased a 100% interest in 5 mining claims comprised of 77 claim units located immediately adjacent to the southern boundary of its Eco Ridge Project.

Pursuant to the original purchase agreement and an amending agreement, the Company paid \$82,000 in cash and issued 190,000 common shares to the vendors. The Company has also agreed to pay an additional \$40,000 in cash on the date which is the 20th day after the completion by the Company of a positive feasibility study in respect of the five mining claims, if and when such feasibility study is completed.

The vendors continue to retain a 3.0% NSR royalty, of which the Company may buy back 1.5% for \$1,500,000.

- d) acquired 14 additional mining claims comprised of 140 mining claim units by way of staking.

During the year ended September 30, 2009, the Company signed a 21-year lease agreement (the "Lease") with the City of Elliot Lake ("City") in respect of surface rights to key mining claims owned by the Company at its Eco Ridge Project in Northern Ontario. The Lease includes the City's surface rights to a total of 48 surface patents comprising of approximately 796 hectares and includes an option for the Company to purchase the surface rights under certain circumstances. The annual lease payment is \$2,388.

During the year ended September 30, 2011, the Company entered into two mining leases (the "Mining Leases") with the Province of Ontario for the Eco Ridge Project. Nine existing mining claims were converted into the Mining Leases. The Mining Leases provide the Company an exclusive right to mine the near surface portion of the Eco Ridge deposit and include surface rights that allow for siting of project infrastructure and processing facilities. The Mining Leases are for a period of 21 years (commencing on March 1, 2011) and are renewable. The Mining Leases cover an area of 1,550 hectares and the annual lease payments total \$4,652.

During the year ended September 30, 2014, the Company entered into an NSR Royalty Agreement pursuant to which the Company was assigned a mining lease for the mining rights on certain lands below small lakes located within the boundaries of the Eco Ridge Project. In exchange for the assignment of the lease, the Company has granted a 1.5% NSR return to the previous lessee, Rio Algom Exploration Inc.. The Company has renewed the Mining Lease with the Ministry of Northern Development and Mines for an additional 21 year term which commenced October 1, 2014.

During the year ended September 30, 2015, the Company settled disputes with two different creditors related to services rendered by the creditors in a prior period. To settle the disputes, the creditors have agreed to offset payment of the amounts owed by the Company and in return the Company will not pursue a claim against the creditors. This has been recorded as a reduction of \$298,001 to the Eco Ridge Project.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

6. Resource Properties (continued)

(ii) Ardeen Gold Project (Moss Lake, Thunder Bay, Ontario)

As at September 30, 2015, the Company had a 49% undivided legal and beneficial interest in 290 mining claim units and 4 patented mining located within Moss Township in the district of Thunder Bay, Ontario.

The Company acquired 41 mining claim units and 2 patented mining claims from a group of vendors pursuant to a purchase and sale agreement dated June 3, 1997. Under the terms of the purchase and sale agreement, the Company is required to issue an aggregate of 240,000 common shares to the vendors contingent on the property going into commercial production. The balance of the property was acquired through a series of acquisition agreements (some of which are subject to royalty interests to the vendors) and through staking campaigns.

During the year ended September 30, 2009, Pele Gold entered into a definitive option agreement (the "Definitive Agreement") for the Ardeen Gold Project with Coventry Resources Limited ("Coventry") with the following relevant terms:

- Coventry paid Pele Gold \$25,000 initial payment and \$75,000 cash on signing the Definitive Agreement;

- Coventry funded enough expenditures to earn a 51% interest in the project by spending \$1,500,000 at Ardeen within 18 months of entering into the Definitive Agreement;

- Once Coventry had funded enough expenditures to earn a 51% interest, it could have elected to increase its interest to 75% by spending an additional \$1,500,000 at Ardeen by the 42nd month after signing the Definitive Agreement. In February 2014, Coventry reported that it sold its stake in the project to Chalice Gold Mines Limited. As of September 30, 2016, Chalice had not spent the additional \$1,500,000 within the specified 42 month period, and its option to increase its ownership to 75% has expired. Future decisions about spending at Ardeen may have an impact on the relative ownership of Chalice and Pele in the Joint Venture.

During the year ended September 30, 2016, the Company entered into a purchase agreement, along with Chalice Gold Mines ("Chalice"), whereby their respective operating subsidiaries will sell their respective interests in the Ardeen Gold Project to Kesselrun Resources Ltd.. In consideration for the sale, Kesselrun has agreed to issue Chalice and the Company 4,000,000 common shares of Kesselrun and a package of Net Smelter Return (NSR) royalties. The Company (and Chalice) will be granted certain NSR royalties over certain mining claims. In combination with pre-existing NSRs, the property will be subject to an overall 2.5% NSR royalty over certain mining claims and a 2% NSR royalty on the remaining mining claims. The NSRs are subject to certain buyback clauses, which going forward will be for the benefit of Kesselrun. On August 9, 2016, the transaction closed and as 49% owner of the Ardeen Gold Project, the Company received 1,960,000 shares of Kesselrun and a pro rata share of the royalty package. Following the issuance of the Kesselrun shares, the Company held approximately 5.5% of the issued and outstanding shares of Kesselrun. Refer to note 7(b) for the valuation of the Kesselrun shares received as consideration.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

6. Resource Properties (continued)

(iii) Timmins Project (Timmins, Ontario)

The Company has a 100% registered interest in 4 mining claims (September 30, 2015 - 4 mining claims) located 35 kilometres south of Timmins in northern Ontario. These mining claims are comprised of 22 mining claim units (September 30, 2015 - 22 mining claim units).

During the year ended September 30, 2008, the Company entered into a purchase and sale agreement with Fletcher Nickel Inc. ("Fletcher") to sell its 100% interest in the Timmins Project to Fletcher. As at September 30, 2009, the Company had received cash payments totalling \$175,000 and 600,000 Fletcher shares with a total fair value of \$420,000 as at the time of issuance.

However, Fletcher failed to make the remaining payments that were due pursuant to the purchase and sale agreement. During the year ended September 30, 2010, Fletcher and the Company agreed to terminate the purchase and sale agreement and the Timmins Project continues to be 100% owned by the Company.

(iv) Sudbury Project (Sudbury, Ontario)

During the year ended September 30, 2005, the Company acquired by way of purchase and staking, a 100% undivided legal and beneficial interest in certain mining claims in the Sudbury Mining Camp of northern Ontario. It includes 4 mining claims (September 30, 2015 - 17 mining claims) comprised of 52 mining claim units (September 30, 2015 - 215 mining claim units) covering approximately 830 hectares. The vendor was reimbursed for the costs of staking and recording these claims and was granted a 1.5% NSR. The Company may, at its option, repurchase 1% of the NSR from the vendor for \$1,000,000.

During the year ended September 30, 2006, the Company entered into an option agreement with Wallbridge Mining Company Ltd. ("Wallbridge"). Wallbridge has the right to earn a 60% interest by issuing 1,050,000 common shares to the Company (of which all 1,050,000 shares have been issued) and incurring \$1,200,000 in exploration expenditures by December 31, 2009. Wallbridge has the right to increase its interest to 72.5% by completing a bankable feasibility study and arranging the financing for the project through to commercial production.

Wallbridge has fulfilled its commitments under the Option Agreement and, accordingly, a new Joint Venture with Pele was established January 1, 2010, with Wallbridge owning 60% and Pele owning a 40% interest in the Joint Venture. Wallbridge has incurred exploration expenditures to increase its ownership interest in the Joint Venture to 64% as of September 30, 2016, and accordingly, the Company owns a 36% interest.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

6. Resource Properties (continued)

(v) Mountain Pass Project (Mountain Pass, California)

During the year ended September 30, 2012, the Company acquired mining claims comprising 75 contiguous hectares located in south-eastern California in exchange for 4,000,000 common shares of the Company. The seller agreed to a 12 month contractual hold period on its shares after closing. The seller has retained a 2% production royalty (the "Production Royalty") on all minerals mined on the property, subject to the right of the Company to buy back 1% of the Production Royalty for 2,000,000 United States Dollars, escalated annually by a factor equal to the Producer Price Index.

In addition to a Phase 1 Exploration Program completed during the year ended September 30, 2014, the Company must complete a total of 2,000,000 United States Dollars of exploration work on the property by September 26, 2017. The Phase 1 Exploration Program includes: compilation of historic data, geological mapping, radiometric survey, sampling of pits and trenches, surface sampling, petrological analysis, mineralogical analysis and drill program planning.

If the Company sells the mining claims to an arm's length third party, the seller will receive 10% of the proceeds from the sale and a minimum royalty (the "Minimum Royalty") of \$12,000 per year will become payable to the seller, increasing by \$12,000 per year until it reaches a maximum of \$120,000 per year. The Minimum Royalty shall not apply in the case of an earn-in agreement with a third party while work on the property is advancing.

The seller has been granted a security interest in the mining claims to secure performance of certain terms in the Agreement. The Company has issued a total of 200,000 common shares to two arm's length individuals as a fee for services related to the introduction of the Company to the seller.

(vi) Festival Project (Wawa, Ontario)

In 2004, Goldcorp Inc. and Pele began exploring the Festival Project, north of Wawa. The Festival Project is owned by Pele Mountain and Goldcorp Inc. under a joint venture that was entered into in 2006 with each company owning 50%. In 2010 the original 101 square kilometre exploration license for the Festival Project expired and the Project was consequently written off by Pele due to inactivity.

In 2013, the Company and Goldcorp Inc. reactivated the joint venture on the Festival Project. Goldcorp entered into a License Agreement on behalf of the joint venture for a Licensed Area covering a total area of 52 square kilometres. The Licensed Area straddles the interpreted western extension of the Goudreau Localsh Deformation Zone ("GLDZ"), host to Richmond's Island Gold Mine as well as several past-producing gold mines including Argonaut's Magino Mine. The term of the License is for five years commencing on January 1, 2013 and may be extended for an additional 5-year term. All minerals produced and marketed from the Licensed Area are subject to a 3% royalty payable to the Licensor.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

6. Resource Properties (continued)

(vi) Festival Project (continued)

Goldcorp is funding and operating the Festival Project Joint Venture with Pele electing not to contribute its pro rata share. Accordingly, Goldcorp's interest has increased to over 50% of the joint venture and Pele's interest is less than 50%. New work on the property will impact the relative percentage ownership of each party in the joint venture.

7. Portfolio Investments

a) Zara Resources Inc.

During the year ended ended September 30, 2013, the Company acquired 2,250,000 common shares of Zara Resources Inc. ("Zara") and 4,750,000 non-voting convertible 5% Preference Shares of Zara Resources Inc. in satisfaction of the purchase price of \$700,000 related to the divestiture of the Pigeon River project. During the year ended September 30, 2013, the Company sold all 2,250,000 of the common shares at a realized loss of \$102,508. The Preference Shares are convertible at the exclusive option of Zara at an exchange ratio equal to the original issue price of the Zara common shares of \$0.10 per share, divided by the current market price of the Zara common shares, which is defined as being its 10 day weighted average closing price (the "Exchange Ratio").

The 5% dividends declared on the Preference Shares rank in priority to dividends payable on any other class of shares issued by Zara, and any accumulation of dividends will bear interest at 5% per annum. The 5% dividends are payable in common shares of Zara based on the Exchange Ratio. Partial payment of the 2014 and 2015 dividends were received in January 2015. Partial payment of the 2016 dividend was received in January 2016. The Company acquired a total of 1,415,900 common shares of Zara Resources as a dividend payment in kind. The Preference Shares are classified as available for sale and, as such, are valued at cost in the absence of a quoted market price in an active market and the fact that their fair value cannot be reliably measured. The Preferred Shares were previously classified as fair value through profit and loss and this change in classification did not affect the carrying value. As a result of the change in classification, the Company has moved the Preferred Shares from a current asset to a long-term asset.

During the year ended September 30, 2014, the Company determined the Preferred Shares to be partially impaired and incurred a write-down of \$263,051. During the year ended September 30, 2015, the Company determined the Preferred Shares to be fully impaired and incurred a write-down of \$211,949.

Zara is a junior resource company based in Toronto, Ontario, whose common shares are listed for trading on the Canadian National Stock Exchange (CNSX). As the common shares of Zara are thinly traded and there is no public market for the Preference Shares which are not listed, posted or quoted for trading on any exchange or quotation system, these securities are illiquid. As at September 30, 2016, the Company does not intend to dispose of the Preferred Shares. The Company's holdings are summarized on the following page.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

7. Portfolio Investments (continued)

Zara Preferred Shares

	Number of Shares	Cost	Fair Value
Balance - October 1, 2014	4,750,000	\$ 475,000	\$ 211,949
Change in fair value	-	-	(211,949)
Balance - September 30, 2015	4,750,000	475,000	-
One for ten share consolidation	(4,275,000)	-	-
Balance - September 30, 2016	475,000	\$ 475,000	\$ -

Zara Common Shares

	Number of Shares	Cost	Fair Value
Balance - October 1, 2014	-	\$ -	\$ -
Dividend payment in kind	940,900	4,705	4,705
Balance - September 30, 2015	940,900	4,705	4,705
One for ten share consolidation	(846,810)	-	-
Dividend payment in kind	475,000	11,875	11,875
Sale at \$0.05 per share	(94,090)	(4,705)	(4,705)
Change in fair value	-	-	(9,500)
Balance - September 30, 2016	475,000	\$ 11,875	\$ 2,375

b) Kesselrun Resources Ltd.

As part of the consideration received in the purchase agreement for the Ardeen Project in note 6, the Company holds the following common shares of Kesselrun Resources Ltd.:

	Number of Shares	Cost	Fair Value
Balance - October 1, 2014 and September 30, 2015	-	-	-
Shares received as consideration for sale	1,960,000	527,400	527,400
Change in fair value	-	-	(96,200)
Balance - September 30, 2016	1,960,000	\$ 527,400	\$ 431,200

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

7. Portfolio Investments (continued)

c) Leo Resources Inc.

	Number of Shares	Cost	Fair Value
Balance - October 1, 2014	225,000	12,094	12,094
Sale	(225,000)	(12,094)	(12,094)
Balance - September 30, 2015 and 2016	-	\$ -	\$ -

8. Debt Settlement

During the year ended September 30, 2015, the Company issued 3,680,922 shares at a deemed price of \$0.05 per share as settlement of debts owed to various creditors in the aggregate amount of \$195,058. As the debts were settled for an amount less than their carrying values, a gain of \$11,012 related to settlement of debt has been recognized in the statement of comprehensive loss for the period ended September 30, 2015. See also note 10.

During the year ended September 30, 2016, the Company issued 2,785,001 shares at a deemed price of \$0.05 per share as settlement of debts owed to various creditors in the aggregate amount of \$139,250. Of these amounts, 1,925,931 common shares were issued to a law firm in which a director and officer of the Company is a partner to settle debt of \$96,297.

9. Other Loans Payable

During the year ended September 30, 2016, the Company entered into a \$100,000 loan agreement. The loan carries an interest rate of 6% per annum. During the year ended September 30, 2016, \$50,000 of the loan proceeds were advanced to the Company. An additional \$50,000 will be issued during the year ended September 30, 2017. As security issued for the loan, the Company agreed to issue 400,000 of its common shares ("Bonus Shares") to the Lender upon receipt of the final \$50,000 being received on or before October 31, 2016. The Bonus Shares will be subject to a statutory hold period of four months from the date of issuance. The Company will repay the loan from the proceeds realized from the sale of the Company's 1,960,000 shares of Kesselrun Resources Ltd.. The Kesselrun shares serve as collateral for the loan. The carrying value of the Kesselrun shares at September 30, 2016 is \$431,200. The principal and interest will be due on or before November 1, 2017. See note 18 for events occurring after the reporting period with respect to this loan.

During the year ended September 30, 2016, the Company was advanced 10,000 United States Dollars (\$12,770 CAD) by an individual to maintain the Company's Mountain Pass Project. The advance is non-interest bearing and is payable on demand that requires more than one year notice. As at September 30, 2016, the Company has not received a demand notice and thus has classified the advances as long term.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

10. Capital Stock

Authorized

Unlimited common shares

Issued

	<u>Number</u>	<u>Amount</u>
Balance - October 1, 2014 (i)	173,523,598	\$ 36,084,934
Issued for private placements (ii)	11,469,229	381,431
Issued pursuant to debt settlement (ii)	3,680,922	184,046
Issued on exercise of stock options (ii)	200,000	10,780
Less: Share issuance costs - cash (ii)	-	(18,900)
Less: Share issuance costs - compensation warrants (ii)	-	(758)
Balance - September 30, 2015 (i)	188,873,749	\$ 36,641,533
Issued for private placements (iii)	17,588,180	537,767
Issued pursuant to debt settlement (iii)	2,785,001	139,250
Issued on exercise of stock options (iii)	350,000	22,025
Less: Share issuance costs - cash (iii)	-	(32,883)
Less: Share issuance costs - compensation warrants (iii)	-	(2,318)
Balance - September 30, 2016 (i)	<u>209,596,930</u>	<u>\$ 37,305,374</u>

(i) The Company is conditionally committed to issue an additional 240,000 common shares as described in Note 6(ii).

(ii) Share issuances during the year ended September 30, 2015 consisted of the following:

- a) issued 1,757,029 units pursuant to a non-brokered private placement at a purchase price of \$0.05 per unit for gross proceeds \$87,852 of which \$20,381 was allocated to warrants and \$22,713 was allocated to other liabilities. Each unit is comprised of one flow-through common share and one share purchase warrant, where each whole warrant entitles the holder to purchase one additional non-flow-through common share of the Company at a price of \$0.07 per share until December 24, 2017. Four directors of the Company participated in the Offering, acquiring 757,029 units.
- b) entered into shares-for-debt agreements with certain creditors, pursuant to which the Company issued 3,680,922 common shares, at a deemed price of \$0.05 per common share, to satisfy aggregate debts of \$196,490.
- c) issued 120,000 shares as a result of a stock option exercise for gross proceeds of \$6,000.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

10. Capital Stock (continued)

- d) issued 8,012,000 units pursuant to a non-brokered private placement at a purchase price of \$0.05 per unit for gross proceeds \$400,610 of which \$122,587 was allocated to warrants. Each unit is comprised of one common share and one share purchase warrant, where each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.07 per share until April 13, 2018. Six directors of the Company participated in the Offering, acquiring 1,670,200 units.
- e) issued 1,700,000 units pursuant to a non-brokered private placement at a purchase price of \$0.05 per unit for gross proceeds \$85,000 of which \$26,350 was allocated to warrants. Each unit is comprised of one common share and one share purchase warrant, where each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.07 per share until May 25, 2018.
- f) issued 80,000 shares as a result of a stock option exercise for gross proceeds of \$4,000.

In connection with the private placement discussed in d) above, the Company paid a cash fee of \$1,400 to eligible persons (the "Finders") and issued 28,000 Compensation Warrants with a fair value of \$758 to the Finders. Each Compensation Warrant entitles the holder to acquire one common share of the Company at \$0.05 per share until April 13, 2016.

The fair value allocated to the warrants and compensation warrants was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Share price	\$0.04
Expected dividend yield	Nil
Risk-free interest rate	0.65%
Expected life	2.99 years
Expected volatility	90.51%

Warrant pricing models require the input of highly subjective assumptions including the expected price volatility. Expected volatility was determined using the historical volatility of the Company's shares for a period equal to the estimated life of the warrant. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's compensation warrants. The compensation warrants were valued using the fair value of the equity instrument granted in the absence of a reliable estimate of the fair value of the services received.

(iii) Share issuances during the year ended September 30, 2016 consisted of the following:

- a) issued 2,134,180 flow-through units pursuant to a non-brokered private placement at a purchase price of \$0.05 per unit for gross proceeds \$106,709 of which \$24,756 was allocated to warrants and \$29,924 was allocated to other liabilities. Each unit is comprised of one flow-through common share and one share purchase warrant, where each whole warrant entitles the holder to purchase one additional non-flow-through common share of the Company at a price of \$0.07 per share until May 20, 2017. Three directors of the Company participated in the Offering, acquiring 954,000 units.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

10. Capital Stock (continued)

- b) issued 5,250,000 units pursuant to a non-brokered private placement at a purchase price of \$0.05 per unit for gross proceeds \$262,500 of which \$84,000 was allocated to warrants. Each unit is comprised of one common share and one share purchase warrant, where each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.05 per share until November 20, 2018. Three directors of the Company participated in the Offering, acquiring 4,200,000 units.

In connection with the private placements discussed in a) and b) above, the Company paid cash fees of \$2,800 to eligible persons (the "Finders") and issued 56,000 Compensation Warrants with a fair value of \$466 to the Finders. Each Compensation Warrant entitles the holder to acquire one common share of the Company at \$0.05 per share until November 20, 2016.

- c) issued 350,000 shares as a result of a stock option exercise for gross proceeds of \$17,500.
- d) issued 4,155,000 flow-through units at a purchase price of \$0.05 per unit for aggregate gross proceeds of \$207,750, of which \$51,938 was allocated to warrants and \$54,240 was allocated to other liabilities. Each unit consists of one common share and one common share purchase warrant, with each warrant exercisable to acquire one common share of the Company at \$0.07 until August 4, 2017. Two directors of the Company participated in the Offering, acquiring 1,055,000 units.
- e) issued 5,049,000 units at a price of \$0.05 each for aggregate gross proceeds of \$252,450, of which \$80,784 was allocated to warrants. Each unit consists of one common share and one common share purchase warrant, with each warrant exercisable to acquire one common share of the Company at \$0.05 until February 4, 2019. Two directors of the Company participated in the Offering, acquiring 4,049,000 units.
- f) issued 1,000,000 units at a price of \$0.05 each for aggregate gross proceeds of \$50,000, of which \$16,000 was allocated to warrants. Each unit consists of one common share and one common share purchase warrant, with each warrant exercisable to acquire one common share of the Company at \$0.05 until February 5, 2019.

In connection with the private placements discussed in d), e) and f) above, the Company paid cash fees of \$5,600 to eligible persons (the "Finders") and issued 112,000 Compensation Warrants to the Finders. Each Compensation Warrant entitles the holder upon exercise to acquire one common share of the Company at \$0.05 per share until February 4, 2017.

- g) entered into shares-for-debt agreements with certain creditors, pursuant to which the Company issued 2,785,001 common shares, at a deemed price of \$0.05 per common share, to satisfy aggregate debts of \$139,250. Of these amounts, 1,925,931 common shares were issued to a law firm in which a director and officer of the Company is a partner to settle debt of \$96,297. See note 8 for more detail.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

10. Capital Stock (continued)

The fair value allocated to the warrants and compensation warrants was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Share price	\$0.04
Expected dividend yield	Nil
Risk-free interest rate	0.46%
Expected life	2.45 years
Expected volatility	94.51%
Exercise price	\$0.06

Warrant pricing models require the input of highly subjective assumptions including the expected price volatility. Expected volatility was determined using the historical volatility of the Company's shares for a period equal to the estimated life of the warrant. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's compensation warrants. The compensation warrants were valued using the fair value of the equity instrument granted in the absence of a reliable estimate of the fair value of the services received.

11. Stock Options, Warrants and Shareholders Rights Plan

(i) Stock Options

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees and consultants. The maximum number of common shares reserved for issuance and available for purchase pursuant to options granted under the Plan cannot exceed 10% of the total number of common shares of the Company issued and outstanding at the date of any grant made. In addition, the aggregate number of shares so reserved for issuance to one person may not exceed 5% of the issued and outstanding shares in any given 12 month period. Options pursuant to the Plan are granted at the discretion of the Board of Directors, vest at schedules determined by the Board, and have an exercise price of not less than that permitted by the stock exchange on which the shares are listed.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

11. Stock Options, Warrants and Shareholder Rights Plan (continued)

The following summarizes the stock option activities:

	2016		2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	15,386,250	\$ 0.10	15,525,000	\$ 0.15
Granted	7,523,750	0.05	6,517,500	0.05
Exercised	(350,000)	(0.05)	(200,000)	(0.05)
Expired	(1,830,000)	(0.13)	(6,456,250)	(0.18)
Outstanding at period end	20,730,000	\$ 0.08	15,386,250	\$ 0.10
Exercisable at period end	20,730,000	\$ 0.08	15,386,250	\$ 0.10

The Company had the following stock options outstanding at September 30, 2016:

Number of Options	Exercisable	Exercise Price	Expiry Date
500,000	500,000	\$ 0.100	October 4, 2016
500,000	500,000	\$ 0.100	November 27, 2016
180,000	180,000	\$ 0.050	December 31, 2016
800,000	800,000	\$ 0.120	December 31, 2016
800,000	800,000	\$ 0.170	December 31, 2016
800,000	800,000	\$ 0.220	December 31, 2016
4,250,000	4,250,000	\$ 0.100	December 31, 2018
9,225,000	9,225,000	\$ 0.050	December 31, 2019
3,675,000	3,675,000	\$ 0.050	December 31, 2020
<u>20,730,000</u>	<u>20,730,000</u>		

(ii) Warrants

All of the outstanding warrants were issued in conjunction with the issuance of common shares. The fair value of warrants issued and outstanding is reflected in contributed surplus. Amounts for warrants that are subsequently exercised are transferred from contributed surplus to capital stock.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

11. Stock Options, Warrants and Shareholder Rights Plan (continued)

The following summarizes the warrant activities:

	2016		2015	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Beginning balance	17,156,791	\$ 0.09	11,031,731	\$ 0.11
Issued	17,756,180	0.06	11,497,229	0.07
Exercised	-	-	-	-
Expired	(5,687,562)	0.12	(5,372,169)	(0.11)
Outstanding and exercisable at period end	29,225,409	\$ 0.06	17,156,791	\$ 0.09

The Company had the following warrants outstanding at September 30, 2016:

Number of Warrants	Series	Type of Share	Exercise Price	Expiry Date
1,757,029	BBB	Common shares	\$ 0.07	December 24, 2017
8,012,200	CCC	Common shares	\$ 0.07	April 13, 2018
1,700,000	DDD	Common shares	\$ 0.07	May 25, 2018
5,250,000	EEE	Common shares	\$ 0.05	November 20, 2018
2,134,180	FFF	Common shares	\$ 0.07	May 20, 2017
56,000		Common shares	\$ 0.05	November 20, 2016
4,155,000	GGG	Common shares	\$ 0.07	August 4, 2017
5,049,000	HHH	Common shares	\$ 0.05	February 4, 2019
1,000,000	HHH	Common shares	\$ 0.05	February 5, 2019
112,000		Common shares	\$ 0.05	February 4, 2017
<u>29,225,409</u>				

(iii) Shareholders' Rights Plan

The Company's Board of Directors approved a shareholders' rights plan ("Rights Plan"), effective January 31, 2007, which was ratified at the 2007, 2010, 2013 and 2016 annual shareholders' meetings. This Rights Plan is intended to ensure, to the extent possible, that all shareholders of the Company are treated equally and fairly in connection with any take over bid for the Company, and was designed to discourage discriminatory or unfair bids and to provide management, if appropriate, with sufficient time to pursue alternatives to maximize shareholder value.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

12. Share-Based Compensation

The fair value of the stock options granted to employees, directors and officers was estimated at the grant date and the stock options granted to consultants were estimated at the earliest of the following: a) service completion date, b) the date at which a commitment for performance by the consultant to earn the options are reached, or c) the grant date if the options are fully vested and non-forfeitable at that date, based on the Black-Scholes pricing model, using the following weighted average assumptions:

	<u>2016</u>	<u>2015</u>
Share price	\$0.04	\$0.04
Expected dividend yield	Nil	Nil
Risk-free interest rate	0.47%	0.51%
Expected life	4.29 years	4.55 years
Expected volatility	85.60%	86.01%
Exercise price	\$0.05	\$0.05

The weighted average grant date fair values of options issued in the year ended September 30, 2016 was \$0.02 (2015 - \$0.02). The total amount credited to contributed surplus was \$179,617 (2015 - \$143,454) relating to stock options vested during the years ended September 30, 2016 and 2015 and these amounts were included in stock-based compensation expense for the years ended September 30, 2016 and 2015.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Expected volatility was determined based on the Company's historical stock price. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options. Stock options issued to non-employees were valued using the fair value of the equity instrument granted in the absence of a reliable estimate of the fair value of the services received.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

13. Income Taxes

(i) Income Tax Expense

The following table reconciles income taxes calculated at combined Canadian federal/provincial tax rates with the income tax recovery in the consolidated financial statements:

	<u>2016</u>	<u>2015</u>
Loss before income taxes	\$ (1,241,006)	\$ (1,321,546)
Statutory rate	26.50 %	26.50 %
Expected income tax recovery	\$ (328,867)	\$ (350,210)
Stock-based compensation and other non-deductible expenses	49,585	37,963
Tax expense (benefit) relating to the origination and reversal of temporary differences	28,776	102,134
True up of prior year balances and other	(55,490)	(36,433)
Losses and other deductions for which no benefit has been recognized	221,832	223,833
Income tax recovery	<u>\$ (84,164)</u>	<u>\$ (22,713)</u>

(ii) Deferred Taxes

The temporary differences that give rise to deferred income tax assets and deferred income tax liabilities are presented below:

	<u>2016</u>	<u>2015</u>
Deferred Tax Assets		
Amounts related to tax loss and credit carry forwards	\$ 919,135	\$ 857,353
Property, plant and equipment	93,935	92,337
Resource properties	3,337,363	3,175,451
Share issuance costs	11,867	15,327
	4,362,300	4,140,468
Deferred taxes not recognized	<u>(4,362,300)</u>	<u>(4,140,468)</u>
Net deferred tax liabilities	<u>\$ -</u>	<u>\$ -</u>
Net deferred tax liabilities	<u>\$ -</u>	<u>\$ -</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income tax liabilities result primarily from amounts not deductible for accounting purposes until future periods. Deferred income tax assets result primarily from operating tax loss carry forwards and have been offset against deferred income tax liabilities.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

13. Income Taxes (continued)

(iii) Loss Carry Forwards

The Company has non-capital losses of approximately \$3,335,954 available for carry forward. These losses expire as follows:

2026	\$ 1,077,259
2027	1,554
2028	175
2029	168,265
2030	283,049
2031	391,437
2032	376,598
2033	299,565
2034	291,890
2035	218,576
2036	<u>227,586</u>
	<u>\$ 3,335,954</u>

14. Commitments

- (i) The Company is committed under lease contracts for the rental of its premises and a vehicle. Annual minimum lease payments are required as follows:

2017	\$ 47,379
2018	22,221
2019	9,836
2020	2,388
2021	<u>2,388</u>
	<u>\$ 84,212</u>

- (ii) The Company is committed to issue an additional 240,000 common shares as part of the consideration for the acquisition of the Ardeen Gold Project property described in note 6(ii) contingent on the property going into commercial production.

Additional commitments related to the Company's resource properties are separately disclosed in note 6.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

15. Related Party Transactions

During the year ended September 30, 2016, the Company entered into the following related party transactions:

- a) Consulting fees and salary of \$87,000 (2015 - \$80,500) was earned by Martin Cooper, a director and officer of the Company, \$87,000 of which were classified as exploration and evaluation expenditures. As at September 30, 2016, accounts payable and accrued liabilities included \$97,500 (2015 - \$60,500) payable to this director and officer.
- b) Legal fees of \$89,830 (2015 - \$52,450) were incurred with a law firm in which Steven Rukavina, a director and officer of the Company is a partner. As at September 30, 2016, accounts payable and accrued liabilities included \$120,184 (2015 - \$126,616) payable to this law firm. See also note 10 (iii) g).
- c) Accounting fees of \$45,000 (2015 - \$47,000) were incurred with an accounting firm in which Paul Andersen, an officer of the Company is a partner. As at September 30, 2016, accounts payable and accrued liabilities included \$150,155 (2015 - \$109,530) accrued to this accounting firm.
- d) Consulting fees of \$72,700 (2015 - \$80,000) were incurred with a company in which John Wilkinson, a director of the Company, is an officer, all of which have been classified as exploration and evaluation expenditures. As at September 30, 2016, accounts payable and accrued liabilities included \$57,654 (2015 - \$53,360) payable to this director.
- e) Compensation earned by directors and other members of key management personnel for the year ended September 30, 2016 were as follows:

	<u>2016</u>	<u>2015</u>
Salaries and benefits (CEO and CFO)	\$ 306,000	\$ 303,000
Retention bonus (CEO)	212,500	150,000
Directors' fees	29,400	36,850
Share-based compensation (Officers and Directors)	158,917	132,793
	<u>\$ 706,817</u>	<u>\$ 622,643</u>

As at September 30, 2016, accounts payable and accrued liabilities included \$25,750 (2015 - \$24,250) of directors' fees and \$748,675 (2015 - \$256,500) of wages payable.

- f) Other related party transactions are disclosed in note 10.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

16. Financial Instruments and Other Risks

IFRS 7 establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1	quoted prices in active markets for identical assets or liabilities;
Level 2	inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
Level 3	inputs for the asset or liability that are not based upon observable market data

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As at September 30, 2016, the Company's cash and cash equivalents are categorized as Level 1 measurement. The portfolio investments in the common shares of Zara Resources Inc. and Kesselrun Resources are categorized as Level 1 measurement. The portfolio investments in the preferred shares of Zara are categorized as Level 2 measurement.

Fair Values

Except as disclosed elsewhere in these financial statements, the carrying amounts for the Company's financial instruments approximate their fair values because of the short-term nature of these items.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

The Company is not exposed to any significant credit risk as at September 30, 2016. The Company's cash and cash equivalents are either on deposit with a highly rated banking group in Canada or invested in bankers acceptance notes or guaranteed investment certificates issued by a highly rated Canadian banking group.

Liquidity Risk

Liquidity risk is the risk that an entity will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is strive to have sufficient liquidity to meet liabilities when due. As at September 30, 2016, the Company has current assets of \$503,171 (2015 - \$134,425) and current liabilities of \$1,770,674 (2015 - \$1,410,484). All of the Company's current financial liabilities and receivables have contractual maturities of less than 120 days and are subject to normal trade terms. The Company has a working capital deficiency of \$1,267,503 (2015 - \$1,276,059) as at September 30, 2016.

Market Risk

(i) Interest rate risk

The Company has cash and cash equivalents balances and it has 6% interest on loan debt.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

16. Financial Instruments and Other Risks (continued)

Market Risk (continued)

(ii) Foreign currency risk

The Company's functional currency is the Canadian dollar. The majority of the Company's purchases are transacted in Canadian dollars. As at September 30, 2016, the Company had accounts payable of \$54,485 (2015 - \$33,837) denominated in US currency.

(iii) Price risk

The prices of metals and minerals fluctuate widely and are affected by many factors outside of the Company's control. The prices of metals and minerals and future expectation of such prices have a significant impact on the market sentiment for investment in mining and mineral exploration companies. This in turn may impact the Company's ability to raise equity financing for its long term working capital requirements.

(iv) Equity Price Risk

The Company is exposed to price risk with respect to equity prices on its investments held for trading and available for sale. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market.

Sensitivity Analysis

Based on management's knowledge and experiences of the financial markets, the Company's management believes the following movements are "reasonably possible" over a three month period.

As at September 30, 2016, the Company's cash and cash equivalents are not subject to significant interest rate fluctuations within the next three months. As at September 30, 2016, the Company is not subject to significant foreign exchange fluctuations.

17. Capital Disclosures

The Company includes equity, comprised of issued capital stock, contributed surplus and deficit, in the definition of capital.

The Company's objectives when managing capital are as follows:

- (i) to safeguard the Company's assets and ensure the Company's ability to continue as a going concern;
- (ii) to raise sufficient capital to finance its exploration and development activities on its Eco Ridge Project; and
- (iii) to raise sufficient capital to meet its general and administrative expenditures, and to explore and develop its other resource properties.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2016 and 2015

17. Capital Disclosures (continued)

The Company manages its capital structure and makes adjustments to it, based on the general economic conditions, the Company's short term working capital requirements, and its planned exploration and development program expenditure requirements.

As the Company is in the exploration stage, its principal source of capital is from the issuance of common shares. In order to achieve its objectives, the Company expects to spend its existing working capital and raise additional funds as required.

The Company does not have any externally imposed capital requirements other than the requirement to incur certain amounts of Canadian exploration expenses ("CEE") pursuant to flow-through private placements. As at September 30, 2016, the Company is required to spend \$Nil (2015 - \$Nil) in order to fulfil its obligations related to past private placements. There were no changes to the Company's approach to capital management during the years ended September 30, 2016 and 2015.

18. Subsequent Events

Subsequent to the year ended September 30, 2016, the Company:

- a) received the second and final instalment of \$50,000 from the loan payable as described in note 9. Upon receipt of the funds, the Company issued 400,000 shares to the Lender in connection with the short term loan disclosed in note 9.
- b) formed a new wholly-owned operating subsidiary, Sage Power Corporation, to advance its energy generation and storage projects.
- c) sold the remaining 475,000 common shares held in Zara Resources Inc. for proceeds of \$2,240. Subsequent to this disposition, the Company received an additional 475,000 common shares of Zara as a dividend payment in kind on its Zara preferred shares. The 475,000 preferred shares held by the Company were then converted to 950,000 common shares. The Company sold the 1,425,000 common shares for proceeds of \$20,000.

Condensed Interim Consolidated Financial Statements

Pele Mountain Resources Inc.

