

Bhang Inc.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

For the three month periods ended March 31

Expressed in United States Dollars

	SVS	Share Capital MVS	Amount	Treasury Shares	Contributed Surplus	Share Subscriptions Payable	Equity Portion of Promissory Notes	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance - January 1, 2019	32,423,958	56,634,128	\$ 7,704,130	\$ (325,000)	\$ -	\$ 1,000,000	\$ -	\$ -	\$ (3,102,449)	\$ 5,276,681
Share subscriptions received (note 20(iii))	-	-	-	-	-	350,000	-	-	-	350,000
Net income for the period	-	-	-	-	-	-	-	-	128,909	128,909
Balance - March 31, 2019	32,423,958	56,634,128	\$ 7,704,130	\$ (325,000)	\$ -	\$ 1,350,000	\$ -	\$ -	\$ (2,973,540)	\$ 5,755,590
Balance - January 1, 2020	51,512,502	61,377,202	\$ 15,782,234	\$ -	\$ 776,664	\$ 1,000,000	\$ 36,995	\$ (65,903)	\$ (18,181,634)	\$ (651,644)
Proceeds of private placements (note 20(ii))	3,571,428	-	270,075	-	106,148	-	-	-	-	376,223
Issued in connection with share swap note (20(ii))	14,285,714	-	1,501,614	-	-	-	-	-	-	1,501,614
Issued to acquire additional interest in joint venture (note 20(i))	536,016	-	205,321	-	-	-	-	-	-	205,321
Share-based compensation (note 21))	-	-	-	-	83,344	-	-	-	-	83,344
Issuance costs	-	-	(19,767)	-	-	-	-	-	-	(19,767)
Net loss for the period	-	-	-	-	-	-	-	-	(618,912)	(618,912)
Cumulative Translation Reserve	-	-	-	-	-	-	-	(120)	-	(120)
Balance - March 31, 2020	69,905,660	61,377,202	\$ 17,739,477	\$ -	\$ 966,156	\$ 1,000,000	\$ 36,995	\$ (66,023)	\$ (18,800,546)	\$ 876,059

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

Bhang Inc.

Unaudited Condensed Interim Consolidated Statements of Cash Flows

For the three month periods ended January 31

Expressed in United States Dollars

	2020	2019
Cash provided by (used in)		
Operating Activities		
Net income (loss)	\$ (618,912)	\$ 128,909
Adjustment for items included in net income (loss):		
Interest income	-	(1,202)
Interest	8,878	8,889
Interest expense on lease liabilities	562	7,810
Adjustments for non-cash items in net income (loss):		
Depreciation of property and equipment	13,513	11,031
Depreciation of right of use assets	18,500	21,174
Depreciation of license	10,392	-
Bad debt expense (recovery)	-	(49,495)
Share of loss of joint venture	-	2,170
Unrealized loss (gain) on marketable investments	855,234	(535,839)
Realized loss on disposition of marketable investments	73,416	-
Unrealized gain on foreign exchange	(2,062)	-
Share-based compensation	75,278	-
Interest accretion	11,309	-
Loss (gain) on disposal of assets	(56,535)	-
License revenue paid in kind	(920,580)	-
	<u>(531,007)</u>	<u>(406,553)</u>
Changes in non-cash working capital items (note 26)	<u>(342,482)</u>	<u>(24,321)</u>
Net cash used in operating activities	<u>(873,489)</u>	<u>(430,874)</u>
Net cash provided by (used in) investing activities (note 27)	<u>324,542</u>	<u>(244,226)</u>
Net cash provided by financing activities (note 28)	<u>426,798</u>	<u>550,861</u>
Change in cash	(122,149)	(124,239)
Cash - beginning of year	<u>390,655</u>	<u>490,970</u>
Cash - end of year	<u>\$ 268,506</u>	<u>\$ 366,731</u>
Supplemental cash flow disclosure		
Interest paid	\$ 562	\$ -
Common shares issued to acquire remaining interest in CB Brands	\$ 205,321	\$ -

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

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months periods ended March 31, 2020 and 2019

Expressed in United States Dollars

1. Nature of Operations and Going Concern

Bhang Inc. (the "Company") is a publicly listed company incorporated in Canada amalgamated under the Business Corporations Act (Ontario). On July 11, 2019, the Company's subordinated voting shares commenced trading on the Canadian Securities Exchange (the "CSE") under the stock symbol "BHNG". Prior to trading on the CSE, the Company's shares traded on the TSX Venture Exchange under the symbol "GEM". On August 30, 2019, the Company's subordinated voting shares commenced trading on the OTCQX Best Market (the "OSC") under the stock symbol "BHNGF". The Company's previous trading symbol on the OTCQX was "GOLDF".

The registered address of the Company is located at 40 King Street West, Suite 5800, Toronto, Ontario, Canada, M5H 3S1.

These condensed interim consolidated financial statements for the three months ended March 31, 2020 and 2019, include the Company, its wholly-owned subsidiaries Bhang Canada Corp., and Bhang Corporation ("Bhang") and Bhang's wholly-owned subsidiaries Red Ace, LLC ("Red Ace"), CB Brands, LLC ("CB Brands"), Founding Fathers' Hemp Company ("Founding Fathers") and Euro Brand IP Holdings, LLC ("Euro Brand") collectively referred to as the "Subsidiaries".

The Company, through its partners and licensees, produces and distributes cannabis-infused products that are distributed worldwide.

Prior to completing the Transaction disclosed in note 2, the Company was 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, held a number of mineral properties, all of which were disposed of prior to completion of the Transaction.

These 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.

During the three months period ended March 31, 2020, the Company incurred a net loss of \$618,912 (2019 - net income of \$128,909) and as of that date, the Company's accumulated deficit was \$18,800,546 (December 31, 2019 - \$18,181,634). As at March 31, 2020, the Company had a working capital deficit of \$136,007 (December 31, 2019 - working capital deficit of \$1,108,493). In addition, during the three months period ended March 31, 2020, the Company had negative cash flows from operations of \$873,489 (2019 - \$430,874). These aforementioned conditions have resulted in material uncertainties that may cast significant doubt about the Company's ability 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 generating positive cash flows from operations as well as obtaining suitable financing. The accompanying condensed interim consolidated financial statements do not reflect any adjustment that might result from the outcome of this uncertainty. 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.

Bhang Inc.

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2. Business Acquisition

The Company 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 resulted, through a series of transactions, in the acquisition of all of the equity interests of Bhang and Bhang Canada by the Company (the "Transaction"), such that, immediately following completion of the Transaction, approximately 85% of the issued and outstanding shares of the Company were owned by the former shareholders of Bhang. On May 27, 2019, the Company 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, the Company created a new class of multiple voting shares ("MVS"). Upon close of the Transaction, the Company issued, in aggregate, 44,548,651 SVS and 56,634,128 MVS to the Bhang and Bhang Canada shareholders for all of the outstanding shares of Bhang and Bhang Canada. Pursuant to the Transaction, Bhang Canada and Pele Subco were amalgamated to form Bhang Canada Corp.

The Transaction constituted a reverse takeover of the Company by the shareholders of Bhang which did not meet the definition of a business combination pursuant to IFRS 3. As such, the Transaction has been accounted for under IFRS 2, whereby the difference between the consideration given to acquire the Company and the net asset liabilities acquired of the Company is recorded as a transaction expense. Since Bhang is the deemed acquirer for accounting purposes, these financial statements present the historical information and results of Bhang.

The allocation of the consideration transferred is as follows:

4,563,976 SVS at a price of CAD\$0.50 per share	\$ 1,738,393
Net assets (liabilities) of the Company acquired	<u>(12,325)</u>
Transaction costs	<u>\$ 1,750,718</u>

The acquisition-date fair value of the consideration transferred by the Company for its interest in Bhang is based on the number of equity interests Bhang would have had to issue to give the owners of the Company 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 reflect the fair market value of Company's equity interest in Bhang accordingly.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months periods ended March 31, 2020 and 2019

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2. Business Acquisition (continued)

The allocation of the consideration transferred is as follows:

11,182,635 SVS	\$ 3,962,800
5,591,318 Resulting Issuer Warrants (see note 20(ii))	-
431,100 Broker Warrants (see note 20(ii))	-
Net assets (liabilities) of the Bhang Canada acquired	<u>3,962,800</u>
Transaction costs	<u>\$ -</u>

In addition to the transaction costs above, the Company incurred additional transaction costs of \$2,865,060, which includes \$1,672,741 related to the fair value of common shares of Bhang issued to service providers. Therefore, a total of \$4,615,778 has been recorded as transaction costs for the year ended December 31, 2019. The balance of deferred transaction costs of \$2,119,103 as at December 31, 2018, was included in the transaction costs recognized during the year ended December 31, 2019.

3. Acquisition of Red Ace, LLC

On September 9, 2019, the Company, through Bhang, acquired all of the membership units of Red Ace, LLC ("Red Ace"), an organic beverage company. Under the terms of the purchase agreement, the former Red Ace, LLC membership unit holders received an aggregate of 4,743,074 multiple voting shares of the Company ("Bhang Shares") at a deemed fair value of \$1,414,756.

According to the agreement, a portion of the Bhang Shares have been placed in escrow and will be released pursuant to a three-year escrow schedule upon verification of certain revenue benchmarks at the end of each year. Any Bhang Shares remaining in escrow following the three-year escrow period will be returned to the Company for cancellation. As at December 31, 2019, and March 31, 2020, none of the shares have been released from Escrow.

For accounting purposes, the Company has been identified as the acquirer and Red Ace the acquired company, and this transaction has been accounted for as a business combination. As such, Red Ace's balances are accounted for at the fair value, with the balance of the purchase price in excess of the fair value of the acquired assets and liabilities of Red Ace accounted for as goodwill. Red Ace's historical share capital and retained earnings have been eliminated.

The allocation of the consideration transferred is as follows:

2,593,083 MVS at a deemed fair value of (a)	\$ 1,115,025
2,149,991 MVS to be held in escrow at a deemed fair value of (b)	71,918
Bhang promissory note receivable from Red Ace (c)	<u>227,813</u>
Fair value of purchase consideration	<u>\$ 1,414,756</u>

The amount of goodwill is calculated as follows:

Fair value of purchase consideration	\$ 1,414,756
Net assets (liabilities) of Red Ace acquired (d)	<u>(150,055)</u>
Goodwill	<u>\$ 1,564,811</u>

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months periods ended March 31, 2020 and 2019

Expressed in United States Dollars

3. Acquisition of Red Ace (continued)

- (a) Immediately following the acquisition, a member of management of Red Ace assumed \$99,138 of indebtedness of Red Ace in exchange for 229.131 multiple voting shares of the Company with a deemed fair value of \$98,526. The shares were issued on the acquisition date and were considered as part of the purchase consideration pursuant to the acquisition.
- (b) In determining the fair value of the MVS to be held in escrow, the Company has estimated that the probability of the shares being released is 10%.
- (c) As at the date of the acquisition, Bhang had a loan receivable from Red Ace of \$227,813 of which, \$227,813 was settled on acquisition. The amount was determined to be part of a pre-existing relationship between the acquirer and the acquiree, and the settlement was to the advantage of the acquiree. As the purchase agreement included a reduction to the purchase price paid by Bhang as a result of the outstanding loan, the forgiveness of the loan has been accounted for as part of the consideration transferred by Bhang pursuant to the acquisition. Red Ace owed an additional \$33,906 to Bhang which was not forgiven as part of the acquisition.
- (d) The fair value of the identifiable net assets acquired as at the acquisition date are as follows:

Current Assets	
Cash	\$ 8,496
Accounts receivable	14,716
Inventory	138,719
Right-of-Use Asset	10,254
Total Assets Acquired	<u>172,185</u>
Current Liabilities	
Accounts payable	117,805
Due to Bhang	33,906
Lease liability	10,529
Long-Term Debt	<u>160,000</u>
Total Liabilities Acquired	<u>322,240</u>
Net Identifiable Assets/ (Liabilities) Acquired	<u><u>\$ (150,055)</u></u>

Following the acquisition, changes were made to the regulatory environment with respect to the use of hemp-based CBD, such that a new product line contemplated by Bhang and Red Ace was no longer feasible. As such, as at December 31, 2019, the Company determined that the goodwill was impaired and has reduced the recoverable amount to \$Nil, resulting in a loss on impairment of \$1,564,811. The entire amount of goodwill impaired as reported on the consolidated statement of loss and comprehensive loss relates to the specific cash generating unit of Red Ace.

Since the acquisition date, the revenue and net loss of the acquiree included in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2019 were \$142,384 and \$108,682 respectively. As at December 31, 2019, there were no provisional amounts for items for which the accounting is incomplete.

The Company incurred acquisition-related costs of \$3,750 which were recorded in professional fees in the consolidated statements of loss and comprehensive loss during the year ended December 31, 2019.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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7. Significant Accounting Policies

These unaudited condensed consolidated interim 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 December 31, 2019 as described in note 5 of those financial statements, with the exception of certain amendments to accounting standards or new interpretations issued by the IASB with are applicable for annual periods beginning on or after January 1, 2020.

Changes in accounting standards effective January 1, 2020:

IFRS 3 - Business Combinations

In October 2018, new amendments to IFRS 3 were issued to provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The adoption of this amendment did not have an impact on the condensed interim consolidated financial statements.

IAS 1 - Presentation of Financial Statements

In October 2018, new amendments to IAS 1 were issued to provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications. The adoption of this amendment did not have an impact on the condensed interim consolidated financial statements.

8. Inventory

As of March 31, 2020, and December 31, 2019, the Company's inventory included the following:

	March 31, 2020	December 31, 2019
Finished goods for resale	\$ 563,591	\$ 392,222
Raw materials	1,201,436	724,273
Obsolescence provision	(520,500)	(555,900)
	<u>\$ 1,244,527</u>	<u>\$ 560,595</u>

As at March 31, 2020, inventory includes inventory acquired pursuant to the acquisition of CB Brands, which consists of raw materials of \$65,162. The cost of inventories, net of a credit memo issued by a vendor, included as an expense and included in cost of goods sold, for the period ended March 31, 2020 was \$108,642 (2019 - \$1,141,883). During the period ended March 31, 2020, the Company incurred a recovery of \$250,000 related to a credit memo issued by a vendor for goods that had been written off in a prior period (December 31, 2019 - \$Nil). This recovery is presented as part of cost of goods sold.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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9. Investment in Joint Ventures

- (a) During the year ended December 31, 2016, the Company and another party formed a joint venture based in California 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, 2020 and December 31, 2019, the Company held 500,000 of the outstanding 1,000,000 membership units. During the period ended March 31, 2020, the Company acquired the remaining 500,000 membership units (see note 4). Movement in the Company's capital account for the period ended March 31, 2020 and year ended December 31, 2019 is as follows:

	March 31, 2020	December 31, 2019
Capital - beginning of period	\$ 75,288	\$ 158,647
Capital contributions (return of capital)	-	(1,821)
Share of net loss	-	(81,538)
Derecognition of investment in joint venture	(75,288)	-
Capital - end of period	<u>\$ -</u>	<u>\$ 75,288</u>

Presented below is the net loss and comprehensive loss of CB Brands LLC, for the three month periods ended March 31, 2020 and 2019.

	March 31, 2020	March 31, 2019
Net loss and comprehensive loss	<u>\$ -</u>	<u>\$ (4,339)</u>

- b) On April 17, 2018, Bhang entered into a joint venture agreement with a Canadian corporation (the "other party") to carry out the production, marketing, distribution and sale of all Bhang-branded "Marijuana" products on an exclusive basis in Canada and a non-exclusive right to export Bhang-branded "Marijuana" products world-wide. The Board of Directors of the joint venture consists of two nominees of each party. While the other party is the manager of the joint venture, all spending programs require a proposal to the Board and unanimous approval of the Board. Pursuant to the joint venture agreement, each party is to contribute \$100,000 to the joint venture company. As at December 31, 2018 and 2019, the Company had yet to make its contribution. During the period ended March 31, 2020, the contribution was made by the Company.

The Company has concerns over the management of the joint venture which includes, but is not limited to, non-approved expenses for a total amount of \$785,330 incurred on behalf of the joint venture, that occurred during the year ended December 31, 2019. As a result, the Company has not recorded any share of loss relating to the disputed amount of \$785,330. During the three months ended March 31, 2020, the joint venture had net income of \$99,600, of which the Company has not recorded any share.

See note 33(c) for further discussion related to this joint venture.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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10. 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. The Company has recorded an unrealized loss on the shares in the amount of \$85,055 for the year ended December 31, 2019 (2018 - unrealized gain of \$85,055). During the year ended December 31, 2019, the Company disposed of all of the shares for proceeds of \$726,088 resulting in a gain on disposition of \$220,506.

During the three months ended March 31, 2020, the Company acquired 3,149,607 common shares of Cannabis Growth Opportunities Corporation in exchange for 14,285,714 SVS of the Company. The transaction occurred at a value of CAD\$2,000,000 (\$1,501,614). As part of the Share Swap, each of the investor and Company have signed a voting and resale agreement providing that each party will be required to vote the shares acquired under the Share Swap as recommended by the other party and will be restricted from trading the shares for a period of 18 months. The movement in the carrying value of the Company's investment during the period ended March 31, 2020 is as follows:

	<u>Cost</u>	<u>Fair value</u>
Balance - January 1, 2020	\$ -	\$ -
Shares acquired during the period	1,501,614	1,501,614
Unrealized loss during the period	-	(855,234)
Effects of foreign exchange	-	(46,962)
Balance - March 31, 2020	<u>\$ 1,501,614</u>	<u>\$ 599,418</u>

11. License

In connection with the acquisition of the remaining 50% membership interest in CB Brands as discussed in note 4, the Company and Cypress Hill Musik entered into a trademark license agreement. Under the terms of the trademark license agreement, Cypress Hill Musik will continue to license the rights to the Cypress Hill name on all Cypress Hill branded products sold by CHB for a royalty in an amount equal to 2.5% of gross sales for a period of three years. Following the three year term, the trademark license agreement shall terminate unless renewed by the parties prior to the end of the term.

The Company has estimate the fair value of the license to be \$124,705, which is the excess of the fair value of the consideration transferred by the Company, and the fair value of the net assets of CB Brands acquired. The Company will depreciate the value of the license on a straight-line basis over the term of the trademark license agreement.

The movement in the carrying value of the license investment during the period ended March 31, 2020 is as follows:

Balance, January 1, 2020	\$ -
Acquired during the period	124,705
Depreciation for the period	(10,392)
Balance March 31, 2020	<u>\$ 114,313</u>

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements
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12. Property and Equipment

	Computer Equipment	Office Furniture and Equipment	Trade Equipment	Leasehold Improvements	Total
Cost					
Balance - January 1, 2019	\$ 8,926	\$ 37,705	\$ 232,008	\$ 5,174	\$ 283,813
Additions	711	8,217	239,813	-	248,741
Disposals	-	(11,245)	-	-	(11,245)
Balance - December 31, 2019	9,637	34,677	471,821	5,174	521,309
Additions	-	2,658	59,594	-	62,252
Disposals	-	-	(239,812)	-	(239,812)
Balance - March 31, 2020	<u>\$ 9,637</u>	<u>\$ 37,335</u>	<u>\$ 291,603</u>	<u>\$ 5,174</u>	<u>\$ 343,749</u>
Accumulated Depreciation					
Balance - January 1, 2019	\$ 823	\$ 2,976	\$ 92,664	\$ 5,174	\$ 113,513
Depreciation for the year	3,210	8,487	58,548	-	70,245
Disposals	-	(2,845)	-	-	(2,845)
Balance - December 31, 2019	4,033	8,618	151,212	5,174	169,037
Depreciation for the period	803	1,848	10,862	-	13,513
Disposals	-	-	(26,347)	-	(26,347)
Balance - March 31, 2020	<u>\$ 4,836</u>	<u>\$ 10,466</u>	<u>\$ 135,727</u>	<u>\$ 5,174</u>	<u>\$ 156,203</u>
Net Book Value					
As at December 31, 2019	<u>\$ 5,604</u>	<u>\$ 26,059</u>	<u>\$ 320,609</u>	<u>\$ -</u>	<u>\$ 352,272</u>
As at March 31, 2020	<u>\$ 4,801</u>	<u>\$ 26,869</u>	<u>\$ 155,876</u>	<u>\$ -</u>	<u>\$ 187,546</u>

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13. Promissory Notes Receivable

- a) During the year ended December 31, 2019, the Company advanced \$225,000 to Red Ace in exchange for a promissory note. The promissory note bore 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 was 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. During the year ended December 31, 2019, the Company recorded interest income of \$2,813, prior to the acquisition of Red Ace, resulting in an aggregate balance owing from Red Ace of \$227,813 as at the time of the Red Ace acquisition disclosed in note 3. As the purchase agreement disclosed in note 3 included a reduction to the purchase price paid by the Company as a result of the outstanding loan, the forgiveness of the loan by the Company has been accounted for as part of the consideration transferred by the Company pursuant to the acquisition.
- b) During the year ended December 31, 2019, the Company advanced \$100,000 in exchange for a promissory note. The promissory note bore interest at a rate of 10% per annum, with the interest and principal due and payable on June 15, 2019. If any amount payable pursuant to the promissory note is not paid as of the maturity date of June 15, 2019, such overdue amount shall bear interest at a rate of 10% per annum, or the maximum amount permitted to be charged under applicable law from June 15, 2019 until such amount is paid in full. During the year ended December 31, 2019, the Company recorded interest income of \$1,667. During year ended December 31, 2019, the Company received a repayment of \$27,500. As at December 31, 2019, the Company deemed the outstanding principal and accrued interest owing to be uncollectible and recognized an impairment loss of \$74,167 that is included in bad debt expense for the year ended December 31, 2019.

14. Right-of-Use Assets

In connection with the adoption of IFRS 16 during the year-ended December 31, 2019, the Company has recognized a right-of-use asset for its office premises with a corresponding lease liability (see note 16) which are initially measured at the present value of the future lease payments. In accordance with IFRS 16, the Company then recognizes depreciation of right-of-use assets and interest expense on lease liabilities in the statements of loss and comprehensive loss. In connection with the acquisition of Red Ace, the Company acquired a right-of-use asset for its office and warehouse premises. The Company recognized the fair value of the right-of-use asset and a corresponding lease liability (see note 16) upon acquisition of Red Ace (see note 3).

	Land and Buildings
Balance, January 1, 2019	\$ -
Adoption of IFRS 16	283,852
Adjustment due to revised lease term (a)	(175,725)
Acquired in connection with acquisition of Red Ace	10,254
Total additions	118,381
Depreciation for the year (b)	(89,092)
Balance December 31, 2019	29,289
Depreciation for the period	(18,500)
Balance March 31, 2020	\$ 10,789

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14. Right-of-Use Assets (continued)

- (a) Subsequent to the adoption of IFRS 16, the Company determined that the renewal option of two of its leases would not be exercised.
- (b) Included in cost of sales for the year ended December 31, 2019, is \$56,547 related to the depreciation of the Company's right-of-use assets. The Company did not include any depreciation of its right-of-use assets in cost of sales for the three months ended March 31, 2020.

15. Note Payable

During the year ended December 31, 2016, Red Ace issued a note payable in the amount of \$160,000. The note was non-interest bearing and repayable on or before October 22, 2016. During the three months period ended March 31, 2020 the Company repaid \$10,000 of the outstanding balance.

16. Lease Liabilities

In connection with the adoption of IFRS 16 during the year-ended December 31, 2019, the Company has recognized a right-of-use asset (see note 14) for its office premises with a corresponding lease liability which are initially measured at the present value of the future lease payments. In accordance with IFRS 16, the Company then recognizes depreciation of right-of-use assets and interest expense on lease liabilities in the consolidated statements of loss and comprehensive loss.

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 13% which represents the Company's current borrowing rate. Prior to the adoption of IFRS 16, these leases were accounted for as operating leases.

At the time of the acquisition of Red Ace, Red Ace had an existing lease liability related to its lease for office and warehouse space. The present value of the future lease payments was calculated at the commencement of the lease on May 1, 2019 using a discount rate of 13% which represented its current borrowing rate.

Changes to the Company's lease liabilities for the period ended March 31, 2020 are as follows:

	Land and Buildings
Balance, January 1, 2019	\$ -
Adoption of IFRS 16	283,852
Adjustment due to revised lease term (a)	(175,725)
Acquired pursuant to acquisition of Red Ace (note 3)	10,529
Interest expense	28,836
Lease payments	(101,650)
Balance December 31, 2019	45,842
Interest expense	562
Lease payments	(19,658)
Less: current portion	(26,746)
Balance March 31, 2020	\$ -

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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16. Lease Liabilities (continued)

- (a) Subsequent to the adoption of IFRS 16, the Company determined that the renewal option of two of its leases would not be exercised.

17. Short-Term Advances

During the year ended December 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 were payable on May 20, 2019. During the year ended December 31, 2019, the principal was paid in full. As at March 31, 2020, accounts payable and accrued interest included \$10,000 related to the unpaid balloon interest payment.

During the year ended December 31, 2019, the Company borrowed \$112,500 pursuant to a loan agreement. The outstanding principal and a balloon interest payment of \$10,000 were payable on May 22, 2019. During the year ended December 31, 2019, the principal was paid in full. As at March 31, 2020, accounts payable and accrued interest included \$10,000 related to the unpaid balloon interest payment.

18. Promissory Notes Payable

- a) During the year ended December 31, 2019, 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. During the year ended December 31, 2019, the principal and accrued interest were paid in full.
- b) During the year ended December 31, 2019, 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 July 18, 2019. If any amount payable pursuant to the promissory note is unpaid as of July 18, 2019, such overdue amount shall bear interest at a rate of 8% per annum from the July 18, 2019 until such amount is paid in full. If any amount payable pursuant to the promissory note is unpaid as of the maturity date of August 17, 2019, the Company is to pay a late fee of \$10,000. As at December 31, 2019, the principal and accrued interest were paid in full.
- c) During the year ended December 31, 2019, the Company issued a promissory note in the aggregate principal amount of \$350,000 with an additional fee of \$17,500. The aggregate amount of \$367,500 is non-interest bearing until 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. As at December 31, 2019, the principal and accrued interest were paid in full.
- d) During the year ended December 31, 2019, the Company issued a promissory note in the aggregate principal amount of \$150,000 with an additional fee of \$7,500. The aggregate amount of \$157,500 is non-interest bearing until 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. As at December 31, 2019, the principal and accrued interest were paid in full.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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19. Convertible Promissory Notes Payable

During the year ended December 31, 2019, Bhang issued a promissory note to a shareholder in the principal amount of CAD\$300,000 (\$224,200) bearing interest at a rate of 8% per annum. The outstanding principal and interest are payable April 12, 2020. During the year ended December 31, 2019, Bhang issued a second promissory note to this shareholder in the principal amount of CAD\$300,000 (\$222,074) bearing interest at a rate of 8% per annum. The outstanding principal and interest are payable May 14, 2020.

Upon close of the Transaction, these promissory notes were replaced with new promissory notes issued by the Company (the "Exchanged Notes") bearing the same interest rate and maturity dates, that were convertible into common shares of the Company, at the option of the holder, at a price of CAD\$0.50 per share. However, the Company shall have the option to accelerate the conversion of the Exchanged Notes in the event that the volume weighted average price of the listed shares of the Company on the CSE is equal to or greater than CAD\$1.00 per share over a period of ten consecutive trading days.

The Exchanged Notes are considered to be compound instruments comprising a liability and a conversion feature. As a result the liability and equity components have been presented separately. The initial carrying value of the liability was calculated by discounting the future payments of interest and principal using a market interest rate of 20%. Using the residual method, the carrying value of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability, and will be recorded in a separate account within shareholders' deficiency on the consolidated statement of financial position.

Transactions related to the Exchanged Notes during the period ended March 31, 2020, include the following:

	<u>Carrying amount</u>
Balance - January 1, 2019	\$ -
Issued by Bhang	224,200
Issued by Bhang	222,074
Cancelled upon issuance of Exchanged Notes	(446,274)
Issuance of Exchange Notes	457,043
Fair value of conversion option	(36,995)
Interest accretion	40,037
Effects of foreign exchange	5,202
	<hr/>
Balance - December 31, 2019	465,287
Interest accretion	11,309
Effects of foreign exchange	(56,969)
Balance - March 31, 2020	<hr/> 419,627
	<hr/>
Less: current portion	419,627
	<hr/>
Balance - net of current portion	<u>\$ -</u>

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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20. Share Capital

The Company is authorized to issue an unlimited number of Subordinate Voting Shares ("SVS") without nominal or par value and an unlimited number of Multiple Voting Shares ("MVS") without nominal or par value. Bhang is authorized to issue up to 200,000 common shares with a par value of \$0.01 per share.

During the three months ended March 31, 2020, the following share transactions occurred:

- i) The Company issued 536,016 SVS of the Company with at a deemed fair value of \$205,321 to acquire the remaining 500,000 membership units of CB Brands as discussed in note 4.
- ii) The Company and an investor reached an agreement to invest up to \$1,300,000 CAD in a non-brokered private placement offering of units with each unit comprising of one SVS in the capital of the Company and one share purchase warrant. Each warrant is exercisable into one SVS at a price equal to a 25% premium to the unit price for a period of 24 months. The Company has the right to accelerate the expiry of the warrants to thirty (30) days following written notice to the holder if the SVS close at or above CAD\$0.25 per share for a period of ten (10) consecutive trading days on the Canadian Securities Exchange.

The first tranche of the offering for gross proceeds of approximately \$500,000 CAD was completed on February 10, 2020 with 3,571,428 Units being issued by the Company at a price of \$0.14 CAD per Unit. Of the proceeds of \$376,223, \$106,148 was allocated to warrants (see note 21).

The Units expected to be sold under the second tranche for gross proceeds of approximately \$500,000 CAD will be at a price per Unit equal to the 20-day volume weighted average price ("VWAP") of the SVS calculated as of the last closing price prior to the closing of the second tranche. The Units expected to be sold under the third tranche for gross proceeds of approximately \$500,000 CAD will be at a price per Unit equal to the 20-day VWAP calculated as of the last closing price prior to the closing of the third tranche. It is expected that the second and third tranches of the Offering will be completed in the next 30 days upon meeting the conditions in the subscription agreement involving the sale of certain Bhang products.

In addition, the investor and the Company have entered into subscription agreements to exchange approximately \$2,000,000 CAD worth of each other's shares (the "Share Swap"). Under the terms of the Share-Swap, The Company received 3,149,606 common shares of the investor at a deemed price of \$0.635 per share (see note 10), and the investor received 14,285,714 SVS of the Company at a deemed price of \$0.14 per share. As part of the Share Swap, each of the investor and Company have signed a voting and resale agreement providing that each party will be required to vote the shares acquired under the Share Swap as recommended by the other party and will be restricted from trading the shares for a period of 18 months.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three months periods ended March 31, 2020 and 2019
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20. Share Capital (continued)

During the year ended December 31, 2019, the following share transactions occurred:

- iii) Bhang received proceeds of \$350,000 for the subscription of 941,958 SVS of the Company.
- iv) In connection with the Transaction disclosed in note 2, Bhang Canada, completed a brokered private placement of 12,693,635 subscription receipts (the "Brokered Subscription Receipts") for gross proceeds of CAD\$6,346,818 (\$4,834,934). 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, representing gross proceeds of CAD\$755,500 (\$575,531), 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"). 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 were immediately exchanged, without additional consideration or action, for SVS and warrants of the Company ("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. The fair value of the 11,182,635 Resulting Issuer Shares was determined to be \$3,962,800 based on the consideration received from Bhang Canada upon close of the Transaction.
- v) The Company received proceeds of \$80,900 related to the exercise of 215,550 broker warrants. Pursuant to the exercise of the warrants, the Company issued one unit containing one SVS and one half of one SVS purchase warrant (the "SVS warrant") Each SVS warrant entitles the holder to acquire one SVS at an exercise price of CAD\$0.65 per share for a period of 24 months.
- vi) The Company issued 684,325 SVS with an estimated fair value of \$143,829 to vendors as settlement of outstanding accounts payable. The fair value was determined using the market price of the shares on the date of issuance. A total loss on settlement of payables of \$12,829 was incurred in 2019 regarding these transactions.
- vii) The Company issued 1,500,000 SVS with an estimated fair value of \$630,000 to various consultants for services rendered. The fair value was determined using the market price of the shares on the date of issuance because the fair value of the services could not be reliably estimated.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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20. Share Capital (continued)

viii) The Company issued 4,743,074 MVS in connection with the acquisition of Red Ace as disclosed in note 3. Of these shares, 2,149,991 MVS are to be held in escrow to be released upon Red Ace meeting specified revenue benchmarks, or at the discretion of the Company should the revenue benchmarks not be met.

ix) Upon close of the Transaction, Bhang Corporation cancelled the 5,000 held in treasury.

During the year ended December 31, 2018, Bhang entered into a subscription agreement to issue 5,000 common shares from treasury for proceeds of \$1,000,000. The nature of such \$1,000,000 is currently in dispute. Refer to note 33(c).

21. Stock Options and Warrants

(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. There were no stock options granted in the previous year.

The following summarizes the stock option activities:

	Number of Options	Weighted Average Exercise Price (\$CAD)
Balance, January 1, 2019	-	\$ -
Issued pursuant to the Transaction	44,130	0.50
Granted	10,207,500	0.52
Forfeited	(3,622,000)	(0.52)
Balance, December 31, 2019 and March 31, 2020	<u>6,629,630</u>	<u>\$ 0.64</u>

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months periods ended March 31, 2020 and 2019

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21. Stock Options and Warrants (continued)

(i) Stock Options (continued)

The Company had the following stock options outstanding at March 31, 2020:

Number of Options	Exercisable	Exercise Price (\$CAD)	Remaining Contractual Life (Years)	Expiry Date
12,130	12,130	\$ 0.50	0.75	December 31, 2020
217,500	217,500	\$ 0.52	0.28	July 11, 2020
250,000	250,000	\$ 0.55	1.31	July 24, 2021
1,870,000	206,250	\$ 0.52	2.28	July 11, 2022
30,000	-	\$ 0.52	3.28	July 11, 2023
4,250,000	2,250,000	\$ 0.52	4.28	July 11, 2024
6,629,630	2,935,880	\$ 0.52	3.46	

During the year ended December 31, 2019, the Company:

- i) Granted 222,500 stock options to certain officers, employees and consultants. Each option vests immediately and allows the holder to purchase one SVS of the Company at an exercise price of CAD\$0.52 per unit for a period of 12 months.

The fair value of the options of CAD\$44,497 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	1.650%
Forfeiture rate	0%
Expected life	1 years
Expected volatility	101%*

* Volatility was estimated using companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public.

- ii) Granted 250,000 stock options to consultants to provide investor relations services on behalf of the Company. Each option vest immediately and allows the holder to purchase one SVS of the Company at an exercise price of CAD\$0.55 per unit for a period of 24 months.

The fair value of the options of CAD\$50,743 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	1.650%
Forfeiture rate	0%
Expected life	2 years
Expected volatility	101%*

* Volatility was estimated using companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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21. Stock Options and Warrants (continued)

- iii) Granted 1,885,000 stock options to certain officers, employees and consultants. Each option allows the holder to purchase one SVS of the Company at an exercise price of CAD\$0.52 per unit for a period of 36 months. Of these options, 206,250 vest immediately, 839,375 vest on the 12 month anniversary of the initial grant date and 839,375 vest on the 24 month anniversary of the initial grant date.

The fair value of the options of CAD\$613,522 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	1.650%
Forfeiture rate	0%
Expected life	3 years
Expected volatility	101%*

* Volatility was estimated using companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public.

- iv) Granted 75,000 stock options to certain officers, employees and consultants. Each option allows the holder to purchase one SVS of the Company at an exercise price of CAD\$0.52 per unit for a period of 48 months. Of these options, 25,000 vest on the 12 month anniversary of the initial grant date, 25,000 vest on the 24 month anniversary of the initial grant date and 25,000 vest on the 36 month anniversary of the initial grant date.

The fair value of the options of CAD\$27,175 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	1.650%
Forfeiture rate	0%
Expected life	4 years
Expected volatility	101%*

* Volatility was estimated using companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months periods ended March 31, 2020 and 2019

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21. Stock Options and Warrants (continued)

- v) Granted 7,775,000 stock options to certain officers, employees and consultants. Each option allows the holder to purchase one SVS of the Company at an exercise price of CAD\$0.52 per unit for a period of 60 months. Of these options, 2,250,000 vest immediately, 1,943,750 vest on the 12 month anniversary of the initial grant date, 1,943,750 vest on the 24 month anniversary of the initial grant date, 818,750 vest on the 36 month anniversary of the initial grant date and 818,750 vest on the 48 month anniversary of the initial grant date. During the year ended December 31, 2019, a total of 3,622,000 options were forfeited due to terminations and resignation that resulted into the non-completion of vesting conditions.

The fair value of the options of CAD\$2,126,618 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	1.650%
Forfeiture rate	30%
Expected life	5 years
Expected volatility	101%*

* Volatility was estimated using companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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21. Stock Options and Warrants (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 stock option activities:

	Number of Warrants	Weighted Average Exercise Price (\$CAD)
Balance, January 1, 2019	-	\$ -
Issued pursuant to subscription receipts(i)	5,591,316	\$ 0.65
Issued to brokers in connection with subscription receipts (ii)	431,100	0.50
Agent warrants exercised (iii)	(215,550)	(0.50)
Issued upon exercise of broker warrants (iii)	107,775	0.65
Balance, December 31, 2019	5,914,641	\$ 0.64
Issued pursuant to private placement	3,571,428	0.175
Balance, March 31, 2020	9,486,069	\$ 0.47

During the three months ended March 31, 2020, the Company:

Issued 3,571,428 warrants as disclosed in note 20(ii). Each warrant allows the holder to purchase one common share of the Company at an exercise price of CAD\$0.175 per unit for a period of 24 months.

The fair value of the warrants of \$106,148 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	1.630%
Expected life	2 years
Expected volatility	101%*

* Volatility was estimated using companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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21. Stock Options and Warrants (continued)

(ii) Warrants (continued)

During the year ended December 31, 2019, the Company:

- i) Issued 5,591,316 Resulting Issuer Warrants as disclosed in note 20(iv). Each warrant allows the holder to purchase one common share of the Company at an exercise price of CAD\$0.65 per unit for a period of 24 months. Using the residual method to allocate the proceeds received from Bhang Canada pursuant to the Transaction, the fair value of the Resulting Issuer Warrants is \$Nil.
- ii) In connection with the issuance of the BCI Units disclosed in note 20(iv), Bhang Canada 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\$0.50 per BCI Unit until July 9, 2020. Each BCI Unit contains one SVS and one half of one subordinated share purchase warrant (the "SVS warrant") Each SVS warrant entitles the holder to acquire one subordinated voting share at an exercise price of CAD\$0.65 per share until July 9, 2021. Upon close of the Transaction, the BCI Broker Warrants were exchanged for similar securities of the Company. Using the residual method to allocate the proceeds received from Bhang Canada pursuant to the Transaction, the fair value of the BCI Broker Warrants is \$Nil.
- iii) During the year ended December 31, 2019, the Company received proceeds of \$80,900 related to the exercise of 215,550 broker warrants as disclosed in note 20(v). Pursuant to the exercise of the warrants, the Company issued one unit containing one SVS and one half of one SVS warrant. Each SVS warrant entitles the holder to acquire one subordinated voting share at an exercise price of CAD\$0.65 per share for a period of 24 months.

The fair value of the 107,775 SVS Warrants of \$14,149 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	1.650%
Forfeiture rate	0%
Expected life	2 years
Expected volatility	101%*

* Volatility was estimated using companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public.

The Company had the following warrants outstanding at March 31, 2020:

Number of Warrants	Exercisable	Exercise Price (\$CAD)	Remaining Contractual Life (Years)	Expiry Date
5,699,091	5,699,091	\$ 0.65	1.27	July 9, 2021
215,550	215,550	\$ 0.50	0.27	July 9, 2020
3,571,458	3,571,458	\$ 0.18	1.85	February 5, 2022
9,486,099	9,486,099	\$ 0.47	1.48	

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22. Related Party Transactions

During the three month periods ended March 31, 2020 and 2019, the Company incurred the following related party transactions:

- i) The Company paid consulting fees of \$Nil (2019 - \$30,000) to a company in which a shareholder, and former director and officer, of the Company is a director, officer and shareholder. As at March 31, 2020, accounts payable and accrued liabilities included \$30,000 (December 31, 2019 - \$30,000) owed to this company. During the year ended December 31, 2019, the Company accrued interest expense of \$10,000 on a promissory note issued by the director, officer and shareholder, all of which is included in accounts payable and accrued liabilities at December 31, 2019 and March 31, 2020. Included in share-based compensation for the three months ended March 31, 2020 is \$4,962 (2019 - \$Nil) related to the continued vesting of stock options granted to one of this company.
- ii) Licensing and product sales revenue of \$13,176 (2019 - \$15,105) was recognized on sales to a company controlled by the sibling of the Company's former President and CEO. As at March 31, 2020, accounts receivable included \$133,159 (December 31, 2019 - \$124,704) owing from this company. Included in the Company's expected credit losses for the three months ended March 31, 2020 is \$Nil (year ended December 31, 2019 - \$69,124) related to amounts owing from this company. As at March 31, 2020, accounts payable and accrued liabilities included \$29,316 (December 31, 2019 - \$29,316) owed to this company.
- iii) Key Management Personnel consists of the former President and CEO, the former interim President the current President, CEO and COO, and the CFO. The compensation paid or payable to key management for the three months ended March 31, 2020 includes salaries of \$66,583 (2019 - \$90,000) and professional fees of \$7,500. Included in share-based compensation for the three months ended March 31, 2020 was \$54,593 (2019 - \$Nil) related to the continued vesting of stock options granted to key members of management.
- iv) Included in share-based compensation for the three months ended March 31, 2020 \$10,259 (2019 - \$Nil) related to the continued vesting of stock options granted to a director of the Company.

As at March 31, 2020, accounts payable and accrued liabilities included \$46,864 (December 31, 2019 - \$46,864) payable to the Company's former President and CEO. The amount is non-interest bearing and payable on demand.

Additional related party transactions are disclosed in note 5.

Bhang Inc.