**For the Three and Six Months Ended March 31, 2019
(Stated in Canadian Dollars)**

Unaudited

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NOTICE TO READER

The accompanying unaudited condensed interim consolidated financial statements have been prepared by the Company's management and the Company's independent auditors have not performed a review of these condensed interim consolidated financial statements.

Pele Mountain Resources Inc.

Condensed Interim Consolidated Statements of Financial Position

Unaudited - See Notice to Reader

Stated in Canadian Dollars

	March 31, 2019	September 30, 2018 (audited)
Assets		
Current Assets		
Cash and cash equivalents	\$ 37,592	\$ 52,597
Prepaid expenses and other assets	63,327	38,176
	<u>\$ 100,919</u>	<u>\$ 90,773</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 492,944	\$ 347,965
Shareholders' Deficit		
Capital Stock (note 7)	38,324,374	38,324,374
Contributed Surplus	7,921,178	7,921,178
Accumulated Deficit	(46,637,577)	(46,502,744)
	<u>(392,025)</u>	<u>(257,192)</u>
	<u>\$ 100,919</u>	<u>\$ 90,773</u>

Basis of Presentation and Going Concern (note 2)

Subsequent Event (note 12)

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

Approved on behalf of the Board

Signed "Martin Cooper", Director

Signed "Richard Cooper", Director

Pele Mountain Resources Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

For the Three and Six Months Ended March 31

Unaudited - See Notice to Reader

Stated in Canadian Dollars

	Three Months Ended		Six Months Ended	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Expenses				
Salaries and benefits	\$ 15,338	\$ 8,193	\$ 30,666	\$ 17,087
Publicity and investor relations	224	213	13,167	1,356
Listing and filing fees	4,886	11,489	20,537	18,817
Administrative	12,936	17,388	21,889	25,455
Professional fees	123,493	73,920	249,505	91,009
Directors' fees	-	-	-	-
Energy project expenditures	-	-	-	-
Exploration and evaluation expenditures (recoveries)	-	-	-	(44,602)
Write off of resource properties	246	276	455	-
Amortization	-	-	-	675
Loss on disposal of property, plant and equipment	-	-	-	8,383
Less:				
Non-refundable payments under Definitive Agreement (note 9)	(130,765)	-	(201,385)	-
Interest Income	-	(766)	-	(766)
Gain on settlement of debt	-	-	-	(232,269)
	(26,358)	(110,713)	(134,834)	114,855
Net Income (Loss) and Comprehensive Income (Loss)	\$ (26,358)	\$ (110,713)	\$ (134,834)	\$ 114,855
Income (Loss) per Share - basic	\$ (0.001)	\$ (0.003)	\$ (0.004)	\$ 0.004
Income (Loss) per Share- diluted	\$ (0.001)	\$ (0.003)	\$ (0.004)	\$ 0.004
Weighted Average Number of Common Shares Outstanding - basic and diluted	36,143,196	35,759,744	36,143,196	28,466,806

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

Pele Mountain Resources Inc.

Condensed Interim Consolidated Statements of Changes in Equity

For the Three and Six Months Ended March 31

Unaudited - See Notice to Reader

Stated in Canadian Dollars

	Capital Stock		Contributed Surplus	Accumulated Deficit	Total
	Shares	Amount			
Balance - October 1, 2017	20,999,353	\$ 37,315,374	\$ 7,921,178	\$ (46,613,136)	\$ (1,376,584)
Shares issued pursuant to loan payable (note 7)	15,143,843	999,141	-	-	999,141
Net income for the period	-	-	-	114,855	114,855
Balance - March 31, 2018	36,143,196	\$ 38,314,515	\$ 7,921,178	\$ (46,498,281)	\$ (262,588)
	Capital Stock		Contributed	Accumulated	
	Shares	Amount	Surplus	Deficit	Total
Balance - October 1, 2018	36,143,196	\$ 38,324,374	\$ 7,921,178	\$ (46,502,743)	\$ (257,191)
Net loss for the period	-	-	-	(134,834)	(134,834)
Balance - March 31, 2019	36,143,196	\$ 38,324,374	\$ 7,921,178	\$ (46,637,577)	\$ (392,025)

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

Pele Mountain Resources Inc.

Condensed Interim Consolidated Statements of Cash Flow

For the Three and Six Months Ended March 31

Unaudited - See Notice to Reader

Stated in Canadian Dollars

	Three Months Ended		Six Months Ended	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Cash Flows from Operating Activities				
Cash paid to suppliers and employees	\$ (96,219)	\$ (41,788)	\$ (216,390)	\$ (122,895)
	(96,219)	(41,788)	(216,390)	(122,895)
Cash Flows from Investing Activities				
Proceeds from disposition of property, plant and equipment	-	-	-	1,570
Non-refundable payments under Definitive Agreement	130,765	-	201,385	-
	130,765	-	201,385	1,570
Change in cash	34,546	(41,788)	(15,005)	(121,325)
Cash and cash equivalents - beginning of period	3,046	94,355	52,597	173,892
Cash and cash equivalents - end of period	\$ 37,592	\$ 52,567	\$ 37,592	\$ 52,567
Significant Non-Cash Transactions Not Disclosed Above				
Common shares issued on settlement of debt	\$ -	\$ 362,247	\$ -	\$ 999,141
Gain on settlement of debt	\$ -	\$ -	\$ -	\$ 232,269

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

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended March 31, 2019
Unaudited - See Notice to Reader

1. Nature of Operations

Pele Mountain Resources Inc. (the "Company") is a publicly listed company incorporated in Canada and continued under the Ontario Corporations Act. The Company's common shares trade on the TSX Venture Exchange under the symbol "GEM".

The registered address, principal address and records office of the Company is located at 66 Wellington Street West, Suite 4100, Toronto, Ontario.

The Company is a Canadian mineral company that was formed to acquire mineral resource properties in Canada and to carry out mineral exploration and development activities thereon in search of economic deposits of metals and minerals and has focused on generating and selling interests in mineral projects in Northern Ontario since 1996. The Company, either directly or through its wholly-owned subsidiaries, holds a number of interests in mineral properties.

2. Basis of Presentation and Going Concern

These condensed interim consolidated financial statements include the accounts of the Company and those of its wholly owned subsidiaries, Mountain Pass Resources, Inc. ("Mountain Pass") and Sage Power Corporation ("Sage"). On January 1, 2019, the Company completed an amalgamation of its Ontario subsidiaries Eco Ridge Development Corporation ("ERDC"), Pele Diamond Corporation ("Pele Diamond"), Pele Gold Corporation ("Pele Gold") and Sage to continue as one wholly-owned subsidiary named Sage Power Corporation. All intercompany accounts and transactions have been eliminated.

The Company's condensed interim consolidated financial statements reflect the results of operations for the three and six months ended March 31, 2019 and 2018, and the assets, liabilities and shareholders' deficit as at March 31, 2019 and September 30, 2018.

a) Statement of Compliance

The Company's interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"). The IAS 34 interim financial statements do not include all of the information required for annual financial statements.

The policies applied in the Company's condensed interim consolidated financial statements are based on IFRS effective as of March 31, 2019. The date the Board of Directors approved the statements is May 22, 2019.

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended March 31, 2019
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2. Basis of Presentation and Going Concern (continued)

b) Going Concern

The Company's ability to continue as a going concern is dependent upon, but not limited to, its ability to raise financing necessary to fund its exploration and development programs and general and administrative expenses, maintain its resource properties, discharge its liabilities as they become due and generate positive cash flows from operations. There is no certainty that the Company will be successful in raising financing given the current condition of the financial markets, and as such there is significant uncertainty the Company will be able to continue as a going concern.

The condensed interim consolidated financial statements are prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of the business. Accordingly, these condensed interim consolidated financial statements do not give effect to adjustments that may be necessary, should the Company be unable to continue as a going concern. If the going concern assumption is not used then the adjustments required to report the Company's assets and liabilities at liquidation values could be material to these condensed interim consolidated financial statements.

c) Basis of Measurement

The Company's condensed interim consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value. Some prior year accounts have been reclassified to better conform with the current year's presentation.

d) Functional and Presentation Currency

The Company and its subsidiaries' functional currency is Canadian dollars and the condensed interim consolidated financial statements are presented in Canadian dollars.

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2019

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3. Significant Accounting Policies

These unaudited condensed interim consolidated financial statements have been prepared using the same accounting policies, significant accounting judgments and estimates, and methods of computation as the annual consolidated financial statements of the Company as at and for the year ended September 30, 2018, as described in Note 3 of those financial statements, with the exception of the impact of certain amendments to accounting standards or new interpretations issued by the IASB, which are applicable for annual periods beginning on or after October 1, 2018.

a) Changes in accounting standards effective October 1, 2018:

Financial Instruments

IFRS 9 financial instruments (“IFRS 9”) replaced IAS 39, Financial Instruments: recognition and Measurement. IFRS 9 includes guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedging requirements.

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: fair value through profit and loss (“FVTPL”), fair value through other comprehensive income (“FVOCI”), and amortized cost. Investments in equity instruments are required to be measured by default at FVTPL. IFRS 9 permit entities to elect into an irrevocable option for equity instruments to report changes in fair value in other comprehensive income.

Classification and measurement of financial assets is dependent on the entity’s business model for managing the financial assets and related contractual cash flows. IFRS 9 retains most of the requirements of IAS 39 related to classification and measurement of financial liabilities.

The following table summarizes the impact of the adoption of IFRS 9 on the classification of the Company’s financial assets and liabilities:

Asset/Liability	Classification under IAS 39	Classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities at amortized cost	Amortized cost

ii. Impairment

IFRS 9 introduces a three stage expected credit loss (“ECL”) model for determining impairment of financial assets. The expected credit loss model does not require the occurrence of a triggering event before an entity recognizes credit losses. IFRS 9 requires an entity to recognize expected credit losses upon initial recognition of a financial asset and to update the quantum of expected credit losses at the end of each reporting period to reflect changes to credit risk of the financial asset. The adoption of the ECL model did not have a material impact on the Company’s condensed interim consolidated financial statements.

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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4. Property, Plant and Equipment

	Exploration Equipment	Computer Equipment	Computer Software	Furniture & Equipment	Leasehold Improvements	Total
Cost						
Balance - September 30, 2017	\$ -	\$ 52,569	\$ 9,612	\$ 27,951	\$ -	\$ 90,132
Additions	-	-	-	-	-	-
Disposals	-	(52,569)	(9,612)	(27,951)	-	(90,132)
Balance - September 30, 2018	-	-	-	-	-	-
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance - March 31, 2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accumulated Amortization						
Balance - September 30, 2017	\$ -	\$ 47,219	\$ 9,210	\$ 23,074	\$ -	\$ 79,503
Amortization for the period	-	401	30	244	-	675
Disposals	-	(47,620)	(9,240)	(23,318)	-	(80,178)
Balance - September 30, 2018	-	-	-	-	-	-
Amortization for the period	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance - March 31, 2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Book Value						
As at September 30, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
As at March 31, 2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

5. Resource Properties

The cumulative spending on the Company's properties is as follows:

	October 1, 2018	Net Additions (Recoveries)	Dispositions	March 31, 2019
Eco Ridge Project (i)	\$ 5,311	-	\$ -	\$ 5,311
Ardeen Gold Project (ii)	-	-	-	-
Mountain Pass Project (v)	1,138	455	-	1,593
	\$ 6,449	\$ 455	\$ -	\$ 6,904
Timmins Project (iii) ⁽¹⁾	\$ (122,796)	\$ -	\$ -	\$ (122,796)
Sudbury Project (iv) ⁽¹⁾	(78,720)	-	-	(78,720)
	\$ (201,516)	\$ -	\$ -	\$ (201,516)
	October 1, 2017	Net Additions (Recoveries)	Dispositions	March 31, 2018
Eco Ridge Mine Project (i)	\$ 50,189	\$ (44,878)	\$ -	\$ 5,311
Ardeen Gold Project (ii)	-	-	-	-
Mountain Pass Project (v)	-	276	-	276
	\$ 50,189	\$ (44,602)	\$ -	\$ 5,587
Timmins Project (iii) ⁽¹⁾	\$ (122,796)	\$ -	\$ -	\$ (122,796)
Sudbury Project (iv) ⁽¹⁾	(78,720)	-	-	(78,720)
	\$ (201,516)	\$ -	\$ -	\$ (201,516)

⁽¹⁾ The Company had received consideration from its joint venture partners or optionees in excess of its costs incurred to date.

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended March 31, 2019
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5. Resource Properties (continued)

i) Eco Ridge Mine Project (Elliot Lake, Ontario)

The Eco Ridge Project, owned 100% by Eco Ridge Development Corporation, a wholly owned subsidiary of the Company, was located in Elliot Lake, Ontario. The Eco Ridge property included over 8,600 contiguous hectares comprised of 394 mining claim units and three Mining Leases.

Following an internal review of its Eco Ridge project, Pele's Board concluded that due to continuing weak uranium and rare earth prices, Eco Ridge remained uneconomic and offered limited short or mid-term benefit to shareholders. Moreover, due to prevailing weak rare earth prices, Pele had also been unable to generate the necessary support for its proposed monazite processing facility in Elliot Lake. Therefore, the Company entered into a sale agreement with an arm's-length purchaser to sell the claims, surface rights and leases comprising Eco Ridge for gross proceeds of \$380,000 payable in cash, which closed on June 1, 2017.

(ii) Ardeen Gold Project (Moss Lake, Thunder Bay, Ontario)

During the year ended September 30, 2016, the Company entered into a purchase agreement, along with Chalice Gold Mines ("Chalice"), whereby their respective operating subsidiaries will sell their respective interests in the Ardeen Gold Project to Kesselrun Resources Ltd. In consideration for the sale, Kesselrun has agreed to issue Chalice and the Company 4,000,000 common shares of Kesselrun and a package of Net Smelter Return (NSR) royalties. The Company (and Chalice) will be granted certain NSR royalties over certain mining claims. In combination with preexisting NSRs, the property will be subject to an overall 2.5% NSR royalty over certain mining claims and a 2% NSR royalty on the remaining mining claims. The NSRs are subject to certain buyback clauses, which going forward will be for the benefit of Kesselrun. On August 9, 2016, the transaction closed and as 49% owner of the Ardeen Gold Project, the Company received 1,960,000 shares of Kesselrun and a pro rata share of the royalty package. Following the issuance of the Kesselrun shares, the Company held approximately 5.5% of the issued and outstanding shares of Kesselrun which has subsequently been sold (see note 6(b)).

Under the terms of the purchase and sale agreement pursuant to which the Company acquired its interest in the Ardeen Gold Project, the Company is required to issue an aggregate of 24,000 common shares to the vendors contingent on the property going into commercial production.

(iii) Timmins Project (Timmins, Ontario)

The Company has a 100% registered interest in 2 mining claims (September 30, 2018 - 2 mining claims) located 35 kilometres south of Timmins in northern Ontario. These mining claims are comprised of 8 mining claim units (September 30, 2018 - 11 mining claim units).

During the year ended September 30, 2008, the Company entered into a purchase and sale agreement with Fletcher Nickel Inc. ("Fletcher") to sell its 100% interest in the Timmins Project to Fletcher. As at September 30, 2009, the Company had received cash payments totaling \$175,000 and 600,000 Fletcher shares with a total fair value of \$420,000 as at the time of issuance, and these amounts had been recorded as a reduction to the carrying value of the Timmins Project.

Pele Mountain Resources Inc.

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5. Resource Properties (continued)

(iii) Timmins Project (Timmins, Ontario) (continued)

However, Fletcher failed to make the remaining payments that were due pursuant to the purchase and sale agreement. During the year ended September 30, 2010, Fletcher and the Company agreed to terminate the purchase and sale agreement and the Timmins Project continued to be 100% owned by the Company.

Subsequent to the period ended March 31, 2019, the Company arranged for the cancellation of the unpatented mining claims comprising the Timmins Project.

(iv) Sudbury Project (Sudbury, Ontario)

During the year ended September 30, 2005, the Company acquired by way of purchase and staking, a 100% undivided legal and beneficial interest in certain mining claims in the Sudbury Mining Camp of northern Ontario. It includes 4 mining claims (September 30, 2018 - 4 mining claims) comprised of 52 mining claim units (September 30, 2018 - 52 mining claim units) covering approximately 830 hectares. The vendor was reimbursed for the costs of staking and recording these claims and was granted a 1.5% NSR. The Company may, at its option, repurchase 1% of the NSR from the vendor for \$1,000,000.

During the year ended September 30, 2006, the Company entered into an option agreement with Wallbridge Mining Company Ltd. ("Wallbridge"). Wallbridge has the right to earn a 60% interest by issuing 1,050,000 common shares to the Company (of which all 1,050,000 shares have been issued) and incurring \$1,200,000 in exploration expenditures by December 31, 2009. Wallbridge has the right to increase its interest to 72.5% by completing a bankable feasibility study and arranging the financing for the project through to commercial production.

Wallbridge has fulfilled its commitments under the Option Agreement and, accordingly, a new Joint Venture with Pele was established January 1, 2010, with Wallbridge owning 60% and Pele owning a 40% interest in the Joint Venture. Wallbridge has incurred exploration expenditures to increase its ownership interest in the Joint Venture to 64% as of March 31, 2019 (September 30, 2018 - 64%), and accordingly, the Company owns a 36% interest (September 30, 2018 - 36%)

During the period ended March 31, 2019, the Company entered into a termination and release agreement with Wallbridge, pursuant to which the Company transferred its 36% interest in and to the underlying mining claims and interests to Wallbridge in exchange for a mutual termination of the Option Agreement and Joint Venture and mutual full and final releases in respect of same.

Pele Mountain Resources Inc.

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For the Three and Six Months Ended March 31, 2019
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5. Resource Properties (continued)

(v) Mountain Pass Project (Mountain Pass, California)

During the year ended September 30, 2012, the Company, through Mountain Pass, acquired mining claims comprising 75 contiguous hectares located in south-eastern California in exchange for 4,000,000 common shares of the Company. The seller agreed to a 12 month contractual hold period on its shares after closing. The seller retained a 2% production royalty (the "Production Royalty") on all minerals mined on the property, subject to the right of Mountain Pass to buy back 1% of the Production Royalty for 2,000,000 United States Dollars, escalated annually by a factor equal to the Producer Price Index.

In addition to a Phase 1 Exploration Program completed during the year ended September 30, 2014, the Company must complete a total of 2,000,000 United States Dollars of exploration work on the property by September 26, 2017. The Phase 1 Exploration Program includes: compilation of historic data, geological mapping, radiometric survey, sampling of pits and trenches, surface sampling, petrological analysis, mineralogical analysis and drill program planning.

As Mountain Pass failed to meet its 2,000,000 United States Dollars expenditure requirement by September 26, 2017, during the three month period ended March 31, 2019, the Company entered into a mining claim transfer and release agreement with the previous owner of the Mountain Pass property pursuant to which the previous owner has agreed to accept a quitclaim and reconveyance of the Mountain Pass property, a cash payment of US\$10,000 and the issuance of 1,000,000 common shares of the Company at a deemed price \$0.05 per share which shall be subject to applicable regulatory and statutory hold periods. The quitclaim and reconveyance of the mining claims comprising the Mountain Pass property from Mountain Pass to the previous owner has been registered and recorded in the applicable registry office in California and the Company has paid the US \$10,000 to the previous owner. The share issuance remains subject to any requisite regulatory approvals and the release in favour of Mountain Pass and the Company from the previous owner is conditional upon the said share issuance to be completed by August 31, 2019. The Company and Mountain Pass are in the process of completing the share issuance.

Subsequent to the period ended March 31, 2019 the Company arranged for the dissolution of Mountain Pass pursuant to a certificate of dissolution filed with the Secretary of State of the State of Nevada on April 17, 2019.

(vi) Festival Project (Wawa, Ontario)

In 2004, Goldcorp Inc. and Pele began exploring the Festival Project, north of Wawa. The Festival Project is owned by Pele Mountain and Goldcorp Inc. under a joint venture that was entered into in 2006 with each company owning 50%. In 2010 the original 101 square kilometre exploration license for the Festival Project expired and the Project was consequently written off by Pele due to inactivity.

Pele Mountain Resources Inc.

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5. Resource Properties (continued)

In 2013, the Company and Goldcorp Inc. reactivated the joint venture on the Festival Project. Goldcorp entered into a License Agreement on behalf of the joint venture for a Licensed Area covering a total area of 52 square kilometres. The Licensed Area straddles the interpreted western extension of the Goudreau Localsh Deformation Zone ("GLDZ"), host to Richmond's Island Gold Mine as well as several past-producing gold mines including Argonaut's Magino Mine. The term of the License is for five years commencing on January 1, 2013 and may be extended for an additional 5-year term. All minerals produced and marketed from the Licensed Area are subject to a 3% royalty payable to the Licensor.

(vi) Festival Project (Wawa, Ontario) (continued)

Goldcorp is funding and operating the Festival Project Joint Venture with Pele electing not to contribute its pro rata share. Accordingly, Goldcorp's interest has increased to approximately 51% of the joint venture and Pele's interest is approximately 49%. The License expired on January 1, 2018 without being renewed. Goldcorp and the Company are in the process of terminating the Festival Project joint venture pending final reconciliation of the joint venture accounts. In this regard, to the extent there is any funding shortfall on the Company's behalf, the Company shall exercise its right to elect to satisfy its obligations, if any, though further dilution of its joint venture interest as it has done in the past.

6. Other Loans Payable

- a) During the year ended September 30, 2016, the Company entered into a \$100,000 loan agreement with an arm's length lender. The loan carries an interest rate of 6% per annum. In addition, once the loan is repaid from the first proceeds from sale of the Kesselrun shares, the Company is required to pay 50% of any additional proceeds from the sale of the Kesselrun shares less initial principal, interest, commission fees, and bank charges. During the year ended September 30, 2016, \$50,000 of the loan proceeds were advanced to the Company with the remaining \$50,000 received during the period ended December 31, 2016. As consideration for the loan, the Company issued 40,000 of its common shares ("Bonus Shares") to the lender at an issue price of \$0.50 per share upon receipt of the final \$50,000. The Bonus Shares are subject to a statutory hold period of four months from the date of issuance. The Company is to repay the loan from the first proceeds realized from the sale of the Company's shares of Kesselrun Resources Ltd. unless otherwise authorized by the lender. During the year ended September 30, 2018, the Company sold all of its shares in Kesselrun Resources Ltd. The lender authorized the Company to use certain of the proceeds from the sale of shares of Kesselrun for uses other than the repayment of the loan and for interest to cease accruing as at June 15, 2017. The principal and interest is past due. Interest payable of \$4,124 and \$40,872 of proceeds payable has been accrued up to June 15, 2017 and is included in accounts payable and accrued liabilities. During the year ended September 30, 2017, the Company repaid \$58,000 to the arm's length lender. During the year ended September 30, 2018, the Company settled the outstanding principal of \$42,000 and accounts payable and accrued liabilities of \$45,000 by issuing 966,667 common shares (note 7(ii)).

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2019

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6. Other Loans Payable (continued)

- b) During the year ended September 30, 2016, the Company was advanced 10,000 United States Dollars (\$12,770 CAD as at September 30, 2017) by an arm's length lender to maintain the Company's Mountain Pass Project. The advance was non-interest bearing and payable on demand that requires more than one year notice. During the year ended September 30, 2017, the Company received an additional advance of 10,000 United States Dollars (\$12,368 CAD) with the same terms and conditions as the previous advance. During the year ended September 30, 2018, the Company issued 385,045 common shares in full settlement of this loan (note 7(ii)).
- c) During the year ended September 30, 2017, the Company borrowed \$35,000 from a company controlled by a director of the Company. The loan carries an interest rate of 12% calculated daily with principal and interest due on or before July 25, 2017, which was subsequently extended to August 15, 2017. Interest payable of \$2,094 had been accrued to September 30, 2017 and was included in accounts payable and accrued liabilities as at September 30, 2017. In addition to the loan, a placement fee of \$5,000 was payable by the Company upon maturity of the loan. Finance charges payable of \$5,000 were included in accounts payable and accrued liabilities as at September 30, 2017. During the year ended September 30, 2018, the Company settled the loan payable of \$35,000 and accounts payable and accrued liabilities of \$7,094 by issuing 249,036 common shares (note 7(ii)).

7. Capital Stock

Authorized

Unlimited common shares

Issued

	<u>Number</u>	<u>Amount</u>
Balance - October 1, 2017 (i)	20,999,353	\$ 37,315,374
Issued pursuant to debt settlement (ii)	15,143,843	1,009,000
Balance - September 30, 2018 and March 31, 2019(i)	<u>36,143,196</u>	<u>\$ 38,324,374</u>

- (i) The Company is conditionally committed to issue an additional 24,000 common shares as described in Note 5(ii).
- (ii) During the year ended September 30, 2018, pursuant to several debt settlement agreements to settle various accounts payable and other loans payable (see note 6), the Company issued 15,143,843 common shares from treasury with a fair value, based on the market prices of the shares as at the date of issuance, of \$1,009,000 in full and final satisfaction of \$1,229,679 of indebtedness, including a total of \$94,221 of indebtedness owed by the Company to related party creditors that was forgiven.

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2019

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8. Stock Options, Warrants and Shareholders Rights Plan

(i) Stock Options

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees and consultants. The maximum number of common shares reserved for issuance and available for purchase pursuant to options granted under the Plan cannot exceed 10% of the total number of common shares of the Company issued and outstanding at the date of any grant made. In addition, the aggregate number of shares so reserved for issuance to one person may not exceed 5% of the issued and outstanding shares in any given 12 month period. Options pursuant to the Plan are granted at the discretion of the Board of Directors, vest at schedules determined by the Board, and have an exercise price of not less than that permitted by the stock exchange on which the shares are listed.

The following summarizes the stock option activities:

	Six months ended March 31, 2019		Six months ended March 31, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	611,300	\$ 0.64	1,715,000	\$ 0.60
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	(170,000)	(1.00)	-	-
Outstanding and exercisable at period end	441,300	\$ 0.50	1,715,000	\$ 0.60

The Company had the following stock options outstanding at March 31, 2019:

Number of Options	Exercisable	Exercise Price	Expiry Date
320,000	320,000	\$ 0.500	December 31, 2019
121,300	121,300	\$ 0.500	December 31, 2020
441,300	441,300		

Pele Mountain Resources Inc.

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For the Three and Six Months Ended March 31, 2019

Unaudited - See Notice to Reader

8. Stock Options, Warrants and Shareholders Rights Plan (continued)

(ii) Warrants

All of the outstanding warrants were issued in conjunction with the issuance of common shares. The fair value of warrants issued and outstanding is reflected in contributed surplus. Amounts for warrants that are subsequently exercised are transferred from contributed surplus to capital stock.

The following summarizes the warrant activities:

	Six months ended March 31, 2019		Six months ended March 31, 2018	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Beginning balance	1,129,900	\$ 0.50	2,276,823	\$ 0.60
Issued	-	-	-	-
Expired	(1,129,900)	0.50	(175,703)	(0.70)
Outstanding and exercisable at period end	-	\$ 0.50	2,101,120	\$ 0.59

(iii) Shareholders' Rights Plan

The Company's Board of Directors approved a shareholders' rights plan ("Rights Plan"), effective January 31, 2007, which was ratified at the 2007, 2010, 2013, and 2016 annual shareholders' meetings. This Rights Plan is intended to ensure, to the extent possible, that all shareholders of the Company are treated equally and fairly in connection with any take over bid for the Company, and was designed to discourage discriminatory or unfair bids and to provide management, if appropriate, with sufficient time to pursue alternatives to maximize shareholder value.

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2019

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9. Definitive Agreement with Bhang Corporation

During the period ended March 31, 2019, the Company entered into a definitive agreement with Bhang Corporation ("Bhang") to acquire a 100% interest in Bhang via a business combination transaction (the "Transaction"), as amended and extended (the "Definitive Agreement"). The Company will acquire the 100% interest in Bhang by way of a share exchange between the Company and all of the shareholders of Bhang, which will constitute a reverse takeover of the Company (the "Bhang Acquisition"). Pursuant to the Bhang Acquisition, the issued and outstanding shares of Bhang will be exchanged for approximately 90,000,000 post-consolidated shares of the Company for a deemed anticipated price of \$0.50 per share, with a portion of the shares being allocated as multiple voting shares.

Prior to the completion of the Transaction, the Company will effect a consolidation which is anticipated to result in a consolidation of 10 pre-consolidated shares common shares of the Company for 1 post-consolidated share, but in any event shall not exceed 15 pre-consolidated common shares of the Company for 1 post-consolidated common share.

As provided for in the Definitive Agreement, Bhang shall continue funding the Company \$10,000 per month to meet the Company's working capital needs, as well as agreeing to be responsible for all of the Company's reasonable costs and expenses associated with the Transaction pending its completion subject to an agreed upon cap on the Company's legal fees. As at March 31, 2019, the Company had received aggregate payments of \$298,663.

10. Related Party Transactions

During the six months ended March 31, 2019, the Company entered into the following related party transactions:

- a) Consulting fees and salary of \$15,000 was earned by Martin Cooper, a director and officer of the Company. As at March 31, 2019, accounts payable and accrued liabilities included \$55,000 payable to this director and officer.
- b) Legal fees of \$141,835 were incurred with a law firm in which Steven Rukavina, a director and officer of the Company is a partner. As at March 31, 2019, accounts payable and accrued liabilities included \$239,237 payable to this law firm.
- c) Accounting fees of \$26,500 were incurred with an accounting firm in which Paul Andersen, an officer of the Company is a partner. As at March 31, 2019, accounts payable and accrued liabilities included \$111,845 accrued to this accounting firm.
- d) Compensation earned by directors and other members of key management personnel for the three months ended March 31, 2019 were as follows:

Salaries and benefits (CEO and CFO)	<u>\$ 30,000</u>
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- e) Other related party transactions are disclosed in note 6(c).

Pele Mountain Resources Inc.

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11. Financial Instruments and Other Risks

IFRS 7 establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1	quoted prices in active markets for identical assets or liabilities;
Level 2	inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
Level 3	inputs for the asset or liability that are not based upon observable market data

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As at March 31, 2019, the Company's cash and cash equivalents are categorized as Level 1 measurement.

Fair Values

Except as disclosed elsewhere in these financial statements, the carrying amounts for the Company's financial instruments approximate their fair values because of the short-term nature of these items.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

The Company is not exposed to any significant credit risk as at March 31, 2019. The Company's cash and cash equivalents are either on deposit with two highly rated banking groups in Canada or invested in bankers acceptance notes or guaranteed investment certificates issued by two highly rated Canadian banking groups.

Liquidity Risk

Liquidity risk is the risk that an entity will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2019, the Company has current assets of \$100,919 and current liabilities of \$492,944. All of the Company's current financial liabilities and receivables have contractual maturities of less than 120 days and are subject to normal trade terms. The Company has a working capital deficiency of \$392,025 as at March 31, 2019.

Pele Mountain Resources Inc.

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11. Financial Instruments and Other Risks (continued)

Market Risk

(i) Interest rate risk

The Company has significant cash and cash equivalents balances and it has no interest-bearing debt. The Company's current policy is to invest its excess cash in highly liquid money market investments such as bankers acceptance notes, treasury bills and guaranteed investment certificates. These short term money market investments are subject to interest rate fluctuations.

(ii) Foreign currency risk

The Company's functional currency is the Canadian dollar. The majority of the Company's purchases are transacted in Canadian dollars. As at March 31, 2019, the Company had accounts payable of \$NIL denominated in US currency.

(iii) Price risk

The prices of metals and minerals fluctuate widely and are affected by many factors outside of the Company's control. The prices of metals and minerals and future expectation of such prices have a significant impact on the market sentiment for investment in mining and mineral exploration companies. This in turn may impact the Company's ability to raise equity financing for its long term working capital requirements.

(iv) Sensitivity Analysis

Based on management's knowledge and experiences of the financial markets, the Company's management believes the following movements are "reasonably possible" over a three month period.

As at March 31, 2019, none of the Company's cash and cash equivalents are subject to interest rate fluctuations within the next three months.

12. Subsequent Events

The Company's subsequent events are disclosed in notes 5(iii) and 5(iv).

Appendix “B”
MD&A of the Corporation
(please see attached)

FORM 51-102F1

PELE MOUNTAIN RESOURCES INC.
(the “Company” or “Pele”)

MANAGEMENT DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018
(the “Reporting Period”)

This Management Discussion and Analysis (“**MD&A**”) made as of January 28, 2019, should be read in conjunction with the audited consolidated financial statements of the Company for the year ended September 30, 2018 and the related notes thereto (the “**Financial Statements**”). The Company’s audited financial statements are presented on a consolidated basis with its five wholly-owned subsidiaries, Eco Ridge Development Corporation (“**ERDC**”), Pele Gold Corporation (“**Pele Gold**”), Pele Diamond Corporation (“**Pele Diamond**”), Mountain Pass Resources Inc. (“**Mountain Pass**”) and Sage Power Corporation (“**Sage Power**”). The Company’s reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars unless otherwise noted.

The Company’s comparative information included in this MD&A has been prepared in accordance with IFRS.

Additional information relating to the Company is also available on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. The Company’s common shares are listed on the TSX Venture Exchange under the symbol “**GEM**”.

Description of Business

The Company is a Canadian mineral company that was formed to acquire mineral resource properties in Canada and to carry out mineral exploration and development activities thereon in search of economic deposits of metals and minerals and has focused on generating and selling interests in mineral projects in Northern Ontario since 1996. The Company, either directly or through its wholly-owned subsidiaries, holds a number of mineral properties. As a result of the ongoing protracted bear market in uranium and rare earth prices, Pele has reviewed its future strategic direction and on June 1, 2017 the Company entered into a non-binding letter of intent with Enirgi Group Corp. (“**Enirgi Group**”) to potentially gain exclusive North American access to Enirgi Group’s direct extraction process lithium processing technology. On November 24, 2017, the Company received written notification that Energi Group was terminating the non-binding letter of intent.

The technical information included in this MD&A related to the resources properties, unless otherwise stated, has been reviewed by Peter Dimmell, P.Geo. (NL, ON.), a Director of the Company and a Qualified Person under National Instrument 43-101.

The Eco Ridge Project

During the year ended September 30, 2017, the Company sold its interest in the Eco Ridge project for \$380,000.

The Eco Ridge Project, formerly owned 100% by Eco Ridge Development Corporation, a wholly owned subsidiary of the Company, is located in Elliot Lake, Ontario. The Eco Ridge property included over 7,800 contiguous hectares comprised of a combination of real estate and mineral rights tenures including 394 mining claim units covering over 6,300 hectares, three Mining Leases with the Province of Ontario

covering a total of 1,500 hectares, and a lease of Surface Patents (with an option to purchase) from the City of Elliot Lake covering about 800 hectares.

In May 2011, the Company was granted two mining leases by the Province of Ontario for its Eco Ridge Project. During fiscal 2014, the Company acquired a key mining lease for mining rights on certain lands below small lakes located within the boundaries of the Eco Ridge Project. This acquisition filled in a gap within the higher grade zone of the Main Conglomerate Bed. The Company then owned a 100% interest in the mineral rights throughout the more than 7,800 contiguous hectares that comprise the Eco Ridge Project Property.

In October 2014, the Company announced an expansion of its business model to include processing of high-grade rare earth bearing monazite, in Elliot Lake. Pele's plan was to source monazite from mineral sands mines in countries that embrace sustainable mining practices and were allied trading partners with Canada. Pele's objective was to process the monazite to produce mixed rare earth concentrates that would be separated into high-purity, individual rare earth oxides that can be used in downstream value added processing and manufacturing.

Following an internal review of its Eco Ridge project, Pele's Board concluded that due to continuing weak uranium and rare earth prices, Eco Ridge remained uneconomic and offered limited short or mid-term benefit to shareholders. Moreover, due to prevailing weak rare earth prices, Pele had also been unable to generate the necessary support for its proposed monazite processing facility in Elliot Lake. Therefore, the Company entered into a sale agreement with an arm's-length purchaser to sell the claims, surface rights and leases comprising Eco Ridge for gross proceeds of \$380,000 payable in cash, which closed on June 1, 2017.

Sage Energy

During the fiscal year ended September 30, 2016, the Company expanded its business model to pursue electricity generation and energy storage projects, beginning in Elliot Lake. Management envisaged opportunities in this rapidly growing sector and worked with leading energy industry professionals and suppliers of advanced technologies to offer a range of customized benefits to municipal and industrial electricity consumers in Northern Ontario.

At the time the Company incorporated Sage Power Corporation, a wholly owned operating subsidiary, set up to own and manage the Company's interests in energy projects, Sage Power's mandate was to identify, design, develop, and operate energy projects that provide smart, sustainable, customized power solutions. Sage Power's focus is on local, distributed energy and energy storage projects in Northern Ontario that reduce electricity costs, boost energy efficiency, improve reliability of service, and conserve grid electricity.

On May 2, 2018 Pele extended its Sustainable Energy Development Agreement with the City of Elliot Lake, Ontario for an additional two years.

Under the terms of the Agreement, the Elliot Lake City Council has appointed Pele, on an exclusive basis, to be the developer of renewable energy and energy storage projects on City Lands until May 1, 2020.