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23. Financial Instruments

i) Market Risk

a) Currency Risk

As at March 31, 2020, the Company's cash and cash equivalents included \$94,610 Canadian Dollars (December 31, 2019 - \$127,688 Canadian Dollars), accounts payable and accrued liabilities included \$542,195 Canadian Dollars (December 31, 2019 - \$467,531 Canadian Dollars) and convertible promissory notes included \$600,000 Canadian Dollars (December 31, 2019 - \$600,000 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 \$82,046 higher (lower) (year ended December 31, 2019 - \$80,403 higher (lower)).

b) Interest Rate Risk

As at March 31, 2020 and December 31, 2019, the Company's exposure to interest rate risk would relate to its convertible debt, other liability, and short term advances, but its interest rate risk is limited as the aforementioned financial instruments are fixed interest rate instruments.

c) Credit Risk

Credit risk is derived from cash, trade and other receivables and promissory note receivable. The Company places the majority of its cash in deposit with major United States and Canadian 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 and trade and other receivables represents the Company's maximum exposure to credit risk, which amounted to \$803,265 at March 31, 2020 (December 31, 2019 - \$828,630). The provision for expected credit losses included in trade accounts receivable as at March 31, 2020 is \$259,366 (December 31, 2019 - \$259,366).

As at March 31, 2020 and December 31, 2019, the Company's trade accounts receivable were aged as follows:

	March 31, 2020	December 31, 2019
Current	\$ 33,901	\$ 77,464
1-30 days	19,113	76,317
31 days- 60 days	37,846	44,867
61 days-older	703,265	498,693
Expected credit losses	(259,366)	(259,366)
	<u>\$ 534,759</u>	<u>\$ 437,975</u>

Bhang Inc.

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23. Financial Instruments (continued)

c) Credit Risk (continued)

The change in the provision for expected credit losses is as follows:

	Three months ended March 31, 2020	Year ended December 31, 2019
Balance, beginning of period	\$ 259,366	\$ 943,954
Amounts previously provided for, written-off during the period	-	(922,858)
Additional allowance	-	238,270
Balance, end of period	<u>\$ 259,366</u>	<u>\$ 259,366</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, 2020, the Company has current assets of \$2,329,842 (December 31, 2019 - \$1,778,294) and current liabilities of \$2,465,849 ((December 31, 2019 - \$2,886,787), which resulted in a working capital deficit of \$136,007 ((December 31, 2019 - working capital deficit of \$1,108,493).

As at March 31, 2020, the contractual maturities of the Company's accounts payable and accrued liabilities and notes payable over the next three years are as follows:

	Year 1	Years 2 - 4
Accounts payable and accrued liabilities	\$ 1,575,841	\$ -
Lease liabilities	26,746	-
Convertible promissory notes payable	419,627	-
Notes payable	150,000	-
	<u>\$ 2,172,214</u>	<u>\$ -</u>

e) Fair Values

The carrying amounts of the Company's cash, marketable securities, trade receivables and other receivable, and accounts payable and accrued liabilities approximate their fair values because of the short-term nature of these items. The carrying amounts of the Company's note payable and convertible promissory notes approximate their fair values as its interest rate is close to market rates.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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Expressed in United States Dollars

23. 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; and
- 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. The Company's convertible promissory notes payable are included in Level 2. Level 2 inputs were utilized in the valuation of the escrowed shares issued pursuant the acquisition of Red Ace. During the three months ended March 31, 2020 and the year ended December 31 2019, there were no transfers of amounts between levels.

24. 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 three month periods ended March 31, 2020 and 2019. The majority of the Company's expenses are incurred in United States dollars with vendors located in the United States. Expenses incurred in Canadian Dollars typically relate to compliance associated with being a publicly-traded company. The Company's assets, liabilities and net loss relate to the following areas:

	As at March 31, 2020			As at December 31, 2019		
	Canada	United States	Total	Canada	United States	Total
Non-current assets	\$ 599,418	\$ 428,163	\$ 1,027,581	\$ -	\$ 456,849	\$ 456,849
	Three months ended March 31, 2020			Three months ended March 31, 2019		
	Canada	United States	Total	Canada	United States	Total
Net income (loss)	\$(1,090,028)	\$ 471,116	\$ (618,912)	\$ -	\$ 128,909	\$ 128,909

Included in revenue for the three months ended March 31, 2020 was \$920,580 from one customer (2019 - revenue of \$1,067,864 from three customers), each of which represent greater than 10% of the Company's revenue.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months periods ended March 31, 2020 and 2019

Expressed in United States Dollars

25. General and Administrative Expenses

General and administrative expenses for the three month periods ended March 31, 2020 and 2019 are as follows:

	2020	2019
Bank charges and interest	\$ 876	\$ 7,404
Business taxes	294	5,604
Consulting expenses	57,218	60,000
Depreciation and amortization of property and equipment and right-of-use assets	32,013	32,205
Dues, subscriptions and licenses	-	2,520
Insurance	58,490	12,522
Occupancy	(3,096)	(909)
Office expense	40,920	44,620
Telephone	2,014	928
Depreciation of license	10,392	-
Travel	19,822	24,189
	<u>\$ 218,943</u>	<u>\$ 189,083</u>

26. Changes in Non-cash Working Capital

The changes to the Company's non-cash working capital for the three month periods ended March 31, 2020 and 2019 are as follows:

	2020	2019
Trade and other receivables, net	\$ (44,533)	\$ (120,877)
Inventory	(60,979)	(387,450)
Deposits	-	3,000
Prepaid expenses	22,804	513,230
Accounts payable and accrued liabilities	(228,694)	92,620
Contract asset	(14,715)	(20,844)
Contract liability	(16,365)	(104,000)
	<u>\$ (342,482)</u>	<u>\$ (24,321)</u>

27. Net Cash Provided by (used in) Investing Activities

The items giving rise to changes in the Company's cash flows from investing activities for the three month periods ended March 31, 2020 and 2019 are as follows:

	2020	2019
Investment in Joint Venture	\$ (100,000)	\$ -
Deferred transaction costs	-	(15,532)
Promissory notes receivable, net	-	-
Purchase of property and equipment	(2,658)	(3,694)
Cash acquired upon acquisition of CB Brands	616	-
Proceeds of disposition of marketable securities	426,584	-
Promissory note issued to Red Ace	-	(225,000)
	<u>\$ 324,542</u>	<u>\$ (244,226)</u>

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months periods ended March 31, 2020 and 2019

Expressed in United States Dollars

28. Net Cash Provided by Financing Activities

The items giving rise to changes in the Company's cash flows from financing activities for the three month periods ended March 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Proceeds from disposition of assets	\$ 100,000	\$ -
Proceeds from issuance of common shares	376,223	-
Share subscriptions payable	-	350,000
Repayment of lease liabilities	(19,658)	(24,139)
Proceeds of short-term advances	-	225,000
Share issuance costs	(19,767)	-
Convertible promissory notes payable	(10,000)	-
	<u>\$ 426,798</u>	<u>\$ 550,861</u>

29. Revenue

The Company derives revenue from the transfer of goods and services over time and at a point-in-time from the following revenue streams as follows:

Three Months Ended March 31, 2020	Point-in-time	Over time	Total
Product sales	\$ 93,801	\$ -	\$ 93,801
Licensing	920,753	102,333	1,023,086
Other	2,432	-	2,432
Gross Revenue	<u>\$ 1,016,986</u>	<u>\$ 102,333</u>	<u>\$ 1,119,319</u>
Three Months Ended March 31, 2019	Point-in-time	Over time	Total
Product sales	\$ 1,384,904	\$ -	\$ 1,384,904
Licensing	601	211,743	212,344
Other	4,116	-	4,116
Gross Revenue	<u>\$ 1,389,621</u>	<u>\$ 211,743</u>	<u>\$ 1,601,364</u>

30. Debt Settlements

During the year ended December 31, 2019, the Company entered into debt settlements with three companies to settle amounts owed to and by the Company. Pursuant to the debt settlements, the Company received aggregate payments of \$375,300 as settlement of amounts owed to the Company of \$375,300 and amounts owed by the Company of \$55,175. As such, the Company recorded a gain related to the debt settlements of \$55,175.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three months periods ended March 31, 2020 and 2019
Expressed in United States Dollars

31. Capital Management

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.

32. Commitments

- a) On April 18, 2019, 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. Subsequent to the three months ended March 31, 2020, this agreement was terminated.
- b) On July 17, 2019, the Company entered into a services agreement with a company for the provision of investor relations services in exchange for a monthly fee of CAD\$5,000 and 250,000 stock options, each of which allow the holder to acquire one Subordinate Voting Share of the Company at an exercise price of \$0.55 until July 24, 2021. The agreement can be terminated by the Company by providing 30 days notice to the consultant. Subsequent to the three months ended March 31, 2020, this agreement was terminated.
- c) On July 15, 2019, the Company entered into a services agreement with a company for the provision of investor relations services in exchange for a monthly fee of \$29,167 for an initial term of six months, which shall automatically renew for successive three-month terms thereafter until written notice of termination is provided by the Company at least fifteen days prior to the end of the term. Subsequent to the three months ended March 31, 2020, this agreement was terminated.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months periods ended March 31, 2020 and 2019

Expressed in United States Dollars

32. Commitments (continued)

- d) On September 1, 2019, the Company entered into a consulting services agreement for the provision of business development services in exchange for a guaranteed monthly fee of \$5,000. The consulting services agreement has an initial term of twenty-four months, following which it can be extended further by mutual written consent. Should the Company wish to terminate the consulting services agreement, for any reason within the twenty-four month term of the agreement, the Company shall be responsible to pay the consultant the agreed upon monthly fee of \$5,000 for the remaining period of time within the twenty-four month period. Subsequent to the three months ended March 31, 2020, this agreement was terminated.
- e) On September 15, 2019, the Company entered into a consulting services agreement for the provision of marketing services in exchange for a monthly fee of \$13,333. The consulting services agreement has an initial term of one year, following which it is automatically renewed for consecutive one year periods. Either party can terminate the consulting services agreement in whole or in part upon thirty days written notice to the other party.

33. Contingencies

- a) During the three month period ended March 31, 2020, an action for wrongful dismissal by a former officer of Bhang was filed against Bhang claiming US\$475,000, plus CAD\$250,000 for moral damages and CAD\$1,000,000 for aggravated and punitive damages, plus costs and interest and other unspecified amounts. The Company believes the damages claimed are remote and exaggerated. During the year ended December 31, 2019, Bhang terminated the former officer's employment for cause.
- b) On December 4, 2019, a putative class action was filed against Bhang Corporation in the United States District Court for the Central District of California, alleging that the class members were harmed because the labels on certain chocolate products bearing the Bhang name that were purchased during a certain time frame misrepresented the THC and CBD content of those products. On February 20, 2020, the plaintiff filed a First Amended Complaint that contained the same substantive allegations and causes of action but added the Company and other parties not related to the Company or its subsidiaries as additional defendants. The plaintiff and the putative class seek, among other things, damages, restitution, and injunctive relief. The plaintiff has not identified the amount of his or the purported class' claimed damages in the pleadings. At this early stage of the proceedings, it is difficult to assess the likelihood of the success of the plaintiff's claims and the monetary impact on the Company of such successful claim. While a successful claim by the putative class could be material to the consolidated financial statements, the Company believes that it has strong defences since neither the Company nor Bhang manufactured or distributed the products at issue during the relevant time period. As such, no amount for any potential liability has been accrued as of December 31, 2019 or March 31, 2020.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months periods ended March 31, 2020 and 2019

Expressed in United States Dollars

33. Contingencies (continued)

- c) On April 17, 2018, Bhang entered into a joint venture agreement with a Canadian corporation (the "other party") to carry out the production, marketing, distribution and sale of all Bhang-branded "Marijuana" products on an exclusive basis in Canada and a non-exclusive right to export Bhang-branded "Marijuana" products world-wide (see note 9(b)). The Board of Directors of the joint venture consists of two nominees of each party. While the other party is the manager of the joint venture, all spending programs require a proposal to the Board and unanimous approval of the Board. Pursuant to the joint venture agreement, each party is to contribute \$100,000 to the joint venture company. As at December 31, 2018 and 2019, the Company had yet to make its contribution. During the three month period ended March 31, 2020, the contribution was made by the Company.

On April 17, 2018, Bhang also entered into a subscription agreement with the other party to issue 5,000 common shares from treasury for proceeds of \$1,000,000. As the other party was a publicly listed company, it agreed to take possession of the shares after meeting certain regulatory requirements. On June 14, 2018, the Company signed a letter of agreement stating that a loan of \$1,000,000 be made by the other party to the joint venture company. The letter provides that the \$1,000,000 loan was to be used by the joint venture company to prepay for expenses to be carried out or supplied by Bhang. This letter does not mention, nor does it confirm any re-characterization of the \$1,000,000 described in note 20. The terms of the letter provide for conversion of the loan into the same number of common shares of Bhang as contemplated in the original subscription agreement for a period of six months from the date of the Transaction. During the year ended December 31, 2019, the Company received notice from the other party that the payment of \$1,000,000 described in note 20 represented an advance payment on royalties for Bhang from the joint venture company. The Company disagrees with this position and maintains the intent of the transaction was always the exchange of shares of Bhang for the payment of \$1,000,000 once the other party was able to meet its regulatory requirements to hold such shares.

Further, the Company has concerns over the management of the joint venture which includes, but is not limited to, non-approved expenses for a total amount of \$785,330 incurred on behalf of the joint venture, that occurred during the year ended December 31, 2019. As a result, the Company has not recorded any share of loss relating to the disputed amount of \$785,330. During the three months ended March 31, 2020, the joint venture had net income of \$99,600, of which the Company has not recorded any share. No legal proceedings have been commenced and the parties are in the process of discussing these issues.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months periods ended March 31, 2020 and 2019

Expressed in United States Dollars

34. Subsequent Events

- a) Subsequent to March 31, 2020, the Company issued 1,678,572 SVS to an arm's length consultant of the Company at a deemed price of CAD\$0.14 per share, in settlement of CAD\$235,000 of accounts payable for services rendered. The SVS were issued pursuant to a termination of a consulting agreement.
- b) Subsequent to March 31, 2020, the Company granted options to purchase an aggregate of 370,000 SVS of the Company to certain employees of the Company. The options are exercisable at a price of CAD. \$0.11 per share for a period of five years from the date of issuance.
- c) Subsequent to March 31, 2020, the Company granted 100,000 restricted stock units ("RSU's") of the Company to an employee of the Company. Upon issuance, 33,333 of the RSUs vested immediately, 33,333 shall vest on January 1, 2021 and 33,334 shall vest on January 1, 2022.
- d) Subsequent to March 31, 2020, the Company granted 430,000 restricted shares of the Company to certain employees of the Company which have been issued as SVS. Upon issuance, 143,333 of the restricted shares vested immediately, 143,333 shall vest on January 1, 2021 and 143,334 shall vest on January 1, 2022. A total of 180,000 of the restricted shares were granted to an executive officer of the Company.
- e) Subsequent to March 31, 2020, the Company and a lender entered into a forbearance agreement (the "Forbearance Agreement") to extend the maturity dates of two of the Company's 8% convertible promissory notes (collectively, the "Notes") until May 31, 2020. The Notes, each having a principal amount of CAD\$300,000, were initially set to mature on April 12, 2020 (the "April Note") and May 14, 2020, respectively. As an accommodation to the Company, the Lender extended the April Note until April 21, 2020. On April 21, 2020 and pursuant to the Forbearance Agreement, the Lender has extended the maturity dates of the Notes until May 31, 2020 in exchange for: (i) the Company agreeing to pay up to CAD\$20,000 of the Lender's legal fees and disbursements with respect to the Notes; (ii) the Company granting to the Lender a general security interest over all property, assets and rights of the Company, securing all amounts owing under the Notes and any additional future advances; (iii) the Company's subsidiary, Bhang Corporation, guaranteeing the indebtedness of the Company to the Lender; and (iv) the Company appointing a nominee of the Lender to the Company and its subsidiaries' board of directors.
- f) Subsequent to March 31, 2020, 217,500 stock options and 215,550 warrants expired unexercised.

Condensed Interim Consolidated Financial Statements

Bhang Inc.

For the Three and Six Month Periods ended June 30, 2020 and 2019

(Stated in United States 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

Bhang Inc.

Unaudited Condensed Interim Consolidated Statements of Financial Position
Expressed in United States Dollars

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Assets		
Current Assets		
Cash	\$ 155,095	\$ 390,655
Trade and other receivables, net (note 25(c))	652,687	437,975
Inventory (note 8)	802,822	560,595
Prepaid expenses	215,965	184,944
Contract assets	58,820	188,610
Deposits	15,515	15,515
	<u>1,900,904</u>	<u>1,778,294</u>
Marketable securities (note 10)	924,452	-
Property and equipment (note 12)	174,015	352,272
Right-of-use asset (note 14)	-	29,289
Investment in Joint Ventures (note 9)	100,000	75,288
License (note 11)	103,921	-
	<u>\$ 3,203,292</u>	<u>\$ 2,235,143</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,965,175	\$ 1,905,658
Contract liability	277,270	310,000
Lease liabilities (note 18)	14,417	45,842
Due to shareholder (note 16)	196,240	-
Promissory note - current portion (note 17)	59,327	-
Convertible promissory notes payable (note 21)	440,270	465,287
Note payable (note 15)	150,000	160,000
	<u>3,102,699</u>	<u>2,886,787</u>
Promissory Note (note 17)	91,499	-
	<u>3,194,198</u>	<u>2,886,787</u>
Shareholders' Equity (Deficiency)		
Share capital (note 22)	17,919,069	15,782,234
Contributed surplus (note 23)	1,064,933	776,664
Share subscriptions payable (note 22)	1,000,000	1,000,000
Equity portion of convertible promissory notes (note 21)	36,995	36,995
Accumulated other comprehensive loss	(93,076)	(65,903)
Accumulated deficit	(19,918,827)	(18,181,634)
	<u>9,094</u>	<u>(651,644)</u>
	<u>\$ 3,203,292</u>	<u>\$ 2,235,143</u>

Going Concern (Note 1)

Commitments (Note 34)

Contingencies (Note 35)

Subsequent Events (Note 36)

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

Approved on behalf of the Board

Signed "Stephen Gledhill", Director

Signed "Jamie Pearson", Director

Bhang Inc.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three and six months ended June 30

Expressed in United States Dollars

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Revenue				
Product sales (note 24(ii) and 31)	\$ 153,073	\$ 937,118	\$ 246,874	\$ 2,322,022
Licensing (note 24(ii))	148,978	216,344	1,172,064	428,688
Other	13,405	1,590	15,837	5,706
	<u>315,456</u>	<u>1,155,052</u>	<u>1,434,775</u>	<u>2,756,416</u>
Cost of Sales				
	<u>483,441</u>	<u>1,167,960</u>	<u>359,172</u>	<u>2,340,008</u>
Gross Profit				
	<u>(167,985)</u>	<u>(12,908)</u>	<u>1,075,603</u>	<u>416,408</u>
Expenses				
Wages and salaries (note 24(iii))	250,182	480,329	506,972	772,380
Sales and marketing	98,326	636,754	251,339	921,080
Professional fees	676,113	236,692	923,161	338,105
Publicity and investor relations	4,895	-	9,669	-
General and administrative (note 27)	130,599	140,375	349,542	329,458
Share-based compensation	103,073	-	178,351	-
Provision for (recovery of) bad debts	-	-	-	(49,495)
Gain on disposal of assets	-	-	(56,535)	-
	<u>1,263,188</u>	<u>1,494,150</u>	<u>2,162,499</u>	<u>2,311,528</u>
Income (Loss) before the Undernoted				
	(1,431,173)	(1,507,058)	(1,086,896)	(1,895,120)
Interest expense	(5,897)	(28,650)	(14,775)	(37,539)
Interest expense on lease liabilities (note 18)	(97)	(7,467)	(659)	(15,277)
Interest accretion (note 21)	(3,252)	-	(14,561)	-
Unrealized (loss) gain on marketable securities (note 10)	313,034	(249,244)	(542,200)	286,595
Realized loss on marketable securities (note 10)	-	-	(73,416)	-
Share of loss of joint venture (note 9)	-	-	-	(2,170)
Foreign exchange gain (loss)	9,105	(12,197)	(4,686)	(12,197)
	<u>(1,118,280)</u>	<u>(1,804,616)</u>	<u>(1,737,193)</u>	<u>(1,675,708)</u>
Net Income (Loss) for the period	<u>(1,118,280)</u>	<u>(1,804,616)</u>	<u>(1,737,193)</u>	<u>(1,675,708)</u>
Currency translation adjustment	(27,053)	-	(27,173)	-
Comprehensive Income (Loss) for the period	<u>\$ (1,145,333)</u>	<u>\$ (1,804,616)</u>	<u>\$ 1,764,366)</u>	<u>\$ 1,675,708)</u>
Net Income (Loss) per Share - basic and diluted				
	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Weighted Average Number of SVS and MVS				
Outstanding - basic and diluted	<u>130,580,364</u>	<u>121,944,811</u>	<u>126,262,588</u>	<u>89,058,087</u>

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

Bhang Inc.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

For the three month periods ended June 30

Expressed in United States Dollars

	SVS	Share Capital MVS	Amount	Treasury Shares	Contributed Surplus	Share Subscriptions Payable	Equity Portion of Promissory Notes	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance - January 1, 2019	32,423,958	56,634.128	\$ 7,704,130	\$ (325,000)	\$ -	\$ 1,000,000	\$ -	\$ -	\$ (3,102,449)	\$ 5,276,681
Share subscriptions received (note 22(iii))	941,958	-	350,000	-	-	-	-	-	-	350,000
Net income for the period	-	-	-	-	-	-	-	-	(1,675,708)	(1,675,708)
Balance - June 30, 2019	33,365,916	56,634.128	\$ 8,054,130	\$ (325,000)	\$ -	\$ 1,000,000	\$ -	\$ -	\$ (4,778,157)	\$ 3,950,973
Balance - January 1, 2020	51,512,502	61,377.202	\$ 15,782,234	\$ -	\$ 776,664	\$ 1,000,000	\$ 36,995	\$ (65,903)	\$ (18,181,634)	\$ (651,644)
Proceeds of private placements (note 22(ii))	3,571,428	-	270,075	-	106,148	-	-	-	-	376,223
Issued in connection with share swap (note 22(ii))	14,285,714	-	1,501,614	-	-	-	-	-	-	1,501,614
Issued to acquire additional interest in joint venture (note 22(i))	536,016	-	205,321	-	-	-	-	-	-	205,321
Issued for services rendered (notes 22(iii), (iv) and (v))	1,855,238	-	179,592	-	-	-	-	-	-	179,592
Share-based compensation (notes 22(iv) and (v) and 23)	-	-	-	-	182,121	-	-	-	-	182,121
Issuance costs	-	-	(19,767)	-	-	-	-	-	-	(19,767)
Net loss for the period	-	-	-	-	-	-	-	-	(1,737,193)	(1,737,193)
Cumulative Translation Reserve	-	-	-	-	-	-	-	(27,173)	-	(27,173)
Balance - June 30, 2020	71,760,898	61,377.202	\$ 17,919,069	\$ -	\$ 1,064,933	\$ 1,000,000	\$ 36,995	\$ (93,076)	\$ (19,918,827)	\$ 9,094

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

Bhang Inc.

Unaudited Condensed Interim Consolidated Statements of Cash Flows

For the six month periods ended June 30

Expressed in United States Dollars

	2020	2019
Cash provided by (used in)		
Operating Activities		
Net income (loss)	\$ (1,737,193)	\$ (1,675,708)
Adjustment for items included in net income (loss):		
Interest income	-	(5,674)
Interest	14,775	37,539
Interest expense on lease liabilities	659	15,277
Adjustments for non-cash items in net income (loss):		
Depreciation of property and equipment	27,044	24,243
Depreciation of right of use assets	29,289	42,349
Depreciation of license	20,784	-
Bad debt expense (recovery)	-	(49,495)
Share of loss of joint venture	-	2,170
Unrealized loss (gain) on marketable investments	542,200	(286,595)
Realized loss on disposition of marketable investments	73,416	-
Unrealized gain on foreign exchange	(13,885)	-
Share-based compensation	178,351	-
Inventory write-offs	316,065	-
Interest accretion	14,561	-
Loss (gain) on disposal of assets	(56,535)	12,197
License revenue paid in kind	(920,580)	-
	<u>(1,511,049)</u>	<u>(1,883,697)</u>
Interest paid	(659)	-
Changes in non-cash working capital items (note 28)	189,768	1,244,389
	<u>(1,321,940)</u>	<u>(639,308)</u>
Net cash used in operating activities		
Net cash provided by (used in)		
investing activities (note 29)	324,542	(902,390)
Net cash provided by financing activities (note 30)	761,838	1,373,008
Change in cash	(235,560)	(168,690)
Cash - beginning of year	390,655	490,970
Cash - end of year	<u>\$ 155,095</u>	<u>\$ 322,280</u>
Supplemental cash flow disclosure		
Common shares issued to acquire		

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

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three and six months period ended June 30, 2020 and 2019
Expressed in United States Dollars

1. Nature of Operations and Going Concern

Bhang Inc. (the "Company") is a publicly listed company incorporated in Canada amalgamated under the Business Corporations Act (Ontario). On July 11, 2019, the Company's subordinated voting shares commenced trading on the Canadian Securities Exchange (the "CSE") under the stock symbol "BHNG". Prior to trading on the CSE, the Company's shares traded on the TSX Venture Exchange under the symbol "GEM". On August 30, 2019, the Company's subordinated voting shares commenced trading on the OTCQX Best Market (the "OSC") under the stock symbol "BHNGF". The Company's previous trading symbol on the OTCQX was "GOLDF".

The registered address of the Company is located at 40 King Street West, Suite 5800, Toronto, Ontario, Canada, M5H 3S1.

These condensed interim consolidated financial statements for the three and six months ended June 30, 2020 and 2019, include the Company, its wholly-owned subsidiaries Bhang Canada Corp., and Bhang Corporation ("Bhang") and Bhang's wholly-owned subsidiaries Red Ace, LLC ("Red Ace"), CB Brands, LLC ("CB Brands"), Founding Fathers' Hemp Company ("Founding Fathers") and Euro Brand IP Holdings, LLC ("Euro Brand") collectively referred to as the "Subsidiaries".

The Company, through its partners and licensees, produces and distributes cannabis-infused products that are distributed worldwide.

Prior to completing the Transaction disclosed in note 2, the Company was 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, held a number of mineral properties, all of which were disposed of prior to completion of the Transaction.

These 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.

During the six months period ended June 30, 2020, the Company incurred a net loss of \$1,737,193 (2019 - \$1,804,616) and as of that date, the Company's accumulated deficit was \$19,918,827 (December 31, 2019 - \$18,181,634). As at June 30, 2020, the Company had a working capital deficit of \$1,201,795 (December 31, 2019 - working capital deficit of \$1,108,493). In addition, during the six months period ended June 30, 2020, the Company had negative cash flows from operations of \$1,321,940 (2019 - \$639,308). These aforementioned conditions have resulted in material uncertainties that may cast significant doubt about the Company's ability 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 generating positive cash flows from operations as well as obtaining suitable financing. The accompanying condensed interim consolidated financial statements do not reflect any adjustment that might result from the outcome of this uncertainty. 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.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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

Expressed in United States Dollars

2. Business Acquisition

The Company 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 resulted, through a series of transactions, in the acquisition of all of the equity interests of Bhang and Bhang Canada by the Company (the "Transaction"), such that, immediately following completion of the Transaction, approximately 85% of the issued and outstanding shares of the Company were owned by the former shareholders of Bhang. On May 27, 2019, the Company 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, the Company created a new class of multiple voting shares ("MVS"). Upon close of the Transaction, the Company issued, in aggregate, 44,548,651 SVS and 56,634,128 MVS to the Bhang and Bhang Canada shareholders for all of the outstanding shares of Bhang and Bhang Canada. Pursuant to the Transaction, Bhang Canada and Pele Subco were amalgamated to form Bhang Canada Corp.

The Transaction constituted a reverse takeover of the Company by the shareholders of Bhang which did not meet the definition of a business combination pursuant to IFRS 3. As such, the Transaction has been accounted for under IFRS 2, whereby the difference between the consideration given to acquire the Company and the net asset liabilities acquired of the Company is recorded as a transaction expense. Since Bhang is the deemed acquirer for accounting purposes, these financial statements present the historical information and results of Bhang.

The allocation of the consideration transferred is as follows:

4,563,976 SVS at a price of CAD\$0.50 per share	\$ 1,738,393
Net assets (liabilities) of the Company acquired	<u>(12,325)</u>
Transaction costs	<u>\$ 1,750,718</u>

The acquisition-date fair value of the consideration transferred by the Company for its interest in Bhang is based on the number of equity interests Bhang would have had to issue to give the owners of the Company 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 reflect the fair market value of Company's equity interest in Bhang accordingly.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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

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2. Business Acquisition (continued)

Prior to completion of the Transaction, Bhang Canada completed a brokered private placement of 12,693,635 subscription receipts (the "Brokered Subscription Receipts") for gross proceeds of CAD\$6,346,818 (\$4,834,934). 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 the Company; (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, representing gross proceeds of CAD\$755,500 (\$575,531), 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. 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 were immediately exchanged, without additional consideration or action, for SVS and warrants of the Company ("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. In connection with the issuance of the BCI Units, the Company 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. After the payment of various commissions and expenses related to the brokered private placement, Bhang Canada was left with net proceeds of CAD\$5,201,968 (\$3,962,800), which represents the consideration the Company received as consideration for the issuance of the Resulting Issuer Shares and Resulting Issuer Warrants and BCI Broker Warrants and the Company has used the residual method to allocate the proceeds. The net proceeds represent consideration of CAD\$0.47 per share, which is less than the deemed price per share exchanged pursuant to the Transaction. As such, the Company has allocated the entire proceeds of \$3,962,800 to the Resulting Issuer shares, with no proceeds allocated to the Resulting Issuer Warrants or BCI Broker Warrants.

The acquisition of Bhang Canada has been accounted for as an asset acquisition pursuant to IFRS 2. The equity instruments issued to acquire Bhang Canada were valued at the value of cash acquired, as no other assets or liabilities of Bhang Canada existed at the time of acquisition.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three and six months period ended June 30, 2020 and 2019
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2. Business Acquisition (continued)

The allocation of the consideration transferred is as follows:

11,182,635 SVS	\$ 3,962,800
5,591,318 Resulting Issuer Warrants (see note 20(ii))	-
431,100 Broker Warrants (see note 20(ii))	-
Net assets (liabilities) of the Bhang Canada acquired	<u>3,962,800</u>
Transaction costs	<u>\$ -</u>

In addition to the transaction costs above, the Company incurred additional transaction costs of \$2,865,060, which includes \$1,672,741 related to the fair value of common shares of Bhang issued to service providers. Therefore, a total of \$4,615,778 has been recorded as transaction costs for the year ended December 31, 2019. The balance of deferred transaction costs of \$2,119,103 as at December 31, 2018, was included in the transaction costs recognized during the year ended December 31, 2019.

3. Acquisition of Red Ace, LLC

On September 9, 2019, the Company, through Bhang, acquired all of the membership units of Red Ace, LLC ("Red Ace"), an organic beverage company. Under the terms of the purchase agreement, the former Red Ace, LLC membership unit holders received an aggregate of 4,743.074 multiple voting shares of the Company ("Bhang Shares") at a deemed fair value of \$1,414,756.

According to the agreement, a portion of the Bhang Shares have been placed in escrow and will be released pursuant to a three-year escrow schedule upon verification of certain revenue benchmarks at the end of each year. Any Bhang Shares remaining in escrow following the three-year escrow period will be returned to the Company for cancellation. As at December 31, 2019, and June 30, 2020, none of the shares have been released from Escrow.

For accounting purposes, the Company has been identified as the acquirer and Red Ace the acquired company, and this transaction has been accounted for as a business combination. As such, Red Ace's balances are accounted for at the fair value, with the balance of the purchase price in excess of the fair value of the acquired assets and liabilities of Red Ace accounted for as goodwill. Red Ace's historical share capital and retained earnings have been eliminated.

The allocation of the consideration transferred is as follows:

2,593.083 MVS at a deemed fair value of (a)	\$ 1,115,025
2,149.991 MVS to be held in escrow at a deemed fair value of (b)	71,918
Bhang promissory note receivable from Red Ace (c)	<u>227,813</u>
Fair value of purchase consideration	<u>\$ 1,414,756</u>

The amount of goodwill is calculated as follows:

Fair value of purchase consideration	\$ 1,414,756
Net assets (liabilities) of Red Ace acquired (d)	<u>(150,055)</u>
Goodwill	<u>\$ 1,564,811</u>

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three and six months period ended June 30, 2020 and 2019
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3. Acquisition of Red Ace (continued)

- (a) Immediately following the acquisition, a member of management of Red Ace assumed \$99,138 of indebtedness of Red Ace in exchange for 229.131 multiple voting shares of the Company with a deemed fair value of \$98,526. The shares were issued on the acquisition date and were considered as part of the purchase consideration pursuant to the acquisition.
- (b) In determining the fair value of the MVS to be held in escrow, the Company has estimated that the probability of the shares being released is 10%.
- (c) As at the date of the acquisition, Bhang had a loan receivable from Red Ace of \$227,813 of which, \$227,813 was settled on acquisition. The amount was determined to be part of a pre-existing relationship between the acquirer and the acquiree, and the settlement was to the advantage of the acquiree. As the purchase agreement included a reduction to the purchase price paid by Bhang as a result of the outstanding loan, the forgiveness of the loan has been accounted for as part of the consideration transferred by Bhang pursuant to the acquisition. Red Ace owed an additional \$33,906 to Bhang which was not forgiven as part of the acquisition.
- (d) The fair value of the identifiable net assets acquired as at the acquisition date are as follows:

Current Assets	
Cash	\$ 8,496
Accounts receivable	14,716
Inventory	138,719
Right-of-Use Asset	<u>10,254</u>
Total Assets Acquired	172,185
Current Liabilities	
Accounts payable	117,805
Due to Bhang	33,906
Lease liability	10,529
Long-Term Debt	<u>160,000</u>
Total Liabilities Acquired	<u>322,240</u>
Net Identifiable Assets/ (Liabilities) Acquired	<u><u>\$ (150,055)</u></u>

Following the acquisition, changes were made to the regulatory environment with respect to the use of hemp-based CBD, such that a new product line contemplated by Bhang and Red Ace was no longer feasible. As such, as at December 31, 2019, the Company determined that the goodwill was impaired and has reduced the recoverable amount to \$Nil, resulting in a loss on impairment of \$1,564,811. The entire amount of goodwill impaired as reported on the consolidated statement of loss and comprehensive loss relates to the specific cash generating unit of Red Ace.

Since the acquisition date, the revenue and net loss of the acquiree included in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2019 were \$142,384 and \$108,682 respectively. As at December 31, 2019, there were no provisional amounts for items for which the accounting is incomplete.

The Company incurred acquisition-related costs of \$3,750 which were recorded in professional fees in the consolidated statements of loss and comprehensive loss during the year ended December 31, 2019.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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

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4. Acquisition of CB Brands

During the year ended December 31, 2016, the Company and another party formed a joint venture (CB Brands) based in California 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, 2019, the Company held 500,000 of the outstanding 1,000,000 membership units. During the six months ended June 30, 2020, the Company acquired the remaining 500,000 membership units in exchange for 536,016 SVS of the Company with at a deemed fair value of \$205,321.

For accounting purposes, the Company has been identified as the acquirer and CB Brands the acquired company, and this transaction has been accounted for as a business combination. As such, CB Brands' balances are accounted for at the fair value, with any balance of the purchase price in excess of the fair value of the acquired assets and liabilities of Red Ace accounted for as goodwill. CB Brands' historical share capital and retained earnings have been eliminated.

The allocation of the consideration transferred is as follows:

536,016 SVS at a price of CAD\$0.50 per share	\$ 205,321
Bhang's existing investment in joint venture	75,288
Net assets of the CB Brands acquired (a)	<u>155,904</u>
License (b)	<u>\$ 124,705</u>

(a) The fair value of the identifiable net assets acquired as at the acquisition date are as follows:

Current Assets	
Cash	\$ 616
Accounts receivable	90,126
Inventory	<u>65,162</u>
Total Assets Acquired	<u>155,904</u>
Total Liabilities Acquired	<u>-</u>
Net Identifiable Assets Acquired	<u>\$ 155,904</u>

(b) In connection with the acquisition of the remaining 50% membership interest in CB Brands, the Company entered into a trademark license agreement pursuant to which the Company acquired a license to use intellectual property that includes trademarks and service marks of the music band professionally known as Cypress Hill, with respect to the manufacture and sale of certain cannabis-related products and cannabis-related derivatives. The license has a term of three years. The Company has allocated the excess of the purchase consideration of \$124,705 to this license and will amortize the license on a straight-line basis over its three year term (see note 11).

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
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5. Other Acquisitions

During the six month period ended June 30, 2020, the Company acquired all of the issued and outstanding shares of Founding Fathers and all of the issued and outstanding membership units of Euro Brand. The Company acquired each interest for \$100 from its former President and CEO. Each company is the owner of, or has applied for several U.S. mark registrations. For accounting purposes, the Company has been identified as the acquirer and Founding Fathers and Euro Brand the acquired companies, and these transactions have been accounted for as business combinations. Historically, the only activities of either company was applying for, and acquiring the mark registrations at the direction of Bhang, and as such, both companies did not have any other assets or liabilities at the time of acquisition with the exception of the mark registrations. The Company has expensed the \$200 paid for the companies as the amounts have been deemed to be not material.

6. Basis of Presentation

a) Statement of Compliance

The Company's unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". These unaudited consolidated interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2019, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These unaudited condensed consolidated interim financial statements were prepared following the same accounting policies used in the preparation of the Company's audited financial statements with the exception of certain amendments to accounting standards or new interpretations issued by the IASB as described in note 7. These unaudited condensed consolidated interim financial statements have not been subject to audit and were approved and authorized for issuance by the Company's Board of Directors on August 31, 2020.

b) Basis of Measurement

These unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value as described herein.

c) Functional and Presentation Currency

The functional currencies of the Company and its subsidiaries are as follows:

Bhang Inc.	Canadian Dollar
Bhang Canada Corp.	Canadian Dollar
Bhang Corporation	United States Dollar
Red Ace, LLC	United States Dollar
CB Brands, LLC	United States Dollar

The unaudited condensed financial statements of the Company are presented in U.S. dollars as that is the currency in which the Company's revenues are earned, as well as being the currency in which the majority of its expenses are incurred.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three and six months period ended June 30, 2020 and 2019
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6. Basis of Presentation (continued)

c) Functional and Presentation Currency (continued)

Transactions denominated in foreign currencies are initially recorded in the functional currency using exchange rates in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using exchange rates prevailing at the end of the reporting period. All exchange gains and losses are included in the consolidated statements of loss and comprehensive loss.

For the purpose of presenting unaudited interim consolidated financial statements, the assets and liabilities of the Company are expressed in U.S. dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive loss and reported as currency translation reserve in shareholders' equity.

d) Basis of Consolidation

The Subsidiaries are controlled by the Company, as the Company is exposed, or has rights, to variable returns from its involvement with the Subsidiaries and has the ability to affect those returns through its power over the Subsidiaries by way of its ownership of all of the issued and outstanding common shares. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date control ceases. All inter-company balances and transactions have been eliminated upon consolidation. As the Transaction constituted a reverse takeover transaction, the comparative figures in the unaudited condensed consolidated financial statements reflect the results of operations and the assets, liabilities and shareholders' equity of Bhang.

e) Estimation Uncertainty due to COVID-19

During the period ended June 30, 2020, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the federal, state, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders in Canada and the United States. Government measures imposed to limit the spread of COVID-19 did not have a material impact on the Company's operations during the period ended June 30, 2020, and the Company has not observed any material impairments, or significant changes in the fair value of its assets as a result of COVID-19.

At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put in place by Canada, the United States and other countries to fight the virus. While the extent of the impact is unknown, we anticipate this outbreak may cause reduced customer demand, supply chain disruptions, staff shortages, and increased government regulations, all of which may negatively impact the Company's business and financial condition.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
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7. Significant Accounting Policies

These unaudited condensed consolidated interim 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 December 31, 2019 as described in note 5 of those financial statements, with the exception of certain amendments to accounting standards or new interpretations issued by the IASB with are applicable for annual periods beginning on or after January 1, 2020.

Changes in accounting standards effective January 1, 2020:

IFRS 3 - Business Combinations

In October 2018, new amendments to IFRS 3 were issued to provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The adoption of this amendment did not have an impact on the condensed interim consolidated financial statements.

IAS 1 - Presentation of Financial Statements

In October 2018, new amendments to IAS 1 were issued to provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications. The adoption of this amendment did not have an impact on the condensed interim consolidated financial statements.

8. Inventory

As of June 30, 2020, and December 31, 2019, the Company's inventory included the following:

	June 30, 2020	December 31, 2019
Finished goods for resale	\$ 449,904	\$ 392,222
Raw materials	1,189,483	724,273
Obsolescence provision	(836,565)	(555,900)
	<u>\$ 802,822</u>	<u>\$ 560,595</u>

As at June 30, 2020, inventory includes inventory acquired pursuant to the acquisition of CB Brands, which consists of raw materials of \$65,162. The cost of inventories, net of a credit memo issued by a vendor, included as an expense and included in cost of goods sold, for the six month period ended June 30, 2020 was \$644,521 (2019 - \$2,275,335) which includes a write-off of inventory in the amount of \$316,065. During the period ended June 30, 2020, the Company incurred a recovery of \$250,000 related to a credit memo issued by a vendor for goods that had been written off in a prior period (December 31, 2019 - \$Nil). This recovery is presented as part of cost of goods sold.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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Expressed in United States Dollars

9. Investment in Joint Ventures

- (a) During the year ended December 31, 2016, the Company and another party formed a joint venture based in California 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 June 30, 2020 and December 31, 2019, the Company held 500,000 of the outstanding 1,000,000 membership units. During the period ended June 30, 2020, the Company acquired the remaining 500,000 membership units (see note 4). Movement in the Company's capital account for the period ended June 30, 2020 and year ended December 31, 2019 is as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Capital - beginning of period	\$ 75,288	\$ 158,647
Capital contributions (return of capital)	-	(1,821)
Share of net loss	-	(81,538)
Derecognition of investment in joint venture	(75,288)	-
Capital - end of period	<u>\$ -</u>	<u>\$ 75,288</u>

Presented below is the net loss and comprehensive loss of CB Brands LLC, for the six months period ended June 30, 2020 and 2019.