Joint Venture Mineral Exploration Projects

Two of the Company's projects are currently funded through option or joint venture agreements with strategic partners including the Sudbury Project, which is targeting base metals (nickel and copper) and platinum group elements and is currently being funded and operated by the Company's joint venture partner, Wallbridge Mining Company Limited ("**Wallbridge**"); and the Festival Project joint venture, which is being operated and funded by Goldcorp Inc. The Company's other mineral projects are the Timmins and Mountain Pass Projects, which are owned 100% by the Company, and more particularly described below.

The Ardeen Project

Prior to the disposition of the Ardeen Gold Project during the year ended September 30, 2016, the Company had a 49% undivided legal and beneficial interest in 290 mining claim units and 4 patented mining claims located within Moss Township in the district of Thunder Bay, Ontario.

The Company acquired 41 mining claim units and 2 patented mining claims from a group of vendors pursuant to a purchase and sale agreement dated June 3, 1997. Under the terms of the purchase and sale agreement, the Company is required to issue an aggregate of 24,000 common shares to the vendors contingent on the property going into commercial production. The balance of the property was acquired through a series of acquisition agreements (some of which are subject to royalty interests to the vendors) and through staking campaigns.

During the year ended September 30, 2009, Pele Gold entered into a definitive option agreement (the "Definitive Agreement") for the Ardeen Gold Project with Coventry Resources Limited ("Coventry"), pursuant to which, Coventry funded enough expenditures to earn a 51% interest in the project.

In February 2014, Coventry reported that it had sold its stake in the project to Chalice Gold Mines ("Chalice").

During the year ended September 30, 2016, the Company entered into a purchase agreement, along with Chalice Gold Mines ("Chalice"), pursuant to which their respective operating subsidiaries sold their respective interests in the Ardeen Gold Project to Kesselrun Resources Ltd. In consideration for the sale, Kesselrun issued Chalice and the Company 4,000,000 common shares of Kesselrun and a package of Net Smelter Return (NSR) royalties. The Company (and Chalice) was granted certain NSR royalties over certain mining claims. In combination with pre-existing NSRs, the property will be subject to an overall 2.5% NSR royalty over certain mining claims and a 2% NSR royalty on the remaining mining claims. The NSRs are subject to certain buyback clauses, which going forward will be for the benefit of Kesselrun. As 49% owner of the Ardeen Gold Project, the Company received 1,960,000 shares of Kesselrun and a pro rata share of the royalty package. The shares have since been sold.

The Sudbury Project

The Sudbury Project is comprised of 52 mining claim units covering approximately 830 hectares of mining claims in Harty and Foy Townships, which extend from the northern boundary of Levack Township, located about 40 km northwest of the City of Greater Sudbury, Ontario.

Wallbridge has incurred exploration expenditures to increase its ownership interest in the Joint Venture to approximately 64% as of June 30, 2018, and accordingly, the Company owns an interest of approximately 36%.

Subsequent to the year ended September 30, 2018, the Company entered into a termination and release agreement with Wallbridge, pursuant to which the Company transferred its 36% interest in and to the underlying mining claims and interests to Wallbridge in exchange for a mutual termination of the Option Agreement and Joint Venture and mutual full and final releases in respect of same.

The Festival Project

In 2013, the Company and Goldcorp reactivated a previously existing joint venture on the Festival Project. Goldcorp entered into a License Agreement on behalf of the joint venture for a Licensed Area covering a total area of 52 square kilometres. The Licensed Area straddles the interpreted western extension of the Goudreau Localsh Deformation Zone ("GLDZ"), host to Richmond's Island Gold Mine as well as several past-producing gold mines including Argonaut's Magino Mine. The term of the License is for five years commencing on January 1, 2013 and may be extended for an additional 5-year term. All minerals produced and marketed from the Licensed Area are subject to a 3% royalty payable to the Licensor.

Goldcorp is funding and operating the Festival Project Joint Venture with Pele electing not to contribute its pro rata share so far. Accordingly, Goldcorp's interest has increased to over 50% of the joint venture and Pele's interest is currently less than 50%. The License expired on January 1, 2018 without being renewed. Goldcorp and the Company are in the process of terminating the Festival Project joint venture pending final reconciliation of the joint venture accounts. In this regard, to the extent there is any funding shortfall on the Company's behalf, the Company shall exercise its right to elect to satisfy its obligations, if any, though further dilution of its joint venture interest as it has done in the past.

The Timmins Project

The Timmins Project consists of 11 mining claim units located 35 kilometres south of Timmins in northern Ontario. The project ties on to the southern and eastern property boundaries of the past producing Texmont Nickel Mine.

There are no plans to start up a new work program at the Timmins Project in the foreseeable future.

The Mountain Pass Project

During the year ended September 30, 2012, the Company, through Mountain Pass Resources Inc., a wholly-owned subsidiary of the Company incorporated in Nevada, USA, acquired mining claims comprising approximately 75 contiguous hectares located in Mountain Pass, California in exchange for 4,000,000 common shares of the Company. The seller has retained a 2% production royalty (the "Production Royalty") on all minerals mined on the property, subject to the right of the Company to buy back 1% of the Production Royalty for 2,000,000 United States Dollars, escalated annually by a factor equal to the Producer Price Index.

If the Company sells the mining claims to an arm's length third party, the original vendor will receive 10% of the proceeds from the sale and a minimum royalty (the "Minimum Royalty") of \$12,000 per year will become payable to the seller, increasing by \$12,000 per year until it reaches a maximum of \$120,000 per year. The Minimum Royalty shall not apply in the case of an earn-in agreement with a third party while work on the property is advancing.

The seller has been granted a security interest in the mining claims to secure performance of certain terms in the Agreement. The Company issued a total of 200,000 common shares to two arm's length individuals as a fee for services related to the introduction of the Company to the seller.

The Company was required to complete a total of \$2,000,000 United States Dollars of exploration work on the property by September 26, 2017, which included a Phase 1 Exploration Program. The Phase 1 Exploration Program which included compilation of historic data, geological mapping, radiometric survey, sampling of pits and trenches, surface sampling, petrological analysis, mineralogical analysis and drill program planning was completed, on schedule, during fiscal 2014. The Company failed to meet its 2,000,000 United States Dollars expenditure requirement by September 26, 2017, and the claims are in the process of being transferred back to the original owner.

Economic Outlook

The Company's management believes that there are considerable uncertainties relating to the macro economy, which could impact on commodity pricing.

The economic success of the Company will be dependent upon the market price of resources which fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, the world supply of mineral commodities and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are, in turn, influenced by changes in international investment patterns monetary systems and political developments. The price of resources has fluctuated widely in recent years, and future price declines could cause commercial production to be

impracticable, thereby having a material adverse effect on the Company's business, financial condition and results of operations.

Letter of Intent and Definitive Transaction Agreement

During the Reporting Period, the Company entered into a non-binding letter of intent with Bhang Corporation ("Bhang"), a privately-held Nevada corporation to acquire a 100% interest in Bhang via a business combination transaction that would constitute a reverse take-over and a change of control of the Company. The original letter of intent was set to expire on June 30, 2018, but was extended to August 15, 2018 and then to September 30, 2018. In partial consideration for a mutual non-solicitation and exclusivity provision included in the letter of intent, the Company received non-refundable payments from Bhang of \$97,280, in aggregate, for working capital purposes during the twelve months ended September 30, 2018.

On November 8, 2018, the Company entered into a definitive agreement (the "Definitive Agreement") with Bhang to acquire a 100% interest in Bhang via a business combination transaction (the "Transaction"). The Company will acquire the 100% interest in Bhang by way of a share exchange between the Company and all of the shareholders of Bhang, which will constitute a reverse takeover of Bhang (the "Bhang Acquisition"). Pursuant to the Bhang Acquisition, the issued and outstanding shares of Bhang will be exchanged for approximately 90,000,000 post-consolidated shares of the Company for a deemed anticipated price of \$0.50 per share, with a portion of the shares being allocated as multiple voting shares.

Prior to the completion of the Transaction, the Company will effect a consolidation which is anticipated to result in a consolidation of 10 pre-consolidated shares common shares of the Company for 1 post-consolidated share, but in any event shall not exceed 15 pre-consolidated common shares of the Company for 1 post-consolidated common share.

As provided for in the Definitive Agreement, Bhang shall continue funding the Company \$10,000 per month to meet the Company's working capital needs, as well as agreeing to be responsible for all of the Company's reasonable costs and expenses associated with the Transaction pending its completion.

Bhang is a California-based intellectual property company which licenses rights to a full range of cannabis and hemp products, including chocolates, gums and oral sprays, isolates, vapes and vape cartridges and accessories. Upon completion of the Transaction, the combined entity will continue to carry on the business of Bhang.

Overall Performance

At this time the Company does not own or operate any revenue producing mineral properties and, accordingly, does not have cash flow from operations. Historically, the Company has raised funds for development and general overhead and other expenses primarily through the issuance of shares from treasury. This method of financing has been the principal source of funding for the Company's on-going operations since it was founded over 20 years ago. Funding for exploration at the Sudbury Project and Festival Project is provided under joint venture agreements at each respective Project.

The Company received shareholder approval in March 2017 to implement a share consolidation, in order to raise Pele's share price to above \$0.05 so that the Company may raise funds for future development and on-going overhead and other working capital expenses through the issuance of shares from treasury in compliance with the TSX Venture Exchange requirements. The consolidation of the share consolidation took effect on July 24, 2017.

Going Concern

The Company's ability to continue as a going concern is dependent upon, but not limited to, its ability to raise financing necessary to fund its development programs and general and administrative expenses, discharge its liabilities as they become due and generate positive cash flows from operations. There is no certainty that the Company will be successful in raising financing given the current challenging condition of the junior resource financial markets, and as such there is significant uncertainty the Company will be able to continue as a going concern.

Selected Annual Information

The following selected financial data for each of the three most recently completed financial years are derived from the audited annual financial statements of the Company.

Year Ended September 30	2018	2017	2016
	\$	\$	\$
Interest income	766	-	9
Net income (loss) and comprehensive income (loss)	110,392	(137,809)	(1,156,842)
Earnings (loss) per share - basic and diluted	0.003	(0.007)	(0.06)
Total assets	90,773	236,712	520,846
Cash dividends	Nil	Nil	Nil

The Company has no resource properties in production and, consequently, has no current operating income or cash flow from its mineral properties.

The Company has recorded losses in two of the three most recently completed fiscal years and expects to continue to record losses unless and until such time as an economic resource or project is identified, developed and brought into profitable commercial operation on one or more of the Company's properties and other projects or otherwise disposed of at a profit. Acquisition costs and deferred exploration and evaluation expenditures incurred prior to the establishment of technical feasibility and commercial viability of extracting mineral resources and prior to a decision to proceed with mine development are charged to operations as incurred. Since the Company has no revenue from operations, annual operating losses typically represent the sum of business expenses plus any write-offs of mineral properties abandoned during the period.

Results of Operations

The Company had net income of \$110,392 or \$0.003 per share on a fully diluted basis for the Reporting Period, compared to a net loss of \$137,809 or \$0.007 per share on a fully diluted basis for the year ended September 30, 2017. The decrease in net loss is due to a general reduction in overall spending. There were several other items of income and expense that fluctuated year-over-year that were not specifically related to the Company's operational activities.

The Company's expenses (excluding share-based compensation, change in fair value of portfolio investments, gain (loss) on portfolio investments) totaled \$331,005 for the Reporting Period compared to \$1,069,106 for the year ended September 30, 2017. There were general decreases across all expense categories, but most notably salaries and wages, publicity and investor relations, professional fees, and administrative expenses.

Also contributing to the Company's net income for the Reporting Period, was a recovery of exploration expenses in the amount of \$43,740 related to forgiven debt, as well as a gain of \$246,760 on the settlement of outstanding debt. During the Reporting Period, the Company entered into several debt settlement agreements, the result of which was the issuance of 15,143,843 common shares of the Company in full and final satisfaction of \$1,009,000 of indebtedness. In addition, the Company wrote off \$96,591 of accounts payable during the year ended September 30, 2018.

During the Reporting Period, the Company received non-refundable payments of \$97,280, in aggregate, related to the letter of intent signed during the Reporting Period with Bhang Corporation as discussed previously.

Salaries and benefits expenses decreased by \$268,551 (84%) during the Reporting Period when compared to the year ended September 30, 2017. The decrease is a function of the lack of significant fees charged by the Company's CEO, as well as the fact that several of the Company's employees were terminated during the year ended September 30, 2017.

Publicity and investor relations decreased by \$20,207 (77%) during the Reporting. The decrease relates to a marketing initiative that the Company had undertaken during the year ended September 30, 2016, that extended into the three month period ended December 31, 2016, to communicate to shareholders and the public that the Company planned to diversify into the clean energy industry and its supply chains that did not impact the Reporting Period. The expenditures related to corporate development with a focus on rebranding and the creation of new marketing and promotional materials. This marketing initiative was terminated during the year ended September 30, 2017 and did not recur during the Reporting Period.

There was a decrease of \$37,558 (60%) in listing and filing fees during the Reporting Period when compared to the year ended September 30, 2017. The Company incurred additional fees related to the private placements that were completed during the prior period that were not incurred during the current Reporting Period. There were also filing fees incurred in the prior period with the exchanges that were not incurred in the Reporting Period.

Share-based compensation decreased during the year ended September 30, 2017 amounted to \$63,823 as a result of the modification of the expiry date of some options issued to employees that were terminated during the year ended September 30, 2017. As no stock options were granted during the Reporting Period, or the year ended September 30, 2017, the Company did not incur any share-based compensation expense during the Reporting Period.

Exploration and evaluation amounted to \$109,931 during the year ended September 30, 2017. In addition, the Company received cash proceeds of \$380,000 upon disposition of the Eco Ridge property during fiscal

2017. The only spending related to exploration and evaluation during the Reporting Period was \$1,138 spent on the Mountain Pass property. The Company disposed of its Eco Ridge and Ardeen properties during prior fiscal years and was inactive on its other projects during the Reporting Period. As a result of a debt settlement with a vendor during the Reporting Period, the Company had a recovery of exploration expenses in the amount of \$43,740.

Administrative fees decreased by \$141,978 (73%) during the Reporting Period as a result of an overall decrease in the Company's operations.

During the year ended September 30, 2017, the Company incurred directors' fees of \$25,350 and energy project expenses of \$35,060. The Company did not have any such spending during the year ended September 30, 2018.

During the year ended September 30, 2017, the Company realized a gain on the sale of the Eco Ridge project for gross proceeds of \$380,000, as well as a gain of \$797,841 on the settlement of outstanding debt. The Company also earned \$25,000 of consulting income from a related party and received a non-refundable deposit of \$20,000 in connection with a non-binding letter of intent with respect to a potential transaction involving one of the Company's properties. This non-binding letter of intent expired during the year ended September 30, 2017.

In addition, the Company disposed of all of its portfolio investments during the year ended September 30, 2017, which included the common shares of Kesselrun Resources Ltd, discussed previously. The Company realized aggregate losses of \$227,750 upon the disposition of all of these portfolio investments.

During the year ended September 30, 2017, the Company issued 40,000 common shares to an arm's length lender pursuant to a loan agreement as described in Note 7(a) of the Financial Statements at an issue price of \$0.50 per share. The Company recognized a finance charge expense of \$20,000 and a gain on settlement of debt of \$10,000 during the year ended September 30, 2017 with respect to the issuance of these shares. The Company also incurred a finance charge of \$40,872 and interest expense of \$4,124 in connection with this loan agreement. The Company also borrowed \$35,000 from a company controlled by a director of the Company (see Note 7 (c) of the Financial Statements) upon which a finance charge expense of \$5,000, and interest expense of \$2,094 were recorded during the year ended September 30, 2017.

Quantitative breakdowns of the property expenditures by category are included in the following tables:

Year ended September 30, 2018

	Eco Ridge Project	Mountain Pass Project	Total
Acquisition	\$ Nil	\$ Nil	\$ Nil
Consulting	Nil	Nil	Nil
Exploration/Drilling	Nil	Nil	Nil
Processing Development	Nil	Nil	Nil
General Overhead	Nil	Nil	Nil
Project Management	Nil	Nil	Nil
Other	Nil	1,138	1,138
Total expenditures	\$ Nil	\$ 1,138	\$ 1,138
Less:			
Recoveries	\$ (44,878)	\$ Nil	\$ (44,878)
Total expenditures less recoveries	\$ (44,878)	\$ 1,138	\$ (43,730)

Year ended September 30, 2017

	Eco Ridge Project	Mountain Pass Project	Total
Acquisition	\$ 7,314	\$ 1,541	\$ 8,855
Consulting	30,600	Nil	30,600
Exploration/Drilling	Nil	Nil	Nil
Processing Development	25,350	Nil	25,350
General Overhead	14,550	Nil	14,550
Project Management	30,000	Nil	30,000
Other	558	18	576
Total expenditures	\$ 108,372	\$ 1,559	\$ 109,931
Less:			
Recoveries	\$ (380,000)	\$ Nil	\$ (380,000)
Total expenditures less recoveries	\$ (271,628)	\$ 1,559	\$ (270,069)

Summary of Quarterly Results

The following table sets out selected quarterly results of the Corporation for the eight quarters ended on or before September 30, 2018. The information contained herein is drawn from the interim financial statements of the Corporation for each of the aforementioned eight quarters.

Fiscal Year Quarter	2018				2017			
	Sep	Jun	Mar	Dec	Sep	Jun	Mar	Dec
	\$	\$	\$	\$	\$	\$	\$	\$
Interest income	0	0	0	0	0	0	0	0
Net income (loss)	(57,650)	53,187	(110,713)	225,568	(191,320)	838,686	(341,279)	(443,896)
Net income (loss), per share basic and diluted	(0.004)	0.001	(0.003)	0.009	(0.007)	0.04	(0.02)	(0.02)

The quarterly fluctuations in the Company's net income (loss) result primarily from stock-based compensation expenses recognized on stock options granted to directors, officers, employees and consultants of the Company, general administrative expenses and realized gain or loss on sale of investments. In addition to the items mentioned above, the current quarterly fluctuation is a result of mineral exploration recoveries and the settlement of debt.

Liquidity and Capital Resources

The Company's cash and cash equivalents position was \$52,597 as at September 30, 2018 (September 30, 2017 - \$173,892). The Company had a working capital deficiency of \$257,192 as at September 30, 2018 compared to a working capital deficiency of \$1,387,213 as at September 30, 2017.

During the Reporting Period, the Company issued 15,143,843 common shares of the Company in full and final satisfaction of \$1,229,679 of indebtedness.

The Company's current operating expenditures, excluding exploration expenditures on resource property work programs, are approximately \$15,000 per month. See Going Concern discussed earlier in this MD&A. The Company does not have any externally imposed capital requirements.

To date, the Company has not paid any dividends on its shares and it is unlikely that dividends will be payable in the foreseeable future. The Company anticipates that dividends would only be considered in the event it successfully brings one of its properties into commercial production.

On December 31, 2017, the Company's lease contracts for the rental of its office premises in Toronto expired.

The Company's capital requirements to maintain its properties and fund exploration and general overhead expenses have been met primarily through the completion of private placements.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Outstanding Share Data

The Company's shares are traded on the TSX Venture Exchange under the symbol GEM. As of the date of this MD&A, there are a total of 36,143,196 shares issued and outstanding.

As of the date of this MD&A, the Company has the following stock options outstanding:

Number of Options	Exercisable	Exercise Price	Expiry Date
320,000	320,000	\$0.50	December 31, 2019
121,300	121,300	\$0.50	December 31, 2020
<u>441,300</u>	<u>441,300</u>		

As of the date of this MD&A, the Company has the following warrants outstanding:

Number of Warrants	Series	Type of Share	Exercise Price	Expiry Date
504,900	HHH	Common Shares	\$0.50	February 4, 2019
100,000	HHH	Common Shares	\$0.50	February 5, 2019
<u>604,900</u>				

Transactions with Related Parties

During the Reporting Period, the Company was involved in the following transactions with related parties:

- a) Salary of \$19,000 was earned by Martin Cooper, a director and officer of the Company. Pursuant to a debt settlement agreement, this director and officer agreed to a final payment of \$42,750, in full satisfaction of total indebtedness of \$157,500, \$17,750 of which was paid during the year ended September 30, 2018. As at September 30, 2018, accounts payable and accrued liabilities included \$40,000 payable to this director and officer. Included in this balance is the remaining \$25,000 included in the debt settlement and salary of \$15,000 earned during the year ended September 30, 2018.
- b) Legal fees of \$167,415 were incurred with a law firm in which Steven Rukavina, a director and officer of the Company is a partner. Pursuant to a debt settlement agreement, the Company issued 3,238,072 common shares to this law firm to settle debt of \$220,189. As at September 30, 2018, accounts payable and accrued liabilities included \$154,465 payable to this law firm.
- c) Accounting fees of \$51,000 were incurred with an accounting firm in which Paul Andersen, an officer of the Company is a partner. Pursuant to a debt settlement agreement, the Company issued 2,961,469 common shares to this accounting firm to settle debt of \$201,380. As at September 30, 2018, accounts payable and accrued liabilities included \$71,850 accrued to this accounting firm.

- d) Pursuant to a debt settlement agreement with a company in which John Wilkinson, a director of the Company, is an officer, the Company waived debt of \$39,089 and the company issued 383,227 common shares to this company to settle the remaining debt of \$26,059. As at September 30, 2018, accounts payable and accrued liabilities included \$Nil payable to this director.
- e) Compensation earned by directors and other members of key management personnel for the year ended September 30, 2018 were as follows:

Salaries and benefits (CEO and CFO)	\$49,000
Share-based compensation (Officers and Directors)	-
Directors' fees	-
	<hr/>
	\$49,000
	<hr/>

As at September 30, 2018, accounts payable and accrued liabilities included \$Nil of directors' fees and \$15,000 of wages payable. Pursuant to various debt settlement agreements, directors of the Company waived accrued directors' fees owed to them in the aggregate amount of \$29,730, and accepted 312,097 common shares of the Company to settle the remaining accrued directors' fees of \$21,370.

Critical Accounting Judgments and Estimation Uncertainties

The preparation of the consolidated financial statements in conformity with IFRS requires that the Company's management make critical judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates are accounted for prospectively.

The Company has identified the following critical accounting policies under which significant judgments, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the consolidated financial statements.

Property, Plant and Equipment - Estimated Useful Lives

Management estimates the useful lives of PPE based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of PPE for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's PPE in the future.

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on

the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in the consolidated financial statements when applicable.

Deferred Taxes

The Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Exploration and Evaluation Expenditures

Exploration and evaluation expenditures include costs which are directly attributable to acquisition, surveying, geological, geochemical, geophysical, exploration and resource drilling, land maintenance, sampling and assessing technical feasibility and commercial viability. These expenditures are expensed as incurred.

Fair Value of Common Shares Issued Pursuant to Settlement of Debt

The Company estimates the fair value of common shares issued pursuant to settlement of debt based on the quoted market price of the Company's shares on the date the common shares are issued.

Recent Accounting Pronouncements

The accounting pronouncements detailed below have been issued but are not yet effective.

IFRS 9, Financial instruments (“IFRS 9”) was issued by the IASB in July 2014 and will replace IAS 39, Financial Instruments: recognition and measurement” (“IAS 39”). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released in July 2014 also introduce an expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

IFRS 16, Leases (“IFRS 16”) was issued by the IASB in January 2016, and will replace IAS 17 Leases. IFRS 16 specifies the methodology to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases except for short-term leases and leases with low value assets. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has also been adopted. A lessee will apply IFRS 16 to its leases either retrospectively to each prior Reporting Period presented; or retrospectively with the cumulative effect of initially applying IFRS 16 being recognized at the date of initial application. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

Financial Instruments and Other Risk Factors

The Company's financial instruments consist of cash and equivalents and accounts payable. It is management's opinion that the Company is not exposed to significant interest, credit or currency risks arising from these financial instruments and that the fair value of these instruments approximates their carrying value due to their short-term maturities. Investments available for sale are carried at fair market value. The Company is exposed to equity price risks related to its investments available for sale and investments held for trading. In conducting its business, the principal risks and uncertainties faced by the Company relate to exploration and development success, as well as metal and mineral prices and market sentiment to a lesser extent.

The prices of metals and other commodities are subject to market fluctuations and are affected by many factors outside of the Company's control. The prices of metals and future expectation of such prices have a significant impact on the market sentiment for investment in mining and mineral exploration companies. This in turn may impact the Company's ability to raise equity financing for its long term working capital requirements. To manage its risks the Company holds a diverse portfolio of uranium, gold, base metal, and diamond properties which provide exposure and leverage both to discovery and to the global demand for a variety of natural resources, and limits the Company's overall risk exposure to the market fluctuations of a specific metal or commodity.

Forward-Looking Statements

Some of the statements contained in this document are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur. Since forward-looking statements address future events and conditions, by their very nature, they have inherent risks and uncertainties. Actual results in each case could differ materially from those currently anticipated in such statements.

Subsequent Event

Subsequent to the year ended September 30, 2018:

- a) 170,000 stock options expired unexercised.
- b) 525,000 series EEE warrants expired unexercised.
- c) The Company entered into the Definitive Agreement with Bhang as discussed earlier in this MD&A.
- d) The Company entered into a termination and release agreement with respect to its Sudbury Project as discussed earlier in this MD&A.
- e) Completed an amalgamation of its subsidiaries, ERDC, Pele Diamond, Pele Gold and Sage to form one subsidiary effective January 1, 2019. The name of the amalgamated subsidiary is Sage Power Corporation.

Internal Control over Financial Reporting and Disclosure Controls

Management, including the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), is responsible for designing, establishing, and maintaining a system of internal controls over financial reporting ("ICFR") to provide reasonable assurance that all information prepared by the Company for external purposes is reliable and timely. Internal control over financial reporting is designed to provide

reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with IFRS.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately reflect the transactions of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's consolidated Financial Statements. Due to its inherent limitations, internal control over financial reporting and disclosure may not prevent or detect all misstatements.

The CEO and CFO have evaluated whether there were changes to the ICFR during the year ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the ICFR. As a result, no such significant changes were identified through their evaluation.

There have been no material changes in the Company's internal control over financial reporting during the year ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

FORM 51-102F1

PELE MOUNTAIN RESOURCES INC.
(the “Company” or “Pele”)

MANAGEMENT DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(the “Reporting Period”)

This Management Discussion and Analysis (“**MD&A**”) made as of January 29, 2018, should be read in conjunction with the audited consolidated financial statements of the Company for the year ended September 30, 2017 and the related notes thereto (the “**Financial Statements**”). The Company’s audited financial statements are presented on a consolidated basis with its five wholly-owned subsidiaries, Eco Ridge Development Corporation (“**ERDC**”), Pele Gold Corporation (“**Pele Gold**”), Pele Diamond Corporation (“**Pele Diamond**”), Mountain Pass Resources Inc. (“**Mountain Pass**”) and Sage Power Corporation (“**Sage Power**”). The Company’s reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars unless otherwise noted.

The Company’s comparative information included in this MD&A has been prepared in accordance with IFRS.

Additional information relating to the Company is also available on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. The Company’s common shares are listed on the TSX Venture Exchange under the symbol “**GEM**”.

Description of Business

The Company is a Canadian mineral company that was formed to acquire mineral resource properties in Canada and to carry out mineral exploration and development activities thereon in search of economic deposits of metals and minerals and has focused on generating and selling interests in mineral projects in Northern Ontario since 1996. The Company, either directly or through its wholly-owned subsidiaries, holds a number of mineral properties. As a result of the ongoing protracted bear market in uranium and rare earth prices, Pele has reviewed its future strategic direction and on June 1, 2017 the Company entered into a non-binding letter of intent with Enirgi Group Corp. (“**Enirgi Group**”) to potentially gain exclusive North American access to Enirgi Group’s direct extraction process lithium processing technology. On November 24, 2017, the Company received written notification that Energi Group was terminating the non-binding letter of intent.

The technical information included in this MD&A related to the resources properties, unless otherwise stated, has been reviewed by Peter Dimmell, P.Geo. (NL, ON.), a Director of the Company and a Qualified Person under National Instrument 43-101.

The Eco Ridge Project

During the year ended September 30, 2017, the Company sold its interest in the Eco Ridge project for \$380,000. This amount has been reflected as a recovery of expenses.

The Eco Ridge Project, owned 100% by Eco Ridge Development Corporation, a wholly owned subsidiary of the Company, is located in Elliot Lake, Ontario. The Eco Ridge property included over 7,800 contiguous hectares comprised of a combination of real estate and mineral rights tenures including 394 mining claim units covering over 6,300 hectares, three Mining Leases with the Province of Ontario

covering a total of 1,500 hectares, and a lease of Surface Patents (with an option to purchase) from the City of Elliot Lake covering about 800 hectares.

In May 2011, the Company was granted two mining leases by the Province of Ontario for its Eco Ridge Project. During fiscal 2014, the Company acquired a key mining lease for mining rights on certain lands below small lakes located within the boundaries of the Eco Ridge Project. This acquisition filled in a gap within the higher grade zone of the Main Conglomerate Bed. The Company then owned a 100% interest in the mineral rights throughout the more than 7,800 contiguous hectares that comprise the Eco Ridge Project Property.

In October 2014, the Company announced an expansion of its business model to include processing of high-grade rare earth bearing monazite, in Elliot Lake. Pele's plan was to source monazite from mineral sands mines in countries that embrace sustainable mining practices and were allied trading partners with Canada. Pele's objective was to process the monazite to produce mixed rare earth concentrates that would be separated into high-purity, individual rare earth oxides that can be used in downstream value added processing and manufacturing.

Following an internal review of its Eco Ridge project, Pele's Board concluded that due to continuing weak uranium and rare earth prices, Eco Ridge remained uneconomic and offered limited short or mid-term benefit to shareholders. Moreover, due to prevailing weak rare earth prices, Pele had also been unable to generate the necessary support for its proposed monazite processing facility in Elliot Lake. Therefore, the Company entered into a sale agreement with an arm's-length purchaser to sell the claims, surface rights and leases comprising Eco Ridge for gross proceeds of \$380,000 payable in cash, which closed on June 1, 2017.

Sage Energy

During the fiscal year ended September 30, 2016, the Company expanded its business model to pursue electricity generation and energy storage projects, beginning in Elliot Lake. Management envisaged opportunities in this rapidly growing sector and worked with leading energy industry professionals and suppliers of advanced technologies to offer a range of customized benefits to municipal and industrial electricity consumers in Northern Ontario.

At the time the Company incorporated Sage Power Corporation, a wholly owned operating subsidiary, set up to own and manage the Company's interests in energy projects, Sage Power's mandate was to identify, design, develop, and operate energy projects that provide smart, sustainable, customized power solutions. Sage Power's focus is on local, distributed energy and energy storage projects in Northern Ontario that reduce electricity costs, boost energy efficiency, improve reliability of service, and conserve grid electricity.

Joint Venture Mineral Exploration Projects

Two of the Company's projects are currently funded through option or joint venture agreements with strategic partners including the Sudbury Project, which is targeting base metals (nickel and copper) and platinum group elements and is currently being funded and operated by the Company's joint venture partner, Wallbridge Mining Company Limited ("**Wallbridge**"); and the Festival Project joint venture, which is being operated and funded by Goldcorp Inc. The Company's other mineral projects are the Timmins and Mountain Pass Projects, which are owned 100% by the Company and more particularly described below.

The Ardeen Project

Prior to the disposition of the Ardeen Gold Project during the year ended September 30, 2016, the Company had a 49% undivided legal and beneficial interest in 290 mining claim units and 4 patented mining claims located within Moss Township in the district of Thunder Bay, Ontario.

The Company acquired 41 mining claim units and 2 patented mining claims from a group of vendors pursuant to a purchase and sale agreement dated June 3, 1997. Under the terms of the purchase and sale agreement, the Company is required to issue an aggregate of 240,000 common shares to the vendors contingent on the property going into commercial production. The balance of the property was acquired through a series of acquisition agreements (some of which are subject to royalty interests to the vendors) and through staking campaigns.

During the year ended September 30, 2009, Pele Gold entered into a definitive option agreement (the "Definitive Agreement") for the Ardeen Gold Project with Coventry Resources Limited ("Coventry"), pursuant to which, Coventry funded enough expenditures to earn a 51% interest in the project.

In February 2014, Coventry reported that it had sold its stake in the project to Chalice Gold Mines ("Chalice").

During the year ended September 30, 2016, the Company entered into a purchase agreement, along with Chalice Gold Mines ("Chalice"), pursuant to which their respective operating subsidiaries sold their respective interests in the Ardeen Gold Project to Kesselrun Resources Ltd.. In consideration for the sale, Kesselrun issued Chalice and the Company 4,000,000 common shares of Kesselrun and a package of Net Smelter Return (NSR) royalties. The Company (and Chalice) was granted certain NSR royalties over certain mining claims. In combination with pre-existing NSRs, the property will be subject to an overall 2.5% NSR royalty over certain mining claims and a 2% NSR royalty on the remaining mining claims. The NSRs are subject to certain buyback clauses, which going forward will be for the benefit of Kesselrun. As 49% owner of the Ardeen Gold Project, the Company received 1,960,000 shares of Kesselrun and a pro rata share of the royalty package. The shares have since been sold.

The Sudbury Project

The Sudbury Project is comprised of 52 mining claim units covering approximately 830 hectares of mining claims in Harty and Foy Townships, which extend from the northern boundary of Levack Township, located about 40 km northwest of the City of Greater Sudbury, Ontario.

Wallbridge has incurred exploration expenditures to increase its ownership interest in the Joint Venture to approximately 64% as of September 30, 2017, and accordingly, the Company owns an interest of approximately 36%.

The Festival Project

In 2013, the Company and Goldcorp reactivated a previously existing joint venture on the Festival Project. Goldcorp entered into a License Agreement on behalf of the joint venture for a Licensed Area covering a total area of 52 square kilometres. The Licensed Area straddles the interpreted western extension of the Goudreau Localsh Deformation Zone ("GLDZ"), host to Richmond's Island Gold Mine as well as several past-producing gold mines including Argonaut's Magino Mine. The term of the License is for five years commencing on January 1, 2013 and may be extended for an additional 5-year term. All minerals produced and marketed from the Licensed Area are subject to a 3% royalty payable to the Licensor.

Goldcorp is funding and operating the Festival Project Joint Venture with Pele electing not to contribute its pro rata share so far. Accordingly, Goldcorp's interest has increased to over 50% of the joint venture and Pele's interest is currently less than 50%. New work on the property will impact the relative percentage ownership of each party in the joint venture.

The Timmins Project

The Timmins Project consists of 11 mining claim units located 35 kilometres south of Timmins in northern Ontario. The project ties on to the southern and eastern property boundaries of the past producing Texmont Nickel Mine.

There are no plans to start up a new work program at the Timmins Project in the foreseeable future.

The Mountain Pass Project

During the year ended September 30, 2012, the Company, through Mountain Pass Resources Inc., a wholly-owned subsidiary of the Company incorporated in Nevada, USA, acquired mining claims comprising approximately 75 contiguous hectares located in Mountain Pass, California in exchange for 4,000,000 common shares of the Company. The seller has retained a 2% production royalty (the "Production Royalty") on all minerals mined on the property, subject to the right of the Company to buy back 1% of the Production Royalty for 2,000,000 United States Dollars, escalated annually by a factor equal to the Producer Price Index.

The Company was required to complete a total of \$2,000,000 United States Dollars of exploration work on the property by September 26, 2017, which includes a Phase 1 Exploration Program. The Phase 1 Exploration Program which included compilation of historic data, geological mapping, radiometric survey, sampling of pits and trenches, surface sampling, petrological analysis, mineralogical analysis and drill program planning was completed, on schedule, during fiscal 2014.

If the Company sells the mining claims to an arm's length third party, the original vendor will receive 10% of the proceeds from the sale and a minimum royalty (the "Minimum Royalty") of \$12,000 per year will become payable to the seller, increasing by \$12,000 per year until it reaches a maximum of \$120,000 per year. The Minimum Royalty shall not apply in the case of an earn-in agreement with a third party while work on the property is advancing.

The seller has been granted a security interest in the mining claims to secure performance of certain terms in the Agreement. The Company issued a total of 200,000 common shares to two arm's length individuals as a fee for services related to the introduction of the Company to the seller.

Economic Outlook

The Company's management believes that there are considerable uncertainties relating to the macro economy, which could impact on commodity pricing.

The economic success of the Company will be dependent upon the market price of resources which fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, the world supply of mineral commodities and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are, in turn, influenced by changes in international investment patterns monetary systems and political developments. The price of resources has fluctuated widely in recent years, and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on the Company's business, financial condition and results of operations.

Overall Performance

At this time the Company does not own or operate any revenue producing mineral properties and, accordingly, does not have cash flow from operations. Historically, the Company has raised funds for development and general overhead and other expenses primarily through the issuance of shares from treasury. This method of financing has been the principal source of funding for the Company's on-going operations since it was founded over 20 years ago. Funding for exploration at the Sudbury Project and Festival Project is provided under joint venture agreements at each respective Project.

The Company received shareholder approval in March 2017 to implement a share consolidation, in order to raise Pele's share price to above \$0.05 so that the Company may raise funds for future development and on-going overhead and other working capital expenses through the issuance of shares from treasury in compliance with the TSX Venture Exchange requirements. The consolidation of the share consolidation took effect on July 24, 2017.

Going Concern

The Company's ability to continue as a going concern is dependent upon, but not limited to, its ability to raise financing necessary to fund its development programs and general and administrative expenses, discharge its liabilities as they become due and generate positive cash flows from operations. There is no certainty that the Company will be successful in raising financing given the current challenging condition of the junior resource financial markets, and as such there is significant uncertainty the Company will be able to continue as a going concern.

Prior Period Change in Accounting Policy

During the year ended September 30, 2016, the Company retrospectively changed its accounting policy for exploration and evaluation expenditures. Previously, the Company capitalized acquisition costs and deferred exploration and evaluation expenditures of mineral properties to the specific mineral properties, net of recoveries received. Under the new policy, acquisition costs and deferred exploration and evaluation expenditures incurred prior to the establishment of technical feasibility and commercial viability of extracting mineral resources and prior to a decision to proceed with mine development are charged to operations as incurred. Management considers this accounting policy to provide more reliable and relevant information and more clearly represents the Company's activities. The comparative figures in this MD&A reflect the change in accounting policy were applicable.

Selected Annual Information

The following selected financial data for each of the three most recently completed financial years are derived from the audited annual financial statements of the Company. Some data for the 2015 year has been modified due to the change in accounting policy. See the Change in Accounting Policy discussed earlier in this MD&A for further details.

Year Ended September 30	2017	2016	2015
	\$	\$	\$
Interest income	-	9	324
Net loss and comprehensive loss	137,809	1,156,842	1,298,833
Net loss, per share basic and diluted	0.007	0.06	0.07
Total assets	236,712	520,846	155,999
Cash dividends	Nil	Nil	Nil

The Company has no resource properties in production and, consequently, has no current operating income or cash flow from its mineral properties.

The Company has recorded losses in all of the three most recently completed fiscal years and expects to continue to record losses unless and until such time as an economic resource or project is identified, developed and brought into profitable commercial operation on one or more of the Company's properties and other projects or otherwise disposed of at a profit. Acquisition costs and deferred exploration and evaluation expenditures incurred prior to the establishment of technical feasibility and commercial viability of extracting mineral resources and prior to a decision to proceed with mine development are charged to operations as incurred. Since the Company has no revenue from operations, annual operating losses typically represent the sum of business expenses plus any write-offs of mineral properties abandoned during the period.

Results of Operations

The Company had a net loss of \$137,809 or \$0.007 per share on a fully diluted basis for the Reporting Period, compared to a net loss of \$1,156,842 or \$0.06 per share on a fully diluted basis for the year ended September 30, 2016. The decrease in net loss is due to a gain on a settlement of debt, recovery of exploration and evaluation expenditures, a general reduction in overall spending, as well as reduced exploration expenditures and share based compensation during the Reporting Period.

The Company's expenses (excluding share-based compensation, change in fair value of portfolio investments, gain (loss) on portfolio investments) totaled \$1,069,106 for the Reporting Period compared to \$1,491,914 for the year ended September 30, 2016. Areas of significantly decreased expenditures included salaries and wages, general exploration expenditures and administrative expenses, while the Company incurred increased expenses related to professional fees and incurred finance and interest charges related to debt extended to the Company.

Also contributing to the Company's reduced net loss for the Reporting Period, was a gain on the sale of the Eco Ridge project for gross proceeds of \$380,000, as well as a gain of \$797,841 on the settlement of outstanding debt. The Company also earned \$25,000 of consulting income from a related party and received a non-refundable deposit of \$20,000 in connection with a non-binding letter of intent with respect to a potential transaction involving one of the Company's properties. This non-binding letter of intent expired during the Reporting Period.

Publicity and investor relations decreased by \$53,259 (67%) during the Reporting Period. The decrease relates to a marketing initiative that the Company had undertaken during the year ended September 30, 2016 to communicate to shareholders and the public that the Company planned to diversify into the clean

energy industry and its supply chains that did not impact the Reporting Period. The expenditures related to corporate development with a focus on rebranding and the creation of new marketing and promotional materials.

The Company incurred a decrease of \$13,206 (17%) in listing and filing fees during the Reporting Period. During the year ended September 30, 2016, the Company incurred fees related to the private placements that were completed that were not incurred during the current Reporting Period. There were also filing fees incurred in the prior period related to various filings with the security exchanges that were not incurred in the Reporting Period.

Share-based compensation decreased during the Reporting Period by \$115,794 when compared to the prior years' reporting period. As stock options were not granted during the Reporting Period, the Company did not incur any share-based compensation expense related to the new options granted during fiscal 2017. However, the Company did incur share-based compensation expense of \$63,823 as a result of the modification of the expiry date of some options issued to employees that were terminated during the Reporting Period.

Exploration and evaluation expenses decreased by \$125,872 (53%) during the Reporting Period as a result of the disposition of the Ardeen property during fiscal 2016 and the Eco Ridge property during fiscal 2017. During the year ended September 30, 2016, the Company received common shares of Kesselrun Resources Ltd. with a fair value of \$527,400 in exchange for the Ardeen property. The Company received cash proceeds of \$380,000 upon disposition of the Eco Ridge property during the Reporting Period.

During the Reporting Period, the Company's expense relating to salaries and benefits decreased by \$370,574 (54%) when compared to the year ended September 30, 2016. This decrease was mainly a function of the resignation of the Company's former President and CEO which resulted in decreased salary expenses during the Reporting Period. Fiscal 2016 also included the accrual of bonuses to the former President and CEO which were not incurred during the Reporting Period. Upon resignation, the Company and its former President and CEO signed a mutual termination and release agreement, pursuant to which the Company was to pay \$80,000 in full and final satisfaction of any and all salary and severance obligations. The Company recognized a gain on the settlement of debt in the amount of \$787,841 pursuant to the mutual termination and release agreement due to various salary and bonus amounts that had been accrued in past fiscal years.

Professional fees increased by \$76,003 (51%) during the Reporting Period as a result of increased legal fees.

During the year ended September 30, 2017, the Company disposed of all of its portfolio investments, which included the common shares of Kesselrun Resources Ltd, discussed previously. The Company realized aggregate losses of \$227,750 upon the disposition of all of its portfolio investments during the Reporting Period.

During the Reporting Period, the Company issued 40,000 common shares to an arm's length lender pursuant to a loan agreement as described in Note 7(a) of the Financial Statements at an issue price of \$0.50 per share. The Company has recognized a finance charge expense of \$20,000 and a gain on settlement of debt of \$10,000 during the Reporting Period with respect to the issuance of these shares. The Company also incurred a finance charge of \$40,872 and interest expense of \$4,124 in connection with this loan agreement. The Company also borrowed \$35,000 from a company controlled by a director of the Company (see Note 7 (c) of the Financial Statements) upon which a finance charge expense of \$5,000, and interest expense of \$2,094 were recorded.

Quantitative breakdowns of the property expenditures by category are included in the following tables:

Year ended September 30, 2017

	Eco Ridge Project	Mountain Pass Project	Total
Acquisition	\$ 7,314	\$ 1,541	\$ 8,855
Consulting	30,600	Nil	30,600
Exploration/Drilling	Nil	Nil	Nil
Processing Development	25,350	Nil	25,350
General Overhead	14,550	Nil	14,550
Project Management	30,000	Nil	30,000
Other	558	18	576
Total expenditures	\$ 108,372	\$ 1,559	\$ 109,931
Less:			
Recoveries	\$ 380,000	\$ Nil	\$ 380,000
Total expenditures less recoveries	\$ (271,628)	\$ 1,559	\$ (270,069)

Year ended September 30, 2016

	Eco Ridge Project	Mountain Pass Project	Ardeen Gold Project	Total
Acquisition	\$ 7,589	\$ 7,412	\$ 51	\$ 15,052
Consulting	130,382	Nil	Nil	130,382
Exploration/Drilling	Nil	Nil	Nil	Nil
Processing Development	11,404	Nil	Nil	11,404
General Overhead	14,604	Nil	Nil	14,604
Project Management	43,500	Nil	Nil	43,500
Other	20,839	22	Nil	20,861
Total expenditures	\$ 228,318	\$ 7,434	\$ 51	\$ 235,803

Summary of Quarterly Results

The following table sets out selected quarterly results of the Corporation for the eight quarters ended on or before September 30, 2017. The information contained herein is drawn from the interim financial statements of the Corporation for each of the aforementioned eight quarters.

Fiscal Year Quarter	2017				2016			
	Sep	Jun	Mar	Dec	Sep	Jun	Mar	Dec
	\$	\$	\$	\$	\$	\$	\$	\$
Interest income	0	0	0	0	9	0	0	0
Net income (loss)	(191,320)	838,686	(341,279)	(443,896)	2,306,563	(2,822,622)	(443,465)	(197,318)
Net income (loss), per share basic and diluted	(0.007)	0.04	(0.02)	(0.02)	0.11	(0.13)	(0.02)	(0.01)

The quarterly fluctuations in the Company's net income (loss) result primarily from stock-based compensation expenses recognized on stock options granted to directors, officers, employees and consultants of the Company, general administrative expenses and realized gain or loss on sale of investments. In addition to the items mentioned above, the current quarterly fluctuation is a result of mineral exploration recoveries and the settlement of debt.

Liquidity and Capital Resources

The Company's cash and cash equivalents position was \$173,892 as at September 30, 2017 (September 30, 2016 - \$35,636). The Company had a working capital deficiency of \$1,387,213 as at September 30, 2017 compared to a working capital deficiency of \$1,267,503 as at September 30, 2016.

During the Reporting Period, the Company issued 40,000 common shares pursuant to a loan agreement as described in Note 7(a) of the Financial Statements at an issue price of \$0.50 per share.

During the Reporting Period, the Company borrowed \$35,000 from a company controlled by a director of the Company as described in Note 7(c) of the Financial Statements. The loan carries an interest rate of 12% calculated daily with principal and interest due on or before July 25, 2017, which was extended to August 15, 2017. In addition to the loan, a placement fee of \$5,000 was payable by the Company upon maturity of the loan.

During the Reporting Period, the Company sold its entire portfolio of share investments.

The Company's current operating expenditures, excluding exploration expenditures on resource property work programs, are approximately \$50,000 per month. See Going Concern discussed earlier in this MD&A. The Company does not have any externally imposed capital requirements.

To date, the Company has not paid any dividends on its shares and it is unlikely that dividends will be payable in the foreseeable future. The Company anticipates that dividends would only be considered in the event it successfully brings one of its properties into commercial production.

As at September 30, 2017, the Company was committed under lease contracts for the rental of its office premises in Toronto. However, this lease expired on December 31, 2017.

The Company's capital requirements to maintain its properties and fund exploration and general overhead expenses have been met primarily through the completion of private placements.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Outstanding Share Data

The Company's shares are traded on the TSX Venture Exchange under the symbol GEM. As of the date of this MD&A, there are a total of 36,143,536 shares issued and outstanding. As of the date of this MD&A, the Company has the following stock options outstanding:

Number of Options	Exercisable	Exercise Price	Expiry Date
67,500	67,500	\$0.50	May 31, 2018
30,000	30,000	\$1.00	May 31, 2018
756,200	756,200	\$0.50	June 1, 2018
200,000	200,000	\$1.00	June 1, 2018
195,000	195,000	\$1.00	December 31, 2018
345,000	345,000	\$0.50	December 31, 2019
121,300	121,300	\$0.50	December 31, 2020
<u>1,715,000</u>	<u>1,715,000</u>		

As of the date of this MD&A, the Company has the following warrants outstanding:

Number of Warrants	Series	Type of Share	Exercise Price	Expiry Date
801,220	CCC	Common Shares	\$0.70	April 13, 2018
170,000	DDD	Common Shares	\$0.70	May 25, 2018
525,000	EEE	Common Shares	\$0.50	November 20, 2018
504,900	HHH	Common Shares	\$0.50	February 4, 2019
100,000	HHH	Common Shares	\$0.50	February 5, 2019
<u>2,101,120</u>				

Transactions with Related Parties

During the Reporting Period, the Company was involved in the following transactions with related parties:

- a) Consulting fees and salary of \$60,000 was earned by Martin Cooper, a director and officer of the Company. As at September 30, 2017, accounts payable and accrued liabilities included \$157,500 payable to this director and officer.
- b) Legal fees of \$106,336 were incurred with a law firm in which Steven Rukavina, a director and officer of the Company is a partner. As at September 30, 2017, accounts payable and accrued liabilities included \$196,125 payable to this law firm.
- c) Accounting fees of \$42,000 were incurred with an accounting firm in which Paul Andersen, an officer of the Company is a partner. As at September 30, 2017, accounts payable and accrued liabilities included \$202,212 accrued to this accounting firm.
- d) Consulting fees of \$Nil were incurred with a company in which John Wilkinson, a director of the Company, is an officer, all of which have been classified as exploration and evaluation expenditures. As at September 30, 2017, accounts payable and accrued liabilities included \$52,853 payable to this director.
- e) Compensation earned by directors and other members of key management personnel for the year ended September 30, 2017 were as follows:

Salaries and benefits (CEO and CFO)	\$216,667
Share-based compensation (Officers and Directors)	\$60,372
Directors' fees	<u>\$25,350</u>
	<u>\$302,389</u>

As at September 30, 2017, accounts payable and accrued liabilities included \$51,100 (September 30, 2016 - \$25,750) of directors' fees and \$127,500 (September 30, 2016 - \$748,675) of wages payable.

- f) The Company earned consulting fees of \$25,000 with a company in which Wayne Richardson, the Chairman and director of the company is the President
- g) Other related party transactions are disclosed in Liquidity and Capital Resources discussion of this MD&A.

Critical Accounting Judgments and Estimation Uncertainties

The preparation of the consolidated financial statements in conformity with IFRS requires that the Company's management make critical judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates are accounted for prospectively.

The Company has identified the following critical accounting policies under which significant judgments, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the consolidated financial statements.

Property, Plant and Equipment - Estimated Useful Lives

Management estimates the useful lives of PPE based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of PPE for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's PPE in the future.

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in the consolidated financial statements when applicable.

Deferred Taxes

The Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Exploration and Evaluation Expenditures

Exploration and evaluation expenditures include costs which are directly attributable to acquisition, surveying, geological, geochemical, geophysical, exploration and resource drilling, land maintenance, sampling and assessing technical feasibility and commercial viability. These expenditures are expensed as incurred.

Recent Accounting Pronouncements

The accounting pronouncements detailed below have been issued but are not yet effective.

IFRS 9, Financial instruments (“IFRS 9”) was issued by the IASB in July 2014 and will replace IAS 39, Financial Instruments: recognition and measurement” (“IAS 39”). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released in July 2014 also introduce an expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

IFRS 15, Revenue from Contracts and Customers (“IFRS 15”) was issued by the IASB in May 2014, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

IFRS 16, Leases (“IFRS 16”) was issued by the IASB in January 2016, and will replace IAS 17 Leases. IFRS 16 specifies the methodology to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases except for short-term leases and leases with low value assets. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has also been adopted. A lessee will apply IFRS 16 to its leases either retrospectively to each prior Reporting Period presented; or retrospectively with the cumulative effect of initially applying IFRS 16 being recognized at the date of initial application. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

Financial Instruments and Other Risk Factors

The Company’s financial instruments consist of cash and equivalents and accounts payable. It is management’s opinion that the Company is not exposed to significant interest, credit or currency risks arising from these financial instruments and that the fair value of these instruments approximates their carrying value due to their short-term maturities. Investments available for sale are carried at fair market value. The Company is exposed to equity price risks related to its investments available for sale and investments held for trading.

In conducting its business, the principal risks and uncertainties faced by the Company relate to exploration and development success, as well as metal and mineral prices and market sentiment to a lesser extent.

The prices of metals and other commodities are subject to market fluctuations and are affected by many factors outside of the Company’s control. The prices of metals and future expectation of such prices have a significant impact on the market sentiment for investment in mining and mineral exploration companies. This in turn may impact the Company’s ability to raise equity financing for its long term working capital requirements. To manage its risks the Company holds a diverse portfolio of uranium, gold, base metal, and diamond properties which provide exposure and leverage both to discovery and to the global demand for a

variety of natural resources, and limits the Company's overall risk exposure to the market fluctuations of a specific metal or commodity.

Forward-Looking Statements

Some of the statements contained in this document are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur. Since forward-looking statements address future events and conditions, by their very nature, they have inherent risks and uncertainties. Actual results in each case could differ materially from those currently anticipated in such statements.

Subsequent Event

Subsequent to the year ended September 30, 2017, pursuant to several debt settlement agreements to settle various accounts payable and other loans payable, the Company issued 15,143,843 common shares from treasury in full and final satisfaction of \$1,051,195 of indebtedness, and a total of \$94,221 of indebtedness owed by the Company to related party creditors was forgiven.

Internal Control over Financial Reporting and Disclosure Controls

Management, including the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), is responsible for designing, establishing, and maintaining a system of internal controls over financial reporting ("ICFR") to provide reasonable assurance that all information prepared by the Company for external purposes is reliable and timely. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with IFRS.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately reflect the transactions of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's consolidated Financial Statements. Due to its inherent limitations, internal control over financial reporting and disclosure may not prevent or detect all misstatements.

The CEO and CFO have evaluated whether there were changes to the ICFR during the year ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, the ICFR. As a result, no such significant changes were identified through their evaluation.

There have been no material changes in the Company's internal control over financial reporting during the year ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

FORM 51-102F1

PELE MOUNTAIN RESOURCES INC.
(the “Company” or “Pele”)

MANAGEMENT DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
(the “Reporting Period”)

This Management Discussion and Analysis (“**MD&A**”) made as of January 24, 2017, should be read in conjunction with the audited consolidated financial statements of the Company for the year ended September 30, 2016 and the related notes thereto. The Company’s audited financial statements are presented on a consolidated basis with its four wholly-owned subsidiaries, Eco Ridge Development Corporation (“**ERDC**”), (formerly known as First Canadian Uranium Inc.), Pele Gold Corporation (“**Pele Gold**”), Pele Diamond Corporation (“**Pele Diamond**”), and Mountain Pass Resources Inc. (“**Mountain Pass**”). The Company’s reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars unless otherwise noted.

The Company’s comparative information included in this MDA has been prepared in accordance with IFRS.

Additional information relating to the Company is also available on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. The Company’s common shares are listed on the TSX Venture Exchange under the symbol “**GEM**”.

Description of Business

The Company is a Canadian mineral exploration and development company that was formed to acquire mineral resource properties in Canada and to carry out mineral exploration and development activities thereon in search of economic deposits of metals and minerals and has focused on generating and selling interests in mineral projects in Northern Ontario since 1996. The Company, either directly or through its wholly-owned subsidiaries, holds a number of mineral properties and is currently focused on sustainable development of mineral processing facilities to produce rare earths in the City of Elliot Lake. As a result of the ongoing protracted bear market in uranium and rare earth prices, Pele has also expanded its business model to include development of energy and energy storage projects both within and outside of the City of Elliot Lake.

The technical information included in this MD&A related to the resources properties, unless otherwise stated, has been reviewed by Peter Dimmell, P.Geol. (NL, ON.), a Director of the Company and a Qualified Person under National Instrument 43-101.

The Eco Ridge Project

The Eco Ridge Project, owned 100% by Eco Ridge Development Corporation, a wholly owned subsidiary of the Company, is located in Elliot Lake, Ontario. The Eco Ridge property includes over 8600 contiguous hectares comprised of a combination of real estate and mineral rights tenures including 394 mining claim units covering over 6,000 hectares, three Mining Leases with the Province of Ontario covering a total of 1,550 hectares, and a lease of Surface Patents (with an option to purchase) from the City of Elliot Lake covering about 800 hectares. The Project is located near extensive existing

infrastructure as a result of the fact that, historically, there has been large scale uranium mining and processing operations within the City of Elliot Lake.

In May 2011, the Company was granted two mining leases by the Province of Ontario for its Eco Ridge Project. The Mining Leases provide secure tenure and give the Company the exclusive right to mine the near surface part of the Eco Ridge rare earth and uranium deposit and include surface rights that allow for siting of project infrastructure including processing facilities. The Mining Leases are for terms of 21 years (commencing on March 1, 2011) and are renewable. The Mining Leases cover an area of 1,550 hectares and the total rent payable under the Mining Leases is \$4,652 annually. The Company has also entered into a 21-year renewable lease agreement with the City of Elliot Lake (the “City”), with an option to purchase the surface rights on certain surface patents owned by the City, where the Company owns the mineral rights.

During fiscal 2014, the Company acquired a key mining lease for mining rights on certain lands below small lakes located within the boundaries of the Eco Ridge Project. This acquisition filled in a gap within the higher grade zone of the Main Conglomerate Bed. The Company now owns a 100% interest in the mineral rights throughout the more than 8,600 contiguous hectares that comprise the Eco Ridge Project Property. In conjunction with the Mining Lease acquisition, the Company entered into a NSR Royalty Agreement with the previous lessee, Rio Algom Limited on standard commercial terms. During the Reporting Period, the Company’s application to the Ministry of Northern Development and Mines (“MNDM”) to renew Pele’s new Mining Lease for an additional 21-year term commencing October 1, 2014, was approved.

In October 2014, the Company announced an expansion of its business model to include processing of high-grade rare earth bearing monazite, in Elliot Lake. Pele plans to source monazite from mineral sands mines in countries that embrace sustainable mining practices and are allied trading partners with Canada. Pele’s objective is to process the monazite to produce mixed rare earth concentrates that will be separated into high-purity, individual rare earth oxides that can be used in downstream value added processing and manufacturing. Pele’s monazite processing strategy is predicated on collaboration and cooperation with industry leaders in the rare earth supply chain, all levels of government, local communities, and academia.

In June 2013, the Company announced a major increase in NI 43-101 REO and U₃O₈ resources. The NI 43-101 Mineral Resource Estimate was prepared by Roscoe Postle Associates (“RPA”). The mineral resources at Eco Ridge continue to have excellent potential for expansion with lower-than-normal exploration risk in the historically drilled areas outside of the resource wireframe. To-date, infill drilling at Eco Ridge has been 100-percent successful in upgrading Inferred resources to the Indicated category in the Main Conglomerate Bed (“MCB”).

Mineral Resource Estimate – June 2013

Classification	Tonnes	Uranium Oxide		Total REO	
		Pounds	ppm	Pounds	ppm
Indicated	22,743,000	22,554,311	450	80,510,000	1,606
Inferred	36,560,000	37,622,835	470	125,248,000	1,554

Source: Mineral Resource Estimate by Roscoe Postle Associates, June 2013

Notes:

1. CIM definitions were followed for Mineral Resources.
2. This subset of Mineral Resources was estimated within a portion of the Main Conglomerate Bed (MCB) at a cut-off value of \$90 per tonne. Values were calculated based on prices and recoveries of uranium and rare earths, net of rare earth separation costs.
3. Mineral Resources are estimated using an average long-term uranium price of US\$70 per lb U₃O₈, a rare earth “basket price” of \$55 per kg (net of separation charges), and a C\$:US\$ exchange rate of 1.00:1.00.
4. U₃O₈ Equivalents are calculated by converting rare earths values (net of prices, recoveries, and separation charges) to uranium values.
5. A minimum mining thickness of 1.8 metres was used.
6. Total Rare Earth Oxides include light oxides La₂O₃, CeO₂, Pr₆O₁₁, and Nd₂O₃, and heavy oxides Sm₂O₃, Eu₂O₃, Gd₂O₃, Tb₄O₇, Dy₂O₃, Ho₂O₃, Er₂O₃, Tm₂O₃, Yb₂O₃, Y₂O₃, and Lu₂O₃. Sc₂O₃ is also included, as it occurs in low concentrations and carries high unit values like a heavy rare earth oxide.

Mineral Resource Estimate – June 2013 - Rare Earth Oxides

Rare Earth Oxides	Indicated		Inferred	
	Grade (ppm)	Contained Oxides (tonnes)	Grade (ppm)	Contained Oxides (tonnes)
La ₂ O ₃	383	8,719	370	13,513
CeO ₂	726	16,520	699	25,541
Pr ₆ O ₁₁	73	1,649	70	2,563
Nd ₂ O ₃	233	5,302	225	8,229
Sm ₂ O ₃	40	909	39	1,440
Eu ₂ O ₃	2	51	2	78
Gd ₂ O ₃	27	604	26	963
Tb ₄ O ₇	4	83	4	130
Dy ₂ O ₃	17	384	17	611
Ho ₂ O ₃	3	65	3	101
Er ₂ O ₃	7	161	7	257
Tm ₂ O ₃	1	21	1	34
Yb ₂ O ₃	5	125	5	200
Lu ₂ O ₃	1	17	1	28
Y ₂ O ₃	78	1,769	77	2,812
Sc ₂ O ₃	6	142	9	311
LREO	1,415	32,190	1,363	49,846
HREO	190	4,329	191	6,965
TREO	1,606	36,519	1,554	56,811

Source: Mineral Resource Estimate by Roscoe Postle Associates, June 2013

Notes:

1. CIM definitions were followed for Mineral Resources.
2. Mineral Resources are estimated within the Main Conglomerate Bed (MCB) at a cut-off value of \$90 per tonne. Values were calculated based on prices and recoveries of uranium and rare earths, net of off-site rare earth separation costs.
3. Mineral Resources are estimated using an average long-term uranium price of US\$70 per lb U₃O₈, a rare earth “basket price” of \$55

per kg (net of separation charges), and a C\$:US\$ exchange rate of 1.00:1.00.

4. U₃O₈ Equivalents are calculated by converting rare earths values (net of prices, recoveries, and separation charges) to uranium values.
5. A minimum mining thickness of 1.8 metres was used.
6. Light Rare Earth Oxides include La₂O₃, CeO₂, Pr₆O₁₁, and Nd₂O₃.
7. Heavy Rare Earth Oxides include Sm₂O₃, Eu₂O₃, Gd₂O₃, Tb₄O₇, Dy₂O₃, Ho₂O₃, Er₂O₃, Tm₂O₃, Yb₂O₃, and Lu₂O₃. Y₂O₃ and Sc₂O₃ are also included in HREO.

In April 2012, the Company announced the results of an updated NI 43-101 Preliminary Economic Assessment (the “**PEA**”) for the Eco Ridge Mine Project. The 2012 PEA was prepared by RPA and demonstrated that Eco Ridge had potential to become a profitable producer of rare earth oxide (“**REO**”) and uranium oxide (“**U₃O₈**”). The PEA was the culmination of several years of exploration and pre-development work by Pele and its world-class technical team.

In September 2013, an economic review was prepared by RPA, a sensitivity analysis on Pele’s 2012 PEA, which evaluated the impact of the increased NI 43-101 Mineral Resource Estimate for Eco Ridge, along with reduced rare earth price assumptions, while maintaining all unit operating costs and process recoveries unchanged from the PEA.

The economic review concluded that the increase in Mineral Resources extends mine life and improves project economics. While this improvement was offset by a reduction in rare earth price forecast the net result at the time showed that Eco Ridge Mine economics remained positive. Since the economic review was conducted, underlying uranium and rare earth prices have declined.

NI 43-101 required statement: The PEA and economic review are preliminary in nature. They include inferred mineral resources, which are considered too speculative geologically to have the economic considerations applied to them that would enable their categorization as mineral reserves. There is no certainty that the PEA or economic review forecast will be realized.

The Sage Energy Project

During the Reporting Period, the Company expanded its business model to pursue electricity generation and energy storage projects, beginning in Elliot Lake. Management sees considerable opportunity in this rapidly growing sector and is working with leading energy industry professionals and suppliers of advanced technologies to offer a range of customized benefits to municipal and industrial electricity consumers in Northern Ontario.

In September 2016, the Company signed a Sustainable Energy Development Agreement with the City of Elliot Lake, Ontario. Under the terms of the Agreement, the Elliot Lake City Council has appointed the Company, on an exclusive basis, to be the developer of energy and energy storage projects on City Lands until May 1, 2018.

Subsequent to the Reporting Period, the Company incorporated a wholly owned operating subsidiary, Sage Power Corporation (“**Sage Power**”), which will own and manage the Company’s interests in energy projects. Sage Power’s mandate is to identify, design, develop, and operate energy projects that provide smart, sustainable, customized power solutions to Municipal, Indigenous, and private sector electricity consumers. Sage Power will focus on local, distributed energy and energy storage projects in Northern Ontario that reduce electricity costs, boost energy efficiency, improve reliability of service, and conserve grid electricity.

Joint Venture Projects

Two of the Company's projects are currently funded through option or joint venture agreements with strategic partners including the Sudbury Project, which is targeting base metals (nickel and copper) and platinum group elements and is currently being funded and operated by the Company's joint venture partner, Wallbridge Mining Company Limited ("**Wallbridge**"); and the Festival Project joint venture, which is being operated and funded by Goldcorp Inc. The Company's other mineral projects are the Timmins and Mountain Pass Projects, which are owned 100% by the Company and more particularly described below.

The Ardeen Project

The Ardeen Project, was sold during the Reporting Period. The Ardeen Project was owned 49% by Pele Gold Corporation, a wholly owned subsidiary of the Company, and was comprised of 290 mining claim units and 4 patented mining claims located within Moss Township in the district of Thunder Bay, Ontario. The Ardeen Project hosted Northern Ontario's first producing gold mine. The Company acquired 41 mining claim units and 2 patented mining claims from a group of vendors pursuant to a purchase and sale agreement dated June 3, 1997, pursuant to which the Company has a continuing obligation to issue an aggregate of 240,000 of its common shares to the vendors contingent on the property going into commercial production.

In 2009, the Company entered into an option and joint venture agreement in respect of the Ardeen Project with Coventry Resources Limited ("**Coventry**"), pursuant to which, Coventry had funded enough exploration expenditures to earn its 51% interest in the project.

In February 2014, Coventry reported that it sold its stake in the project to Chalice Gold Mines ("**Chalice**").

During the year ended September 30, 2016, the Company entered into a purchase agreement, along with Chalice, whereby their respective operating subsidiaries sold their respective interests in the Ardeen Gold Project to Kesselrun Resources Ltd. In consideration for the sale, Kesselrun agreed to issue Chalice and the Company 4,000,000 common shares of Kesselrun and a package of Net Smelter Return (NSR) royalties. The Company (and Chalice) was granted certain NSR royalties over certain mining claims. In combination with pre-existing NSRs, the property will be subject to an overall 2.5% NSR royalty over certain mining claims and a 2% NSR royalty on the remaining mining claims. The NSRs are subject to certain buyback clauses, which going forward will be for the benefit of Kesselrun. As 49% owner of the Ardeen Gold Project, the Company received 1,960,000 shares of Kesselrun and a pro rata share of the royalty package. Following the issuance of the Kesselrun shares, the Company held approximately 5.5% of the issued and outstanding shares of Kesselrun.

The Sudbury Project

The Sudbury Project is comprised of 52 mining claim units covering approximately 830 hectares of mining claims in Harty and Foy Townships, which extend from the northern boundary of Levack Township, located about 40 km northwest of the City of Greater Sudbury, Ontario.

Wallbridge has incurred exploration expenditures to increase its ownership interest in the Joint Venture to approximately 64% as of September 30, 2016, and accordingly, the Company owns an interest of approximately 36%.

The Festival Project

In 2004, Goldcorp Inc. (“Goldcorp”) and Pele began exploring the Festival Project, north of Wawa. The Festival Project is owned by Pele Mountain and Goldcorp under a joint venture that was entered into in 2006 with each company owning 50-percent. In 2010, the original 101 square kilometre Exploration License for the Festival Project expired and the Project was consequently written off by Pele due to inactivity.

In 2013, the Company and Goldcorp reactivated the joint venture on the Festival Project. Goldcorp entered into a License Agreement on behalf of the joint venture for a Licensed Area covering a total area of 52 square kilometres. The Licensed Area straddles the interpreted western extension of the Goudreau Localsh Deformation Zone (“GLDZ”), host to Richmond’s Island Gold Mine as well as several past-producing gold mines including Argonaut’s Magino Mine. The term of the License is for five years commencing on January 1, 2013 and may be extended for an additional 5-year term. All minerals produced and marketed from the Licensed Area are subject to a 3% royalty payable to the Licensor.

Goldcorp is funding and operating the Festival Project Joint Venture with Pele electing not to contribute its pro rata share so far. Accordingly, Goldcorp’s interest has increased to over 50% of the joint venture and Pele’s interest is less than 50%. New work on the property will impact the relative percentage ownership of each party in the joint venture.

The Timmins Project

The Timmins Project consists of 22 mining claim units located 35 kilometres south of Timmins in northern Ontario. The project ties on to the southern and eastern property boundaries of the past producing Texmont Nickel Mine.

There are no plans to start up a new work program at the Timmins Project in the foreseeable future.

The Mountain Pass Project

During the year ended September 30, 2012, the Company, through Mountain Pass Resources Inc., a wholly-owned subsidiary of the Company incorporated in Nevada, USA, acquired mining claims comprising approximately 75 contiguous hectares located in Mountain Pass, California in exchange for 4,000,000 common shares of the Company. The seller has retained a 2% production royalty (the “Production Royalty”) on all minerals mined on the property, subject to the right of the Company to buy back 1% of the Production Royalty for 2,000,000 United States Dollars, escalated annually by a factor equal to the Producer Price Index.

The Company is required to complete a total of \$2,000,000 United States Dollars of exploration work on the property by September 26, 2017 which includes a Phase 1 Exploration Program. The Phase 1 Exploration Program which included compilation of historic data, geological mapping, radiometric survey, sampling of pits and trenches, surface sampling, petrological analysis, mineralogical analysis and drill program planning was completed, on schedule, during fiscal 2014.

If the Company sells the mining claims to an arm’s length third party, the original vendor will receive 10% of the proceeds from the sale and a minimum royalty (the “Minimum Royalty”) of \$12,000 per year will become payable to the seller, increasing by \$12,000 per year until it reaches a maximum of \$120,000

per year. The Minimum Royalty shall not apply in the case of an earn-in agreement with a third party while work on the property is advancing.

The seller has been granted a security interest in the mining claims to secure performance of certain terms in the Agreement. The Company issued a total of 200,000 common shares to two arm's length individuals as a fee for services related to the introduction of the Company to the seller.

Economic Outlook

The Company's management believes that there are considerable uncertainties relating to the macro economy, which could impact on commodity pricing. Uranium and rare earth prices remain in protracted bear markets and capital markets for junior resource companies continue to be very challenging. Further short term volatility is expected. The Company has also expanded its targeted business model to include development of a rare earth processing centre and development of energy and energy storage projects both within and outside of Elliot Lake, which has added potential opportunity for Pele related to the energy sector at a time when the resource sector is struggling.

Overall Performance

At this time the Company does not own or operate any revenue producing mineral properties and, accordingly, does not have cash flow from operations. The Company has raised funds for development and general overhead and other expenses primarily through the issuance of shares from treasury. This method of financing has been the principal source of funding for the Company's on-going operations since it was founded over 20 years ago. Funding for exploration at the Sudbury Project and Festival Project is provided under joint venture agreements at each respective Project.

The Company intends to continue raising funds for future development and on-going overhead and other working capital expenses through the issuance of shares from treasury and/or through option and/or joint venture agreements or other agreements with potential strategic partners. The Company is also looking into the possibility of attracting investment in its monazite processing project from potential partners as well the possibility of entering into future off-take agreements for rare earths recovered from monazite processing operations in Elliot Lake. The Company is also assessing the potential for generating positive returns from energy and energy storage projects in Northern Ontario.

Going Concern

The Company's ability to continue as a going concern is dependent upon, but not limited to, its ability to raise financing necessary to fund its development programs and general and administrative expenses, maintain its resource properties, discharge its liabilities as they become due and generate positive cash flows from operations. There is no certainty that the Company will be successful in raising financing given the current challenging condition of the junior resource financial markets, and as such there is significant uncertainty the Company will be able to continue as a going concern.

Change in Accounting Policy

During the year ended September 30, 2016, the Company retrospectively changed its accounting policy for exploration and evaluation expenditures. Previously, the Company capitalized acquisition costs and deferred exploration and evaluation expenditures of mineral properties to the specific mineral properties, net of recoveries received. Under the new policy, acquisition costs and deferred exploration and evaluation expenditures incurred prior to the establishment of technical feasibility and commercial viability of extracting mineral resources and prior to a decision to proceed with mine development are charged to operations as incurred. As required by IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the Company included the restated consolidated statement of financial position as at October 1, 2014. Management considers this accounting policy to provide more reliable and relevant information and more clearly represents the Company's activities.