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Net loss and comprehensive loss	\$ -	\$ (4,339)

- b) On April 17, 2018, Bhang entered into a joint venture agreement with a Canadian corporation (the "other party") to carry out the production, marketing, distribution and sale of all Bhang-branded "Marijuana" products on an exclusive basis in Canada and a non-exclusive right to export Bhang-branded "Marijuana" products world-wide. The Board of Directors of the joint venture consists of two nominees of each party. While the other party is the manager of the joint venture, all spending programs require a proposal to the Board and unanimous approval of the Board. Pursuant to the joint venture agreement, each party is to contribute \$100,000 to the joint venture company. As at December 31, 2018 and 2019, the Company had yet to make its contribution. During the period ended June 30, 2020, the contribution was made by the Company.

The Company has concerns over the management of the joint venture which includes, but is not limited to, non-approved expenses for a total amount of \$785,330 incurred on behalf of the joint venture, that occurred during the year ended December 31, 2019. As a result, the Company has not recorded any share of loss relating to the disputed amount of \$785,330. During the six months ended June 30, 2020, the joint venture had net income of \$99,600, of which the Company has not recorded any share.

See note 35(c) for further discussion related to this joint venture.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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10. 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. The Company has recorded an unrealized loss on the shares in the amount of \$85,055 for the year ended December 31, 2019 (2018 - unrealized gain of \$85,055). During the year ended December 31, 2019, the Company disposed of all of the shares for proceeds of \$726,088 resulting in a gain on disposition of \$220,506.

During the six months ended June 30, 2020, the Company entered into a termination agreement with a licensee pursuant to which, the Company received common stock of the other Company with a fair value of \$500,000. During the six months ended June 30, 2020, the Company disposed of these shares for proceeds of \$426,584 resulting in a realized loss on disposition of \$73,416.

During the six months ended June 30, 2020, the Company acquired 3,149,607 common shares of Cannabis Growth Opportunities Corporation in exchange for 14,285,714 SVS of the Company. The transaction occurred at a value of CAD\$2,000,000 (\$1,501,614). As part of the Share Swap, each of the investor and Company have signed a voting and resale agreement providing that each party will be required to vote the shares acquired under the Share Swap as recommended by the other party and will be restricted from trading the shares for a period of 18 months. The movement in the carrying value of the Company's investment during the period ended June 30, 2020 is as follows:

	<u>Cost</u>	<u>Fair value</u>
Balance - January 1, 2020	\$ -	\$ -
Shares acquired during the period	1,501,614	1,501,614
Unrealized loss during the period	-	(542,200)
Effects of foreign exchange	-	(34,962)
Balance - June 30, 2020	<u>\$ 1,501,614</u>	<u>\$ 924,452</u>

11. License

In connection with the acquisition of the remaining 50% membership interest in CB Brands as discussed in note 5, the Company and Cypress Hill Musik entered into a trademark license agreement. Under the terms of the trademark license agreement, Cypress Hill Musik will continue to license the rights to the Cypress Hill name on all Cypress Hill branded products sold by CHB for a royalty in an amount equal to 2.5% of gross sales for a period of three years. Following the three year term, the trademark license agreement shall terminate unless renewed by the parties prior to the end of the term.

The Company has estimate the fair value of the license to be \$124,705, which is the excess of the fair value of the consideration transferred by the Company, and the fair value of the net assets of CB Brands acquired. The Company will depreciate the value of the license on a straight-line basis over the term of the trademark license agreement.

The movement in the carrying value of the license investment during the period ended June 30, 2020 is as follows:

Balance, January 1, 2020	\$ -
Acquired during the period	124,705
Depreciation for the period	(20,784)
Balance June 30, 2020	<u>\$ 103,921</u>

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
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12. Property and Equipment

	Computer Equipment	Office Furniture and Equipment	Trade Equipment	Leasehold Improvements	Total
Cost					
Balance - January 1, 2019	\$ 8,926	\$ 37,705	\$ 232,008	\$ 5,174	\$ 283,813
Additions	711	8,217	239,813	-	248,741
Disposals	-	(11,245)	-	-	(11,245)
Balance - December 31, 2019	9,637	34,677	471,821	5,174	521,309
Additions	-	2,658	59,594	-	62,252
Disposals	-	-	(239,812)	-	(239,812)
Balance - June 30, 2020	<u>\$ 9,637</u>	<u>\$ 37,335</u>	<u>\$ 291,603</u>	<u>\$ 5,174</u>	<u>\$ 343,749</u>
Accumulated Depreciation					
Balance - January 1, 2019	\$ 823	\$ 2,976	\$ 92,664	\$ 5,174	\$ 113,513
Depreciation for the year	3,210	8,487	58,548	-	70,245
Disposals	-	(2,845)	-	-	(2,845)
Balance - December 31, 2019	4,033	8,618	151,212	5,174	169,037
Depreciation for the period	1,606	3,714	21,724	-	27,044
Disposals	-	-	(26,347)	-	(26,347)
Balance - June 30, 2020	<u>\$ 5,639</u>	<u>\$ 12,332</u>	<u>\$ 146,589</u>	<u>\$ 5,174</u>	<u>\$ 169,734</u>
Net Book Value					
As at December 31, 2019	<u>\$ 5,604</u>	<u>\$ 26,059</u>	<u>\$ 320,609</u>	<u>\$ -</u>	<u>\$ 352,272</u>
As at June 30, 2020	<u>\$ 3,998</u>	<u>\$ 25,003</u>	<u>\$ 145,014</u>	<u>\$ -</u>	<u>\$ 174,015</u>

Bhang Inc.

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13. Promissory Notes Receivable

- a) During the year ended December 31, 2019, the Company advanced \$225,000 to Red Ace in exchange for a promissory note. The promissory note bore 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 was 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. During the year ended December 31, 2019, the Company recorded interest income of \$2,813, prior to the acquisition of Red Ace, resulting in an aggregate balance owing from Red Ace of \$227,813 as at the time of the Red Ace acquisition disclosed in note 3. As the purchase agreement disclosed in note 3 included a reduction to the purchase price paid by the Company as a result of the outstanding loan, the forgiveness of the loan by the Company has been accounted for as part of the consideration transferred by the Company pursuant to the acquisition.
- b) During the year ended December 31, 2019, the Company advanced \$100,000 in exchange for a promissory note. The promissory note bore interest at a rate of 10% per annum, with the interest and principal due and payable on June 15, 2019. If any amount payable pursuant to the promissory note is not paid as of the maturity date of June 15, 2019, such overdue amount shall bear interest at a rate of 10% per annum, or the maximum amount permitted to be charged under applicable law from June 15, 2019 until such amount is paid in full. During the year ended December 31, 2019, the Company recorded interest income of \$1,667. During year ended December 31, 2019, the Company received a repayment of \$27,500. As at December 31, 2019, the Company deemed the outstanding principal and accrued interest owing to be uncollectible and recognized an impairment loss of \$74,167 that is included in bad debt expense for the year ended December 31, 2019.

14. Right-of-Use Assets

In connection with the adoption of IFRS 16 during the year-ended December 31, 2019, the Company has recognized a right-of-use asset for its office premises with a corresponding lease liability (see note 18) which are initially measured at the present value of the future lease payments. In accordance with IFRS 16, the Company then recognizes depreciation of right-of-use assets and interest expense on lease liabilities in the statements of loss and comprehensive loss. In connection with the acquisition of Red Ace, the Company acquired a right-of-use asset for its office and warehouse premises. The Company recognized the fair value of the right-of-use asset and a corresponding lease liability (see note 18) upon acquisition of Red Ace (see note 3).

	Land and Buildings
Balance, January 1, 2019	\$ -
Adoption of IFRS 16	283,852
Adjustment due to revised lease term (a)	(175,725)
Acquired in connection with acquisition of Red Ace	10,254
Total additions	118,381
Depreciation for the year (b)	(89,092)
Balance December 31, 2019	29,289
Depreciation for the period	(29,289)
Balance June 30, 2020	\$ -

Bhang Inc.

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14. Right-of-Use Assets (continued)

- (a) Subsequent to the adoption of IFRS 16, the Company determined that the renewal option of two of its leases would not be exercised.
- (b) Included in cost of sales for the year ended December 31, 2019, is \$56,547 related to the depreciation of the Company's right-of-use assets. The Company did not include any depreciation of its right-of-use assets in cost of sales for the six months ended June 30, 2020.

15. Note Payable

During the year ended December 31, 2016, Red Ace issued a note payable in the amount of \$160,000. The note was non-interest bearing and repayable on or before October 22, 2016. During the six months period ended June 30, 2020 the Company repaid \$10,000 of the outstanding balance.

16. Due to Shareholder

During the period ended June 30, 2020, the Company received advances from one of its shareholders in the amount of \$196,240 (CAD\$267,435). These amounts are non-interest bearing and payable on demand. Subsequent to June 30, 2020, the Company and the shareholder formalized the terms of the debt by way of an operating facility of up to CAD\$1,000,000 for working capital purposes. All outstanding advances are repayable on demand, but have a maximum term of 36 months from the date of the agreement. All advances bear interest at a rate of 8% per annum, with interest payable monthly in arrears due on the first business day of each month. At the option of the lender, any interest or outstanding principal may be converted to listed shares of the Company at a price of \$0.15 per share. In connection with the credit facility, the Company issued warrants to purchase 6,666,667 SVS of the Company at an exercise price of CAD\$0.15 per share for a period of 24 months.

17. Promissory Note

During the period ended June 30, 2020, the Company borrowed \$150,567 pursuant to a promissory note. The promissory note matures on May 1, 2022, carries interest at a rate of 1% per annum and is repayable by 18 monthly payments of \$8,475 with the first payment due December 1, 2020.

The movement in the carrying value of the promissory note during the period ended June 30, 2020 is as follows:

Balance - January 1, 2020	\$ -
Borrowed during the period	150,567
Accrued interest	259
Less: current portion	<u>(59,327)</u>
Balance - June 30, 2020	<u>\$ 91,499</u>

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18. Lease Liabilities

In connection with the adoption of IFRS 16 during the year-ended December 31, 2019, the Company has recognized a right-of-use asset (see note 14) for its office premises with a corresponding lease liability which are initially measured at the present value of the future lease payments. In accordance with IFRS 16, the Company then recognizes depreciation of right-of-use assets and interest expense on lease liabilities in the consolidated statements of loss and comprehensive loss.

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 13% which represents the Company's current borrowing rate. Prior to the adoption of IFRS 16, these leases were accounted for as operating leases.

At the time of the acquisition of Red Ace, Red Ace had an existing lease liability related to its lease for office and warehouse space. The present value of the future lease payments was calculated at the commencement of the lease on May 1, 2019 using a discount rate of 13% which represented its current borrowing rate.

Changes to the Company's lease liabilities for the period ended June 30, 2020 are as follows:

	Land and Buildings
Balance, January 1, 2019	\$ -
Adoption of IFRS 16	283,852
Adjustment due to revised lease term (a)	(175,725)
Acquired pursuant to acquisition of Red Ace (note 3)	10,529
Interest expense	28,836
Lease payments	(101,650)
Balance December 31, 2019	45,842
Interest expense	562
Lease payments	(31,987)
Less: current portion	(14,417)
Balance June 30, 2020	\$ -

(a) Subsequent to the adoption of IFRS 16, the Company determined that the renewal option of two of its leases would not be exercised.

19. Short-Term Advances

During the year ended December 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 were payable on May 20, 2019. During the year ended December 31, 2019, the principal was paid in full. As at June 30, 2020, accounts payable and accrued interest included \$10,000 related to the unpaid balloon interest payment.

During the year ended December 31, 2019, the Company borrowed \$112,500 pursuant to a loan agreement. The outstanding principal and a balloon interest payment of \$10,000 were payable on May 22, 2019. During the year ended December 31, 2019, the principal was paid in full. As at June 30, 2020, accounts payable and accrued interest included \$10,000 related to the unpaid balloon interest payment.

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20. Promissory Notes Payable

- a) During the year ended December 31, 2019, 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. During the year ended December 31, 2019, the principal and accrued interest were paid in full.
- b) During the year ended December 31, 2019, 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 July 18, 2019. If any amount payable pursuant to the promissory note is unpaid as of July 18, 2019, such overdue amount shall bear interest at a rate of 8% per annum from the July 18, 2019 until such amount is paid in full. If any amount payable pursuant to the promissory note is unpaid as of the maturity date of August 17, 2019, the Company is to pay a late fee of \$10,000. As at December 31, 2019, the principal and accrued interest were paid in full.
- c) During the year ended December 31, 2019, the Company issued a promissory note in the aggregate principal amount of \$350,000 with an additional fee of \$17,500. The aggregate amount of \$367,500 is non-interest bearing until 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. As at December 31, 2019, the principal and accrued interest were paid in full.
- d) During the year ended December 31, 2019, the Company issued a promissory note in the aggregate principal amount of \$150,000 with an additional fee of \$7,500. The aggregate amount of \$157,500 is non-interest bearing until 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. As at December 31, 2019, the principal and accrued interest were paid in full.

Bhang Inc.

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21. Convertible Promissory Notes Payable

During the year ended December 31, 2019, Bhang issued a promissory note to a shareholder in the principal amount of CAD\$300,000 (\$224,200) bearing interest at a rate of 8% per annum. The outstanding principal and interest are payable April 12, 2020. During the year ended December 31, 2019, Bhang issued a second promissory note to this shareholder in the principal amount of CAD\$300,000 (\$222,074) bearing interest at a rate of 8% per annum. The outstanding principal and interest were payable May 14, 2020.

Upon close of the Transaction, these promissory notes were replaced with new promissory notes issued by the Company (the "Exchanged Notes") bearing the same interest rate and maturity dates, that were convertible into common shares of the Company, at the option of the holder, at a price of CAD\$0.50 per share. However, the Company shall have the option to accelerate the conversion of the Exchanged Notes in the event that the volume weighted average price of the listed shares of the Company on the CSE is equal to or greater than CAD\$1.00 per share over a period of ten consecutive trading days.

The Exchanged Notes are considered to be compound instruments comprising a liability and a conversion feature. As a result the liability and equity components have been presented separately. The initial carrying value of the liability was calculated by discounting the future payments of interest and principal using a market interest rate of 20%. Using the residual method, the carrying value of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability, and will be recorded in a separate account within shareholders' deficiency on the consolidated statement of financial position.

During the six months period ended June 30, 2020, the Company and a lender entered into a forbearance agreement (the "Forbearance Agreement") to extend the maturity dates of the convertible promissory notes payable until May 31, 2020. The convertible promissory notes payable were initially set to mature on April 12, 2020 (the "April Note") and May 14, 2020 (the "May Note"). As an accommodation to the Company, the lender extended the April Note until April 21, 2020. On April 21, 2020 and pursuant to the Forbearance Agreement, the Lender extended the maturity dates of the Notes until May 31, 2020 in exchange for: (i) the Company agreeing to pay up to CAD\$20,000 of the Lender's legal fees and disbursements with respect to the Notes; (ii) the Company granting to the Lender a general security interest over all property, assets and rights of the Company, securing all amounts owing under the Notes and any additional future advances; (iii) Bhang Corporation guaranteeing the indebtedness of the Company to the Lender; and (iv) the Company appointing a nominee of the Lender to the Company and its subsidiaries' board of directors.

Bhang Inc.

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21. Convertible Promissory Notes Payable (continued)

Transactions related to the Exchanged Notes during the period ended June 30, 2020, include the following:

	<u>Carrying amount</u>
Balance - January 1, 2019	\$ -
Issued by Bhang	224,200
Issued by Bhang	222,074
Cancelled upon issuance of Exchanged Notes	(446,274)
Issuance of Exchange Notes	457,043
Fair value of conversion option	(36,995)
Interest accretion	40,037
Effects of foreign exchange	<u>5,202</u>
Balance - December 31, 2019	465,287
Interest accretion	14,561
Effects of foreign exchange	<u>(39,578)</u>
Balance - June 30, 2020	440,270
Less: current portion	<u>440,270</u>
Balance - net of current portion	<u><u>\$ -</u></u>

Subsequent to June 30, 2020, (the "Settlement Agreement"), the Company and the lender settled the two convertible promissory notes by the Company issuing to the lender a total of 6,666,667 SVS, at a deemed price of CAD\$0.09 per share. Furthermore, the lender has settled and released all other rights and remedies available under its Forbearance Agreement and prior financings in exchange for a lump sum payment of \$1,152,857 which was satisfied by the Company with (i) the issuance of 12,809,524 shares, at a deemed price of \$0.09 per share, and (ii) the issuance of warrants for the purchase of 5,261,905 Shares, exercisable for a period of 24 months from the date of issuance at an exercise price of \$0.15 per share.

Bhang Inc.

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22. Share Capital

The Company is authorized to issue an unlimited number of Subordinate Voting Shares ("SVS") without nominal or par value and an unlimited number of Multiple Voting Shares ("MVS") without nominal or par value. Bhang is authorized to issue up to 200,000 common shares with a par value of \$0.01 per share.

During the six months ended June 30, 2020, the following share transactions occurred:

- i) The Company issued 536,016 SVS of the Company with at a deemed fair value of \$205,321 to acquire the remaining 500,000 membership units of CB Brands as discussed in note 4.
- ii) The Company and an investor reached an agreement to invest up to \$1,300,000 CAD in a non-brokered private placement offering of units with each unit comprising of one SVS in the capital of the Company and one share purchase warrant. Each warrant is exercisable into one SVS at a price equal to a 25% premium to the unit price for a period of 24 months. The Company has the right to accelerate the expiry of the warrants to thirty (30) days following written notice to the holder if the SVS close at or above CAD\$0.25 per share for a period of ten (10) consecutive trading days on the Canadian Securities Exchange.

The first tranche of the offering for gross proceeds of approximately \$500,000 CAD was completed on February 10, 2020 with 3,571,428 Units being issued by the Company at a price of \$0.14 CAD per Unit. Of the proceeds of \$376,223, \$106,148 was allocated to warrants (see note 21).

The Units expected to be sold under the second tranche for gross proceeds of approximately \$500,000 CAD will be at a price per Unit equal to the 20-day volume weighted average price ("VWAP") of the SVS calculated as of the last closing price prior to the closing of the second tranche. The Units expected to be sold under the third tranche for gross proceeds of approximately \$500,000 CAD will be at a price per Unit equal to the 20-day VWAP calculated as of the last closing price prior to the closing of the third tranche. It is expected that the second and third tranches of the Offering will be completed in the next 30 days upon meeting the conditions in the subscription agreement involving the sale of certain Bhang products.

In addition, the investor and the Company have entered into subscription agreements to exchange approximately \$2,000,000 CAD worth of each other's shares (the "Share Swap"). Under the terms of the Share-Swap, The Company received 3,149,606 common shares of the investor at a deemed price of \$0.635 per share (see note 10), and the investor received 14,285,714 SVS of the Company at a deemed price of \$0.14 per share. As part of the Share Swap, each of the investor and Company have signed a voting and resale agreement providing that each party will be required to vote the shares acquired under the Share Swap as recommended by the other party and will be restricted from trading the shares for a period of 18 months.

- iii) The Company issued 1,678,572 SVS of the Company to an arm' length consultant at a deemed price of CAD\$0.14 per share, in settlement of CAD\$235,000 (\$165,458) of accounts payable for services rendered. The shares were issued pursuant to a termination of a consulting agreement.

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22. Share Capital (continued)

- iv) The Company granted 100,000 restricted stock units ("RSU's") of the Company to an employee of the Company. Upon issuance, 33,333 of the RSUs vested immediately, 33,333 shall vest on January 1, 2021 and 33,334 shall vest on January 1, 2022. During the period ended June 30, 2020, the Company recognized share-based compensation of \$2,667 with respect to the 33,333 SVS that vested during the period and were issued during the period ended June 30, 2020, and share-based compensation of \$1,048 for the remaining 66,667 RSUs that have yet to vest.
- v) The Company granted 430,000 restricted stock units ("RSU's") of the Company to an employee of the Company. Upon issuance, 143,333 of the RSUs vested immediately, 143,333 shall vest on January 1, 2021 and 143,334 shall vest on January 1, 2022. During the period ended June 30, 2020, the Company recognized share-based compensation of \$11,467 with respect to the 143,333 SVS that vested during the period and were issued during the period ended June 30, 2020, and share-based compensation of \$4,506 for the remaining 286,667 RSUs that have yet to vest.

During the year ended December 31, 2019, the following share transactions occurred:

- iii) Bhang received proceeds of \$350,000 for the subscription of 941,958 SVS of the Company.
- iv) In connection with the Transaction disclosed in note 2, Bhang Canada, completed a brokered private placement of 12,693,635 subscription receipts (the "Brokered Subscription Receipts") for gross proceeds of CAD\$6,346,818 (\$4,834,934). 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, representing gross proceeds of CAD\$755,500 (\$575,531), 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"). 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 were immediately exchanged, without additional consideration or action, for SVS and warrants of the Company ("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. The fair value of the 11,182,635 Resulting Issuer Shares was determined to be \$3,962,800 based on the consideration received from Bhang Canada upon close of the Transaction.

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22. Share Capital (continued)

- v) The Company received proceeds of \$80,900 related to the exercise of 215,550 broker warrants. Pursuant to the exercise of the warrants, the Company issued one unit containing one SVS and one half of one SVS purchase warrant (the "SVS warrant") Each SVS warrant entitles the holder to acquire one SVS at an exercise price of CAD\$0.65 per share for a period of 24 months.
- vi) The Company issued 684,325 SVS with an estimated fair value of \$143,829 to vendors as settlement of outstanding accounts payable. The fair value was determined using the market price of the shares on the date of issuance. A total loss on settlement of payables of \$12,829 was incurred in 2019 regarding these transactions.
- vii) The Company issued 1,500,000 SVS with an estimated fair value of \$630,000 to various consultants for services rendered. The fair value was determined using the market price of the shares on the date of issuance because the fair value of the services could not be reliably estimated.
- viii) The Company issued 4,743,074 MVS in connection with the acquisition of Red Ace as disclosed in note 3. Of these shares, 2,149,991 MVS are to be held in escrow to be released upon Red Ace meeting specified revenue benchmarks, or at the discretion of the Company should the revenue benchmarks not be met.
- ix) Upon close of the Transaction, Bhang Corporation cancelled the 5,000 held in treasury.