The consolidated financial statement impact as at October 1, 2014 is as follows:

	As previously reported	Effect of change in accounting policy	As restated
Consolidated Statements of Financial Position (Summary)			
Resource properties (asset)	\$ 20,109,759	\$ (20,109,759)	\$ -
Total assets	20,624,622	(20,109,759)	514,863
Resource properties (liability)	201,516	(201,516)	-
Deferred Income Taxes	1,277,881	(1,277,881)	-
Total liabilities	2,819,261	(1,479,397)	1,339,864
Deficit	(25,389,290)	(18,630,362)	(44,019,652)
Total shareholders' equity	17,805,361	(18,630,362)	(825,001)
Total liabilities and shareholders' equity	\$ 20,624,622	\$ (20,109,759)	\$ 514,863

The consolidated financial statement impact as at September 30, 2015 is as follows:

	As previously reported	Effect of change in accounting policy	As restated
Consolidated Statements of Financial Position (Summary)			
Resource properties (asset)	\$ 19,380,833	\$ (19,380,833)	\$ -
Total assets	19,536,832	(19,380,833)	155,999
Deferred income taxes	892,173	(892,173)	-
Total liabilities	2,302,657	(892,173)	1,410,484
Deficit	(26,829,825)	(18,488,660)	(45,318,485)
Total shareholders' equity	17,234,175	(18,488,660)	(1,254,485)
Total liabilities and shareholders' equity	\$ 19,536,832	\$ (19,380,833)	\$ 155,999

The consolidated financial statement impact for the year ended September 30, 2015 is as follows:

	As previously reported	Effect of change in accounting policy	As restated
Consolidated Statements of Comprehensive Loss (Summary)			
Exploration and evaluation expenditures	\$ -	\$ (63,831)	\$ (63,831)
Write off of resource properties	463,579	(463,579)	-
Deferred income tax recovery	(408,421)	385,708	(22,713)
Net loss and comprehensive loss	1,440,535	(141,702)	1,298,833
Loss per share	\$ (0.008)	\$ 0.001	\$ (0.007)

	As previously reported	Effect of change in accounting policy	As restated
Consolidated Statements of Cash Flow (Summary)			
Cash paid to suppliers and employees	\$ (554,474)	\$ (122,275)	\$ (676,749)
Cash flows from operating activities	(554,150)	(122,275)	(676,425)
Resource properties expenditures	(122,275)	122,275	-
Cash flows from investing activities	(107,250)	122,275	15,025
Change in cash	\$ -	\$ -	\$ -

Selected Annual Information

The following selected financial data for each of the three most recently completed financial years are derived from the audited annual financial statements of the Company. Some data for the 2015 and 2014 years has been modified due to the change in accounting policy. See the Change in Accounting Policy discussed earlier in this MD&A for further details.

Year Ended September 30	2016	2015	2014
	\$	\$	\$
Interest income	9	324	5,764
Net loss and comprehensive loss	1,156,842	1,298,833	20,028,163
Net loss, per share basic and diluted	0.006	0.007	0.119
Total assets	520,846	155,999	514,863
Cash dividends	Nil	Nil	Nil

The Company has no resource properties in production and, consequently, has no current operating income or cash flow from its mineral properties.

The Company has recorded losses in all of the three most recently completed fiscal years and expects to continue to record losses unless and until such time as it is able to achieve commercial production of rare earths from its monazite processing strategy, or an economic resource is identified, developed and brought into profitable commercial operation on one or more of the Company's properties and other projects or otherwise disposed of at a profit. Acquisition costs and deferred exploration and evaluation expenditures incurred prior to the establishment of technical feasibility and commercial viability of extracting mineral resources and prior to a decision to proceed with mine development are charged to operations as incurred. Since the Company has no revenue from operations, annual operating losses typically represent the sum of business expenses plus any write-offs of mineral properties abandoned during the period.

Results of Operations

Some of the comparative data discussed below has changed due to the change in accounting policy. See the Change in Accounting Policy discussed earlier in this MD&A for further details.

The Company had a net loss of \$1,156,842 or \$0.006 per share on a fully diluted basis for the Reporting Period, compared to a net loss of \$1,298,833 or \$0.007 per share on a fully diluted basis for the year ended September 30, 2015. The decrease in net loss is primarily related to the proceeds received for the Ardeen Project that was sold during the Reporting Period which was recorded as gain and had the effect of reducing the loss. This was partially offset by a general increase in expenses.

The Company's expenses (excluding share-based compensation, change in fair value of portfolio investments and gain (loss) on portfolio investments) totalled \$1,491,914 for the year ended September 30, 2016 compared with \$985,115 for the year ended September 30, 2015. Areas of significantly increased expenditures included salaries and benefits, publicity and investor relations, energy expenditures and professional fees.

Salaries and benefits increased by \$100,201 (17%) during the Reporting Period. The increase is primarily related to the granting of a bonus to the Company's chief executive officer.

Publicity and investor relations increased by \$54,038 (212%) during the Reporting Period. The increase relates to a marketing initiative that the Company has undertaken to communicate to shareholders and the public that the Company is pursuing diversification in the energy industry and through rare earth processing. The increase in expenditures also relate to corporate development with a focus on rebranding and the creation of new marketing and promotional materials.

During the year ended September 30, 2016, the Company incurred \$20,902 in energy project expenditures. The Company pursued opportunities for energy generation and energy storage projects. Project expenditures included costs associated with negotiating and entering into a Sustainable Energy Development Agreement with the City of Elliot Lake and costs relating to looking into participating in government programs for procurement of renewable energy including the FIT 5 program. The Company did not incur any energy project expenditures in the year ended September 30, 2015.

Professional fees increased \$20,919 (16%) during the year ended September 30, 2016. The increase is due to legal fees incurred associated with private placements completed during the year, the sale of the Company's interest in the Ardeen project and other corporate legal matters.

During the Reporting Period, the Company entered into a purchase agreement, along with Chalice Gold Mines, whereby their respective operating subsidiaries sold their respective interests in the Ardeen Gold Project to Kesselrun Resources Ltd. The Company received 1,960,000 shares of Kesselrun and a pro rata share of the royalty package. This is detailed further in the Ardeen Project discussion in this MD&A. The value of the shares at the time of closing was \$527,400, which has been recorded as income on disposal of resource properties on the Consolidated Statement of Comprehensive Loss in the audited financial statements.

There was \$9 of interest income earned during the year ended September 30, 2016 compared with \$324 earned during the year ended September 30, 2015.

During the Reporting Period, the Company granted a total of 7,523,750 incentive stock options to members of management, employees, directors and consultants of the Company, 3,225,000 of which are exercisable at \$0.05 per share and expire on December 31, 2019 and 3,675,000 of which are exercisable

at \$0.05 per share and expire on December 31, 2020. The Company also granted an aggregate of 623,750 options to certain consultants of the Company which are exercisable at \$0.05 per share. 93,750 expire on December 31, 2019 while the remaining 530,000 expire on December 31, 2016.

Share-based compensation increased during the Reporting Period by \$36,163 (25%). The increase was due to the increase in the number of options granted during the Reporting Period as well as an increase in the fair value per option granted.

Change in fair value of portfolio investments decreased \$106,249 (50%) during the year ended September 30, 2016. The decrease is entirely due to the fluctuation of the security prices of the investments held by the Company.

The Company incurred exploration and acquisition costs of \$235,803 during the Reporting Period, a 1% increase in expenditure compared to the year ended September 30, 2015. The similar expenditure level during the Reporting Period was primarily due to the financings completed in November 2015 and February 2016. The Company has managed to advance the Eco Ridge Project with a disciplined focus on prioritizing work that has added significant value. The current Reporting Period's expenditures were incurred almost exclusively on the Eco Ridge Project.

Expenditures incurred on the Eco Ridge Project during the Reporting Period relate to the Company's proposed development of a rare earth processing centre in Elliot Lake and to new work relating to assessing the opportunity for energy and energy storage projects. Expenditures include consultation, Aboriginal engagement and project management, with the balance going towards general maintenance and overhead.

A quantitative breakdown of the property expenditures by category is included in the following table:

Year ended September 30, 2016				
	Eco Ridge Project	Mountain Pass Project	Ardeen Gold Project	Total
Acquisition	\$ 7,589	\$ 7,412	\$ 51	\$ 15,052
Consulting	130,382	Nil	Nil	130,382
Exploration/Drilling	Nil	Nil	Nil	Nil
Processing Development	11,404	Nil	Nil	11,404
General Overhead	14,604	Nil	Nil	14,604
Project Management	43,500	Nil	Nil	43,500
Other	20,839	22	Nil	20,861
Total expenditures	\$ 228,318	\$ 7,434	\$ 51	\$ 235,803

Year ended September 30, 2015

	Eco Ridge Project	Mountain Pass Project	Ardeen Gold Project	Total
Acquisition	\$ 7,324	\$ 7,402	\$ 6	\$ 14,726
Consulting	155,988	Nil	Nil	155,988
Exploration/Drilling	913	Nil	Nil	913
Processing Development	Nil	Nil	Nil	Nil
General Overhead	15,010	147	Nil	15,157
Project Management	40,250	Nil	Nil	40,250
Other	21,363	22	Nil	21,391
SR&ED Refund	(14,255)	Nil	Nil	(14,255)
Total expenditures	\$ 226,593	\$ 7,571	\$ 6	\$ 234,170

Summary of Quarterly Results

The following table sets out selected quarterly results of the Corporation for the eight quarters ended on or before September 30, 2016. The information contained herein is drawn from the interim financial statements of the Corporation for each of the aforementioned eight quarters. The data for the September 2015 quarter has been modified due to the change in accounting policy. See the Change in Accounting Policy discussed earlier in this MD&A for further details.

Fiscal Year	2016				2015				
	Quarter	Sep	Jun	Mar	Dec	Sep	Jun	Mar	Dec
		\$	\$	\$	\$	\$	\$	\$	\$
Interest income		9	0	0	0	26	0	0	298
Net income (loss)		2,306,563	(2,822,622)	(443,465)	(197,318)	(795,468)	(188,289)	(287,169)	(27,907)
Net income (loss), per share basic and diluted		0.011	(0.013)	(0.002)	(0.001)	(0.004)	(0.001)	(0.002)	(0.000)

The quarterly fluctuations in the Company's net income (loss) result primarily from stock-based compensation expenses recognized on stock options granted to directors, officers, employees and consultants of the Company, general administrative expenses and realized gain or loss on sale of investments.

Liquidity and Capital Resources

The Company's cash and cash equivalents position was \$35,636 as at September 30, 2016 (September 30, 2015 - \$100,595). The Company had a working capital deficiency of \$1,267,503 as at September 30, 2016 compared to a working capital deficiency of \$1,276,059 as at September 30, 2015.

During the Reporting Period, the Company:

- a) Issued 2,134,180 flow-through units pursuant to a non-brokered private placement at a purchase price of \$0.05 per unit for gross proceeds \$106,709 of which \$24,756 was allocated to warrants and \$29,924 was allocated to other liabilities. Each unit is comprised of one flow-through common share and one share purchase warrant, where each whole warrant entitles the holder to purchase one additional non-flow-through common share of the Company at a price of \$0.07 per share until May 20, 2017. Three directors of the Company participated in the Offering, acquiring 954,000 units.
- b) Issued 5,250,000 units pursuant to a non-brokered private placement at a purchase price of \$0.05 per unit for gross proceeds \$262,500 of which \$84,000 was allocated to warrants. Each unit is comprised of one common share and one share purchase warrant, where each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.05 per share until November 20, 2018. Three directors of the Company participated in the Offering, acquiring 4,200,000 units.

In connection with the private placements discussed in a) and b) above, the Company paid cash fees of \$2,800 to eligible persons (the "Finders") and issued 56,000 Compensation Warrants with a fair value of \$466 to the Finders. Each Compensation Warrant entitles the holder to acquire one common share of the Company at \$0.05 per share until November 20, 2016.

- c) Issued 350,000 shares as a result of a stock option exercise for gross proceeds of \$17,500.
- d) Issued 4,155,000 flow-through units at a purchase price of \$0.05 per unit for aggregate gross proceeds of \$207,750, of which \$51,938 was allocated to warrants and \$54,240 was allocated to other liabilities. Each unit consists of one common share and one common share purchase warrant, with each warrant exercisable to acquire one common share of the Company at \$0.07 until August 4, 2017. Two directors of the Company participated in the Offering, acquiring 1,055,000 units.
- e) Issued 5,049,000 units at a price of \$0.05 each for aggregate gross proceeds of \$252,450, of which \$80,784 was allocated to warrants. Each unit consists of one common share and one common share purchase warrant, with each warrant exercisable to acquire one common share of the Company at \$0.05 until February 4, 2019. Two directors of the Company participated in the Offering, acquiring 4,049,000 units.
- f) Issued 1,000,000 units at a price of \$0.05 each for aggregate gross proceeds of \$50,000, of which \$16,000 was allocated to warrants. Each unit consists of one common share and one common

share purchase warrant, with each warrant exercisable to acquire one common share of the Company at \$0.05 until February 5, 2019.

In connection with the private placements discussed in d), e) and f) above, the Company paid cash fees of \$5,600 to eligible persons (the “Finders”) and issued 112,000 Compensation Warrants to the Finders. Each Compensation Warrant entitles the holder upon exercise to acquire one common share of the Company at \$0.05 per share until February 4, 2017.

- g) Entered into shares-for-debt agreements with certain creditors, pursuant to which the Company issued 2,785,001 common shares, at a deemed price of \$0.05 per common share, to satisfy aggregate debts of \$139,250. Of these amounts, 1,925,931 common shares were issued to a law firm in which a director and officer of the Company is a partner to settle debt of \$96,297.

The flow-through proceeds from the private placement are used by the Company to incur qualified Canadian Exploration Expenses on the Company’s mineral properties. The net proceeds from private placements of non-flow-through shares and from the exercise of options and warrants are used by the Company to fund its mineral exploration programs, as well as for general administrative and overhead expenses and working capital purposes.

The Company’s current operating expenditures, excluding exploration expenditures on resource property work programs, are approximately \$70,000 per month. See Going Concern discussed earlier in this MD&A. The Company does not have any externally imposed capital requirements.

To date, the Company has not paid any dividends on its shares and it is unlikely that dividends will be payable in the foreseeable future. The Company anticipates that dividends would only be considered in the event it successfully brings one of its properties into commercial production.

The Company is committed under lease contracts for the rental of its office premises in Toronto and Elliot Lake, and a vehicle. The Company also has annual obligations for its Eco Ridge Project’s mining lease with the Province of Ontario and the surface lease with the City of Elliot Lake.

The Company’s capital requirements to maintain its properties and fund exploration and general overhead expenses have been met primarily through the completion of private placements. The Company is currently focused on the sustainable development of its monazite processing strategy in Elliott Lake and is in discussions with potential strategic partners to assist in funding this work.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Outstanding Share Data

The Company's shares are traded on the TSX Venture Exchange under the symbol GEM. As of the date of this MD&A, there are a total of 209,996,930 shares issued and outstanding. As of the date of this MD&A, the Company has the following stock options outstanding:

Number of Options	Exercisable	Exercise Price	Expiry Date
4,250,000	4,250,000	\$0.10	December 31, 2018
9,225,000	9,225,000	\$0.05	December 31, 2019
3,675,000	3,675,000	\$0.05	December 31, 2020
<u>17,150,000</u>	<u>17,150,000</u>		

As of the date of this MD&A, the Company has the following warrants outstanding:

Number of Warrants	Series	Type of Share	Exercise Price	Expiry Date
1,757,029	BBB	Common Shares	\$0.07	December 24, 2017
8,012,200	CCC	Common Shares	\$0.07	April 13, 2018
1,700,000	DDD	Common Shares	\$0.07	May 25, 2018
5,250,000	EEE	Common Shares	\$0.05	November 20, 2018
2,134,180	FFF	Common Shares	\$0.07	May 20, 2017
4,155,000	GGG	Common Shares	\$0.07	August 4, 2017
5,049,000	HHH	Common Shares	\$0.05	February 4, 2019
1,000,000	HHH	Common Shares	\$0.05	February 5, 2019
112,000		Common Shares	\$0.05	February 4, 2017
<u>29,169,409</u>				

Transactions with Related Parties

During the Reporting Period, the Company was involved in the following transactions with related parties:

- a) Consulting fees and salary of \$87,000 (2015 - \$80,500) was earned by Martin Cooper, a director and officer of the Company, \$87,000 of which were classified as exploration and evaluation expenditures. As at September 30, 2016, accounts payable and accrued liabilities included \$97,500 (2015 - \$60,500) payable to this director and officer.
- b) Legal fees of \$89,830 (2015 - \$52,450) were incurred with a law firm in which Steven Rukavina, a director and officer of the Company is a partner. As at September 30, 2016, accounts payable and accrued liabilities included \$120,184 (2015 - \$126,616) payable to this law firm.
- c) Accounting fees of \$45,000 (2015 - \$47,000) were incurred with an accounting firm in which Paul Andersen, an officer of the Company is a partner. As at September 30, 2016, accounts payable and accrued liabilities included \$150,155 (2015 - \$109,530) accrued to this accounting firm.
- d) Consulting fees of \$72,700 (2015 - \$80,000) were incurred with a company in which John Wilkinson, a director of the Company, is an officer, all of which have been classified as exploration and evaluation expenditures. As at September 30, 2016, accounts payable and accrued liabilities included \$57,654 (2015 - \$53,360) payable to this director.
- e) Compensation earned by directors and other members of key management personnel for the year ended September 30, 2016 were as follows:

	<u>2016</u>	<u>2015</u>
Salaries and benefits (CEO and CFO)	\$306,000	\$303,000
Retention bonus (CEO)	212,500	150,000
Directors' fees	29,400	36,850
Share-based compensation (Officers and Directors)	158,917	132,793
	<u>\$706,817</u>	<u>\$622,643</u>

As at September 30, 2016, accounts payable and accrued liabilities included \$25,750 (2015 - \$24,250) of directors' fees and \$748,675 (2015 - \$256,500) of wages payable.

- f) Other related party transactions are disclosed in Liquidity and Capital Resources discussion of this MD&A.

Critical Accounting Judgments and Estimation Uncertainties

The preparation of the consolidated financial statements in conformity with IFRS requires that the Company's management make critical judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates are accounted for prospectively.

The Company has identified the following critical accounting policies under which significant judgments, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the consolidated financial statements.

Property, Plant and Equipment - Estimated Useful Lives

Management estimates the useful lives of PPE based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of PPE for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's PPE in the future.

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 12 of the consolidated financial statements.

Deferred Taxes

The Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Fair Value of Portfolio Investments

The determination of fair value of portfolio investments not quoted in an active market or with significant unobservable inputs involves management estimates. Where the fair values of financial assets recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

Flow-Through Share Premium

The Company estimates the premium paid for flow-through shares using the relative fair value method. The premium is recorded as a liability which is extinguished when the tax effect of the temporary differences, resulting from the renunciation, is recorded.

Recent Accounting Pronouncements

The accounting pronouncements detailed below have been issued but are not yet effective.

IFRS 9, Financial instruments (“IFRS 9”) was issued by the IASB in July 2014 and will replace IAS 39, Financial Instruments: recognition and measurement” (“IAS 39”). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released in July 2014 also introduce an expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

IFRS 15, Revenue from Contracts and Customers (“IFRS 15”) was issued by the IASB in May 2014, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

IFRS 16, Leases (“IFRS 16”) was issued by the IASB in January 2016, and will replace IAS 17 Leases. IFRS 16 specifies the methodology to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases except for short-term leases and leases with low value assets. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has also been adopted. A lessee will apply IFRS 16 to its leases either retrospectively to each prior reporting period presented; or retrospectively with the cumulative effect of initially applying IFRS 16 being recognized at the date of initial application. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

Financial Instruments and Other Risk Factors

The Company’s financial instruments consist of cash and equivalents and accounts payable. It is management’s opinion that the Company is not exposed to significant interest, credit or currency risks arising from these financial instruments and that the fair value of these instruments approximates their carrying value due to their short-term maturities. Investments available for sale are carried at fair market value. The Company is exposed to equity price risks related to its investments available for sale and investments held for trading.

In conducting its business, the principal risks and uncertainties faced by the Company relate to exploration and development success, as well as metal and mineral prices and market sentiment to a lesser extent.

The prices of metals and other commodities are subject to market fluctuations and are affected by many factors outside of the Company's control. The prices of metals and future expectation of such prices have a significant impact on the market sentiment for investment in mining and mineral exploration companies. This in turn may impact the Company's ability to raise equity financing for its long term working capital requirements. To manage its risks the Company holds a diverse portfolio of uranium, gold, base metal, and diamond properties which provide exposure and leverage both to discovery and to the global demand for a variety of natural resources, and limits the Company's overall risk exposure to the market fluctuations of a specific metal or commodity.

Forward-Looking Statements

Some of the statements contained in this document are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur. Since forward-looking statements address future events and conditions, by their very nature, they have inherent risks and uncertainties. Actual results in each case could differ materially from those currently anticipated in such statements.

Subsequent Events

Subsequent to the Reporting Period, the Company:

- a) received the second and final instalment of \$50,000 from the loan payable as described in note 9 of the audited consolidated financial statements. Upon receipt of the funds, the Company issued 400,000 shares to the Lender in connection with the short term loan disclosed in note 9.
- b) formed a new wholly-owned operating subsidiary, Sage Power Corporation, to advance its energy generation and storage projects.
- c) sold the remaining 475,000 common shares held in Zara Resources Inc. for proceeds of \$2,240. Subsequent to this disposition, the Company received an additional 475,000 common shares of Zara as a dividend payment in kind on its Zara preferred shares. The 475,000 preferred shares held by the Company were then converted to 950,000 common shares. The Company sold the 1,425,000 common shares for proceeds of \$20,000.

Internal Control over Financial Reporting and Disclosure Controls

Management, including the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), is responsible for designing, establishing, and maintaining a system of internal controls over financial reporting ("ICFR") to provide reasonable assurance that all information prepared by the Company for external purposes is reliable and timely. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with IFRS.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately reflect the transactions of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit

preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's consolidated Financial Statements. Due to its inherent limitations, internal control over financial reporting and disclosure may not prevent or detect all misstatements.

The CEO and CFO have evaluated whether there were changes to the ICFR during the year ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the ICFR. As a result, no such significant changes were identified through their evaluation.

There have been no material changes in the Company's internal control over financial reporting during the year ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

FORM 51-102F1

PELE MOUNTAIN RESOURCES INC.
(the “Company” or “Pele”)

MANAGEMENT DISCUSSION & ANALYSIS
FOR THE SIX-MONTH PERIOD ENDED MARCH 31, 2019
(the “Reporting Period”)

This Management Discussion and Analysis (“MD&A”) made as of May 22, 2019, should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the six month period ended March 31, 2019 and the related notes thereto (the “Financial Statements”). The Company’s unaudited condensed interim financial statements are presented on a consolidated basis with its two wholly-owned subsidiaries, Mountain Pass Resources Inc. (“**Mountain Pass**”) and Sage Power Corporation (“**Sage Power**”). On January 1, 2019, the Company completed an amalgamation of its Ontario subsidiaries Eco Ridge Development Corporation (“**ERDC**”), Pele Diamond Corporation (“**Pele Diamond**”), Pele Gold Corporation (“**Pele Gold**”) and Sage to continue as one wholly-owned subsidiary named Sage Power Corporation. The Company’s reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars unless otherwise noted.

The Company’s comparative information included in this MD&A has been prepared in accordance with IFRS.

Additional information relating to the Company is also available on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. The Company’s common shares are listed on the TSX Venture Exchange under the symbol “**GEM**”.

Description of Business

The Company is a Canadian mineral exploration and development company that was formed to acquire mineral resource properties in Canada and to carry out mineral exploration and development activities thereon in search of economic deposits of metals and minerals and has focused on generating and selling interests in mineral projects in Northern Ontario since 1996. The Company, either directly or through its wholly-owned subsidiaries, held a number of mineral properties and focused on sustainable exploration and development of uranium and rare earths in the City of Elliot Lake. As a result of the ongoing protracted bear market in uranium and rare earth prices, Pele expanded its business model to include development of energy and energy storage projects both within and outside of the City of Elliot Lake.

The technical information included in this MD&A relating to the Company’s resource properties, unless otherwise stated, has been reviewed by Peter Dimmell, P.Geol. (NL, ON.), a Director of the Company and a Qualified Person under National Instrument 43-101.

The Eco Ridge Project

During the year ended September 30, 2017, the Company sold its interest in the Eco Ridge project for \$380,000.

The Eco Ridge Project, formerly owned 100% by Eco Ridge Development Corporation, a wholly owned subsidiary of the Company, is located in Elliot Lake, Ontario. The Eco Ridge property included over 7,800 contiguous hectares comprised of a combination of real estate and mineral rights tenures including

394 mining claim units covering over 6,300 hectares, three Mining Leases with the Province of Ontario covering a total of 1,500 hectares, and a lease of Surface Patents (with an option to purchase) from the City of Elliot Lake covering about 800 hectares.

In May 2011, the Company was granted two mining leases by the Province of Ontario for its Eco Ridge Project. During fiscal 2014, the Company acquired a key mining lease for mining rights on certain lands below small lakes located within the boundaries of the Eco Ridge Project. This acquisition filled in a gap within the higher-grade zone of the Main Conglomerate Bed. The Company then owned a 100% interest in the mineral rights throughout the more than 7,800 contiguous hectares that comprise the Eco Ridge Project Property.

In October 2014, the Company announced an expansion of its business model to include processing of high-grade rare earth bearing monazite, in Elliot Lake. Pele's plan was to source monazite from mineral sands mines in countries that embrace sustainable mining practices and were allied trading partners with Canada. Pele's objective was to process the monazite to produce mixed rare earth concentrates that would be separated into high-purity, individual rare earth oxides that can be used in downstream value-added processing and manufacturing.

Following an internal review of its Eco Ridge project, Pele's Board concluded that due to continuing weak uranium and rare earth prices, Eco Ridge remained uneconomic and offered limited short or mid-term benefit to shareholders. Moreover, due to prevailing weak rare earth prices, Pele had also been unable to generate the necessary support for its proposed monazite processing facility in Elliot Lake. Therefore, the Company entered into a sale agreement with an arm's-length purchaser to sell the claims, surface rights and leases comprising Eco Ridge for gross proceeds of \$380,000 payable in cash, which closed on June 1, 2017.

Sage Energy

During the fiscal year ended September 30, 2016, the Company expanded its business model to pursue electricity generation and energy storage projects, beginning in Elliot Lake. Management envisaged opportunities in this rapidly growing sector and worked with leading energy industry professionals and suppliers of advanced technologies to offer a range of customized benefits to municipal and industrial electricity consumers in Northern Ontario.

At the time the Company incorporated Sage Power Corporation, a wholly owned operating subsidiary, set up to own and manage the Company's interests in energy projects, Sage Power's mandate was to identify, design, develop, and operate energy projects that provide smart, sustainable, customized power solutions. Sage Power's focus is on local, distributed energy and energy storage projects in Northern Ontario that reduce electricity costs, boost energy efficiency, improve reliability of service, and conserve grid electricity.

On May 2, 2018, Pele extended its Sustainable Energy Development Agreement with the City of Elliot Lake, Ontario for an additional two years.

Under the terms of the Agreement, the Elliot Lake City Council has appointed Pele, on an exclusive basis, to be the developer of renewable energy and energy storage projects on City Lands until May 1, 2020.

Joint Venture Mineral Exploration Projects

Two of the Company's projects are currently funded through option or joint venture agreements with strategic partners including the Sudbury Project, which is targeting base metals (nickel and copper) and platinum group elements and is currently being funded and operated by the Company's joint venture partner, Wallbridge Mining Company Limited ("**Wallbridge**"); and the Festival Project joint venture, which is being operated and funded by Goldcorp Inc. The Company's other mineral projects are the Timmins and Mountain Pass Projects, which are owned 100% by the Company, and more particularly described below.

The Ardeen Project

Prior to the disposition of the Ardeen Gold Project during the year ended September 30, 2016, the Company had a 49% undivided legal and beneficial interest in 290 mining claim units and 4 patented mining claims located within Moss Township in the district of Thunder Bay, Ontario.

The Company acquired 41 mining claim units and 2 patented mining claims from a group of vendors pursuant to a purchase and sale agreement dated June 3, 1997. Under the terms of the purchase and sale agreement, the Company is required to issue an aggregate of 24,000 common shares to the vendors contingent on the property going into commercial production. The balance of the property was acquired through a series of acquisition agreements (some of which are subject to royalty interests to the vendors) and through staking campaigns.

During the year ended September 30, 2009, Pele Gold entered into a definitive option agreement (the "Definitive Agreement") for the Ardeen Gold Project with Coventry Resources Limited ("Coventry"), pursuant to which, Coventry funded enough expenditures to earn a 51% interest in the project.

In February 2014, Coventry reported that it had sold its stake in the project to Chalice Gold Mines ("Chalice").

During the year ended September 30, 2016, the Company entered into a purchase agreement, along with Chalice Gold Mines ("Chalice"), pursuant to which their respective operating subsidiaries sold their respective interests in the Ardeen Gold Project to Kesselrun Resources Ltd. In consideration for the sale, Kesselrun issued Chalice and the Company 4,000,000 common shares of Kesselrun and a package of Net Smelter Return (NSR) royalties. The Company (and Chalice) was granted certain NSR royalties over certain mining claims. In combination with pre-existing NSRs, the property will be subject to an overall 2.5% NSR royalty over certain mining claims and a 2% NSR royalty on the remaining mining claims. The NSRs are subject to certain buyback clauses, which going forward will be for the benefit of Kesselrun. As 49% owner of the Ardeen Gold Project, the Company received 1,960,000 shares of Kesselrun and a pro rata share of the royalty package. The shares have since been sold.

The Sudbury Project

The Sudbury Project is comprised of 52 mining claim units covering approximately 830 hectares of mining claims in Harty and Foy Townships, which extend from the northern boundary of Levack Township, located about 40 km northwest of the City of Greater Sudbury, Ontario.

Wallbridge has incurred exploration expenditures to increase its ownership interest in the Joint Venture to approximately 64% as of March 31, 2018, and accordingly, the Company owns an interest of approximately 36%.

During the period ended March 31, 2019, the Company entered into a termination and release agreement with Wallbridge, pursuant to which the Company transferred its 36% interest in and to the underlying

mining claims and interests to Wallbridge in exchange for a mutual termination of the Option Agreement and Joint Venture and mutual full and final releases in respect of same.

The Festival Project

In 2013, the Company and Goldcorp reactivated a previously existing joint venture on the Festival Project. Goldcorp entered into a License Agreement on behalf of the joint venture for a Licensed Area covering a total area of 52 square kilometres. The Licensed Area straddles the interpreted western extension of the Goudreau Localsh Deformation Zone (“GLDZ”), host to Richmond’s Island Gold Mine as well as several past-producing gold mines including Argonaut’s Magino Mine. The term of the License is for five years commencing on January 1, 2013 and may be extended for an additional 5-year term. All minerals produced and marketed from the Licensed Area are subject to a 3% royalty payable to the Licensor.

Goldcorp is funding and operating the Festival Project Joint Venture with Pele electing not to contribute its pro rata share so far. Accordingly, Goldcorp’s interest has increased to over 50% of the joint venture and Pele’s interest is currently less than 50%. New work on the property will impact the relative percentage ownership of each party in the joint venture. The License expired on January 1, 2018 without being renewed. Goldcorp and the Company are in the process of terminating the Festival Project joint venture pending final reconciliation of the joint venture accounts. In this regard, to the extent there is any funding shortfall on the Company’s behalf, the Company shall exercise its right to elect to satisfy its obligations, if any, though further dilution of its joint venture interest as it has done in the past.

The Timmins Project

The Timmins Project consisted of 8 mining claim units located 35 kilometres south of Timmins in northern Ontario. The project tied on to the southern and eastern property boundaries of the past producing Texmont Nickel Mine.

There are insufficient resources and no plans by the Company to initiate a new work program at the Timmins Project in the foreseeable future and, accordingly, subsequent to the Reporting Period, the Company arranged for the cancellation of the unpatented mining claims comprising the Timmins Project.

The Mountain Pass Project

During the year ended September 30, 2012, the Company, through Mountain Pass, a wholly owned subsidiary of the Company incorporated in Nevada, USA, acquired mining claims comprising approximately 75 contiguous hectares located in Mountain Pass, California in exchange for 4,000,000 common shares of the Company. The seller retained a 2% production royalty (the “Production Royalty”) on all minerals mined on the property, subject to the right of Mountain Pass to buy back 1% of the Production Royalty for 2,000,000 United States Dollars, escalated annually by a factor equal to the Producer Price Index.

If Mountain Pass sells the mining claims to an arm’s length third party, the original vendor will receive 10% of the proceeds from the sale and a minimum royalty (the “Minimum Royalty”) of \$12,000 per year will become payable to the seller, increasing by \$12,000 per year until it reaches a maximum of \$120,000 per year. The Minimum Royalty shall not apply in the case of an earn-in agreement with a third party while work on the property is advancing.

The seller has been granted a security interest in the mining claims to secure performance of certain terms in the Agreement. The Company issued a total of 200,000 common shares to two arm’s length individuals

as a fee for services related to the introduction of the Company and Mountain Pass to the seller.

Mountain Pass was required to complete a total of \$2,000,000 United States Dollars of exploration work on the property by September 26, 2017, which includes a Phase 1 Exploration Program. The Phase 1 Exploration Program which included compilation of historic data, geological mapping, radiometric survey, sampling of pits and trenches, surface sampling, petrological analysis, mineralogical analysis and drill program planning was completed, on schedule, during fiscal 2014.

As Mountain Pass failed to meet its 2,000,000 United States Dollars expenditure requirement by September 26, 2017, during the three month period ended March 31, 2019, the Company entered into a mining claim transfer and release agreement with the previous owner of the Mountain Pass property pursuant to which the previous owner has agreed to accept a quitclaim and reconveyance of the Mountain Pass property, a cash payment of US \$10,000 and the issuance of 1,000,000 common shares of the Company at a deemed price of \$0.05 per share which shall be subject to applicable regulatory and statutory hold periods. The quitclaim and reconveyance of the mining claims comprising the Mountain Pass property from Mountain Pass to the previous owner has been registered and recorded in the applicable registry office in California and the Company has paid the US \$10,000 to the previous owner. The share issuance remains subject to any requisite regulatory approvals and the release in favour of Mountain Pass and the Company from the previous owner is conditional upon the said share issuance to be completed by August 31, 2019. The Company and Mountain Pass are in the process of completing the share issuance.

Subsequent to the Reporting Period, having no further assets nor business purpose, the Company arranged for the dissolution of Mountain Pass pursuant to a certificate of dissolution filed with the Secretary of State of the State of Nevada on April 17, 2019.

Economic Outlook

The Company's management believes that there are considerable uncertainties relating to the macro economy, which could impact on commodity pricing.

The economic success of the Company will be dependent upon the market price of resources which fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, the world supply of mineral commodities and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are, in turn, influenced by changes in international investment patterns monetary systems and political developments. The price of resources has fluctuated widely in recent years, and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on the Company's business, financial condition and results of operations.

Letter of Intent and Definitive Transaction Agreement

During the year ended September 30, 2018, the Company entered into a non-binding letter of intent with Bhang Corporation ("Bhang"), a privately-held Nevada corporation to acquire a 100% interest in Bhang via a business combination transaction that would constitute a reverse take-over and a change of control of the Company. The original letter of intent was set to expire on June 30, 2018 but was extended to August 15, 2018 and then to September 30, 2018. In partial consideration for a mutual non-solicitation and exclusivity provision included in the letter of intent, as at March 31, 2019, the Company had received non-refundable payments from Bhang of \$298,663, in aggregate, for working capital purposes.

On November 8, 2018, the Company entered into a definitive agreement with Bhang to acquire a 100%

interest in Bhang via a business combination transaction (the "Transaction"), as amended and extended (the "Definitive Agreement"). The Company will acquire the 100% interest in Bhang by way of a share exchange between the Company and all of the shareholders of Bhang, which will constitute a reverse takeover of Bhang (the "Bhang Acquisition"). Pursuant to the Bhang Acquisition, the issued and outstanding shares of Bhang will be exchanged for approximately 90,000,000 post-consolidated shares of the Company for a deemed anticipated price of \$0.50 per share, with a portion of the shares being allocated as multiple voting shares.

Prior to the completion of the Transaction, the Company will effect a consolidation which is anticipated to result in a consolidation of 10 pre-consolidated shares common shares of the Company for 1 post-consolidated share, but in any event shall not exceed 15 pre-consolidated common shares of the Company for 1 post-consolidated common share.

As provided for in the Definitive Agreement, Bhang shall continue funding the Company \$10,000 per month to meet the Company's working capital needs, as well as agreeing to be responsible for all of the Company's reasonable costs and expenses associated with the Transaction pending its completion, subject to an agreed upon cap on the Company's legal fees.

Bhang is a California-based intellectual property company which licenses rights to a full range of cannabis and hemp products, including chocolates, gums and oral sprays, isolates, vapes and vape cartridges and accessories. Upon completion of the Transaction, the combined entity will continue to carry on the business of Bhang.

Overall Performance

At this time, the Company does not own or operate any revenue producing mineral properties and, accordingly, does not have cash flow from operations. Historically, the Company has raised funds for development and general overhead and other expenses primarily through the issuance of shares from treasury. This method of financing has been the principal source of funding for the Company's on-going operations since it was founded over 20 years ago. Funding for exploration at the Sudbury Project and Festival Project is provided under joint venture agreements at each respective Project.

The Company received shareholder approval in March 2017 to implement a share consolidation, in order to raise Pele's share price to above \$0.05 so that the Company may raise funds for future development and on-going overhead and other working capital expenses through the issuance of shares from treasury in compliance with the TSX Venture Exchange requirements. The consolidation of the share consolidation took effect on July 24, 2017.

Going Concern

The Company's ability to continue as a going concern is dependent upon, but not limited to, its ability to raise financing necessary to fund its development programs and general and administrative expenses, discharge its liabilities as they become due and generate positive cash flows from operations. There is no certainty that the Company will be successful in raising financing given the current challenging condition of the junior resource financial markets, and as such there is significant uncertainty the Company will be able to continue as a going concern.

Selected Annual Information

The following selected financial data for each of the three most recently completed financial years are derived from the audited annual financial statements of the Company.

Year Ended September 30	2018	2017	2016
	\$	\$	\$
Interest income	766	-	9
Net income (loss) and comprehensive income (loss)	110,392	(137,809)	(1,156,842)
Net income (loss), per share basic and diluted	0.003	(0.007)	(0.06)
Total assets	90,773	236,712	520,846
Cash dividends	Nil	Nil	Nil

The Company has no resource properties in production and, consequently, has no current operating income or cash flow from its mineral properties.

The Company has recorded losses in two of the three most recently completed fiscal years and expects to continue to record losses unless and until such time as an economic resource or project is identified, developed and brought into profitable commercial operation on one or more of the Company's properties and other projects or otherwise disposed of at a profit. Acquisition costs and deferred exploration and evaluation expenditures incurred prior to the establishment of technical feasibility and commercial viability of extracting mineral resources and prior to a decision to proceed with mine development are charged to operations as incurred. Since the Company has no revenue from operations, annual operating losses typically represent the sum of business expenses plus any write-offs of mineral properties abandoned during the period.

Results of Operations

The Company had a net loss of \$134,834 or (\$0.004) per share on a fully diluted basis for the Reporting Period, compared to net income of \$114,855 or \$0.004 per share on a fully diluted basis for the six months ended March 31, 2018. The shift from a net income in the six months ended March 31, 2018 to a net loss for the Reporting Period is due to a gain on a settlement of debt and a recovery of exploration and evaluation expenditures during the six months ended March 31, 2018, that did not recur during the Reporting Period. In addition, during the Reporting Period, there were increases in professional fees and salaries and benefits when compared to the six month period ended March 31, 2018.

The Company's expenses (not including write-offs of resource properties) totalled \$335,764 for the Reporting Period and \$156,877 for the quarter ended March 31, 2019 compared with \$153,724 for the six

months ended March 31, 2018 and \$111,203 for the quarter ended March 31, 2018. There were increases across all expense categories during these periods, but most notably professional fees.

During the three and six month periods ended March 31, 2019, the Company received non-refundable payments of \$130,765 and \$201,385, respectively, pursuant to the letter of intent and Definitive Agreement signed during the Reporting Period with Bhang Corporation as discussed previously.

During the six months ended March 31, 2018, the Company entered into several debt settlement agreements, the result of which was the issuance of 10,213,745 common shares of the Company in full and final satisfaction of \$781,413 of indebtedness. The result of these agreements was a recovery of exploration and evaluation expenditures of \$44,878 and a gain on the settlement of debt of \$232,269. There were no such settlements or agreements during the current Reporting Period.

Salaries and benefits expenses increased by \$13,579 (80%) during the Reporting Period and by \$7,145 (87%) for the current quarter ended March 31, 2019. The increase is a function of fees charged by the Company's CEO, as the CEO did not charge any fees to the Company during the three and six month periods ended March 31, 2018.

Publicity and investor relations costs increased by \$11,811 (871%) during the Reporting Period and \$11 (5%) during the current quarter ended March 31, 2019. Professional fees increased by \$158,496 (174%) during the Report Period and by \$49,573 (67%) for the current quarter ended March 31, 2019. These increases relate to fees and disbursements incurred in connection with the Transaction with Bhang as discussed previously. These costs relate to shareholder communications and meetings, as well as professional fees related to restructuring of the Company's corporate structure, including the amalgamation of its Ontario subsidiaries, and the reconveyance of the Mountain Pass property to its original owners as described previously in the discussion of the Mountain Pass Project set out earlier in this MD&A.

Administrative fees decreased by \$3,566 (-14%) during the Reporting Period and by \$4,452 (-26%) for the quarter ended March 31, 2019 when compared to the same periods ended March 31, 2018. These reductions are the result of reduced overall spending during these periods.

Quantitative breakdowns of the property expenditures by category are included in the following tables:

Six months ended March 31, 2019

	Eco Ridge Project		Mountain Pass Project		Total	
Acquisition	\$	Nil	\$	Nil	\$	Nil
Consulting		Nil		Nil		Nil
Exploration/Drilling		Nil		Nil		Nil
Processing Development		Nil		Nil		Nil
General Overhead		Nil		Nil		Nil
Project Management		Nil		Nil		Nil
Other		Nil		455		455
Less: recoveries		Nil		Nil		Nil
Total expenditures	\$	Nil	\$	455	\$	455

Six months ended March 31, 2018

	Eco Ridge Project	Mountain Pass Project	Total
Acquisition	\$ Nil	Nil	Nil
Consulting	Nil	Nil	Nil
Exploration/Drilling	Nil	Nil	Nil
Processing Development	Nil	Nil	Nil
General Overhead	Nil	Nil	Nil
Project Management	Nil	Nil	Nil
Other	Nil	276	276
Less: recoveries	(44,878)	Nil	(44,878)
Total expenditures less recoveries	\$ (44,878)	\$ 276	\$ (44,602)

Summary of Quarterly Results

The following table sets out selected quarterly results of the Corporation for the eight quarters ended on or before March 31, 2019. The information contained herein is drawn from the interim financial statements of the Corporation for each of the aforementioned eight quarters.

Fiscal Year Quarter	2019		2018				2017	
	Mar	Dec	Sep	Jun	Mar	Dec	Sep	Jun
	\$	\$	\$	\$	\$	\$	\$	\$
Interest income	0	0	0	0	766	0	9	0
Net income (loss)	(26,358)	(108,475)	(57,650)	53,187	(110,713)	225,568	(191,320)	838,686
Net income (loss), per share diluted	(0.001)	(0.003)	(0.004)	0.001	(0.003)	0.009	(0.007)	0.04

The quarterly fluctuations in the Company's net income (loss) result primarily from stock-based compensation expenses recognized on stock options granted to directors, officers, employees and consultants of the Company, general administrative expenses and realized gain or loss on sale of investments and mineral exploration expenses and recoveries and the settlement of debt.

Liquidity and Capital Resources

The Company's cash and cash equivalents position was \$37,592 as at March 31, 2019 (September 30, 2018 - \$52,567). The Company had a working capital deficiency of \$392,025, as at March 31, 2019 compared to a working capital deficiency of \$257,192 as at September 30, 2018.

During the Reporting Period, the Company did not issue any common shares of the Company.

The Company's current operating expenditures, excluding exploration expenditures on resource property work programs, are approximately \$15,000 per month. See Going Concern discussed earlier in this MD&A. The Company does not have any externally imposed capital requirements.

To date, the Company has not paid any dividends on its shares and it is unlikely that dividends will be payable in the foreseeable future. The Company anticipates that dividends would only be considered in the event it successfully brings one of its properties into commercial production.

On December 31, 2017, the Company's lease contracts for the rental of its office premises in Toronto expired.

The Company's capital requirements to maintain its properties and fund exploration and general overhead expenses have been met primarily through the completion of private placements.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Outstanding Share Data

The Company's shares are traded on the TSX Venture Exchange under the symbol GEM. As of the date of this MD&A, there are a total of 36,143,196 shares issued and outstanding. As of the date of this MD&A, the Company has the following stock options outstanding:

Number of Options	Exercisable	Exercise Price	Expiry Date
320,000	320,000	\$0.50	December 31, 2019
121,300	121,300	\$0.50	December 31, 2020
<u>441,300</u>	<u>441,300</u>		

As of the date of this MD&A, the Company has no warrants outstanding.

Transactions with Related Parties

During the Reporting Period, the Company was involved in the following transactions with related parties:

- a) Consulting fees and salary of \$15,000 was earned by Martin Cooper, a director and officer of the Company. As at March 31, 2019, accounts payable and accrued liabilities included \$55,000 payable to this director and officer.
- b) Legal fees of \$141,835 were incurred with a law firm in which Steven Rukavina, a director and officer of the Company is a partner. As at March 31, 2019, accounts payable and accrued liabilities included \$239,237 payable to this law firm.
- c) Accounting fees of \$26,500 were incurred with an accounting firm in which Paul Andersen, an officer of the Company is a partner. As at March 31, 2019, accounts payable and accrued

liabilities included \$111,845 accrued to this accounting firm.

- e) Compensation earned by directors and other members of key management personnel for the three months ended March 31, 2019 were as follows:

Salaries and benefits (CEO and CFO)	<u>\$30,000</u>
-------------------------------------	-----------------

Critical Accounting Judgments and Estimation Uncertainties

The preparation of the consolidated financial statements in conformity with IFRS requires that the Company's management make critical judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates are accounted for prospectively.

The Company has identified the following critical accounting policies under which significant judgments, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the consolidated financial statements.

Property, Plant and Equipment - Estimated Useful Lives

Management estimates the useful lives of PPE based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of PPE for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's PPE in the future.

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in the consolidated financial statements when applicable.

Deferred Taxes

The Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Exploration and Evaluation Expenditures

Exploration and evaluation expenditures include costs which are directly attributable to acquisition, surveying, geological, geochemical, geophysical, exploration and resource drilling, land maintenance, sampling and assessing technical feasibility and commercial viability. These expenditures are expensed as incurred.

Changes in Accounting Standards Effective October 1, 2018

Financial Instruments

IFRS 9 financial instruments (“IFRS 9”) replaced IAS 39, Financial Instruments: recognition and Measurement. IFRS 9 includes guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedging requirements.

- i. Classification and measurement of financial assets and financial liabilities
IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: fair value through profit and loss (“FVTPL”), fair value through other comprehensive income (“FVOCI”), and amortized cost. Investments in equity instruments are required to be measured by default at FVTPL. IFRS 9 permit entities to elect into an irrevocable option for equity instruments to report changes in fair value in other comprehensive income.

Classification and measurement of financial assets is dependent on the entity’s business model for managing the financial assets and related contractual cash flows. IFRS 9 retains most of the requirements of IAS 39 related to classification and measurement of financial liabilities.

The following table summarizes the impact of the adoption of IFRS 9 on the classification of the Company’s financial assets and liabilities:

Asset/ Liability	Classification under IAS 39	Classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities at amortized cost	Amortized cost

- ii. Impairment
IFRS 9 introduces a three stage expected credit loss (“ECL”) model for determining impairment of financial assets. The expected credit loss model does not require the occurrence of a triggering event before an entity recognizes credit losses. IFRS 9 requires an entity to recognize expected credit losses upon initial recognition of a financial asset and to update the quantum of expected credit losses at the end of each reporting period to reflect changes to credit risk of the financial asset. The adoption of the ECL model did not have a material impact on the Company’s condensed interim consolidated financial statements.

Recent Accounting Pronouncements

The accounting pronouncements detailed below have been issued but are not yet effective.

IFRS 16, Leases (“IFRS 16”) was issued by the IASB in January 2016 and will replace IAS 17 Leases. IFRS 16 specifies the methodology to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases except for short-term leases and leases with low value assets. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has also been adopted. A lessee will apply IFRS 16 to its leases either retrospectively to each prior Reporting Period presented; or retrospectively with the cumulative effect of initially applying IFRS 16 being recognized at the date of initial application. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

Financial Instruments and Other Risk Factors

The Company’s financial instruments consist of cash and equivalents and accounts payable. It is management’s opinion that the Company is not exposed to significant interest, credit or currency risks arising from these financial instruments and that the fair value of these instruments approximates their carrying value due to their short-term maturities. Investments available for sale are carried at fair market value. The Company is exposed to equity price risks related to its investments available for sale and investments held for trading.

In conducting its business, the principal risks and uncertainties faced by the Company relate to exploration and development success, as well as metal and mineral prices and market sentiment to a lesser extent.

The prices of metals and other commodities are subject to market fluctuations and are affected by many factors outside of the Company’s control. The prices of metals and future expectation of such prices have a significant impact on the market sentiment for investment in mining and mineral exploration companies. This in turn may impact the Company’s ability to raise equity financing for its long term working capital requirements. To manage its risks the Company holds a diverse portfolio of uranium, gold, base metal, and diamond properties which provide exposure and leverage both to discovery and to the global demand for a variety of natural resources and limits the Company’s overall risk exposure to the market fluctuations of a specific metal or commodity.

Forward-Looking Statements

Some of the statements contained in this document are forward-looking statements, such as estimates and statements that describe the Company’s future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur. Since forward-looking statements address future events and conditions, by their very nature, they have inherent risks and uncertainties. Actual results in each case could differ materially from those currently anticipated in such statements.

Subsequent Events

Subsequent to the Reporting Period:

- a) The Company arranged for the cancellation of the unpatented mining claims comprising the Timmins Project.
- b) The Company arranged for the dissolution of Mountain Pass pursuant to a certificate of dissolution filed with the Secretary of State of the State of Nevada on April 17, 2019.

Internal Control over Financial Reporting and Disclosure Controls

Management, including the President and Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), is responsible for designing, establishing, and maintaining a system of internal controls over financial reporting (“ICFR”) to provide reasonable assurance that all information prepared by the Company for external purposes is reliable and timely. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with IFRS.

The Company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately reflect the transactions of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the Company’s consolidated Financial Statements. Due to its inherent limitations, internal control over financial reporting and disclosure may not prevent or detect all misstatements.

The CEO and CFO have evaluated whether there were changes to the ICFR during the six months ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, the ICFR. As a result, no such significant changes were identified through their evaluation.

There have been no material changes in the Company’s internal control over financial reporting during the six months ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Appendix "C"
Financial Statements of Bhang
(please see attached)

Financial Statements

Bhang Corporation

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

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INDEPENDENT AUDITOR'S REPORT**TO THE SHAREHOLDERS OF BHANG CORPORATION****Opinion**

We have audited the accompanying financial statements of Bhang Corporation (the "Company"), which comprise the statements of financial position as at December 31, 2018 and December 31, 2017, and the statements of operations, changes in shareholders' equity (deficit), and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern, and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Forbes Andersen LLP

FORBES ANDERSEN LLP
Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
July 9, 2019

Bhang Corporation

Statements of Financial Position as at December 31
(Stated in United States Dollars)

	2018	2017
Assets		
Current Assets		
Cash	\$ 490,970	\$ 155,557
Cash held in trust (note 11)	-	2,000,000
Accounts receivable, net (note 15(c))	655,164	1,092,322
Inventory (note 6)	55,950	-
Marketable securities (note 9)	590,637	-
Deferred transaction costs	2,119,103	-
Prepaid expenses	1,683,016	4,456
Contract asset	101,234	3,168
	<u>5,696,074</u>	<u>3,255,503</u>
Property and equipment (note 8)	182,176	16,615
Investment in Joint Venture (note 7)	158,647	94,391
Deposits	18,515	3,000
	<u>\$ 6,055,412</u>	<u>\$ 3,369,509</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 594,016	\$ 1,410,528
Other liability (note 11)	-	1,406,155
Deferred revenue	184,715	-
	<u>778,731</u>	<u>2,816,683</u>
Note payable (note 10)	-	1,000,000
	<u>778,731</u>	<u>3,816,683</u>
Shareholders' Equity (Deficit)		
Share capital (note 12)	7,704,130	664,206
Contributed surplus (note 13)	-	777,461
Treasury shares (note 12)	(325,000)	(325,000)
Share subscriptions payable (note 12(x))	1,000,000	-
Accumulated deficit	<u>(3,102,449)</u>	<u>(1,563,841)</u>
	<u>5,276,681</u>	<u>(447,174)</u>
	<u>\$ 6,055,412</u>	<u>\$ 3,369,509</u>

The accompanying notes form an integral part of these financial statements.

Approved on behalf of the Board

Signed "Scott Van Rixel" , Director

Signed "Sean Sullivan" , Director

Bhang Corporation

Statements of Operations

For the years ended December 31

(Stated in United States Dollars)

	2018	2017
Revenue		
Product sales (note 14(ii))	\$ 791,471	\$ 850,630
Licensing (notes 14(ii and iii))	782,886	1,051,826
Other (note 14(ii))	64,380	76,935
	<u>1,638,737</u>	<u>1,979,391</u>
Cost of Sales	<u>651,305</u>	<u>722,110</u>
Gross Profit	<u>987,432</u>	<u>1,257,281</u>
Expenses		
Wages and salaries (note 14(iv))	586,325	372,084
Sales and marketing	412,505	192,666
Professional fees	485,128	361,815
Product development	10,784	-
General and administrative (note 17)	459,415	377,853
Share-based compensation (note 12(v))	291,825	296,205
Bad debts	306,518	(3,762)
	<u>2,552,500</u>	<u>1,596,861</u>
Loss before the Undernoted	(1,565,068)	(339,580)
Interest Expense (note 14(i))	(41,667)	(217,870)
Unrealized Gain on Marketable Securities (note 9)	85,055	-
Loss on Disposition of Property and Equipment	-	(5,750)
Share of Loss of Joint Venture (note 7)	(16,928)	(14,215)
	<u>(1,538,608)</u>	<u>(577,415)</u>
Net Loss	<u>\$ (1,538,608)</u>	<u>\$ (577,415)</u>
Loss per Share - basic and diluted	<u>\$ (13.21)</u>	<u>\$ (5.77)</u>
Weighted Average Number of Common Shares		
Outstanding - basic and diluted	<u>116,465</u>	<u>100,052</u>

The accompanying notes form an integral part of these financial statements.

Bhang Corporation

Statements of Changes in Shareholders' Equity (Deficit)

For the years ended December 31

(Stated in United States Dollars)

	Share Capital		Treasury	Contributed	Share	Accumulated	Total
	Shares	Amount	Shares	Surplus	Subscriptions Payable	Deficit	
Balance - January 1, 2017	100,000	\$ 166,667	\$ (1,300,000)	\$ -	-	(986,426)	(2,119,759)
Proceeds from issuance of common shares (note 12(ii))	1,266	250,000	-	-	-	-	250,000
Fair value of warrants issued in connection with issuance of shares from treasury (note 12(iii))	-	(777,461)	-	777,461	-	-	-
Issuance of share from treasury (note 12(i))	-	1,350,000	650,000	-	-	-	2,000,000
Issuance of share from treasury as share issuance costs (note 12(iii))	-	(325,000)	325,000	-	-	-	-
Net loss	-	-	-	-	-	(577,415)	(577,415)
Balance - December 31, 2017	101,266	664,206	(325,000)	777,461	-	(1,563,841)	(447,174)
Proceeds from issuance of common shares (note 12(iv))	2,851	591,692	-	-	-	-	591,692
Issued for services rendered (notes 12(v), (vi) and (ix))	21,098	4,108,996	-	-	-	-	4,108,996
Share subscriptions received (note 12(x))	-	-	-	-	1,000,000	-	1,000,000
Issued pursuant to exercise of warrants (note 12(viii))	10,165	3,277,461	-	(777,461)	-	-	2,500,000
Issued pursuant to conversion of note payable (note 12(vii))	4,064	1,000,000	-	-	-	-	1,000,000
Issuance costs (note 12(ix))	-	(1,938,225)	-	-	-	-	(1,938,225)
Net loss	-	-	-	-	-	(1,538,608)	(1,538,608)
Balance - December 31, 2018	139,444	\$ 7,704,130	\$ (325,000)	\$ -	\$ 1,000,000	\$ (3,102,449)	\$ 5,276,681

The accompanying notes form an integral part of these financial statements.

Bhang Corporation

Statements of Cash Flows

For the years ended December 31

(Stated in United States Dollars)

	2018	2017
Cash provided by (used in)		
Operating Activities		
Net loss	\$ (1,538,608)	\$ (577,415)
Adjustments for non-cash items in net income (loss)		
Amortization of property and equipment	28,771	23,536
Loss on disposition of property and equipment	-	5,750
Bad debt expense (recovery)	306,518	(3,762)
Share of loss of joint venture	16,928	14,215
Unrealized gain on marketable investments	(85,055)	-
Interest expense	41,667	217,870
Share-based compensation	291,825	296,205
	<u>(937,954)</u>	<u>(23,601)</u>
Changes in non-cash balances related to operations		
Accounts receivable	(294,227)	(25,643)
Inventory	(55,950)	-
Deposits	(15,515)	-
Prepaid expenses	(1,678,560)	75,759
Accounts payable and accrued liabilities	(74,331)	140,081
Contract assets	(98,066)	(85,985)
Deferred revenue	104,000	-
	<u>(3,050,603)</u>	<u>80,611</u>
Net cash provided by (used in) operating activities		
Investing Activities		
Investment in Joint Venture	(81,184)	(108,606)
Deferred transaction costs	(298,493)	-
Proceeds from sale of property and equipment	-	12,500
Purchase of property and equipment	(194,332)	(805)
	<u>(574,009)</u>	<u>(96,911)</u>
Net cash used in investing activities		
Financing Activities		
Proceeds from issuance of common shares	591,692	2,250,000
Proceeds from exercise of warrants	2,500,000	-
Cash held in trust	2,000,000	(2,000,000)
Repayment of other liabilities	(1,406,155)	(93,845)
Share subscriptions payable	1,000,000	-
Interest	(635,512)	(50,000)
Share issuance costs	(90,000)	-
	<u>3,960,025</u>	<u>106,155</u>
Net cash provided by financing activities		
Change in cash	335,413	89,855
Cash - beginning of year	155,557	65,702
Cash - end of year	<u>\$ 490,970</u>	<u>\$ 155,557</u>
Supplemental Cash Flow Information		
Interest paid	\$ (635,512)	\$ (50,000)
Common shares issued for services rendered	\$ 4,108,996	\$ -
Common shares issued pursuant to conversion of note payable	\$ 1,000,000	\$ -

The accompanying notes form an integral part of these financial statements.

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

1. Nature of Operations

Bhang Corporation, (the "Company"), was incorporated on August 26, 2010, pursuant to NRS Chapter 78 of the State of Nevada in the United States of America, as Bhang Chocolate Company, Inc. The name of the corporation was amended on May 6, 2014 to Bhang Corporation. The Company's registered office is located at 6815 Biscayne Boulevard, #103, Miami, Florida, 33138, USA.

The Company, through its partners and licensees, produce and distribute cannabis-infused products that are distributed worldwide.

2. Basis of Presentation

a) Statement of Compliance

The Company's financial statements for the years ended December 31, 2018 and 2017 have been prepared and are in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved by the Board of Directors on July 9, 2019.

b) Basis of Measurement

The financial statements have been prepared on a historical cost basis except for certain financial instruments, which have been measured at fair value.

c) Functional and Presentation Currency

The Company's functional currency is the United States ("U.S.") dollar and these financial statements are presented in U.S. dollars.

3. Significant Accounting Policies

The significant accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise indicated.

a) Cash and cash held in trust

Cash includes cash on hand and deposits with reputable financial institutions. Cash held in trust includes cash held by an escrow agent pursuant to an escrow agreement.

b) Inventory

Inventory is valued at the lower of cost and net realizable value. Manufactured inventory and work-in-progress includes an allocation of production overhead, which is based on normal operating capacity. The Company reviews inventories for obsolete, redundant and slow moving goods and any such inventories identified are written down to net realizable value.

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

3. Significant Accounting Policies (continued)

c) Revenue

Revenue is recognized by the Company in accordance with IFRS 15, *Revenue from Contracts with Customers*. Through application of the standard, the Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

In order to recognize revenue under IFRS 15, the Company applies the following five (5) steps:

- Identify a customer along with a corresponding contract;
- Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to a customer;
- Determine the transaction price the Company expects to be entitled to in exchange for services to a customer;
- Allocate the transaction price to the performance obligation(s) in the contract;
- Recognize revenue when or as the Company satisfies the performance obligation(s).

Under IFRS 15, revenues from the sale product are generally recognized at a point of time when control of the goods have been transferred to the customer. Payment is typically due upon transferring the goods to the customer or within a specified time period permitted under the Company's credit policy.

Under IFRS 15, licensing revenue has two components that are recognized at different times. Revenue related to minimum monthly amounts are recognized over the time of the license. Revenue related to royalties are recognized during the period in which the underlying sales occur.

Revenue is recognized upon the satisfaction of the performance obligation. For product sales the Company satisfied its performance obligation and transfers control upon delivery and acceptance by the customer and in some circumstances, at that time of shipment from the Company's supplier to the customer. With respect to licensing revenue, the Company satisfies its performance obligation over the term of the underlying agreement.

The Company records revenue when it has transferred the risks and rewards of ownership of the goods to the purchaser, when it has no continuing managerial involvement over the goods, when it is probable the Company will receive the consideration, and when it can reliably measure the amount of revenue and costs associated with the transaction.

The Company will present a contract asset on the statement of financial position when the Company has satisfied its performance obligation and recognized the associated revenue before the consideration is paid or before payment is due. The contract asset represents the right to consideration in exchange for the use of items under license by the licensee. The Company will present a contract liability on the statement of financial position if the licensee has paid consideration, or if the Company has a right or consideration that is unconditional, before the use of the items under license by the licensee has occurred.

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

3. Significant Accounting Policies (continued)

d) Cost of goods sold

Cost of goods sold includes the cost of packaged goods and finished products sold during the period, as well as associated freight and shipping costs, and inventory write-downs during the period.

e) Foreign currency transactions

i) Transactions and balances

Transactions in foreign currencies are initially recorded in the Company's functional currency at the rate in effect on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the Company's functional currency spot rate of exchange in effect at the reporting date. Non-monetary assets and liabilities are measured at historical cost in a foreign currency and are translated using the exchange rates as at the date of initial transaction. All exchange differences are recognized in the statement of comprehensive income.

ii) Translation of operations

The Company's functional currency is the same as its presentation currency.

f) Impairment of trade and other receivables

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, financial condition of the customer, and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful debts is established based on specific situations and overall industry conditions.

g) Accounts Payable and Accrued Liabilities

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle this obligation are both probable and able to be reliably measured.

h) 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.

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

3. Significant Accounting Policies (continued)

i) Property and Equipment

Property and equipment are stated at cost less accumulated amortization and accumulated impairment losses, if any. Costs include borrowing costs for assets that require a substantial period of time to become ready for use.

Amortization is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. Amortization begins when an asset is available for use, meaning that it is in the location and condition necessary for it to be used in the manner intended by management. The estimated useful lives, residual values and method of amortization are reviewed at each period end, with the effect of any changes in estimated useful lives and residual values accounted for on a prospective basis.

Amortization is calculated applying the following useful lives:

Computer equipment	3 years on a straight line basis
Office furniture and equipment	5 years on a straight line basis
Trade equipment	5 years on a straight line basis
Leasehold improvements	3 years on a straight line basis

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be reasonable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs of disposal and their value in use. Fair value is the price at which the asset could be bought or sold in an orderly transaction between market participants. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

3. Significant Accounting Policies (continued)

j) Financial Instruments

IFRS 9 Financial Instruments ("IFRS 9") replaced IAS 39, Financial Instruments: recognition and measurement. IFRS 9 includes guidelines on classification and measurement of financial instruments, a new expected credit/loss model for calculating impairment on financial assets and new general hedging requirements.

IFRS 9 permits entities to elect into an irrevocable option for equity instruments to report changes in fair value in other comprehensive income.

On initial recognition, a financial asset is classified as fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI"), or amortized cost.

i) Financial assets classified at fair value through profit and loss

Financial assets are classified as FVTPL if the asset is an equity investment, if the Company has not elected to classify the equity investment as FVOCI, or if the Company's business model for holding the investment is achieved other than by both collecting contractual cash flows and by selling the assets.

FVTPL assets are initially recorded at fair value with realized gains and losses on disposition and subsequent changes in fair value recorded in net income. Directly attributable transaction costs are reported in net income as incurred.

ii) Financial assets other than assets at fair value through profit and loss

Financial assets that are managed to collect contractual cash flows consisting of principal and interest on specified dates are subsequently measured at amortized cost.

Financial assets recorded at amortized cost are measured at initial cost plus interest calculated using the effective interest rate method net of cumulative repayments and cumulative impairment losses. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred substantially all the risks and rewards of the asset. The Company assessed at each reporting date whether objective evidence that a financial asset is impaired exists. For financial assets deemed to be impaired, the impairment provision is based on the expected loss.

iii) Cash and Cash equivalents

Cash and cash equivalents include deposits in banks, balances of cash held, and highly liquid investments with original maturities of three months or less, which are readily convertible into known amounts of cash and are not subject to a significant risk of changes in value.

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

3. Significant Accounting Policies (continued)

j) Financial Instruments (continued)

iv) *Non-derivative financial liabilities*

Non-derivative financial liabilities are recognized initially on the date the Company becomes a party to the contractual obligations of the financial instrument. All non-derivative financial liabilities are recognized initially at fair value along with directly attributable transaction costs. Subsequent to initial measurement, non-derivative financial liabilities are measured at amortized cost using the effective interest rate method.

v) *Derivative financial instruments - warrants and options*

A financial derivative such as warrants or options that will be settled with the Company's own equity instruments will be classified as an equity instrument if the derivative is to acquire a fixed number of the Company's own equity instruments for a fixed amount of Canadian dollars.

A financial derivative will be considered a financial liability at fair value through profit or loss if it's to acquire either a variable number of equity instruments and the options/warrants were not offered pro-rata to all existing owners of the case class of non-derivative equity instruments.

Classification and measurement of financial statements is dependent on the entity's business model for managing the financial assets and related contractual cash flows. IFRS 9 retains most of the requirements of IAS 39 related to classification and measurement of financial liabilities.

The Company's financial assets and financial liabilities are classified and subsequently measured as follows:

<u>Asset/Liability</u>	<u>Classification</u>	<u>Subsequent Measurement</u>
Cash	FVTPL	FVTPL
Cash held in trust	FVTPL	FVTPL
Marketable securities	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Note payable	Other financial liabilities	Amortized cost
Other liability	Other financial liabilities	Amortized cost

k) Impairment of Financial Assets

An impairment loss in respect of a financial asset measured at amortized cost, such as accounts receivable and other receivable, is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against the corresponding asset.

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

3. Significant Accounting Policies (continued)

l) Impairment of Long-lived Assets

For all long-lived assets, except for intangible assets with indefinite useful lives and intangible assets not yet available for use, the Company reviews its carrying amount at the end of each reporting period to determine whether there is any indication that those assets have suffered an impairment loss. Where such impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of fair value less costs of disposal and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statement of operations.

Impairment losses may be reversed in a subsequent period where the impairment no longer exists or has decreased. The carrying amount after a reversal must not exceed the carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized. A reversal of impairment loss is recognized in profit or loss.

m) Cost of private placement financing

Costs incurred with respect to raising capital through private placements are charged against the equity proceeds raised. Costs incurred with respect to the issuance of convertible debentures are recognized against the liability and equity components of the convertible debentures. Issuance costs allocated to the liability component are amortized over the term of the convertible debenture and accrete to the principal amount at maturity or at the expected timing of principal repayment, whichever is earlier. The accretion, amortization of issuance costs and the interest paid are expensed within finance expenses on the statement of comprehensive loss.

n) Share-Based Compensation

Share-Based Payment Transactions

Transactions with non-employees that are settled in equity instruments of the Company are measured at the fair value of the services rendered. In situations where the fair value of the goods or services received by the entity as consideration cannot be reliably measured, transactions are measured at fair value of the equity instruments granted. The fair value of the share based payments is recognized together with a corresponding increase in equity over a period that services are provided or goods are received.

No expense is recognized for awards that do not ultimately vest.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of loss per share.

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

3. Significant Accounting Policies (continued)

n) Share-Based Compensation (continued)

Share Issuance Costs

Costs incurred in connection with the issuance of share capital are netted against the proceeds received net of tax. Costs related to the issuance of share capital and incurred prior to issuance are recorded as deferred share issuance costs and subsequently netted against proceeds when they are received.

o) Warrants

The Company uses the Black-Scholes Model to calculate the value of warrants issued as part of the Company's public and/or private placements. The Black-Scholes Model requires six key inputs to determine a value for a warrant: risk-free interest rate, exercise price, market price at date of issuance, expected yield, expected life, and expected volatility. Certain of the inputs are estimates, which involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. Proceeds from unit placements, net of issuance costs, are allocated between common shares and warrants issued according to their relative fair value.

p) Income Taxes

No provision for federal or state income taxes is included in the Company's financial statements because the tax effects of the Company's income or loss are passed on to the shareholders.

q) Future Accounting Pronouncements

IFRS 16 Leases ("Leases") was issued in January 2016 and replaces IAS 17 Leases. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. If the lease was classified as a finance lease, a lease liability was included on the statement of financial position. IFRS 16 now requires lessees to recognize a right of use asset and lease liability reflecting future lease payments for virtually all lease contracts. The right of use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability accrues interest. The IASB has included an optional exemption for certain short term leases and leases of low value assets; however, this exemption can only be applied by lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and obtain substantially all the economic benefits from that use. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15, Revenue from Contracts with Customers, is also applied. The Company is currently evaluating the impact adopting IFRS 16 will have on its consolidated financial statements.

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

3. Significant Accounting Policies (continued)

r) Investment in Joint Venture

Joint ventures are all entities over which the Company has joint control. The Company's investments in the joint ventures is accounted for using the equity method and is initially recognized at cost. Accounting policies the joint venture have been adjusted where necessary to ensure consistency with the policies adopted by the Company.

The Company assesses annually where there is any objective evidence that its interest in its joint venture impaired. If impaired, the carrying value of the Company's share of the underlying assets of the joint venture is written down to its estimated recoverable amount (being the higher of fair value less costs of the disposal or the value in use) and charged to the consolidated statement of loss and comprehensive loss. If the financial statements of an associate are prepared on a date different from that used by the Company, adjustments are made for the effects of significant transactions or events that occur between the date and the date of these financial statements.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The most significant judgments include those related to the ability of the Company to continue as a going concern, the determination of when property, plant, and equipment are available for use, and impairment of its financial and non-financial assets. The most significant estimates and assumptions include those related to the recoverability of accounts receivable, the useful life of property and equipment and the inputs used the determination of the fair value of warrants issued.

5. Liquidity and Capital Resources

The Company has incurred significant losses and has deficiencies in both working capital and shareholders' equity. The Company's management continues to finance its cash needs through promissory notes, and the issuance of share capital. If management is unsuccessful in its efforts to generate profitable operations and/or continue to receive financial support, the Company may not be able to continue as a going concern. The ability of the Company to continue as a going concern and to meet its obligations will be dependent upon successful sales of product and a return to successful operations and cash flows as well as the potential issuance of share capital. The accompanying financial statements do not reflect any adjustment that might result from the outcome of this uncertainty.

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

6. Inventory

As of December 31, 2018, the Company's inventory included the following:

Finished goods for resale	\$	54,700
Raw materials		<u>1,250</u>
	\$	<u>55,950</u>

The Company did not have any inventory as at December 31, 2017.

7. Investment in Joint Venture

During the year ended December 31, 2016, the Company and another party formed a joint venture with the purpose of developing, manufacturing, marketing, selling and/or distribution of co-branded and newly branded cannabis flower and cannabis-infused products. As at December 31, 2017 and 2018, the Company held 500,000 of the outstanding 1,000,000 membership units. As at December 31, 2018, the Company had contributed capital, net of the Company's share of the losses of the joint venture, of \$158,647 (2017 - \$94,391) to the joint venture.

Presented below is the summarized statement of financial position of CB Productions LLC, as of December 31, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 186	\$ 30,450
Other current assets	<u>153,337</u>	<u>156,929</u>
Total current assets	153,523	187,379
Non-current assets	-	-
Net assets	<u>153,523</u>	<u>187,379</u>
	<u>2018</u>	<u>2017</u>
Revenue from continuing operations	-	-
Net loss	<u>\$ (33,857)</u>	<u>\$ (28,430)</u>

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

8. Property and Equipment

	Computer Equipment	Office Furniture and Equipment	Trade Equipment	Leasehold Improvements	Total
Cost					
Balance - January 1, 2017	-	2,688	140,534	5,174	148,396
Additions	805	-	-	-	805
Disposals	-	-	(48,777)	-	(48,777)
Balance - December 31, 2017	805	2,688	91,757	5,174	100,424
Additions	8,121	35,017	140,251	-	183,389
Disposals	-	-	-	-	-
Balance - December 31, 2018	\$ 8,926	\$ 37,705	\$ 232,008	\$ 5,174	\$ 283,813
Accumulated Amortization					
Balance - January 1, 2017	-	-	73,126	5,174	78,300
Amortization for the year	154	-	23,382	-	23,536
Disposals	-	-	(18,027)	-	(18,027)
Balance - December 31, 2017	154	-	78,481	5,174	83,809
Amortization for the year	669	2,976	14,183	-	17,828
Disposals	-	-	-	-	-
Balance - December 31, 2018	\$ 823	\$ 2,976	\$ 92,664	\$ 5,174	\$ 101,637
Net Book Value					
As at December 31, 2017	\$ 651	\$ 2,688	\$ 13,276	\$ -	\$ 16,615
As at December 31, 2018	\$ 8,103	\$ 34,729	\$ 139,344	\$ -	\$ 182,176

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

9. Marketable Securities

During the year ended December 31, 2018, the Company received 124,922 common shares of CannaRoyalty Corp. as a payment for licensing fees in the amount of \$505,582. As at December 31, 2018, the fair value of the shares was \$590,637. Accordingly, the Company has recorded an unrealized gain on the shares in the amount of \$85,055 during the year ended December 31, 2018.