During the year ended December 31, 2018, Bhang entered into a subscription agreement to issue 5,000 common shares from treasury for proceeds of \$1,000,000. The nature of such \$1,000,000 is currently in dispute. Refer to note 35(c).

23. Stock Options and Warrants

(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. There were no stock options granted in the previous year.

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23. Stock Options and Warrants (continued)

The following summarizes the stock option activities:

	Number of Options	Weighted Average Exercise Price (\$CAD)
Balance, January 1, 2019	-	\$ -
Issued pursuant to the Transaction	44,130	0.50
Granted	10,207,500	0.52
Forfeited	(3,622,000)	(0.52)
Balance, December 31, 2019	6,629,630	0.64
Granted	370,000	0.11
Balance, June 30, 2020	<u>6,999,630</u>	<u>\$ 0.51</u>

(i) Stock Options (continued)

The Company had the following stock options outstanding at June 30, 2020:

Number of Options	Exercisable	Exercise Price (\$CAD)	Remaining Contractual Life (Years)	Expiry Date
12,130	12,130	\$ 0.50	0.50	December 31, 2020
217,500	217,500	\$ 0.52	0.03	July 11, 2020
250,000	250,000	\$ 0.55	1.07	July 24, 2021
1,870,000	206,250	\$ 0.52	2.03	July 11, 2022
30,000	-	\$ 0.52	3.03	July 11, 2023
4,250,000	2,250,000	\$ 0.52	4.03	July 11, 2024
370,000	123,333	\$ 0.52	4.03	April 21, 2025
<u>6,999,630</u>	<u>3,059,213</u>	<u>\$ 0.51</u>	<u>3.29</u>	

Bhang Inc.

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23. Stock Options and Warrants (continued)

During the period ended June 30, 2020, the Company:

- i) Granted 370,000 stock options to certain employees. Each option allows the holder to purchase one SVS of the Company at an exercise price of CAD\$0.11 per unit for a period of five years. Of these options, 123,000 vest on the initial grant date, 123,333 vest on January 1, 2021 and 123,334 vest on January 1, 2022.

The fair value of the options of CAD\$30,192 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	0.38%
Forfeiture rate	0%
Expected life	5 years
Expected volatility	101%*

* Volatility was estimated using companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public.

During the year ended December 31, 2019, the Company:

- i) Granted 222,500 stock options to certain officers, employees and consultants. Each option vests immediately and allows the holder to purchase one SVS of the Company at an exercise price of CAD\$0.52 per unit for a period of 12 months.

The fair value of the options of CAD\$44,497 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	1.650%
Forfeiture rate	0%
Expected life	1 years
Expected volatility	101%*

* Volatility was estimated using companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public.

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23. Stock Options and Warrants (continued)

- ii) Granted 250,000 stock options to consultants to provide investor relations services on behalf of the Company. Each option vest immediately and allows the holder to purchase one SVS of the Company at an exercise price of CAD\$0.55 per unit for a period of 24 months.

The fair value of the options of CAD\$50,743 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	1.650%
Forfeiture rate	0%
Expected life	2 years
Expected volatility	101%*

* Volatility was estimated using companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public.

- iii) Granted 1,885,000 stock options to certain officers, employees and consultants. Each option allows the holder to purchase one SVS of the Company at an exercise price of CAD\$0.52 per unit for a period of 36 months. Of these options, 206,250 vest immediately, 839,375 vest on the 12 month anniversary of the initial grant date and 839,375 vest on the 24 month anniversary of the initial grant date.

The fair value of the options of CAD\$613,522 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	1.650%
Forfeiture rate	0%
Expected life	3 years
Expected volatility	101%*

* Volatility was estimated using companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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23. Stock Options and Warrants (continued)

- iv) Granted 75,000 stock options to certain officers, employees and consultants. Each option allows the holder to purchase one SVS of the Company at an exercise price of CAD\$0.52 per unit for a period of 48 months. Of these options, 25,000 vest on the 12 month anniversary of the initial grant date, 25,000 vest on the 24 month anniversary of the initial grant date and 25,000 vest on the 36 month anniversary of the initial grant date.

The fair value of the options of CAD\$27,175 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	1.650%
Forfeiture rate	0%
Expected life	4 years
Expected volatility	101%*

* Volatility was estimated using companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public.

- v) Granted 7,775,000 stock options to certain officers, employees and consultants. Each option allows the holder to purchase one SVS of the Company at an exercise price of CAD\$0.52 per unit for a period of 60 months. Of these options, 2,250,000 vest immediately, 1,943,750 vest on the 12 month anniversary of the initial grant date, 1,943,750 vest on the 24 month anniversary of the initial grant date, 818,750 vest on the 36 month anniversary of the initial grant date and 818,750 vest on the 48 month anniversary of the initial grant date. During the year ended December 31, 2019, a total of 3,622,000 options were forfeited due to terminations and resignation that resulted into the non-completion of vesting conditions.

The fair value of the options of CAD\$2,126,618 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	1.650%
Forfeiture rate	30%
Expected life	5 years
Expected volatility	101%*

* Volatility was estimated using companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public.

Bhang Inc.

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23. Stock Options and Warrants (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 stock option activities:

	Number of Warrants	Weighted Average Exercise Price (\$CAD)
Balance, January 1, 2019	-	\$ -
Issued pursuant to subscription receipts(i)	5,591,316	\$ 0.65
Issued to brokers in connection with subscription receipts (ii)	431,100	0.50
Agent warrants exercised (iii)	(215,550)	(0.50)
Issued upon exercise of broker warrants (iii)	107,775	0.65
Balance, December 31, 2019	5,914,641	\$ 0.64
Issued pursuant to private placement	3,571,428	0.175
Balance, June 30, 2020	<u>9,486,069</u>	<u>\$ 0.47</u>

During the six months ended June 30, 2020, the Company:

Issued 3,571,428 warrants as disclosed in note 20(ii). Each warrant allows the holder to purchase one common share of the Company at an exercise price of CAD\$0.175 per unit for a period of 24 months.

The fair value of the warrants of \$106,148 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	1.630%
Expected life	2 years
Expected volatility	101%*

* Volatility was estimated using companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public.

Bhang Inc.

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23. Stock Options and Warrants (continued)

(ii) Warrants (continued)

During the year ended December 31, 2019, the Company:

- i) Issued 5,591,316 Resulting Issuer Warrants as disclosed in note 22(iv). Each warrant allows the holder to purchase one common share of the Company at an exercise price of CAD\$0.65 per unit for a period of 24 months. Using the residual method to allocate the proceeds received from Bhang Canada pursuant to the Transaction, the fair value of the Resulting Issuer Warrants is \$Nil.
- ii) In connection with the issuance of the BCI Units disclosed in note 22(iv), Bhang Canada 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\$0.50 per BCI Unit until July 9, 2020. Each BCI Unit contains one SVS and one half of one subordinated share purchase warrant (the "SVS warrant") Each SVS warrant entitles the holder to acquire one subordinated voting share at an exercise price of CAD\$0.65 per share until July 9, 2021. Upon close of the Transaction, the BCI Broker Warrants were exchanged for similar securities of the Company. Using the residual method to allocate the proceeds received from Bhang Canada pursuant to the Transaction, the fair value of the BCI Broker Warrants is \$Nil.
- iii) During the year ended December 31, 2019, the Company received proceeds of \$80,900 related to the exercise of 215,550 broker warrants as disclosed in note 20(v). Pursuant to the exercise of the warrants, the Company issued one unit containing one SVS and one half of one SVS warrant. Each SVS warrant entitles the holder to acquire one subordinated voting share at an exercise price of CAD\$0.65 per share for a period of 24 months.

The fair value of the 107,775 SVS Warrants of \$14,149 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	1.650%
Forfeiture rate	0%
Expected life	2 years
Expected volatility	101%*

* Volatility was estimated using companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public.

The Company had the following warrants outstanding at June 30, 2020:

Number of Warrants	Exercisable	Exercise Price (\$CAD)	Remaining Contractual Life (Years)	Expiry Date
5,699,091	5,699,091	\$ 0.65	1.02	July 9, 2021
215,550	215,550	\$ 0.50	0.02	July 9, 2020
3,571,458	3,571,458	\$ 0.18	1.60	February 5, 2022
9,486,099	9,486,099	\$ 0.47	1.22	

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24. Related Party Transactions

During the six months period ended June 30, 2020 and 2019, the Company incurred the following related party transactions:

- i) The Company paid consulting fees of \$Nil (2019 - \$30,000) to a company in which a shareholder, and former director and officer, of the Company is a director, officer and shareholder. As at June 30, 2020, accounts payable and accrued liabilities included \$30,000 (December 31, 2019 - \$30,000) owed to this company. During the year ended December 31, 2019, the Company accrued interest expense of \$10,000 on a promissory note issued by the director, officer and shareholder, all of which is included in accounts payable and accrued liabilities at December 31, 2019 and June 30, 2020. Included in share-based compensation for the six months ended June 30, 2020 is \$9,924 (2019 - \$Nil) related to the continued vesting of stock options granted to one of this company.
- ii) Licensing and product sales revenue of \$46,689 (2019 - \$31,419) was recognized on sales to a company controlled by the sibling of the Company's former President and CEO. As at June 30, 2020, accounts receivable included \$114,856 (December 31, 2019 - \$124,704) owing from this company. Included in the Company's expected credit losses for the six months ended June 30, 2020 is \$Nil (year ended December 31, 2019 - \$69,124) related to amounts owing from this company. As at June 30, 2020, accounts payable and accrued liabilities included \$Nil (December 31, 2019 - \$29,316) owed to this company.
- iii) Key Management Personnel consists of the former President and CEO, the former interim President the current President, CEO and COO, and the CFO. The compensation paid or payable to key management for the six months ended June 30, 2020 includes salaries of \$116,584 (2019 - \$120,000) and professional fees of \$15,000. Included in share-based compensation for the six months ended June 30, 2020 was \$99,262 (2019 - \$Nil) related to the continued vesting of stock options granted to key members of management.
- iv) Included in share-based compensation for the six months ended June 30, 2020 \$20,918 (2019 - \$Nil) related to the continued vesting of stock options granted to a director of the Company.

As at June 30, 2020, accounts payable and accrued liabilities included \$46,864 (December 31, 2019 - \$46,864) payable to the Company's former President and CEO. The amount is non-interest bearing and payable on demand.

Additional related party transactions are disclosed in note 5.

Bhang Inc.

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25. Financial Instruments

i) Market Risk

a) *Currency Risk*

As at June 30, 2020, the Company's cash and cash equivalents included \$118,748 Canadian Dollars (December 31, 2019 - \$127,688 Canadian Dollars), accounts payable and accrued liabilities included \$1,114,168 Canadian Dollars (December 31, 2019 - \$467,531 Canadian Dollars) and convertible promissory notes included \$600,000 Canadian Dollars (December 31, 2019 - \$600,000 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 \$130,077 higher (lower) (year ended December 31, 2019 - \$80,403 higher (lower)).

b) *Interest Rate Risk*

As at June 30, 2020 and December 31, 2019, the Company's exposure to interest rate risk would relate to its convertible debt, other liability, and short term advances, but its interest rate risk is limited as the aforementioned financial instruments are fixed interest rate instruments.

c) *Credit Risk*

Credit risk is derived from cash, trade and other receivables and promissory note receivable. The Company places the majority of its cash in deposit with major United States and Canadian 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 and trade and other receivables represents the Company's maximum exposure to credit risk, which amounted to \$807,782 at June 30, 2020 (December 31, 2019 - \$828,630). The provision for expected credit losses included in trade accounts receivable as at June 30, 2020 is \$259,366 (December 31, 2019 - \$259,366).

As at June 30, 2020 and December 31, 2019, the Company's trade accounts receivable were aged as follows:

	June 30, 2020	December 31, 2019
Current	\$ 86,500	\$ 77,464
1-30 days	17,078	76,317
31 days- 60 days	23,092	44,867
61 days-older	785,383	498,693
Expected credit losses	(259,366)	(259,366)
	<u>\$ 652,687</u>	<u>\$ 437,975</u>

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
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25. Financial Instruments (continued)

c) Credit Risk (continued)

The change in the provision for expected credit losses is as follows:

	Six months ended June 30, 2020	Year ended December 31, 2019
Balance, beginning of period	\$ 259,366	\$ 943,954
Amounts previously provided for, written-off during the period	-	(922,858)
Additional allowance	-	238,270
Balance, end of period	<u>\$ 259,366</u>	<u>\$ 259,366</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 June 30, 2020, the Company has current assets of \$1,900,904 (December 31, 2019 - \$1,778,294) and current liabilities of \$3,102,699 (December 31, 2019 - \$2,886,787), which resulted in a working capital deficit of \$1,201,795 (December 31, 2019 - working capital deficit of \$1,108,493).

As at June 30, 2020, the contractual maturities of the Company's accounts payable and accrued liabilities and notes payable over the next three years are as follows:

	Year 1	Years 2 - 4
Accounts payable and accrued liabilities	\$ 1,965,175	\$ -
Promissory note	59,327	91,499
Lease liabilities	14,417	-
Convertible promissory notes payable	440,270	-
Due to shareholder	196,240	-
Notes payable	150,000	-
	<u>\$ 2,825,429</u>	<u>\$ 91,499</u>

e) Fair Values

The carrying amounts of the Company's cash, marketable securities, trade receivables and other receivable, and accounts payable and accrued liabilities approximate their fair values because of the short-term nature of these items. The carrying amounts of the Company's note payable and convertible promissory notes approximate their fair values as its interest rate is close to market rates.

Bhang Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
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25. 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; and
- 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. The Company's convertible promissory notes payable are included in Level 2. Level 2 inputs were utilized in the valuation of the escrowed shares issued pursuant to the acquisition of Red Ace. During the six months ended June 30, 2020 and the year ended December 31, 2019, there were no transfers of amounts between levels.

26. 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 six months period ended June 30, 2020 and 2019. The majority of the Company's expenses are incurred in United States dollars with vendors located in the United States. Expenses incurred in Canadian Dollars typically relate to compliance associated with being a publicly-traded company. The Company's assets, liabilities and net loss relate to the following areas:

	As at June 30, 2020			As at December 31, 2019		
	Canada	United States	Total	Canada	United States	Total
Non-current assets	\$ 924,452	\$ 377,936	\$ 1,302,388	\$ -	\$ 926,821	\$ 926,821
	Three months ended June 30, 2020			Three months ended June 30, 2019		
	Canada	United States	Total	Canada	United States	Total
Net income (loss)	\$ (56,717)	\$ (1,061,563)	\$ (1,118,280)	\$ -	\$ (1,675,708)	\$ (1,675,708)

Bhang Inc.

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26. Segmented Information (continued)

	Six months ended June 30, 2020			Six months ended June 30, 2019		
	Canada	United States		Canada	United States	
		Total	Total		Total	
Net income (loss)	\$1,146,746	\$ (590,447)	\$ (1,737,193)	\$ -	\$ (1,804,616)	\$ (1,804,616)

Included in revenue for the six months ended June 30, 2020 was \$920,580 from one customer (2019 - revenue of \$1,841,670 from three customers), each of which represent greater than 10% of the Company's revenue.

27. General and Administrative Expenses

General and administrative expenses for the three and six months period ended June 30, 2020 and 2019 are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Bank charges and interest	\$ 5,058	\$ 3,071	\$ 5,934	\$ 10,475
Business taxes	431	676	725	6,279
Consulting expenses	31,234	10,000	88,452	70,000
Depreciation and amortization of property and equipment and right-of-use assets	24,320	34,566	56,333	66,772
Dues, subscriptions and licenses	-	311	-	2,831
Insurance	41,800	5,381	100,290	17,903
Occupancy	710	2,450	(2,386)	1,540
Office expense	15,224	34,731	56,144	79,352
Telephone	926	607	2,940	1,535
Depreciation of license	10,392	-	20,784	-
Travel	504	48,582	20,326	72,771
	\$ 130,599	\$ 140,375	\$ 349,542	\$ 329,458

28. Changes in Non-cash Working Capital

The changes to the Company's non-cash working capital for the six months period ended June 30, 2020 and 2019 are as follows:

	2020	2019
Trade and other receivables, net	\$ (88,669)	\$ (50,283)
Inventory	(56,926)	(1,004,014)
Deposits	-	3,000
Prepaid expenses	76,774	1,053,823
Accounts payable and accrued liabilities	320,459	1,237,551
Contract asset	(29,140)	(41,688)
Contract liability	(32,730)	46,000
	\$ 189,768	\$ 1,244,389

Bhang Inc.

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29. Net Cash Provided by (used in) Investing Activities

The items giving rise to changes in the Company's cash flows from investing activities for the six months period ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Investment in Joint Venture	\$ (100,000)	\$ -
Deferred transaction costs	-	(334,065)
Promissory notes receivable, net	-	-
Purchase of property and equipment	(2,658)	(243,325)
Cash acquired upon acquisition of CB Brands	616	-
Proceeds of disposition of marketable securities	426,584	-
Promissory note issued to Red Ace	-	(325,000)
	<u>\$ 324,542</u>	<u>\$ (902,390)</u>

30. Net Cash Provided by Financing Activities

The items giving rise to changes in the Company's cash flows from financing activities for the six months period ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Proceeds from disposition of assets	\$ 100,000	\$ -
Proceeds from issuance of common shares	376,223	-
Share subscriptions payable	-	350,000
Share issuance costs	(19,767)	-
Repayment of lease liabilities	(31,425)	(48,265)
Proceeds of promissory notes	-	846,273
Proceeds of short-term advances	-	225,000
Promissory note	150,567	-
Due to shareholder	196,240	-
Notes payable	(10,000)	-
	<u>\$ 761,838</u>	<u>\$ 1,373,008</u>

31. Revenue

The Company derives revenue from the transfer of goods and services over time and at a point-in-time from the following revenue streams as follows:

Three Months Ended June 30, 2020	<u>Point-in-time</u>	<u>Over time</u>	<u>Total</u>
Product sales	\$ 153,073	\$ -	\$ 153,073
Licensing	6,327	142,651	148,978
Other	13,405	-	13,405
Gross Revenue	<u>\$ 172,805</u>	<u>\$ 142,651</u>	<u>\$ 315,456</u>
Three Months Ended June 30, 2019	<u>Point-in-time</u>	<u>Over time</u>	<u>Total</u>
Product sales	\$ 937,118	\$ -	\$ 937,118
Licensing	-	216,344	216,344
Other	1,590	-	1,590
Gross Revenue	<u>\$ 938,708</u>	<u>\$ 216,344</u>	<u>\$ 1,155,052</u>

Bhang Inc.

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31. Revenue (continued)

Six Months Ended June 30, 2020	Point-in-time	Over time	Total
Product sales	\$ 246,874	\$ -	\$ 246,874
Licensing	927,080	244,984	1,172,064
Other	15,837	-	15,837
Gross Revenue	<u>\$ 1,189,791</u>	<u>\$ 244,984</u>	<u>\$ 1,434,775</u>
Six Months Ended June 30, 2019	Point-in-time	Over time	Total
Product sales	\$ 2,322,022	\$ -	\$ 2,322,022
Licensing	601	428,087	428,688
Other	5,706	-	5,706
Gross Revenue	<u>\$ 2,328,329</u>	<u>\$ 428,087</u>	<u>\$ 2,756,416</u>

32. Debt Settlements

During the year ended December 31, 2019, the Company entered into debt settlements with three companies to settle amounts owed to and by the Company. Pursuant to the debt settlements, the Company received aggregate payments of \$375,300 as settlement of amounts owed to the Company of \$375,300 and amounts owed by the Company of \$55,175. As such, the Company recorded a gain related to the debt settlements of \$55,175.

33. Capital Management

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.

Bhang Inc.

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34. Commitments

- a) On April 18, 2019, 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. During the six months period ended June 30, 2020, the agreement was terminated.
- b) On July 17, 2019, the Company entered into a services agreement with a company for the provision of investor relations services in exchange for a monthly fee of CAD\$5,000 and 250,000 stock options, each of which allow the holder to acquire one Subordinate Voting Share of the Company at an exercise price of \$0.55 until July 24, 2021. The agreement can be terminated by the Company by providing 30 days notice to the consultant. During the six months period ended June 30, 2020, the agreement was terminated.
- c) On July 15, 2019, the Company entered into a services agreement with a company for the provision of investor relations services in exchange for a monthly fee of \$29,167 for an initial term of six months, which shall automatically renew for successive three-month terms thereafter until written notice of termination is provided by the Company at least fifteen days prior to the end of the term. During the six months period ended June 30, 2020, the agreement was terminated.
- d) On September 1, 2019, the Company entered into a consulting services agreement for the provision of business development services in exchange for a guaranteed monthly fee of \$5,000. The consulting services agreement has an initial term of twenty-four months, following which it can be extended further by mutual written consent. Should the Company wish to terminate the consulting services agreement, for any reason within the twenty-four month term of the agreement, the Company shall be responsible to pay the consultant the agreed upon monthly fee of \$5,000 for the remaining period of time within the twenty-four month period. During the six months period ended June 30, 2020, the agreement was terminated.
- e) On September 15, 2019, the Company entered into a consulting services agreement for the provision of marketing services in exchange for a monthly fee of \$13,333. The consulting services agreement has an initial term of one year, following which it is automatically renewed for consecutive one year periods. Either party can terminate the consulting services agreement in whole or in part upon thirty days written notice to the other party.

Bhang Inc.

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35. Contingencies

- a) During the six months period ended June 30, 2020, an action for wrongful dismissal by a former officer of Bhang was filed against Bhang claiming US\$475,000, plus CAD\$250,000 for moral damages and CAD\$1,000,000 for aggravated and punitive damages, plus costs and interest and other unspecified amounts. The Company believes the damages claimed are remote and exaggerated. During the year ended December 31, 2019, Bhang terminated the former officer's employment for cause.
- b) On December 4, 2019, a putative class action was filed against Bhang Corporation in the United States District Court for the Central District of California, alleging that the class members were harmed because the labels on certain chocolate products bearing the Bhang name that were purchased during a certain time frame misrepresented the THC and CBD content of those products. On February 20, 2020, the plaintiff filed a First Amended Complaint that contained the same substantive allegations and causes of action but added the Company and other parties not related to the Company or its subsidiaries as additional defendants. The plaintiff and the putative class seek, among other things, damages, restitution, and injunctive relief. The plaintiff had not identified the amount of his or the purported class' claimed damages in the pleadings. At this early stage of the proceedings, it is difficult to assess the likelihood of the success of the plaintiff's claims and the monetary impact on the Company of such successful claim. While a successful claim by the putative class could be material to the consolidated financial statements, the Company believes that it has strong defences since neither the Company nor Bhang manufactured or distributed the products at issue during the relevant time period. As such, no amount for any potential liability has been accrued as of December 31, 2019 or June 30, 2020.

Subsequent to the period ended June 30, 2020, the Company entered into a settlement agreement and mutual release with the plaintiff, pursuant to which, the Company agreed to pay a series of payments totalling \$40,000 to the plaintiff in exchange for a full release against all claims against the Company. While the Company has, at all times, denied any wrongdoing since the Company neither manufactured or distributed the products at issue during the relevant time period, the Company entered into the settlement agreement solely to avoid the legal costs and inconvenience that would be incurred in defending the action.

- c) On April 17, 2018, Bhang entered into a joint venture agreement with a Canadian corporation (the "other party") to carry out the production, marketing, distribution and sale of all Bhang-branded "Marijuana" products on an exclusive basis in Canada and a non-exclusive right to export Bhang-branded "Marijuana" products world-wide (see note 9(b)). The Board of Directors of the joint venture consists of two nominees of each party. While the other party is the manager of the joint venture, all spending programs require a proposal to the Board and unanimous approval of the Board. Pursuant to the joint venture agreement, each party is to contribute \$100,000 to the joint venture company. As at December 31, 2018 and 2019, the Company had yet to make its contribution. During the six months period ended June 30, 2020, the contribution was made by the Company.

Bhang Inc.

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35. Contingencies (continued)

c) (continued)

On April 17, 2018, Bhang also entered into a subscription agreement with the other party to issue 5,000 common shares from treasury for proceeds of \$1,000,000. As the other party was a publicly listed company, it agreed to take possession of the shares after meeting certain regulatory requirements. On June 14, 2018, the Company signed a letter of agreement stating that a loan of \$1,000,000 be made by the other party to the joint venture company. The letter provides that the \$1,000,000 loan was to be used by the joint venture company to prepay for expenses to be carried out or supplied by Bhang. This letter does not mention, nor does it confirm any re-characterization of the \$1,000,000 described in note 22. The terms of the letter provide for conversion of the loan into the same number of common shares of Bhang as contemplated in the original subscription agreement for a period of six months from the date of the Transaction. During the year ended December 31, 2019, the Company received notice from the other party that the payment of \$1,000,000 described in note 22 represented an advance payment on royalties for Bhang from the joint venture company. The Company disagrees with this position and maintains the intent of the transaction was always the exchange of shares of Bhang for the payment of \$1,000,000 once the other party was able to meet its regulatory requirements to hold such shares.

Further, the Company has concerns over the management of the joint venture which includes, but is not limited to, non-approved expenses for a total amount of \$785,330 incurred on behalf of the joint venture, that occurred during the year ended December 31, 2019. As a result, the Company has not recorded any share of loss relating to the disputed amount of \$785,330. During the three and six months period ended June 30, 2020, the joint venture had net income of \$99,600, of which the Company has not recorded any share. No legal proceedings have been commenced and the parties are in the process of discussing these issues.

Subsequent to the period ended June 30, 2020, the Company and the other party executed a settlement agreement (the "Settlement Agreement") with respect to the subscription agreement and the joint venture. Pursuant to the Settlement Agreement, the existing joint venture agreement, the license agreement from the Company to the joint venture, and any other agreements between or among the parties relating to the joint venture were terminated, and the Company disposed of its shares in the joint venture company to the other party for nominal consideration. The parties also entered into a new license agreement whereby the licensee has the exclusive right to manufacture and distribute selected Bhang THC-infused chocolate products in Canada and the non-exclusive right to export those products internationally until December 31, 2030 unless either party is in breach or the license agreement is terminated pursuant to the terms of the license agreement. Pursuant to the new license agreement, the \$1,000,000 previously paid to the Company is to be characterized as a non-refundable start-up fee.

36. Subsequent Events

- a) Subsequent to June 30, 2020, 217,500 stock options and 215,550 warrants expired unexercised.
- b) Subsequent to June 30, 2020, 11,700 MVS of the Company were converted into 11,700,000 SVS.

Other subsequent events are disclosed in notes 16, 21, 35(b) and 35(c).

FORM 51-102F1

**BHANG INC. (formerly PELE MOUNTAIN RESOURCES INC.)
(the “Company”)**

**MANAGEMENT DISCUSSION & ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020
(the “Reporting Period”)**

This Management Discussion and Analysis (“MD&A”) made as of August 31, 2020, should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three and six months ended June 30, 2020 and the related notes thereto (the “Financial Statements”). All dollar figures included therein and in the following MD&A are expressed in United States Dollars unless otherwise indicated.

The Company is a cannabis CPG brand company with a portfolio of approximately 60 cannabis, hemp-derived cannabidiol (“CBD”) and terpene products (which are sold through its licensees and/or by Bhang directly) including, without limitation, chocolates, pre-rolls, vapes, gums, beverages, and gummies.

The Financial Statements are presented on a consolidated basis and include the accounts of the Company and its direct subsidiaries Bhang Corporation (“Bhang”) and Bhang Canada Corp. (“BCC”), as well as Bhang’s wholly-owned subsidiaries Red Ace, LLC (“Red Ace”), CB Brands, LLC (“CB Brands”), Founding Fathers' Hemp Company (“Founding Fathers”) and Euro Brand IP Holdings, LLC (“Euro Brand”). As the Transaction (as defined below) constituted a reverse takeover transaction, the comparative figures in the Financial Statements reflect the results of operations and the assets, liabilities and shareholders' equity of Bhang. The Financial Statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

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.

Management’s Responsibility for Financial Reporting

The Financial Statements have been prepared by management in accordance with IFRS and have been approved by the Company’s board of directors (the “Board”). The integrity and objectivity of these Financial Statements are the responsibility of management. In addition, management is responsible for ensuring that the information contained in the MD&A is consistent where appropriate, with the information contained in the Financial Statements.

The Financial Statements may contain certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure that the Financial Statements are presented fairly in all material respects.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its audit committee. The members of the audit committee are appointed by the Board and have sufficient financial expertise to

assume this role with the Company. The majority of the audit committee members are independent and not involved in the Company's daily operations.

Cautionary Note on Forward-Looking Information

The information provided in this MD&A, including information in the Listing Statement that is incorporated by reference, may contain "forward-looking statements" about the Company and its subsidiaries. In addition, the Company 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 Company 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 Company that address activities, events or developments that the Company 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 the Listing Statement and described from time to time in documents filed by the Company on SEDAR, including in this MD&A.

All forward-looking statements made in this MD&A and other documents of the Company 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 Company. 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 Company and/or persons acting on their behalf may issue. The Company does not undertake 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.

Recent Developments and Description of Reverse Takeover Transaction

On May 27, 2019, the Company disposed of its entire interest in its wholly owned subsidiary, 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 ("Sage"). In addition, on April 17, 2019, the Company arranged for the dissolution of its State of Nevada subsidiary, Mountain Pass Resources, Inc. ("Mountain Pass"), pursuant

to a certificate of dissolution filed with the Secretary of State of the State of Nevada. On May 27, 2019, the Company disposed of its entire interest in Sage.

On November 8, 2018, the Company, Pele Acquisition Corp., a former subsidiary of the Company (“Subco”), Bhang Corporation (“Bhang”) and Bhang Canada Inc. (“BCI”) entered into a definitive agreement (the “Definitive Agreement”) whereby the Company agreed to acquire Bhang pursuant to a reverse take-over transaction (the “Transaction”). On May 27, 2019, the Company changed its name from “Pele Mountain Resources Inc.” to “Bhang Inc.” and consolidated its common shares on the basis of one (1) post-consolidation common share for every ten (10) pre-consolidation common shares, and simultaneously re-designated such class of shares as subordinate voting shares (the “Subordinate Voting Shares” or “SVS”) and created a new class of multiple voting shares (the “Multiple Voting Shares” or “MVS”). On July 9, 2019, the Company acquired all of the issued and outstanding shares of Bhang in exchange for an aggregate of 33,365,916 SVS and 56,634.128 MVS.

In connection with the Transaction, the Company completed a “three-cornered” amalgamation whereby Subco amalgamated with BCI to form Bhang Canada Corp. (“BCC”) pursuant to an amalgamation agreement dated July 9, 2019 among the Company, Subco and BCI (the “Amalgamation Agreement”). Pursuant to terms of the Amalgamation Agreement, an aggregate of 11,182,735 SVS and 5,591,316 warrants of the Company (the “Warrants”) were issued to shareholders of BCI. Each Warrant entitles the holder to purchase one SVS at a price of \$0.65 per share until July 9, 2021, subject to acceleration in the event that the volume weighted average price of the SVS is equal to or greater than \$1.00 over a period of 10 consecutive trading days.

On September 9, 2019, the Company acquired all issued and outstanding membership units of Red Ace, LLC, an organic beverage company through the issuance of 4,743.074 MVS. Immediately following the acquisition, a member of management of Red Ace assumed certain indebtedness of Red Ace in exchange for 229.131 MVS of the Company. These shares were issued on the acquisition date and were considered part of the purchase consideration pursuant to the acquisition.

In January 2020, the Company acquired the remaining 50% membership interest in CB Brands, LLC in exchange for 536,016 SVS of the Company. Prior to this transaction, the Company had a 50% joint-venture interest in CB Brands. CB Brands develops, manufactures, markets, sells and/ or distributes co-branded and newly branded cannabis flower and cannabis-infused products with the music group Cypress Hill.

On February 17, 2020, the Company acquired all of the issued and outstanding shares of Founding Fathers and all of the issued and outstanding membership units of Euro Brand. The Company acquired each interest for \$100 from its former President and CEO. Each company is the owner of, or has applied for several U.S. mark registrations. Historically, the only activities of either company was applying for, and acquiring the mark registrations at the direction of Bhang.

Description of Business

Prior to completing the Transaction with Bhang, the Company was 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.

Upon the completion of the Transaction, the business of Bhang became the business of the Company.

Operating since 2010, Bhang is an award-winning cannabis company with three tiers of branded products: (i) marijuana-derived products containing delta-9-tetrahydrocannabinol (“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 retailers, distributors and by Bhang directly through its e-commerce platform and (iii) terpene products, that do not contain any marijuana, 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 hemp pre-rolls, 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 operated a wholesale hemp brokerage network as a stream of income which allowed 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. Bhang only licenses its intellectual property (brand and recipes) to these licensees and also facilitates their purchases of Bhang-branded 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 retailers, distributors and by Bhang directly through its e-commerce platform in states where they are permitted to be sold. The full launch of Bhang’s terpene products occurred in the fourth quarter of fiscal 2019. Terpene-flavoured products are cannabis-inspired and do not contain any marijuana.

At the end of fiscal 2019, Bhang closed its headquarters in Miami and reduced staff to seven people who all work remotely, the majority of whom reside in California. Bhang’s CBD products were moved into a fulfillment house in Los Angeles. Investor and public relations activities have been put on an indefinite hold, allowing the team to focus on running the business and generating revenue.

The Company is no longer relying on CBD brokerage as a material source of revenue. The explosion of post—2018 Farm Bill hemp supply caused hemp-derived CBD isolate prices to drop steeply. Bhang has kilos of hemp-derived CBD isolate in stock to provide to co-packers manufacturing CBD finished goods. The Company launched Bhangcbd.com in April 2019 as its e-commerce platform for hemp-derived CBD products. While building consumer demand, the Company experienced a credit card processing setback. A prominent credit card provider shut down more than a hundred thousand processing accounts overnight due to regulatory uncertainty and, therefore, Bhang’s ability to process credit cards was shut down. In Q4 2019, Bhang’s CBD e-commerce store became fully-operational and generating revenue again. During that down time, Bhang added both email and text marketing and began a refresh of the overall look of the site to fit with its global re-brand.

CBD e-commerce will continue to be a source of revenue for Bhang however, the Company has shifted primary focus to THC chocolate, which is the Company’s core strength. Bhang licenses its THC chocolate brand and other THC branded products across seven U.S. States (California, Florida, Nevada, Michigan, New Mexico, Illinois and Ohio). Bhang branded chocolate also became available in Canada, in Q1 2020, through Bhang’s joint venture with Indiva Limited (TSXV: NDVA). As state and country regulations are constantly in flux, the following is a brief overview of Bhang THC Chocolate:

In April 2020, Bhang branded cannabis-infused chocolate shipped in a new, refreshed packaging design. The new packaging will be rolled out across its multi-state platform by attrition in 2020. Bhang’s updated packaging is available in California in 16 skus – 2 sizes in 8 flavors: Dark, Milk, 1:1 CBD Dark Caramel, Cookies & Cream, Fire, Ice, Dark Blueberry and Caramel Mocha. Bhang’s licensee in Nevada, Cannavative, will launch the state in the new packaging. Bhang’s new chocolate packaging is also soon to hit shelves in **Michigan, Illinois, Ohio and New Mexico.**

For future seasonal flavor product launches, Bhang will announce a ‘Call for Artists’ to select unique pieces from amateur artists across the world. Bhang’s art committee, which includes a team of industry experts from the cannabis, art and music worlds including DJ Muggs and the Soul Assassins, will curate the submissions and select the finalists for each limited release.

The following is a brief overview of the revenue generating activities of Bhang’s THC Chocolate licensees:

- **California:** Bhang took over operation of the brand in California in the first quarter of Q1 after terminating its license agreement with Origin House. Bhang’s co-packer Trava has launched the new packaging. Sales have exceeded expectations and revenue generation in California from Bhang THC chocolate is expected to generate in excess of \$1,000,000 in 2020. The additional advantage of Bhang controlling operations is the increased and improved ability to provide a “walk a mile in your shoes” level of operational support for its licensees.
- **Nevada** –Bhang chocolate is expected to hit Nevada shelves in early Q3 2020. Cannavative, Bhang’s licensee in Nevada, has a sales presence in all 72 Nevada retail and delivery outlets. Revenue from Nevada is anticipated to begin in Q3 2020.
- **Florida** – Bhang has a top-tier licensee in Trulieve Cannabis Corp. (CSE: TRUL) to manufacture and distribute Bhang chocolate across their 48 Florida retail locations (expecting 64 by the end of calendar 2020) as well as through their state-wide home delivery service. Edibles are not legal for distribution in Florida yet, but there has been legislative movement. Trulieve and Bhang are hopeful they will be selling in Q3 or Q4 of 2020. Trulieve carries 54% of all medical cannabis dispensed in Florida to a 284,575-consumer base (growing at 3K new patients a week). We look forward to selling Bhang products to cannabis consumers in Florida very soon.
- **Ohio and Michigan** are both in final phases of manufacturing build out and are expected to begin distributing Bhang products by Q4 of 2020, with expected revenue generation by Q1 2021.
- **Illinois** is currently manufacturing and selling out of Bhang chocolate so far in every month of 2020. Bhang’s licensee, Bedford Grow, has completed a major facility expansion in Q2 of 2020. We expect their increased ability to manufacture to translate into a major sales and revenue increase in 2020. Despite the COVID setback, 2020 has been a robust year for Bhang chocolate in Illinois and all indications are that this revenue source will be getting better and better going forward.
- **Canada** approved the sale of cannabis edibles in the roll out of “Cannabis 2.0” with product sales of Bhang chocolate beginning in February of 2020. Bhang’s JV partner in Canada has successfully sold 1.6 million CAD of Bhang chocolate in their first six weeks in the Canadian Market Q1 2020. Bhang Chocolate is currently the #1 and #2 edible in Canada and Bhang Milk Chocolate is the #1 edible in Ontario. Please see the discussion of this joint venture in the Contingencies section later in this MD&A.
- **New Mexico:** New Mexico’s cannabis laws are restrictive and difficult to navigate. Our licensee there has won the “Best of Burque” two years in a row and continues to be the dominant chocolate in the state. We expect the state to vote for recreational cannabis in November. We look

forward to the launch of our new packaging in New Mexico and are very confident about our licensee and what they will be able to do with a more favorable legislative climate.

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 December 31	2019	2018	2017
	\$	\$	\$
Revenue	4,778,095	1,638,737	1,979,391
Gross profit	(506,818)	987,432	1,257,281
Net income (loss)	(15,079,185)	(1,538,608)	(577,415)
Comprehensive income (loss)	(15,145,088)	(1,538,608)	(577,415)
Total assets	2,235,143	6,055,412	3,369,509
Total liabilities	2,886,787	778,731	3,816,683
Shareholders' equity (deficiency)	(651,644)	5,276,681	(447,174)

Results of Operations

The Company had net losses of \$1,118,280 and \$1,737,193 for the three and six month periods ended June 30, 2020, compared to net losses of \$1,804,616 and \$1,675,708 for the three and six months ended June 30, 2019. For each of the three and six month periods ended June 30, 2020 and 2019, the net losses were significantly impacted by changes in fair value of marketable securities owned by the Company. For the three month period ended June 30, 2020, the Company incurred an unrealized gain of \$313,034 on the fair value of its marketable securities compared to an unrealized loss of \$249,244 for the three months ended June 30, 2019. For the six month period ended June 30, 2020, the Company incurred an unrealized loss of \$542,200 on the fair value of its marketable securities compared to an unrealized gain of \$286,595 for the six months ended June 30, 2019. During the six months ended June 30, 2020, the Company entered into a termination agreement with a licensee pursuant to which the Company received common stock of the other company with a fair value of \$500,000. During the six months ended June 30, 2020, the Company disposed of these shares for proceeds of \$426,584 resulting in a realized loss on disposition of \$73,416.

Revenue for the three months ended June 30, 2020 was \$315,456 representing a decrease of \$839,596 when compared to the revenue of \$1,155,052 for the three months ended June 30, 2019. Revenue for the six months ended June 30, 2020 was \$1,434,775 representing a decrease of \$1,321,641 when compared to the revenue of \$2,756,416 for the six months ended June 30, 2019. The decreases relate to a shift in the composition of the Company's revenue year-over-year. The majority of revenue earned during the three and six months ended June 30, 2019 was a result of the sale of bulk CBD. As discussed earlier in this

MD&A, this line of business is no longer sustainable as a result of the post- 2018 Farm Bill over-supply of hemp caused significant price decreases in hemp-derived CBD. During the three months ended March 31, 2020, the Company earned revenue of approximately \$920,000 upon termination of its California license agreement with Origin House.

The Company incurred a negative gross margin of \$167,985 for the three months ended June 30, 2020 which represented a greater loss of \$155,077 compared to a negative gross margin of \$12,908 for the three months ended June 30, 2019. The fluctuations year-over-year are a function of the composition of revenues and cost of sales for the respective periods. During the three month period ended June 30, 2020, the Company wrote off raw materials and packaging received from Origin House in the amount of \$316,065 which was the main driver of the negative gross margin for the three months ended June 30, 2020. The Company earned gross profit of \$1,075,603 for the six months ended June 30, 2020, an increase of \$659,195 compared to gross profit of \$416,408 for the six months ended June 30, 2019. During the three months ended March 31, 2020, the Company had a recovery of cost of sales of \$250,000 as a result of a credit issued by a vendor upon return of inventory that had been written off by the Company during the year ended December 31, 2019. The Company also derived approximately 82% of its revenue for the six months ended June 30, 2020 from license revenue that has low cost of sales. Cost of sales, as a proportion of revenue, was much higher for the six months ended March 31, 2019, as approximately 84% of revenue was related to the sale of product.

Operating expenses for the three months ended June 30, 2020 amounted to \$1,263,188, which represents a decrease of \$230,962 when compared to expenses of \$1,494,150 for the three months ended June 30, 2019. Operating expenses for the six months ended June 30, 2020 totalled \$2,162,499, a decrease of \$149,029 compared to expenses of \$2,311,528 for the six months ended June 30, 2019.