10. Note Payable

During the year ended December 31, 2015, the Company issued a note payable in a principal amount of \$1,000,000. The note was non-interest bearing and payable on demand. During the year ended December 31, 2017, the note was purchased by the Company's CEO. The Company amended the note such that only monthly payments of interest at a rate of 5% per annum were to commence January 1, 2017 for a period of two years, following which interest would continue to accrue at a rate of 5% with principal and accrued interest due December 31, 2024. No prepayment penalty and no conversion rights are available unless authorized by the Company's Board of Directors at a future date. During the year ended December 31, 2018, the note payable was converted into 4,064 common shares of the Company (see note 12(vii)).

11. Other Liability

During the year ended December 31, 2014, the Company entered into a Cannabis Brands Cooperative Agreement ("the Agreement") with another party pursuant to which the other party made aggregate payments of \$1,500,000 towards its acquisition of an ownership interest in the Company. During the year ended December 31, 2014, the Company declared the Agreement to be in default as a result of the other party's inability to make all of the payments contemplated in the Agreement. The other party, shortly thereafter, declared the Agreement to be rescinded and initiated a claim against the Company for repayment of the \$1,500,000. During the year ended December 31, 2017, the Company entered into an investment agreement to issue 10,000 common shares for gross proceeds of \$2,000,000 (see note 12(i)), the proceeds of which were deposited into, and held in escrow as at December 31, 2017. During the year ended December 31, 2018, the funds held in escrow were used to pay outstanding principal and accrued interest and other costs in full satisfaction of a Judgement dated December 29, 2016 as issued by the United States District Court for the Northern District of California.

As at December 31, 2017, accounts payable and accrued liabilities included accrued interest of \$593,845 related to this debt.

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

12. Share Capital

The Company is authorized to issue up to 200,000 common shares with a par value of \$0.01 per share.

The following table summarizes the changes to the issued and outstanding common shares for the years ended December 31, 2017 and 2018:

	Number of Common Shares	Amount	Treasury Shares Amount
Balance, January 1, 2017	100,000	\$ 166,667	\$ (1,300,000)
Common shares issued from treasury (i)	-	1,350,000	650,000
Common shares issued for cash (ii)	1,266	250,000	-
Common shares issued from treasury as share issuance costs (iii)	-	675,000	325,000
Share issuance costs (iii)	-	(1,777,461)	-
Balance, December 31, 2017	101,266	664,206	(325,000)
Common shares issued for cash (iv)	2,851	591,692	-
Common shares issued to an employee (v)	3,000	588,030	-
Common shares issued to service providers (vi)	8,598	1,672,741	-
Common shares issued to service providers (ix)	9,500	1,848,225	-
Common shares issued pursuant to exercise of warrants (viii)	10,165	3,277,461	-
Common shares issued pursuant to conversion of note payable (vii)	4,064	1,000,000	-
Share issuance costs (i and ix)	-	(1,938,225)	-
Balance, December 31, 2018	139,444	\$ 7,704,130	\$ (325,000)

- i) During the year ended December 31, 2014, the Company repurchased 20,000 common shares from its shareholders as repayment for aggregate advances made to the shareholders in the amount of \$1,300,000. During the year ended December 31, 2017, the Company re-issued 10,000 common shares from treasury for aggregate consideration of \$2,000,000 pursuant to an Investment Agreement. In connection with the Investment Agreement, the Company paid legal fees of \$90,000 during the year ended December 31, 2018.
- ii) On December 17, 2017, the Company issued 1,266 common shares for aggregate consideration of \$250,000.

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

12. Share Capital (continued)

- iii) In connection with the issuance of 10,000 common shares from treasury during the year ended December 31, 2017 as disclosed above, the Company issued, to an individual for services rendered in connection with the issuance, 5,000 common shares and 10,165 warrants for shares of the Company's common stock as disclosed in note 13. The fair value of the common shares of \$1,000,000 and the fair value of the warrants of \$777,461 have been recorded as a reduction of the proceeds of the financing.
- iv) During the year ended December 31, 2018, the Company issued 2,851 common shares for aggregate cash consideration of \$591,692.
- v) During the year ended December 31, 2018, the Company issued 3,000 common shares to an employee in connection with an employment agreement. Of the estimated fair value of the common shares of \$588,030, \$291,825 has been expensed as share-based compensation during the year ended December 31, 2018, while the balance of \$296,205 had been recorded as share-based expense during the year ended December 31, 2017 and was included in accounts payable and accrued liabilities as at that date.
- vi) During the year ended December 31, 2018, the Company issued 8,598 common shares to various service providers in connection with the transaction disclosed in note 19(e). The estimated fair value of these shares of \$1,672,741 has been included in deferred transaction costs as at December 31, 2018.
- vii) During the year ended December 31, 2018, the Company issued 4,064 common shares of the Company upon conversion of the note payable disclosed in note 10.
- viii) During the year ended December 31, 2018, the Company issued 10,165 common shares of the Company for gross proceeds of \$2,500,000 pursuant to the exercise of warrants. Upon exercise of the warrants, the fair value of the warrants of \$777,461, was re-allocated from contributed surplus to share capital.
- ix) During the year ended December 31, 2018, the Company issued 9,500 common shares of the Company to service providers for services rendered in connection with the exercise of the warrants disclosed in note 12(viii) above. The estimated fair value of the shares of \$1,848,225 has been recorded as a share issuance cost.
- x) During the year ended December 31, 2018, the Company received proceeds of \$1,000,000 for the subscription of 5,000 common shares from treasury. As at December 31, 2018, the common shares had yet to be issued.

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

13. Warrants

The following table summarizes the warrant activities for the years ended December 31, 2017 and 2018:

	Number of Warrants	Weighted Average Exercise Price
Balance, January 1, 2017	-	\$ -
Warrants granted	10,165	245.94
Balance, December 31, 2017	10,165	245.94
Warrants exercised	(10,165)	(245.94)
Balance, December 31, 2018	-	\$ -

On August 14, 2017, the Company issued 10,165 warrants in connection with the issuance of 15,000 common shares (see note 12(iii)). Each warrant entitles to holder to subscribe for one common share in the capital of the Company at an exercise price of \$245.94 at any point until December 15, 2018.

The fair value of the warrants of \$777,461 was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	1.220%
Expected life	1.33 years
Expected volatility	100%*

* Based on the volatility of comparable publicly traded companies

During the year ended December 31, 2018, these warrants were exercised resulting in the issuance of 10,165 common shares of the Company as disclosed in note 12(viii).

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

14. Related Party Transactions

During the year ended December 31, 2018, the Company incurred the following related party transactions:

- i) Interest of \$41,667 (2017 - \$50,000) was paid to an officer and director in connection with the note payable disclosed in note 10.
- ii) Rental income of \$34,500 (2017 - \$18,000) and revenue of \$191,605 (2017 - \$1,060,626) was recognized on product sales and licensing revenue to companies in which a director, officer and shareholder of the Company is a director, officer and shareholder. As at December 31, 2018, accounts receivable includes \$386,394 (2017 - \$763,618) owing from these companies. In addition, the Company paid consulting fees of \$135,000 (2017 - \$180,000), made purchases of \$17,786 (2017 - \$Nil) and paid rent of \$19,500 (2017 - \$14,625) from companies in which a director, officer and shareholder of the Company is a director, officer and shareholder. As at December 31, 2018, accounts payable and accrued liabilities included \$67,625 (2017 - \$15,000) owed to this company.
- iii) Licensing revenue of \$86,330 (2017 - \$238,525) was recognized on sales to a company controlled by the sibling of the Company's President and CEO. As at December 31, 2018, accounts receivable included \$76,356 (2017 - \$207) owing from this company.
- iv) Key Management Personnel consists of the President and CEO. The compensation paid or payable to key management for the year ended December 31, 2018 includes salaries of \$240,000 (2017 - \$200,000).

As at December 31, 2018, accounts payable and accrued liabilities included \$46,864 (2017 - \$108,551) payable to the Company's President and CEO. The amount is non-interest bearing and payable on demand.

The transactions are in the normal course of operations and are measured at the exchange amounts being the amounts agreed to by the parties.

15. Financial Instruments

i) Market Risk

a) *Currency Risk*

As at December 31, 2018, accounts payable and accrued liabilities included 263,723 Canadian Dollars. If the United States Dollar had weakened (strengthened) by 10% compared to the Canadian Dollar, net loss for the year would have been \$19,357 higher (lower).

b) *Interest Rate Risk*

As at December 31, 2018 and 2017, the Company's exposure to interest rate risk would relate to its notes payable and other liability, but its interest rate risk is limited as the aforementioned financial instruments are fixed interest rate instruments.

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

15. Financial Instruments (continued)

c) Credit Risk

Credit risk is derived from cash and trade accounts receivable. The Company places the majority of its cash in deposit with major United States financial institutions. The Company has established a policy to mitigate the risk of loss related to granting customer credit. Cash balances are maintained by directors and officers of the Company with no access granted to other parties.

The carrying amount of cash, cash held in trust and trade accounts receivable represents the Company's maximum exposure to credit risk, which amounted to \$1,146,134 at December 31, 2018 (2017 - \$3,247,879). The allowance for doubtful accounts as at December 31, 2018 is \$943,954 (2017 - \$638,829).

As at December 31, 2018 and 2017, the Company's trade accounts receivable were aged as follows:

	2018	2017
Current	\$ 41,785	\$ 226,091
1-30 days	7,161	28,123
31 days- 60 days	11,323	44,927
61 days-older	594,895	793,181
	<u>\$ 655,164</u>	<u>\$ 1,092,322</u>

d) Liquidity Risk

Liquidity risk represents the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they become due. As at December 31, 2018, the Company has current assets of \$5,696,074 (2017 - \$3,255,503) and current liabilities of \$778,731 (2017 - \$2,816,683), which resulted in working capital of \$4,917,343 (2017 - \$438,819).

As at December 31, 2018, the contractual maturities of the Company's accounts payable and accrued liabilities and deferred revenue occurs over the next three years are as follows:

	Year 1	Years 2 - 3
Accounts payable and accrued liabilities	\$ 594,016	\$ -
Deferred revenue	184,715	-
	<u>\$ 778,731</u>	<u>\$ -</u>

e) Fair Values

The carrying amounts of the Company's cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair values because of the short-term nature of these items. The carrying amount of the Company's note payable approximates its fair value as its interest rate is close to market rates.

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

15. Financial Instruments (continued)

f) Fair Value Hierarchy

A number of the Company's accounting policies and disclosures require the measurement of fair value for both financial and non-financial assets and liabilities. The Company has an established framework, which includes team members who have overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. When measuring the fair value of an asset or liability, the Company uses observable market data as far as possible. The Company regularly assesses significant unobservable inputs and valuation adjustments. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's cash, cash held in trust and marketable securities are included in Level 1. During the years ended December 31, 2018 and 2017, there were no transfers of amounts between levels.

16. Segmented Information

The Company's only operating segment is the, licensing of cannabis infused products and the distribution and sale of ancillary products. All property and equipment are located in the United States. All revenues were generated in the United States during the years ended December 31, 2018 and 2017.

17. General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Bank charges and interest	\$ 8,255	\$ 1,084
Business taxes	3,900	-
Consulting expenses	240,665	182,304
Depreciation and amortization	17,828	23,536
Dues, subscriptions and licences	10,487	39,502
Insurance	21,625	13,186
Occupancy	74,357	73,826
Office expense	34,475	19,649
Telephone	1,523	4,219
Travel	46,300	20,547
	<u>\$ 459,415</u>	<u>\$ 377,853</u>

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

18. Capital Disclosures

The Company includes equity, comprised of share capital, contributed surplus (including the fair value of equity instruments to be issued), and deficit, in the definition of capital.

The Company's objectives when managing capital are as follows:

- (i) to safeguard the Company's assets and ensure the Company's ability to continue as a going concern; and
- (ii) to raise sufficient capital to meet its general and administrative expenditures.

The Company manages its capital structure and makes adjustments based on the general economic conditions, the Company's short-term working capital requirements, and its planned capital requirements and strategic growth initiatives.

The Company's principal source of capital is from the issuance of common shares. In order to achieve its objectives, the Company expects to spend its working capital, when applicable, and raise additional funds as required.

The Company does not have any externally imposed capital requirements.

19. Commitments

- a) The Company has commitments under operating leases for its facilities and commitments under finance lease for equipment. The minimum lease payments due are as follows:

<u>Fiscal Year</u>		<u>Amount</u>
2019	\$	97,629
2020	\$	101,174
2021	\$	69,543

- b) The Company entered into a Contract Services Agreement effective July 1, 2018 for consulting services costing \$10,000 per month with one of the its shareholders.
- c) The Company entered into an Exclusive Farming Wholesale Joint Venture and Purchase Agreement with a private coffee plantation in Honduras ("Seller") to acquire certain green coffee beans. The Joint Venture allows the Company to roast all green coffee beans at their Miami, Florida facility and share in the profits (85% Company, 15% Seller), and in the case of traditional coffee sales, beans, ground up coffee or any other coffee products sold. The seller requested a purchase advance of \$30,000 to be paid in acceptable monthly increments to be completed by December 2018. The advance will be treated as a forward credit towards 2019 green coffee bean purchases.

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

19. Commitments (continued)

- d) The Company entered into a Distribution Agreement with a newly single purpose entity in Israel, formed for this transaction. The purpose of the transaction is to distribute and market products through its distributor's retail channels and exclusive distributor rights in the United States, North America including Canada, South and Central America, and abroad if demand exists with approval from the Israel entity. The Company has agreed to bonus the Israel entity with 2,000 shares of Bhang stock for 5 years, to be issued on the anniversary date starting from the day the 1st machine becomes operational. The bonus only remains enforceable if this agreement remains active and no breach, termination, or cancellation has occurred.
- e) The Company entered into a definitive agreement (the "Definitive Agreement") with Pele Mountain Resources Inc. ("Pele") pursuant to which Pele will acquire a 100% interest in the Company via a business combination transaction (the "Transaction"). Pele will acquire the 100% interest in the Company by way of a share exchange between the Pele and all of the shareholders of the Company, which will constitute a reverse takeover of Pele (the "Bhang Acquisition"). Pursuant to the Bhang Acquisition, the issued and outstanding shares of the Company will be exchanged for approximately 90,000,000 post-consolidated shares of Pele for a deemed anticipated price of CAD\$0.50 per share, with a portion of the shares being allocated as multiple voting shares.

As provided for in the Definitive Agreement, the Company shall continue funding Pele CAD\$10,000 per month to meet Pele's working capital needs, as well as agreeing to be responsible for all of Pele's reasonable costs and expenses associated with the Transaction pending its completion.

20. Subsequent Events

Subsequent to the year ended December 31, 2018;

- a) The Company issued a promissory note to a shareholder in the principal amount of CAD\$300,000 bearing interest at a rate of 8% per annum. The outstanding principal and interest are payable April 12, 2020.
- b) The Company issued a promissory note to a shareholder in the principal amount of CAD\$300,000 bearing interest at a rate of 8% per annum. The outstanding principal and interest are payable May 14, 2020.
- c) The Company entered into a consulting services agreement for the provision of public relations and marketing services in exchange for a guaranteed monthly fee of \$7,000. The consulting services agreement has an initial term of three months, following which it will automatically renew on a month-by-month basis until terminated. Each party may terminate the consulting services agreement effective thirty days after delivery of written notice to the other party.
- d) The Company and another party formed a joint venture, of which the Company will hold a 51% ownership interest, with the purpose of producing, marketing, distributing and selling cannabidoil-infused and terpene-infused coffee products in the United States. Notwithstanding the Company's majority interest in the joint venture, all profits will be distributed on a 50/50 basis.

Bhang Corporation

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Stated in United States Dollars)

20. Subsequent Events (continued)

- e) The Company received subscriptions for 1,422 common shares of the Company for gross proceeds of \$350,000.
- f) The Company borrowed \$112,500 from a shareholder of the Company. The outstanding principal and a balloon interest payment of \$10,000 are payable May 20, 2019.
- g) The Company borrowed \$112,500. The outstanding principal and a balloon interest payment of \$10,000 are payable May 22, 2019.
- h) The Company issued a promissory note in the aggregate principal amount of \$200,000 with an additional fee of \$10,000. The aggregate amount of \$210,000 is non-interest bearing until the maturity date of July 11, 2019. If any amount payable pursuant to the promissory note is unpaid as of July 11, 2019, such overdue amount shall bear interest at a rate of 8% per annum from the July 11, 2019 until such amount is paid in full.

Unaudited Interim Financial Statements

Bhang Corporation

For the three month periods ended March 31, 2019 and 2018

(Stated in United States Dollars)

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INDEPENDENT PRACTITIONER'S REVIEW ENGAGEMENT REPORT**TO THE SHAREHOLDERS OF BHANG CORPORATION**

We have reviewed the accompanying interim financial statements of Bhang Corporation which comprise the interim statement of financial position as at March 31, 2019 and the interim statements of operations, changes in shareholders' equity (deficit) and cash flows for the three month periods ended March 31, 2019 and 2018, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying interim financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of interim financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements do not present fairly, in all material respects, the financial position of Bhang Corporation as at March 31, 2019, and the results of its operations and its cash flows for the three month periods ended March 31, 2019 and 2018 in accordance with International Financial Reporting Standards.



FORBES ANDERSEN LLP
Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
July 9, 2019

Bhang Corporation

Unaudited Interim Statement of Financial Position
(Stated in United States Dollars)

	March 31, 2019	December 31, 2018 (Audited)
Assets		
Current Assets		
Cash	\$ 366,731	\$ 490,970
Accounts receivable, net (note 19(c))	744,821	655,164
Inventory (note 6)	443,400	55,950
Marketable securities (note 9)	1,126,476	590,637
Deferred transaction costs	2,218,254	2,119,103
Prepaid expenses	1,169,786	1,683,016
Contract asset	122,078	101,234
Promissory note receivable (note 10)	226,202	-
	<u>6,417,748</u>	<u>5,696,074</u>
Property and equipment (note 8)	174,839	182,176
Right-of-use assets (note 11)	374,746	-
Investment in Joint Venture (note 7)	156,477	158,647
Deposits	15,515	18,515
	<u>\$ 7,139,325</u>	<u>\$ 6,055,412</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 779,144	\$ 594,016
Deferred revenue	-	184,715
Short-term advances (note 15)	225,000	-
Current portion of lease liabilities (note 14)	70,692	-
	<u>1,074,836</u>	<u>778,731</u>
Lease liabilities (note 14)	308,899	-
	<u>1,383,735</u>	<u>778,731</u>
Shareholders' Equity (Deficit)		
Share capital (note 16)	7,704,130	7,704,130
Contributed surplus (note 17)	-	-
Treasury shares (note 16)	(325,000)	(325,000)
Share subscriptions payable (note 16(x and xi))	1,350,000	1,000,000
Accumulated deficit	(2,973,540)	(3,102,449)
	<u>5,755,590</u>	<u>5,276,681</u>
	<u>\$ 7,139,325</u>	<u>\$ 6,055,412</u>

The accompanying notes form an integral part of these financial statements.

Approved on behalf of the Board

Signed "Scott Van Rixel", Director

Signed "Sean Sullivan", Director

Bhang Corporation

Unaudited Interim Statements of Operations
For the three month periods ended March 31
(Stated in United States Dollars)

	2019	2018
Revenue		
Product sales (note 18(ii))	\$ 1,384,904	\$ 143,846
Licensing (notes 18(ii and iii))	212,344	144,476
Other (note 18(ii))	4,116	13,825
	<u>1,601,364</u>	<u>302,147</u>
Cost of Sales	<u>1,172,048</u>	<u>83,146</u>
Gross Profit	<u>429,316</u>	<u>219,001</u>
Expenses		
Wages and salaries (note 18(iv))	292,051	101,074
Sales and marketing	284,326	63,405
Professional fees	101,412	41,261
General and administrative (note 21)	189,083	76,795
Share-based compensation	-	72,956
Bad debts	(49,495)	30,825
	<u>817,377</u>	<u>386,316</u>
Loss before the Undernoted	(388,061)	(167,315)
Interest Expense (note 18(i))	(8,889)	(12,500)
Interest Expense on Lease Liabilities (note 14)	(7,810)	-
Unrealized Gain on Marketable Securities (note 9)	535,839	-
Share of Loss of Joint Venture (note 7)	(2,170)	(17,100)
	<u>\$ 128,909</u>	<u>\$ (196,915)</u>
Net Income (Loss)		
	<u>\$ 0.92</u>	<u>\$ (1.77)</u>
Income per Share - basic and diluted		
	<u>139,444</u>	<u>111,364</u>
Weighted Average Number of Common Shares Outstanding - basic and diluted		

The accompanying notes form an integral part of these financial statements.

Bhang Corporation

Unaudited Interim Statements of Changes in Shareholders' Equity (Deficit)

For the three month periods ended March 31

(Stated in United States Dollars)

	Share Capital Shares	Share Capital Amount	Treasury Shares	Contributed Surplus	Share Subscriptions Payable	Accumulated Deficit	Total
Balance - January 1, 2018	101,266	\$ 664,206	\$ (325,000)	\$ 777,461	\$ -	\$ (1,563,841)	\$ (447,174)
(vi) and (ix) Issued pursuant to conversion of note payable	10,098	1,968,946	-	-	-	-	1,968,946
Net loss	-	-	-	-	-	(196,915)	(196,915)
Balance - March 31, 2018	<u>111,364</u>	<u>\$ 2,633,152</u>	<u>\$ (325,000)</u>	<u>\$ 777,461</u>	<u>\$ -</u>	<u>\$ (1,760,756)</u>	<u>\$ 1,324,857</u>
Balance - January 1, 2019	139,444	\$ 7,704,130	\$ (325,000)	\$ -	\$ 1,000,000	\$ (3,102,449)	\$ 5,276,681
Share subscriptions received (note 16(xi))	-	-	-	-	350,000	-	350,000
Net loss	-	-	-	-	-	128,909	128,909
Balance - March 31, 2019	<u>139,444</u>	<u>\$ 7,704,130</u>	<u>\$ (325,000)</u>	<u>\$ -</u>	<u>\$ 1,350,000</u>	<u>\$ (2,973,540)</u>	<u>\$ 5,755,590</u>

The accompanying notes form an integral part of these financial statements.

Bhang Corporation

Unaudited Interim Statements of Cash Flows
For the three month periods ended March 31
(Stated in United States Dollars)

	2019	2018
Cash provided by (used in)		
Operating Activities		
Net Income (loss)	\$ 128,909	\$ (196,915)
Adjustment for non-operating items included in net income (loss):		
Interest income	(1,202)	-
Interest expense	8,889	12,500
Interest expense on lease liabilities	21,174	-
Adjustments for non-cash items in net income (loss)		
Amortization of property and equipment	11,031	2,202
Bad debt expense (recovery)	(49,495)	30,825
Share of loss of joint venture	2,170	17,100
Unrealized gain on marketable investments	(535,839)	-
Share-based compensation	-	72,956
	<u>(414,363)</u>	<u>(61,332)</u>
Changes in non-cash balances related to operations		
Accounts receivable	(120,877)	(119,334)
Inventory	(387,450)	-
Deposits	3,000	-
Prepaid expenses	513,230	(91)
Accounts payable and accrued liabilities	92,620	(478,307)
Contract assets	(20,844)	(54,865)
Deferred revenue	(104,000)	-
	<u>(438,684)</u>	<u>(713,929)</u>
Net cash used in operating activities		
Investing Activities		
Deferred transaction costs	(15,532)	-
Promissory note receivable	(225,000)	-
Purchase of property and equipment	(3,694)	(11,909)
Repayment of lease liabilities	(16,329)	-
	<u>(260,555)</u>	<u>(11,909)</u>
Net cash used in investing activities		
Financing Activities		
Short-term debt	225,000	-
Cash held in trust	-	2,000,000
Repayment of other liabilities	-	(1,406,155)
Share subscriptions payable	350,000	-
Interest	-	(8,333)
	<u>575,000</u>	<u>585,512</u>
Net cash provided by financing activities		
Change in cash	(124,239)	(140,326)
Cash - beginning of period	490,970	155,557
Cash - end of period	<u>\$ 366,731</u>	<u>\$ 15,231</u>
Supplemental Cash Flow Information		
Interest paid	\$ -	\$ 8,333
Common shares issued for services rendered	\$ -	\$ 1,968,946

The accompanying notes form an integral part of these financial statements.

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
(Stated in United States Dollars)

1. Nature of Operations

Bhang Corporation, (the "Company"), was incorporated on August 26, 2010, pursuant to NRS Chapter 78 of the State of Nevada in the United States of America, as Bhang Chocolate Company, Inc. The name of the corporation was amended on May 6, 2014 to Bhang Corporation. The Company's registered office is located at 6815 Biscayne Boulevard, #103, Miami, Florida, 33138, USA.

The Company, through its partners and licensees, produce and distribute cannabis-infused products that are distributed worldwide.

2. Basis of Presentation

a) Statement of Compliance

The Company's interim financial statements for the three month periods ended March 31, 2019 and 2018 have been prepared and are in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved by the Board of Directors on July 9, 2019

b) Basis of Measurement

The financial statements have been prepared on a historical cost basis except for certain financial instruments, which have been measured at fair value.

c) Functional and Presentation Currency

The Company's functional currency is the United States ("U.S.") dollar and these financial statements are presented in U.S. dollars.

3. Significant Accounting Policies

The significant accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise indicated.

a) Cash

Cash includes cash on hand and deposits with reputable financial institutions.

b) Inventory

Inventory is valued at the lower of cost and net realizable value. Manufactured inventory and work-in-progress includes an allocation of production overhead, which is based on normal operating capacity. The Company reviews inventories for obsolete, redundant and slow moving goods and any such inventories identified are written down to net realizable value.

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
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3. Significant Accounting Policies (continued)

c) Revenue

Revenue is recognized by the Company in accordance with IFRS 15, *Revenue from Contracts with Customers*. Through application of the standard, the Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

In order to recognize revenue under IFRS 15, the Company applies the following five (5) steps:

- Identify a customer along with a corresponding contract;
- Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to a customer;
- Determine the transaction price the Company expects to be entitled to in exchange for services to a customer;
- Allocate the transaction price to the performance obligation(s) in the contract;
- Recognize revenue when or as the Company satisfies the performance obligation(s).

Under IFRS 15, revenues from the sale product are generally recognized at a point of time when control of the goods have been transferred to the customer. Payment is typically due upon transferring the goods to the customer or within a specified time period permitted under the Company's credit policy.

Under IFRS 15, licensing revenue has two components that are recognized at different times. Revenue related to minimum monthly amounts are recognized over the time of the license. Revenue related to royalties are recognized during the period in which the underlying sales occur.

Revenue is recognized upon the satisfaction of the performance obligation. For product sales the Company satisfied its performance obligation and transfers control upon delivery and acceptance by the customer and in some circumstances, at that time of shipment from the Company's supplier to the customer. With respect to licensing revenue, the Company satisfies its performance obligation over the term of the underlying agreement.

The Company records revenue when it has transferred the risks and rewards of ownership of the goods to the purchaser, when it has no continuing managerial involvement over the goods, when it is probable the Company will receive the consideration, and when it can reliably measure the amount of revenue and costs associated with the transaction.

The Company will present a contract asset on the statement of financial position when the Company has satisfied its performance obligation and recognized the associated revenue before the consideration is paid or before payment is due. The contract asset represents the right to consideration in exchange for the use of items under license by the licensee. The Company will present a contract liability on the statement of financial position if the licensee has paid consideration, or if the Company has a right or consideration that is unconditional, before the use of the items under license by the licensee has occurred.

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
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3. Significant Accounting Policies (continued)

d) Cost of goods sold

Cost of goods sold includes the cost of packaged goods and finished products sold during the period, as well as associated freight and shipping costs, and inventory write-downs during the period.

e) Foreign currency transactions

i) Transactions and balances

Transactions in foreign currencies are initially recorded in the Company's functional currency at the rate in effect on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the Company's functional currency spot rate of exchange in effect at the reporting date. Non-monetary assets and liabilities are measured at historical cost in a foreign currency and are translated using the exchange rates as at the date of initial transaction. All exchange differences are recognized in the statement of comprehensive income.

ii) Translation of operations

The Company's functional currency is the same as its presentation currency.

f) Impairment of trade and other receivables

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, financial condition of the customer, and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful debts is established based on specific situations and overall industry conditions.

g) Accounts Payable and Accrued Liabilities

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle this obligation are both probable and able to be reliably measured.

h) 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.

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
(Stated in United States Dollars)

3. Significant Accounting Policies (continued)

i) Property and Equipment

Property and equipment are stated at cost less accumulated amortization and accumulated impairment losses, if any. Costs include borrowing costs for assets that require a substantial period of time to become ready for use.

Amortization is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. Amortization begins when an asset is available for use, meaning that it is in the location and condition necessary for it to be used in the manner intended by management. The estimated useful lives, residual values and method of amortization are reviewed at each period end, with the effect of any changes in estimated useful lives and residual values accounted for on a prospective basis.

Amortization is calculated applying the following useful lives:

Computer equipment	3 years on a straight line basis
Office furniture and equipment	5 years on a straight line basis
Trade equipment	5 years on a straight line basis
Leasehold improvements	3 years on a straight line basis

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be reasonable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs of disposal and their value in use. Fair value is the price at which the asset could be bought or sold in an orderly transaction between market participants. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
(Stated in United States Dollars)

3. Significant Accounting Policies (continued)

j) Financial Instruments

IFRS 9 Financial Instruments ("IFRS 9") replaced IAS 39, Financial Instruments: recognition and measurement. IFRS 9 includes guidelines on classification and measurement of financial instruments, a new expected credit/loss model for calculating impairment on financial assets and new general hedging requirements.

IFRS 9 permits entities to elect into an irrevocable option for equity instruments to report changes in fair value in other comprehensive income.

On initial recognition, a financial asset is classified as fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI"), or amortized cost.

i) Financial assets classified at fair value through profit and loss

Financial assets are classified as FVTPL if the asset is an equity investment, if the Company has not elected to classify the equity investment as FVOCI, or if the Company's business model for holding the investment is achieved other than by both collecting contractual cash flows and by selling the assets.

FVTPL assets are initially recorded at fair value with realized gains and losses on disposition and subsequent changes in fair value recorded in net income. Directly attributable transaction costs are reported in net income as incurred.

ii) Financial assets other than assets at fair value through profit and loss

Financial assets that are managed to collect contractual cash flows consisting of principal and interest on specified dates are subsequently measured at amortized cost.

Financial assets recorded at amortized cost are measured at initial cost plus interest calculated using the effective interest rate method net of cumulative repayments and cumulative impairment losses. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred substantially all the risks and rewards of the asset. The Company assessed at each reporting date whether objective evidence that a financial asset is impaired exists. For financial assets deemed to be impaired, the impairment provision is based on the expected loss.

iii) Cash and Cash equivalents

Cash and cash equivalents include deposits in banks, balances of cash held, and highly liquid investments with original maturities of three months or less, which are readily convertible into known amounts of cash and are not subject to a significant risk of changes in value.

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
(Stated in United States Dollars)

3. Significant Accounting Policies (continued)

j) Financial Instruments (continued)

iv) *Non-derivative financial liabilities*

Non-derivative financial liabilities are recognized initially on the date the Company becomes a party to the contractual obligations of the financial instrument. All non-derivative financial liabilities are recognized initially at fair value along with directly attributable transaction costs. Subsequent to initial measurement, non-derivative financial liabilities are measured at amortized cost using the effective interest rate method.

v) *Derivative financial instruments - warrants and options*

A financial derivative such as warrants or options that will be settled with the Company's own equity instruments will be classified as an equity instrument if the derivative is to acquire a fixed number of the Company's own equity instruments for a fixed amount of Canadian dollars.

A financial derivative will be considered a financial liability at fair value through profit or loss if it's to acquire either a variable number of equity instruments and the options/warrants were not offered pro-rata to all existing owners of the case class of non-derivative equity instruments.

Classification and measurement of financial statements is dependent on the entity's business model for managing the financial assets and related contractual cash flows. IFRS 9 retains most of the requirements of IAS 39 related to classification and measurement of financial liabilities.

The Company's financial assets and financial liabilities are classified and subsequently measured as follows:

<u>Asset/Liability</u>	<u>Classification</u>	<u>Subsequent Measurement</u>
Cash	FVTPL	FVTPL
Marketable securities	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Promissory note receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Note payable	Other financial liabilities	Amortized cost
Other liabilities	Other financial liabilities	Amortized cost
Lease liabilities	Other financial liabilities	Amortized cost
Short-term advances	Other financial liabilities	Amortized cost

k) Impairment of Financial Assets

An impairment loss in respect of a financial asset measured at amortized cost, such as accounts receivable and other receivable, is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against the corresponding asset.

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
(Stated in United States Dollars)

3. Significant Accounting Policies (continued)

l) Impairment of Long-lived Assets

For all long-lived assets, except for intangible assets with indefinite useful lives and intangible assets not yet available for use, the Company reviews its carrying amount at the end of each reporting period to determine whether there is any indication that those assets have suffered an impairment loss. Where such impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of fair value less costs of disposal and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statement of operations.

Impairment losses may be reversed in a subsequent period where the impairment no longer exists or has decreased. The carrying amount after a reversal must not exceed the carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized. A reversal of impairment loss is recognized in profit or loss.

m) Cost of private placement financing

Costs incurred with respect to raising capital through private placements are charged against the equity proceeds raised. Costs incurred with respect to the issuance of convertible debentures are recognized against the liability and equity components of the convertible debentures. Issuance costs allocated to the liability component are amortized over the term of the convertible debenture and accrete to the principal amount at maturity or at the expected timing of principal repayment, whichever is earlier. The accretion, amortization of issuance costs and the interest paid are expensed within finance expenses on the statement of comprehensive loss.

n) Share-Based Compensation

Share-Based Payment Transactions

Transactions with non-employees that are settled in equity instruments of the Company are measured at the fair value of the services rendered. In situations where the fair value of the goods or services received by the entity as consideration cannot be reliably measured, transactions are measured at fair value of the equity instruments granted. The fair value of the share based payments is recognized together with a corresponding increase in equity over a period that services are provided or goods are received.

No expense is recognized for awards that do not ultimately vest.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of loss per share.

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
(Stated in United States Dollars)

3. Significant Accounting Policies (continued)

n) Share-Based Compensation (continued)

Share Issuance Costs

Costs incurred in connection with the issuance of share capital are netted against the proceeds received net of tax. Costs related to the issuance of share capital and incurred prior to issuance are recorded as deferred share issuance costs and subsequently netted against proceeds when they are received.

o) Warrants

The Company uses the Black-Scholes Model to calculate the value of warrants issued as part of the Company's public and/or private placements. The Black-Scholes Model requires six key inputs to determine a value for a warrant: risk-free interest rate, exercise price, market price at date of issuance, expected yield, expected life, and expected volatility. Certain of the inputs are estimates, which involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. Proceeds from unit placements, net of issuance costs, are allocated between common shares and warrants issued according to their relative fair value.

p) Income Taxes

No provision for federal or state income taxes is included in the Company's financial statements because the tax effects of the Company's income or loss are passed on to the shareholders.

q) Leases

IFRS 16 Leases ("Leases") was issued in January 2016 and replaces IAS 17 Leases. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. If the lease was classified as a finance lease, a lease liability was included on the statement of financial position. In applying IFRS 16, for all leases, the Company:

- i) Recognizes right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- ii) Recognizes depreciation of right-of-use assets and interest expense on lease liabilities in the statements of income and comprehensive income;
- ii) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

On January 1, 2019, the Company adopted IFRS 16. As such, the Company reviewed all leases and assessed whether these contracts is or contains a lease. The Company has accounted for its leases upon adoption of IFRS 16 using a modified retrospective approach whereby it recognizes a lease liability and a right-of-use asset at the date of initial application, being January 1, 2019. The lease liability is measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate. The Company has measure the right-of-use asset at an amount equal to the lease liability.

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
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3. Significant Accounting Policies (continued)

r) Investment in Joint Venture

Joint ventures are all entities over which the Company has joint control. The Company's investments in the joint ventures is accounted for using the equity method and is initially recognized at cost. Accounting policies the joint venture have been adjusted where necessary to ensure consistency with the policies adopted by the Company.

The Company assesses annually where there is any objective evidence that its interest in its joint venture impaired. If impaired, the carrying value of the Company's share of the underlying assets of the joint venture is written down to its estimated recoverable amount (being the higher of fair value less costs of the disposal or the value in use) and charged to the consolidated statement of loss and comprehensive loss. If the financial statements of an associate are prepared on a date different from that used by the Company, adjustments are made for the effects of significant transactions or events that occur between the date and the date of these financial statements.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The most significant judgments include those related to the ability of the Company to continue as a going concern, the determination of when property, plant, and equipment are available for use, and impairment of its financial and non-financial assets. The most significant estimates and assumptions include those related to the recoverability of accounts receivable, the useful life of property and equipment and the inputs used the determination of the fair value of warrants issued.

5. Liquidity and Capital Resources

The Company has incurred significant losses and has deficiencies in both working capital and shareholders' equity. The Company's management continues to finance its cash needs through promissory notes, and the issuance of share capital. If management is unsuccessful in its efforts to generate profitable operations and/or continue to receive financial support, the Company may not be able to continue as a going concern. The ability of the Company to continue as a going concern and to meet its obligations will be dependent upon successful sales of product and a return to successful operations and cash flows as well as the potential issuance of share capital. The accompanying financial statements do not reflect any adjustment that might result from the outcome of this uncertainty.

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
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6. Inventory

As of March 31, 2019 and December 31, 2018, the Company's inventory included the following:

	March 31, 2019	December 31, 2018
Finished goods for resale	\$ 175,000	\$ 54,700
Raw materials	182,900	1,250
Packaging and supplies	85,500	-
	<u>\$ 443,400</u>	<u>\$ 55,950</u>

7. Investment in Joint Venture

During the year ended December 31, 2016, the Company and another party formed a joint venture with the purpose of developing, manufacturing, marketing, selling and/or distribution of co-branded and newly branded cannabis flower and cannabis-infused products. As at March 31, 2019 and December 31, 2018, the Company held 500,000 of the outstanding 1,000,000 membership units. As at March 31, 2019, the Company had contributed capital, net of the Company's share of the losses of the joint venture, of \$156,477 (December 31, 2018 - \$158,647) to the joint venture.

Presented below is the summarized statement of financial position of CB Productions LLC, as of March 31, 2019 and December 31, 2018.

	March 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 347	\$ 186
Other current assets	148,837	153,337
Total current assets	149,184	153,523
Non-current assets	-	-
Net assets	<u>149,184</u>	<u>153,523</u>

	March 31, 2019	December 31, 2018
Revenue from continuing operations	-	-
Net loss	<u>\$ (4,339)</u>	<u>\$ (33,857)</u>

Bhang Corporation

Notes to the Unaudited Interim Financial Statements

For the three month periods ended March 31, 2019 and 2018

(Stated in United States Dollars)

8. Property and Equipment

	Computer Equipment	Office Furniture and Equipment	Trade Equipment	Leasehold Improvements	Total
Cost					
Balance - January 1, 2018	805	2,688	91,757	5,174	100,424
Additions	8,121	35,017	140,251	-	183,389
Disposals	-	-	-	-	-
Balance - December 31, 2018	8,926	37,705	232,008	5,174	283,813
Additions	711	2,983	-	-	3,694
Disposals	-	-	-	-	-
Balance - March 31, 2019	\$ 9,637	\$ 40,688	\$ 232,008	\$ 5,174	\$ 287,507
Accumulated Amortization					
Balance - January 1, 2018	154	-	78,481	5,174	83,809
Amortization for the year	669	2,976	14,183	-	17,828
Disposals	-	-	-	-	-
Balance - December 31, 2018	823	2,976	92,664	5,174	101,637
Amortization for the period	801	1,982	8,248	-	11,031
Disposals	-	-	-	-	-
Balance - March 31, 2019	\$ 1,624	\$ 4,958	\$ 100,912	\$ 5,174	\$ 112,668
Net Book Value					
As at December 31, 2018	\$ 8,103	\$ 34,729	\$ 139,344	\$ -	\$ 182,176
As at March 31, 2019	\$ 8,013	\$ 35,730	\$ 131,096	\$ -	\$ 174,839

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
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9. Marketable Securities

During the year ended December 31, 2018, the Company received 124,922 common shares of CannaRoyalty Corp. as a payment for licensing fees in the amount of \$505,582. As at March 31, 2019, the fair value of the shares was \$1,126,476 (December 31, 2018 - \$590,637). Accordingly, the Company has recorded an unrealized gain on the shares in the amount of \$535,839 during the three months ended March 31, 2019 (2018 - \$Nil).

10. Promissory Note Receivable

During the three month period ended March 31, 2019, the Company advanced \$225,000 in exchange for a promissory note. The promissory note bears interest at a rate of 5% per annum, with the interest and principal due and payable on July 12, 2019. If any amount payable pursuant to the promissory note is not paid as of the maturity date of July 12, 2019, such overdue amount shall bear interest at a rate of 18% per annum from July 12, 2019 until such amount is paid in full. As at March 31, 2019, the Company had accrued interest income of \$1,202.

11. Right-of-Use Assets

	<u>Land and Buildings</u>
Balance, January 1, 2019	\$ -
Additions	395,920
Amortization for period	<u>(21,174)</u>
Balance March 31, 2019	<u>\$ 374,746</u>

12. Note Payable

During the year ended December 31, 2015, the Company issued a note payable in a principal amount of \$1,000,000. The note was non-interest bearing and payable on demand. During the year ended December 31, 2017, the note was purchased by the Company's CEO. The Company amended the note such that only monthly payments of interest at a rate of 5% per annum were to commence January 1, 2017 for a period of two years, following which interest would continue to accrue at a rate of 5% with principal and accrued interest due December 31, 2024. No prepayment penalty and no conversion rights are available unless authorized by the Company's Board of Directors at a future date. During the year ended December 31, 2018, the note payable was converted into 4,064 common shares of the Company (see note 16(vii)).

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
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13. Other Liability

During the year ended December 31, 2014, the Company entered into a Cannabis Brands Cooperative Agreement ("the Agreement") with another party pursuant to which the other party made aggregate payments of \$1,500,000 towards its acquisition of an ownership interest in the Company. During the year ended December 31, 2014, the Company declared the Agreement to be in default as a result of the other party's inability to make all of the payments contemplated in the Agreement. The other party, shortly thereafter, declared the Agreement to be rescinded and initiated a claim against the Company for repayment of the \$1,500,000. During the year ended December 31, 2017, the Company entered into an investment agreement to issue 10,000 common shares for gross proceeds of \$2,000,000 (see note 16(i)), the proceeds of which were deposited into escrow. During the year ended December 31, 2018, the funds held in escrow were used to pay outstanding principal and accrued interest and other costs in full satisfaction of a Judgement dated December 29, 2016 as issued by the United States District Court for the Northern District of California.

As at December 31, 2017, accounts payable and accrued liabilities included accrued interest of \$593,845 related to this debt.

14. Lease Liabilities

The Company has entered into two leases for office space. In order to calculate the present value of the future lease payments, the Company has used a discount rate of 8% which represents its current borrowing rate. Prior to the adoption of IFRS 16, these leases were accounted for as operating leases. Changes to the Company's lease liabilities for the three months ended are as follows:

	<u>Land and Buildings</u>
Balance, January 1, 2019	\$ -
Additions	395,920
Interest expense	7,810
Lease payments	<u>(24,139)</u>
	379,591
Less: current portion	<u>(70,692)</u>
Balance March 31, 2019	<u>\$ 308,899</u>

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
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15. Short-Term Advances

During the three month period ended March 31, 2019, the Company borrowed \$112,500 from a shareholder of the Company pursuant to a loan agreement. The outstanding principal and a balloon interest payment of \$10,000 are payable on May 20, 2019. As at March 31, 2019, accounts payable and accrued liabilities includes \$4,556 of accrued interest related to this debt.

During the three month period ended March 31, 2019, the Company borrowed \$112,500 pursuant to a loan agreement. The outstanding principal and a balloon interest payment of \$10,000 are payable on May 22, 2019. As at March 31, 2019, accounts payable and accrued liabilities includes \$4,333 of accrued interest related to this debt.

16. Share Capital

The Company is authorized to issue up to 200,000 common shares with a par value of \$0.01 per share.

The following table summarizes the changes to the issued and outstanding common shares for the year ended December 31, 2018 and the three months ended March 31, 2019.

	<u>Number of Common Shares</u>	<u>Amount</u>	<u>Treasury Shares Amount</u>
Balance, January 1, 2018	101,266	664,206	(325,000)
Common shares issued for cash (iv)	2,851	591,692	-
Common shares issued to an employee (v)	3,000	588,030	-
Common shares issued to service providers (vi)	8,598	1,672,741	-
Common shares issued to service providers (ix)	9,500	1,848,225	-
Common shares issued pursuant to exercise of warrants (viii)	10,165	3,277,461	-
Common shares issued pursuant to conversion of note payable (vii)	4,064	1,000,000	-
Share issuance costs (i and ix)	-	(1,938,225)	-
Balance, December 31, 2018 and March 31, 2019	<u>139,444</u>	<u>\$ 7,704,130</u>	<u>\$ (325,000)</u>

- i) During the year ended December 31, 2014, the Company repurchased 20,000 common shares from its shareholders as repayment for aggregate advances made to the shareholders in the amount of \$1,300,000. During the year ended December 31, 2017, the Company re-issued the 10,000 common shares from treasury for aggregate consideration of \$2,000,000 pursuant to an Investment Agreement. In connection with the Investment Agreement, the Company paid legal fees of \$90,000 during the year ended December 31, 2018.
- ii) On December 17, 2017, the Company issued 2,500 common shares for aggregate consideration of \$250,000.

Bhang Corporation

Notes to the Unaudited Interim Financial Statements

For the three month periods ended March 31, 2019 and 2018

(Stated in United States Dollars)

16. Share Capital (continued)

- iii) In connection with the issuance of 10,000 common shares from treasury as disclosed above, the Company issued, to an individual for services rendered in connection with the issuance, 5,000 common shares and 10,165 warrants for shares of the Company's common stock as disclosed in note 15. The fair value of the common shares of \$1,000,000 and the fair value of the warrants of \$777,461 have been recorded as a reduction of the proceeds of the financing.
- iv) During the year ended December 31, 2018, the Company issued 2,851 common shares for aggregate cash consideration of \$591,692.
- v) During the year ended December 31, 2018, the Company issued 3,000 common shares to an employee in connection with an employment agreement. Of the estimated fair value of the common shares of \$588,030, \$291,825 has been expensed as share-based compensation during the year ended December 31, 2018, while the balance of \$296,205 had been recorded as share-based expense during the year ended December 31, 2017 and was included in accounts payable and accrued liabilities as at that date.
- vi) During the year ended December 31, 2018, the Company issued 8,598 common shares to various service providers in connection with the transaction disclosed in note 21(e). The estimated fair value of these shares of \$1,672,41 has been included in deferred transaction costs as at December 31, 2018.
- vii) During the year ended December 31, 2018, the Company issued 4,064 common shares of the Company upon conversion of the note payable disclosed in note 12.
- viii) During the year ended December 31, 2018, the Company issued 10,165 common shares of the Company for gross proceeds of \$2,500,000 pursuant to the exercise of warrants. Upon exercise of the warrants, the fair value of the warrants of \$777,461, was re-allocated from contributed surplus to share capital.
- ix) During the year ended December 31, 2018, the Company issued 9,500 common shares of the Company to service providers for services rendered in connection with the exercise of the warrants disclosed in note 16(viii) above. The estimated fair value of the shares of \$1,848,225 has been recorded as a share issuance cost.
- x) During the year ended December 31, 2018, the Company received proceeds of \$1,000,000 for the subscription of 5,000 common shares from treasury. As at March 31, 2019 and December 31, 2018, the common shares had yet to be issued.
- xi) During the three months ended March 31, 2019, the Company received proceeds of \$350,000 for the subscription of 1,422 common shares of the Company. As at March 31, 2019, the common shares had yet to be issued.

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
(Stated in United States Dollars)

17. Warrants

The following table summarizes the warrant activities for the year ended December 31, 2018 and the three months ended March 31, 2019:

	Number of Warrants	Weighted Average Exercise Price
Balance, January 1, 2017	-	\$ -
Warrants granted	10,165	245.94
Balance, December 31, 2017	10,165	245.94
Warrants exercised	(10,165)	(245.94)
Balance, December 31, 2018 and March 31, 2019	-	\$ -

On August 14, 2017, the Company issued 10,165 warrants in connection with the issuance of 15,000 common shares (see note 16(iii)). Each warrant entitles to holder to subscribe for one common share in the capital of the Company at an exercise price of \$245.94 at any point until December 15, 2018.

The fair value of the warrants of \$777,461 was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	1.220%
Expected life	1.33 years
Expected volatility	100%*

* Based on the volatility of comparable publicly traded companies

During the year ended December 31, 2018, these warrants were exercised resulting in the issuance of 10,165 common shares of the Company as disclosed in note 16(viii).

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
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18. Related Party Transactions

During the three months ended March 31, 2019, the Company incurred the following related party transactions:

- i) Interest of \$Nil (2018 - \$12,500) was paid to an officer and director in connection with the note payable disclosed in note 12.
- ii) Rental income of \$Nil (2018 - \$1,500) and revenue of \$Nil (2018 - \$131,712) was recognized on product sales and licensing revenue to companies in which a director, officer and shareholder of the Company is a director, officer and shareholder. As at March 31, 2019, accounts receivable includes \$Nil (December 31, 2018 - \$386,394) owing from these companies. In addition, the Company paid consulting fees of \$30,000 (2018 - \$45,000), made purchases of \$3,903 (2018 - \$9,484) and paid rent of \$Nil (\$4,875) from companies in which a director, officer and shareholder of the Company is a director, officer and shareholder. As at March 31, 2019, accounts payable and accrued liabilities included \$67,625 (December 31, 2018 - \$67,625) owed to this company.
- iii) Licensing and product sales revenue of \$15,105 (2018 - \$44,018) was recognized on sales to a company controlled by the sibling of the Company's President and CEO. As at March 31, 2019, accounts receivable included \$88,064 (December 31, 2018 - \$76,356) owing from this company. The Company also made purchases of \$2,400 from this company (2018 - \$Nil).
- iv) Key Management Personnel consists of the President and CEO. The compensation paid or payable to key management for the three months ended March 31, 2019 includes salaries of \$60,000 (2018 - \$60,000).

As at March 31, 2019, accounts payable and accrued liabilities included \$96,864 (December 31, 2018 - \$46,864) payable to the Company's President and CEO. The amount is non-interest bearing and payable on demand.

The transactions are in the normal course of operations and are measured at the exchange amounts being the amounts agreed to by the parties.

19. Financial Instruments

- i) Market Risk

- a) *Currency Risk*

As at March 31, 2019 accounts payable and accrued liabilities included 301,186 Canadian Dollars. If the United States Dollar had weakened (strengthened) by 10% compared to the Canadian Dollar, net loss for the year would have been \$22,538 higher (lower).

- b) *Interest Rate Risk*

As at March 31, 2019 and December 31, 2018, the Company's exposure to interest rate risk would relate to short-term advances, but its interest rate risk is limited as the aforementioned financial instruments are fixed interest rate instruments.

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
(Stated in United States Dollars)

19. Financial Instruments (continued)

c) Credit Risk

Credit risk is derived from cash and trade accounts receivable. The Company places its cash in deposit with major United States financial institutions. The Company has established a policy to mitigate the risk of loss related to granting customer credit.

The carrying amount of cash, cash held in trust and trade accounts receivable represents the Company's maximum exposure to credit risk, which amounted to \$1,111,552 at March 31, 2019 (December 31, 2018 - \$1,146,134). The allowance for doubtful accounts as at March 31, 2019 is \$894,459 (December 31, 2018 - \$943,954).

As at March 31, 2019 and December 31, 2018, the Company's trade accounts receivable were aged as follows:

	March 31, 2019	December 31, 2018
Current	\$ 83,071	\$ 41,785
1-30 days	101,664	7,161
31 days- 60 days	303,043	11,323
61 days-older	257,043	594,895
	<u>\$ 744,821</u>	<u>\$ 655,164</u>

d) Liquidity Risk

Liquidity risk represents the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they become due. As at March 31, 2019, the Company has current assets of \$6,417,748 (December 31, 2018 - \$5,646,574) and current liabilities of \$1,074,836 (December 31, 2018 - \$778,731), which resulted in working capital of \$5,342,912 (December 31, 2018 - \$4,867,843).

As at March 31, 2019, the contractual maturities of the Company's accounts payable, lease liabilities and accrued liabilities and short-term advances occurs over the next three years are as follows:

	Year 1	Years 2 - 3
Accounts payable and accrued liabilities	\$ 779,144	\$ -
Lease liabilities	70,692	170,380
Short-term advances	225,000	-
	<u>\$ 1,074,836</u>	<u>\$ 170,380</u>

e) Fair Values

The carrying amounts of the Company's cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair values because of the short-term nature of these items. The carrying amount of the Company's short-term debt approximates its fair value as its interest rate is close to market rates.

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
(Stated in United States Dollars)

19. Financial Instruments (continued)

f) Fair Value Hierarchy

A number of the Company's accounting policies and disclosures require the measurement of fair valued for both financial and non-financial assets and liabilities. The Company has an established framework, which includes team members who have overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. When measuring the fair value of an asset or liability, the Company uses observable market data as far as possible. The Company regularly assesses significant unobservable inputs and valuation adjustments. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's cash and marketable securities are included in Level 1. During the three months ended March 31, 2019 and the year ended December 31, 2018, there were no transfers of amounts between levels.

20. Segmented Information

The Company's only operating segment is the distribution and sale of cannabis-infused products. All property and equipment are located in the United States. All revenues were generated in the United States during the three months ended March 31, 2019 and 2018.

21. General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2019 and 2018 are as follows:

	2019	2018
Bank charges and interest	\$ 7,404	\$ 921
Business taxes	5,604	-
Consulting expenses	60,000	45,000
Depreciation and amortization	11,031	2,202
Depreciation of right-of-use assets	21,174	-
Dues, subscriptions and licences	2,520	650
Insurance	12,522	5,601
Occupancy	(909)	18,592
Office expense	44,620	726
Telephone	928	-
Travel	24,189	3,103
	<u>\$ 189,083</u>	<u>\$ 76,795</u>

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
(Stated in United States Dollars)

22. Capital Disclosures

The Company includes equity, comprised of share capital, contributed surplus (including the fair value of equity instruments to be issued), and deficit, in the definition of capital.

The Company's objectives when managing capital are as follows:

- (i) to safeguard the Company's assets and ensure the Company's ability to continue as a going concern; and
- (ii) to raise sufficient capital to meet its general and administrative expenditures.

The Company manages its capital structure and makes adjustments based on the general economic conditions, the Company's short-term working capital requirements, and its planned capital requirements and strategic growth initiatives.

The Company's principal source of capital is from the issuance of common shares. In order to achieve its objectives, the Company expects to spend its working capital, when applicable, and raise additional funds as required.

The Company does not have any externally imposed capital requirements.

23. Commitments

- a) The Company has commitments under operating leases for its facilities and commitments under finance lease for equipment. The minimum lease payments due are as follows:

<u>Fiscal Year</u>		<u>Amount</u>
2019	\$	97,629
2020	\$	101,174
2021	\$	69,543

- b) The Company entered into a Contract Services Agreement effective July 1, 2018 for consulting services costing \$10,000 per month with one of the its shareholders.
- c) The Company entered into an Exclusive Farming Wholesale Joint Venture and Purchase Agreement with a private coffee plantation in Honduras ("Seller") to acquire certain green coffee beans. The Joint Venture allows the Company to roast all green coffee beans at their Miami, Florida facility and share in the profits (85% Company, 15% Seller), and in the case of traditional coffee sales, beans, ground up coffee or any other coffee products sold. The seller requested a purchase advance of \$30,000 to be paid in acceptable monthly increments to be completed by December 2018. The advance will be treated as a forward credit towards 2019 green coffee bean purchases.

Bhang Corporation

Notes to the Unaudited Interim Financial Statements

For the three month periods ended March 31, 2019 and 2018

(Stated in United States Dollars)

23. Commitments (continued)

- d) The Company entered into a Distribution Agreement with a newly single purpose entity in Israel, formed for this transaction. The purpose of the transaction is to distribute and market products through its distributor's retail channels and exclusive distributor rights in the United States, North America including Canada, South and Central America, and abroad if demand exists with approval from the Israel entity. The Company has agreed to bonus the Israel entity with 2,000 shares of Bhang stock for 5 years, to be issued on the anniversary date starting from the day the 1st machine becomes operational. The bonus only remains enforceable if this agreement remains active and no breach, termination, or cancellation has occurred.
- e) The Company entered into a definitive agreement (the "Definitive Agreement") with Pele Mountain Resources Inc. ("Pele") pursuant to which Pele will acquire a 100% interest in the Company via a business combination transaction (the "Transaction"). Pele will acquire the 100% interest in the Company by way of a share exchange between the Pele and all of the shareholders of the Company, which will constitute a reverse takeover of Pele (the "Bhang Acquisition"). Pursuant to the Bhang Acquisition, the issued and outstanding shares of the Company will be exchanged for approximately 90,000,000 post-consolidated shares of Pele for a deemed anticipated price of CAD\$0.50 per share, with a portion of the shares being allocated as multiple voting shares.

As provided for in the Definitive Agreement, the Company shall continue funding Pele CAD\$10,000 per month to meet Pele's working capital needs, as well as agreeing to be responsible for all of Pele's reasonable costs and expenses associated with the Transaction pending its completion.

- f) The Company entered into a consulting services agreement for the provision of public relations and marketing services in exchange for a guaranteed monthly fee of \$7,000. The consulting services agreement has an initial term of three months, following which it will automatically renew on a month-by-month basis until terminated. Each party may terminate the consulting services agreement effective thirty days after delivery of written notice to the other party.

24. Subsequent Events

Subsequent to the three months ended March 31, 2019;

- a) The Company issued a promissory note to a shareholder in the principal amount of CAD\$300,000 bearing interest at a rate of 8% per annum. The outstanding principal and interest are payable April 12, 2020.
- b) The Company issued a promissory note to a shareholder in the principal amount of CAD\$300,000 bearing interest at a rate of 8% per annum. The outstanding principal and interest are payable May 14, 2020.
- c) The Company and another party formed a joint venture, of which the Company will hold a 51% ownership interest, with the purpose of producing, marketing, distributing and selling cannabidoil-infused and terpene-infused coffee products in the United States. Notwithstanding the Company's majority interest in the joint venture, all profits will be distributed on a 50/50 basis.

Bhang Corporation

Notes to the Unaudited Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018
(Stated in United States Dollars)

24. Subsequent Events (continued)

- d) The Company issued a promissory note in the aggregate principal amount of \$200,000 with an additional fee of \$10,000. The aggregate amount of \$210,000 is non-interest bearing until the maturity date of July 11, 2019. If any amount payable pursuant to the promissory note is unpaid as of July 11, 2019, such overdue amount shall bear interest at a rate of 8% per annum from the July 11, 2019 until such amount is paid in full.

Appendix “D”

Consolidated Proforma Financial Statements of the Resulting Issuer

(please see attached)

Unaudited Pro-Forma Consolidated Statement of Financial Position

Bhang Inc.
(Formerly Pele Mountain Resources Inc.)

As at March 31, 2019

(Expressed in United States Dollars)

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Bhang Inc.

(Formerly Pele Mountain Resources Inc.)

Unaudited Pro-Forma Consolidated Statement of Financial Position as at March 31, 2019

	Bhang Inc. March 31, 2019	Bhang Corporation March 31, 2019	Pro-Forma Adjustments	Note	Pro-Forma Consolidated
Assets					
Current Assets					
Cash and cash equivalents	\$ 28,131	\$ 366,731	\$ 4,184,179 (144,320) (10,000) (300,000)	2(c) 2(c) 2(e) 2(h)	\$ 4,124,721
Accounts receivable, net	-	744,821	-		744,821
Marketable securities	-	1,126,476	-		1,126,476
Inventory	-	443,400	-		443,400
Deferred transaction costs	-	2,218,254	(2,218,254)	2(h)	-
Prepaid expenses and deposits	47,390	1,169,786	-		1,217,176
Contract asset	-	122,078	-		122,078
Promissory note receivable	-	226,202	-		226,202
	75,521	6,417,748	1,511,605		8,004,874
Deposit	-	15,515	-		15,515
Property, Plant and Equipment	-	174,839	-		174,839
Right-of Use Assets	-	374,746	-		374,746
Investment in Joint Venture	-	156,477	-		156,477
Total Assets	\$ 75,521	\$ 7,139,325	\$ 1,511,605		\$ 8,726,451

Bhang Inc.

(Formerly Pele Mountain Resources Inc.)

Unaudited Pro-Forma Consolidated Statement of Financial Position as at March 31, 2019

	Bhang Inc. March 31, 2019	Bhang Corporation March 31, 2019	Pro-Forma Adjustments	Note	Pro-Forma Consolidated
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities	\$ 368,887	\$ 779,144	\$ (308,343)	2 (d)	\$ 839,688
Short-term advances	-	225,000	-		225,000
Current portion of lease liabilities	-	70,692	-		70,692
	368,887	1,074,836	(308,343)		1,135,380
Lease Liabilities	-	308,899	-		308,899
	368,887	1,383,735	(308,343)		1,444,279
Total Liabilities					
Equity					
Capital Stock	28,679,469	7,704,130	(29,034,929)	2(b)	
			1,707,691	2(b)	
			3,451,947	2(c)	
			(119,064)	2(c)	
			(70,927)	2(c)	
			318,043	2(d)	
			37,417	2(e)	
			350,000	2(f)	
			675,000	2(g)	13,698,777
Contributed Surplus	5,927,694	-	(5,927,694)	2(b)	
			732,232	2(c)	
			(25,256)	2(c)	
			(15,045)	2(c)	
			85,972	2(c)	777,903
Treasury Shares	-	(325,000)	325,000	2(g)	-
Share Subscriptions Payable	-	1,350,000	(1,000,000)	2(g)	
			(350,000)	2(f)	-
Accumulated Deficit	(34,900,529)	(2,973,540)	34,957,646	2(b)	
			(1,702,714)	2(b)	
			(9,700)	2 (d)	
			(47,417)	2 (e)	
			(2,518,254)	2 (h)	(7,194,508)
	(293,366)	5,755,590	1,819,948		7,282,172
Total Liabilities and Equity	\$ 75,521	\$ 7,139,325	\$ 1,511,605		\$ 8,726,451

Bhang Inc.

(Formerly Pele Mountain Resources Inc.)

Notes to the Unaudited Pro-Forma Consolidated Statement of Financial Position

As at March 31, 2019

1. Basis of Presentation

The unaudited pro-forma consolidated statement of financial position (the "pro-forma statement of financial position") of Bhang Inc., formerly Pele Mountain Resources Inc., ("Pele"), has been prepared from information derived from the unaudited condensed interim consolidated financial statements of Pele for the three and six months ended March 31, 2019, and the unaudited interim financial statements of Bhang Corporation ("Bhang") for the three months ended March 31, 2019, on the basis of the assumptions and adjustments described in note 2.

This pro-forma statement of financial position may not necessarily be indicative of Pele's future financial position or of the financial position that would have been obtained if the proposed transactions had taken effect on the date indicated. This statement of financial position should be read in conjunction with Pele's unaudited condensed interim consolidated financial statements for the three and six months ended March 31, 2019, and in conjunction with Bhang's unaudited interim financial statements for the three months ended March 31, 2019. This pro-forma statement of financial position has been prepared in accordance with International Financial Reporting Standards.

2. Pro-Forma Assumptions

The pro-forma statement of financial position takes into account the transactions and assumptions as described hereafter, as if they had taken place on March 31, 2019.

- (a) The unaudited condensed interim consolidated financial statements of Pele for the three and six months ended March 31, 2019 were prepared in Canadian Dollars ("CAD"). For purposes of preparing this pro-forma consolidated statement of financial position, the accounts of Pele, and any other transactions denominated in Canadian Dollars, have been translated into United States Dollars at a rate of 1.3363 Canadian Dollars to one United States Dollar. For purposes of preparing this pro-forma consolidated statement of financial position, any potential opening cumulative translation adjustments have not been considered.

Bhang Inc.

(Formerly Pele Mountain Resources Inc.)

Notes to the Unaudited Pro-Forma Consolidated Statement of Financial Position

As at March 31, 2019

2. Pro-Forma Assumptions (continued)

(b) Pele entered into a definitive transaction agreement (the "Definitive Agreement") dated November 8, 2018, as amended, with Bhang, Bhang Canada Inc. ("Bhang Canada") and Pele Acquisition Corp. ("Pele Subco") which will result, through a series of transactions, in the acquisition of all of the equity interests of Bhang and Bhang Canada by Pele (the "Transaction"), such that, immediately following completion of the Transaction, approximately 85% of the issued and outstanding shares of Pele will be owned by the former shareholders of Bhang. On May 27, 2019, Pele completed a consolidation of its common shares on the basis of 10 pre-consolidated common shares for 1 post-consolidated common share and simultaneously re-designated such class of shares as subordinate voting shares ("SVS"). In addition, Pele created a new class of multiple voting shares ("MVS"). Upon close of the Transaction, Pele will issue, in aggregate, 33,365,916 SVS and 56,634.128 MVS to the Bhang shareholders for all of the outstanding shares of Bhang. For the purpose of this unaudited pro-forma consolidated statement of financial position, the effects of the share re-designation have been applied as of March 31, 2019. For purposes of presenting the relative equity interests of the shareholders following close of the Transaction in this unaudited pro-forma consolidated statement of financial position, it is assumed that each MVS will be converted into SVS in accordance with their specified conversion ratio of 1,000 SVS for each MVS.

For accounting purposes, Bhang is the deemed acquirer and Pele the deemed acquired company, and accordingly, Pele's balances are accounted for at cost and Bhang is accounted for at fair value. Since Pele's operations do not constitute a business, this transaction has been accounted for as a reverse takeover that is not a business combination. Therefore, Pele's share capital, contributed surplus and accumulated deficit will be eliminated, the consideration transferred by Pele will be allocated to share capital, and the transaction costs will be expensed. For purposes of this unaudited pro-forma consolidated statement of financial position, it has been assumed that all conditions of the Definitive Agreement have been met.

The allocation of the consideration transferred is as follows:

4,563,976 SVS at a price of CAD\$0.50 per share	\$ 1,707,691
Net assets of Pele acquired	<u>4,977</u>
Transaction costs	<u>\$ 1,702,714</u>

The acquisition-date fair value of the consideration transferred by Pele for its interest in Bhang is based on the number of equity interests Bhang would have had to issue to give the owners of Pele the same percentage equity interest in the combined entity that results from the transaction described above. The fair value of the number of equity interests calculated in that way is used as the fair value of consideration transferred in exchange for Bhang. An adjustment has been booked to adjust the fair market value of Pele's equity interest in Bhang accordingly.

Bhang Inc.

(Formerly Pele Mountain Resources Inc.)

Notes to the Unaudited Pro-Forma Consolidated Statement of Financial Position

As at March 31, 2019

2. Pro-Forma Assumptions (continued)

(c) Bhang Canada, an affiliate of Bhang, completed a brokered private placement of 12,693,635 subscription receipts (the "Brokered Subscription Receipts") for gross proceeds of CAD\$6,346,818 (\$4,749,546). Under its terms, each Brokered Subscription Receipt is automatically converted and immediately cancelled, without any further action by the holder of such Brokered Subscription Receipt, and for no additional consideration, into one unit of Bhang Canada (the "BCI Units") upon the satisfaction, on or prior to June 12, 2019 (the "Escrow Release Deadline"), of the following conditions, among others: (a) the completion of the acquisition of all outstanding shares of Bhang by Pele; (b) requisite shareholder and regulatory approvals of the Transaction including, but not limited to, conditional approval of the Exchange for the listing of the Shares issuable in connection thereto; and (c) all documents and instruments have been tabled for the concurrent closing of the Transaction (the "Closing"). The Escrow Deadline was extended to July 12, 2019 (the "Escrow Extension"). Holders of 1,511,000 BCI Subscription Receipts did not consent to the Escrow Extension and, as a result, such BCI Subscription Receipts were indirectly repurchased by Bhang Canada contemporaneously with the Closing (the "Repurchased Subscription Receipts"). The Brokered Subscription Receipts were issued pursuant to the terms of a subscription receipt agreement (the "Subscription Receipt Agreement") dated February 12, 2019 between Bhang Canada, AltaCorp Capital Inc., (the "Agent"), and Capital Transfer Agency, ULC (the "Escrow Agent"). Each BCI Unit consists of one share in the capital of Bhang Canada (the "BCI Shares") and one half of one Bhang Canada common share purchase warrant (the "BCI Warrants"). Each BCI Warrant is exercisable into one BCI Share at an exercise price of CAD\$0.65 per BCI Share for 24 months after the completion of the Transaction. The BCI Shares and BCI Warrants issued upon conversion of the Brokered Subscription Receipts will be immediately exchanged, without additional consideration or action, for SVS and warrants of Pele ("Resulting Issuer Shares" and "Resulting Issuer Warrants" respectively), on Closing pursuant to the terms of the Definitive Agreement. Each Resulting Issuer Warrant will be exercisable into one Resulting Issuer Share at an exercise price of CAD\$0.65 per Resulting Issuer Share for 24 months. Of the gross proceeds of \$4,184,179 (net of the Repurchased Subscription Receipts), \$732,232 was allocated to the BCI Warrants.

The fair value of the BCI Warrants of \$732,232 was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	1.710%
Expected life	2 years
Expected volatility	101%*

* Based on the volatility of comparable publicly traded companies

In connection with the issuance of the BCI Units, Bhang Canada paid an aggregate cash commission and corporate finance fee of \$144,320, of which \$119,064 was allocated to the BCI shares and \$25,256 was allocated to the BCI Warrants. Bhang also issued 431,100 BCI Broker Warrants with each BCI Broker Warrant entitling the holder to acquire one BCI Unit at an exercise price of CAD\$0.65 per BCI Unit for a period of 24 months. Of the fair value of the BCI Broker Warrants of \$85,972, \$70,927 was allocated to the BCI shares and \$15,045 was allocated to the BCI Warrants.

Bhang Inc.

(Formerly Pele Mountain Resources Inc.)

Notes to the Unaudited Pro-Forma Consolidated Statement of Financial Position

As at March 31, 2019

2. Pro-Forma Assumptions (continued)

(c) (continued)

The fair value of the BCI Broker Warrants of \$85,972 was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	1.710%
Expected life	2 years
Expected volatility	101%*

* Based on the volatility of comparable publicly traded companies

- (d) Prior to close of the Transaction, Pele intends to enter into debt settlement agreements with various creditors pursuant to which Pele will issue SVS to settle various debts. For purposes of this unaudited pro-forma consolidated statement of financial position, it has been assumed that Pele will issue 8,500,000 pre-consolidation SVS in full settlement of aggregate debt of CAD\$425,000 (\$318,043). Of this debt, CAD\$412,038 (\$308,343) was included in Pele's accounts payable and accrued liabilities at March 31, 2019.
- (e) Subsequent to the period ended March 31, 2019, Pele entered into a mining claim transfer and release agreement with the previous owner of the Mountain Pass property pursuant to which the previous owner has agreed to accept a quitclaim and reconveyance of the Mountain Pass property, a cash payment of \$10,000 and the issuance of 1,000,000 pre-consolidation SVS of Pele at a deemed price of CAD\$0.05 per share which shall be subject to applicable regulatory and statutory hold periods. For the purpose of this unaudited pro-forma consolidated statement of financial position, the fair value of the pre-consolidation SVS is estimated to be \$37,417.
- (f) During the period ended March 31, 2019, Bhang received subscriptions for 1,422 common shares for gross proceeds of \$350,000. As at March 31, 2019, the shares had yet to be issued. For the purpose of this unaudited pro-forma consolidated statement of financial position, it has been assumed that the shares will be issued prior to close of the Transaction.
- (g) During the year ended December 31, 2018, Bhang received proceeds of \$1,000,000 for the subscription of 5,000 common shares from treasury. As at March 31, 2019, the common shares had yet to be issued. For the purpose of this unaudited pro-forma consolidated statement of financial position, it has been assumed that the shares will be issued prior to close of the Transaction.
- (h) The companies estimate they will incur approximately \$300,000 of professional fees associated with the Transaction in addition to the amount of \$2,218,254 included as deferred transaction costs on Bhang's statement of financial position as at March 31, 2019.
- (i) The pro-forma effective income tax rate is 26.50%.

Bhang Inc.

(Formerly Pele Mountain Resources Inc.)

Notes to the Unaudited Pro-Forma Consolidated Statement of Financial Position

As at March 31, 2019

3. Pro-Forma Issued Capital

A continuity of pro-forma consolidated issued capital is provided below:

Issued Capital	Number of MVS	Number of SVS	Amount
SVS of Pele outstanding March 31, 2019	-	36,143,196	\$ 28,679,469
SVS of Pele issued pursuant to settlement of debt (note 2(d))	-	8,500,000	318,043
SVS of Pele issued pursuant to mining claim transfer and release agreement (note 2(e))	-	1,000,000	37,417
Effects of 10:1 consolidation of Pele SVS (note 2(b))	-	(41,079,220)	-
Elimination of Pele share capital at historical cost (note 2(b))	-	-	(29,034,929)
Fair value of shares issued to Pele's shareholders (note 2(b))	-	-	1,707,691
Common shares of Bhang outstanding March 31, 2019	-	139,444	7,704,130
Common shares of Bhang subsequent to March 31, 2019 (note 2(f))	-	1,422	350,000
Common shares of Bhang issued from treasury (note 2 (g))	-	-	675,000
Additional shares issued to shareholders of Bhang (note 2(b))	56,634.128	33,225,050	-
Assumed conversion of MVS (note 2(b))	(56,634.128)	56,634,128	-
SVS issued to shareholders of Bhang Canada (note 2(c))	-	11,182,735	3,261,956
Balance March 31, 2019 after giving effect to pro-forma adjustments	-	105,746,755	\$ 13,698,777