During the year ended December 31, 2019, the Company issued 10,207,500 stock options to certain officers, employees and consultants of the Company. In addition, the Company issued 370,000 stock options to employees of the Company during the three months ended June 30, 2020. The Company also issued 430,000 restricted shares and 100,000 restricted share units to employees of the Company of which one third vested upon grant, with remaining units vesting over the period ended January 1, 2022. As several of these options, restricted shares and restricted share units continued to vest over the six months ended June 30, 2020, the Company incurred share-based compensation expense of \$103,073 and \$178,351 during the three and six month periods ended June 30, 2020. The Company did not have any such transactions during the three and six months ended June 30, 2019.

Sales and marketing expenses for the three and six months ended June 30, 2020 totalled \$98,326 and 251,339, decreases of \$538,428 and \$669,741 when compared to sales and marketing expenses of \$636,754 and \$921,080 for the three and six months ended June 30, 2019. In late 2018 and throughout 2019, Bhang focused efforts on enhancing its promotional materials by engaging a number of media agencies. In early fiscal 2020, these efforts were scaled back and focused on certain key areas in an attempt to conserve working capital.

Wages and salaries expense for the three and six months ended June 30, 2020 amounted to \$250,182 and \$506,972, resulting in decreases of \$230,147 and \$265,408 when compared to the three and six months ended June 30, 2019. During early 2019, the Company had begun to add to its staff roster, a process that continued for most of the 2019 fiscal year. During the last quarter of fiscal 2019, however, the Company closed its Miami office which resulted in a reduction in the number of employees paid during the three and six months ended June 30, 2020. The Company currently has a roster of seven staff that work remotely.

Professional fees amounted to \$676,113 and \$923,161 for the three and six months ended June 30, 2020, increases of \$439,421 and \$585,056 when compared to expenses of \$236,692 and \$338,105 incurred during the three and six months ended June 30, 2019. This increase is driven by the increased costs related to becoming a publicly traded entity, namely increased legal and audit expenses. The Company did not incur expenses of this magnitude three and six months ended June 30, 2019.

During the three and six months ended June 30, 2020, the Company incurred general and administrative expenses of \$130,599 and \$349,542 which represents a decrease of \$9,776 for the three month period and an increase of \$20,084 for the six month period when compared to expenses of \$140,375 and \$329,458 for the three and six months ended June 30, 2020.

Summary of Quarterly Results

The following table shows selected financial information related to the results of the Company's most recent periods. The information contained in this table should be read in conjunction with the Company's financial statements.

Fiscal Year Quarter	2020		2019				2018	
	Jun	Mar	Dec	Sep	Jun	Mar	Dec	Sep
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	315,456	1,119,319	735,933	1,285,746	1,155,052	1,601,364	803,837	274,914
Gross (Loss) Margin	(167,985)	1,243,588	(700,451)	(222,775)	(12,908)	429,316	444,120	105,376
Net (Loss) Income	(1,118,280)	(618,912)	(4,610,434)	(8,794,044)	(1,804,616)	129,909	(791,015)	(290,407)
Comprehensive Income (Loss)	(1,145,333)	(619,032)	(4,676,337)	(8,794,044)	(1,804,616)	129,909	(791,015)	(290,407)
Income (Loss) per share, basic and diluted	(0.01)	(0.01)	(0.05)	(0.08)	(0.02)	0.00	(0.02)	(0.00)

Factors affecting quarterly results

Fluctuations in quarterly results can be caused by non-recurring items such as transaction costs, due diligence costs and goodwill impairment charges. Net loss for a period can also be affected by the vesting periods of stock options granted as reflected in the amount of share-based compensation included in net loss for the periods, as well as the timing of recognition of expected credit losses and bad debt expenses.

Liquidity and Capital Resources

The Company's cash and cash equivalents position was \$155,095 as at June 30, 2020 (December 31, 2019 - \$390,655). The Company had a working capital deficit of \$1,201,795 as at June 30, 2020 compared to a working capital deficit of \$1,108,493 as at December 31, 2019.

On February 10, 2020, the Company and an investor reached an agreement to invest up to \$1,300,000 CAD in a non-brokered private placement offering of units with each unit comprising of one subordinate voting share in the capital of the Company and one share purchase warrant. Each warrant is exercisable into one share at a price equal to a 25% premium to the unit price for a period of 24 months. The Company has the right to accelerate the expiry of the warrants to thirty (30) days following written notice to the holder if the Shares close at or above CDN\$0.25 per share for a period of ten (10) consecutive trading days on the Canadian Securities Exchange.

The first tranche of the offering for gross proceeds of approximately \$500,000 CAD was completed on February 10, 2020 with 3,571,428 Units being issued by the Company at a price of \$0.14 CAD per Unit for gross proceeds of \$376,223. The Company also obtained financing of \$150,826 via a promissory note bearing interest at 1% from a financial institution during the three months ended June 30, 2020. The Company also obtained short-term financing of \$196,240 from one of its shareholders. Subsequent to June 30, 2020, this debt was formalized into an operating facility of up to CAD\$1,000,000 at an annual interest rate of 8% for working capital purposes.

During the six months ended June 30, 2020, the Company spent \$1,321,940 on operating activities, with the majority of such cash outflows related to operating expenses. During the three months ended June 30, 2019, Bhang spent \$639,308 on operating activities.

During the six months ended June 30, 2020, the Company's financing activities generated cash of \$761,838 the majority of which came from the proceeds of the units and debt discussed previously, as well as \$100,000 from the sale of an item of property plant and equipment. During the six months ended June 30, 2019, Bhang generated inbound cash flows of \$1,373,008 from financing activities related to the proceeds of share subscriptions and promissory notes.

During the six months ended June 30, 2020, the Company's investing activities generated cash flows of \$324,542, which was a function of proceeds received from the disposition of marketable securities received from a former licensee, which was offset by an investment in one of the Company's joint venture investments. During the six months ended June 30, 2019, Bhang spent \$902,390 on its investing activities.

The 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.

There are material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern given the presence of net losses and negative cash flows from operations over the past two fiscal years. 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 generating positive cash flows from operations as well as obtaining suitable financing. The Financial Statements do not reflect any adjustment that might result from the outcome of this uncertainty. 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 the Financial Statements.

Commitments

- a) On April 18, 2019, 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. During the six months ended June 30, the agreement was terminated.
- b) On July 17, 2019, the Company entered into a services agreement with a company for the provision of investor relations services in exchange for a monthly fee of \$5,000 and 250,000 stock options, each of which allow the holder to acquire one Subordinate Voting Share of the Company at an exercise price of \$0.55 until July 24, 2021. The agreement can be terminated by

the Company by providing 30 days notice to the consultant. During the six months ended June 30, 2020, the agreement was terminated.

- c) On July 15, 2019, the Company entered into a services agreement with a company for the provision of investor relations services in exchange for a monthly fee of \$29,166.67 for an initial term of six months, which shall automatically renew for successive three-month terms thereafter until written notice of termination is provided by the Company at least fifteen days prior to the end of the term. During the six months ended June 30, the agreement was terminated.
- d) On September 1, 2019, the Company entered into a consulting services agreement for the provision of business development services in exchange for a guaranteed monthly fee of \$5,000. The consulting services agreement has an initial term of twenty-four months, following which it can be extended further by mutual written consent. Should the Company wish to terminate the consulting services agreement, for any reason within the twenty-four month term of the agreement, the Company shall be responsible to pay the consultant the agreed upon monthly fee of \$5,000 for the remaining period of time within the twenty-four month period. During the six months ended June 30, the agreement was terminated.
- e) On September 15, 2019, the Company entered into a consulting services agreement for the provision of marketing services in exchange for a monthly fee of \$13,333. The consulting services agreement has an initial term of one year, following which it is automatically renewed for consecutive one year periods. Either party can terminate the consulting services agreement in whole or in part upon thirty days written notice to the other party.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Outstanding Share Data

As of the date of this MD&A, there are 103,223,756 Subordinate Voting Shares and 49,677.202 Multiple Voting Shares issued and outstanding.

As of the date of this MD&A, the Company has 66,667 Restricted Share Units (“RSU”) outstanding, 33,333 of which will vest into SVS on January 1, 2021 and 33,333 of which will vest into SVS on January 1, 2022.

As of the date of this MD&A, the Company has the following stock options outstanding, which are exercisable into SVS:

Number of Options	Exercisable	Exercise Price	Expiry Date
12,130	12,130	CAD \$0.50	December 31, 2020
250,000	250,000	CAD \$0.55	July 24, 2021
1,870,000	1,038,125	CAD \$0.52	July 11, 2022
30,000	10,000	CAD \$0.52	July 11, 2023
4,250,000	2,750,000	CAD \$0.52	July 21, 2024
370,000	123,333	CAD \$0.11	April 21, 2025
6,782,130	4,183,588		

As of the date of this MD&A, the Company has the following warrants outstanding, which are exercisable into SVS.

Number of Warrants	Exercisable	Exercise Price	Expiry Date
5,591,316	5,591,316	CAD \$0.65	July 9, 2021
107,775	107,775	CAD \$0.65	July 9, 2021
3,571,428	3,571,428	CAD\$0.175	February 10, 2022
5,261,905	5,261,905	CAD\$0.15	July 17, 2022
6,666,667	6,666,667	CAD\$0.15	July 17, 2022
21,199,091	21,199,091		

Transactions with Related Parties

During the six month periods ended June 30, 2020 and 2019, the Company incurred the following related party transactions:

- i) The Company paid consulting fees of \$Nil (2019 - \$30,000) to a company in which a shareholder, and former director and officer, of the Company is a director, officer and shareholder. As at June 30, 2020, accounts payable and accrued liabilities included \$30,000 (December 31, 2019 - \$30,000) owed to this company. During the year ended December 31, 2019, the Company accrued interest expense of \$10,000 on a promissory note issued by the director, officer and shareholder, all of which is included in accounts payable and accrued liabilities at December 31, 2019 and June 30, 2020. Included in share-based compensation for the six months ended June 30, 2020 is \$9,924 (2019 - \$Nil) related to the continued vesting of stock options granted to one of this company.
- ii) Licensing and product sales revenue of \$46,689 (2019 - \$31,419) was recognized on sales to a company controlled by the sibling of the Company's former President and CEO. As at June 30, 2020, accounts receivable included \$114,856 (December 31, 2019 - \$124,704) owing from this company. Included in the Company's expected credit losses for the six months ended June 30, 2020 is \$Nil (year ended December 31, 2019 - \$69,124) related to amounts owing from this company. As at June 30, 2020, accounts payable and accrued liabilities included \$Nil (December 31, 2019 - \$29,316) owed to this company.
- iii) Key Management Personnel consists of the former President and CEO, the former interim President the current President, CEO and COO, and the CFO. The compensation paid or payable to key management for the six months ended June 30, 2020 includes salaries of \$116,584 (2019 - \$120,000) and professional fees of \$15,000. Included in share-based compensation for the six months ended June 30, 2020 was \$99,262 (2019 - \$Nil) related to the continued vesting of stock options granted to key members of management.
- iv) Included in share-based compensation for the six months ended June 30, 2020 \$20,918 (2019 - \$Nil) related to the continued vesting of stock options granted to a director of the Company.

As at June 30, 2020, accounts payable and accrued liabilities included \$46,864 (December 31, 2019 - \$46,864) payable to the Company's former President and CEO. The amount is non-interest bearing and payable on demand.

During the six month period ended June 30, 2020, the Company acquired all of the issued and outstanding shares of Founding Fathers and all of the issued and outstanding membership units of Euro Brand from its former President and CEO for total consideration of \$200.

Significant Accounting Policies

The Company's significant accounting policies are disclosed in note 6 of the Financial Statements. Please also see note 5 of the Company's consolidated financial statements for the years ended December 31, 2019 and 2018 for additional information with respect to the Company's significant accounting policies.

Newly Adopted Accounting Pronouncements

The Company adopted the following accounting policies as of January 1, 2020:

IFRS 3 - Business Combinations

In October 2018, new amendments to IFRS 3 were issued to provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The adoption of this amendment did not have an impact on the condensed interim consolidated financial statements.

IAS 1 - Presentation of Financial Statements

In October 2018, new amendments to IAS 1 were issued to provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications. The adoption of this amendment did not have an impact on the condensed interim consolidated financial statements.

Critical Accounting Judgments and Estimation Uncertainties

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. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Expected Credit Losses

The calculation of the Company's expected credit losses on financial instruments requires management to make a number of judgments including the probability of possible outcomes with regards to credit losses, the discount rate to use for the time value of money, changes to the financial instrument's credit risk as well as other future-oriented factors.

Estimated Useful Lives, Depreciation of Property, Plant and Equipment and Depreciation

Depreciation of property, plant and equipment is dependent upon estimates of useful lives that are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent on estimates of recoverable amounts and include the consideration of economic factors and market conditions, as well as the useful lives of assets.

Deferred Tax Assets

Deferred tax assets, including those arising from tax loss carry forwards, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

Fair Value of Financial Instruments

The individual fair values attributed to the different components of a financing transaction, notably derivative financial instruments, convertible debt and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and derive estimates. Significant judgment is also used when attributing fair values to each component of a transaction upon initial recognition, measuring fair values for certain instruments on a recurring basis and disclosing the fair values of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of instruments that are not quoted or observable in an active market.

Share-Based Compensation

The Company uses the Black-Scholes option-pricing model to determine the fair value of equity-based grants. The Black-Scholes model requires management to make certain assumptions and estimates such as the expected life of the instrument, volatility of the Company's future share price, risk-free rates, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

Classification of Convertible Debt as Financial Liabilities and Equity

Management has concluded that, based on the terms of the convertible promissory notes, the host debt component shall be classified as a financial liability and measured at the present value of the discounted future cash flows at the market rate of similar instruments that do not include a conversion feature. The residual balance, which represents the conversion feature, is classified as a separate component of equity.

Variable Consideration in Revenue from Contracts with Customers

The determination of the amount of variable consideration to recognize is dependent on management's estimate of the most likely amount to which the Company will be entitled and the probability of a significant reversal in that amount. These determinations require management to make estimates based on historical amounts received to estimate future returns and pricing adjustments.

Business Combinations

In a business combination, the identifiable assets, liabilities and contingent liabilities of the acquired Company are recorded at their fair values. The determination of the fair value of these assets and liabilities require significant estimates. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in the acquisition. Management exercises judgment in estimating the probability and timing of when earn-outs are expected to be achieved which is used as the basis for estimating fair value. For any intangible assets identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

Determination of Cash-Generating Units

Goodwill and intangible assets with indefinite lives are allocated to the CGU that represents the lowest level within the Company at which management monitors goodwill or indefinite life intangibles, and not at a level higher than an operating segment. The Company considers each subsidiary to be a CGU. For the purpose of impairment testing for goodwill, the Company allocates the goodwill to the group of CGU's expected to benefit from the synergies of the business combination. For the purpose of impairment testing for intangible assets with indefinite lives, the Company compares the lowest level CGU's carrying amount with its recoverable amount.

Goodwill Impairment

When determining the recoverable amount of the CGU or CGUs to which goodwill is allocated, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the recoverable amount.

Going Concern

Management has assessed and concluded that the going concern assumption is appropriate for a period of at least twelve months following the end of the Reporting Period. Management applied significant judgment in arriving at this conclusion including:

- i. The amount of revenue to be generated from existing and new licenses to provide sufficient cash flow to fund operations and other committed expenditures;
- ii. A reorganization of the Company's products offered for sale to move away from certain goods that have become commoditized;
- iii. The ability to convert existing debt into equity;
- iv. The ability to enter into new financing agreements; and
- v. The streamlining of general and administrative expenses to manage cash flows

Contingencies

Management's determination of the existence of contingencies requires the use of judgment. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also applies judgment to assess the likelihood of the occurrence of one or more future events. When contingencies exist, management estimates the related financial impact to the Company based on the possible outcomes of one or more future events. The Company's contingencies are disclosed in note 32 of the Financial Statements.

Financial Instruments

Liquidity Risk

The Company's financial instruments consist of cash and equivalents, accounts receivable, short-term debt, other receivables, accounts payable and accrued liabilities, lease liabilities and promissory notes. 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.

Risk Factors

Investing in the Company involves significant risks. An investor should carefully consider the risks described below. The risks and uncertainties described below are those that the Company currently believes to be material, but they are not the only ones that the Company faces. If any of the following risks, or any other risks and uncertainties that the Company has not yet identified or that the Company currently consider not to be material, occur or become material risks, the Company's business, prospects, financial condition, results of operations and cash flows could be materially and adversely affected. In that event, the market price of the Company could decline, and an investor could lose part or all of such investor's investment.

United States Regulatory Matters

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 Company's business, prospects, results of operation, and financial condition.

The Company 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. The Company has 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, the Company also produces and sells CBD products derived from hemp 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 may 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 Company'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, the Company's business, results of operations, financial condition and prospects would be materially adversely affected. See Section 17 – Risk Factors in the Listing Statement 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 below for further information on the material facts, risks and uncertainties related to the Company in connection with its involvement in the marijuana industry in the United States.

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 legally produced hemp (including any part of the plant *Cannabis sativa* L. 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 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.

On October 29, 2019, the USDA released the text of its interim final rule for regulations establishing a domestic hemp production program. Since this is an interim final rule, it will be in effect immediately upon being published in the Federal Register. In order to produce hemp, a farmer must first be licensed or authorized under a state program or through the USDA hemp program. If a state desires to have primary regulatory authority over hemp production in their borders, they may submit a plan for monitoring and regulating hemp production to USDA. States that have already submitted a plan will be given the chance to reaffirm the plan they want USDA to evaluate, or to submit a new plan if desired. The rule also establishes a USDA plan to regulate hemp production in states or areas where hemp production has been legalized, but no approved state plan is in place. Farmers may not grow hemp in states that have not legalized its production within their borders.

Despite the passage of the 2018 Farm Bill and the release of the USDA’s interim final rule, 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” in the Listing Statement for further details.

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 the Company, 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 the Company, and there is risk that changes in federal or state regulations could impact the legality of the operations of the Company.

There is also risk that state or local authorities could take enforcement action against the Company.

Any investment in the Company is speculative due to a variety of factors, including the nature of the Company's business. An investment in the Company 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 the Company's business activities.

If the Company's operations are found to be in violation of any of such laws or any other governmental regulations, the Company may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of the Company's operations or asset seizures, any of which could adversely affect the Company's business and financial results, including its reputation and ability to conduct business, the listing of its securities on various stock exchanges, operating results, profitability or liquidity or the market price of its publicly traded 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.

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 Company and its shareholders. Further, future presidential administrations may want to treat marijuana differently and potentially enforce the federal laws more aggressively.

See the Company's Listing Statement dated July 9, 2019 as found under the Company's SEDAR profile (the "Listing Statement") for further details and risks relating to cannabis regulatory issues in the United States.

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. 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 Company 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 Company'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 Company to operate and conduct its business as planned or to operate efficiently.

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 Company's efforts, regulatory compliance and the process of obtaining regulatory approvals can be costly and time-consuming. No assurance can be given that the Company will receive the requisite licenses, permits or cards to operate its businesses. In addition, local laws and ordinances could restrict the Company's business activity. Although legal under the laws of the states in which the Company'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 Company's business. The Company 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 Company's business, results of operations, financial condition or prospects.

Regulatory Scrutiny

The Company'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. As a result, the Company 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 Company's ability to carry on its business in the United States.

The Company'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 Company 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 Company's ability to 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 Company.

Constraints on Marketing Products

The development of the Company'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 Company's ability to compete for market share in a manner similar to other industries. If the Company 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 selling prices for its products, the Company's sales and operating results could be adversely affected.

Proceeds of Crime Statutes

The Company 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 Company'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 Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends on the Subordinate Voting Shares in the foreseeable future, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Risks Related to the Ability to Trade Securities in Canada

The Company's existing involvement 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 Company's shares to make and settle trades. In particular, SVS would become highly illiquid within the US as until an alternative was implemented, investors would have no ability to affect a trade of SVS through the facilities of a stock exchange.

Limited Trademark Protection

The Company 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 Company 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.

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 Company were to experience a bankruptcy, there is no guarantee that U.S. federal bankruptcy protections would be available to the Company, which would have a material adverse effect.

Legality of Contracts

Because the Company's contracts involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, the Company may face difficulties in enforcing its contracts in U.S. federal and certain state courts.

Newly Established Legal Regime

The Company 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 Company'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 Company, including without limitation, the costs to remain compliant with applicable laws and the impairment of its business or the ability to raise additional capital.

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.

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, the Company is not able to obtain bank financing in the United States or financing from other United States federally regulated entities. The Company has historically, and continues to have, robust access to equity and debt financing from prospectus exempt (private placement) markets in the United States. The Company's executive team and board have extensive relationships with sources of private capital (such as funds and high net worth individuals). The Company expects to generate adequate cash to fund its continuing operations, however, there can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable.

Liability for Actions of Employees, Contractors and Consultants

The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against the Company. The Company 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 Company 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 Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company 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 Company, 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 Company'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.

Currency Fluctuations

Due to the Company's present operations in the United States, and its intention to continue future operations outside Canada, the Company 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 Company's revenue will be earned in US dollars, but a portion of its operating expenses are incurred in Canadian dollars. The Company does not have currency hedging arrangements in place and there is no expectation that the Company 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 Company's business, financial position or results of operations.

Inability to Protect Intellectual Property

The Company's success is dependent upon its intangible property and technology. The Company 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 Company 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 Company to protect its intangible property, technology and information will be adequate to prevent misappropriation or independent third-party development of the Company's intangible property, technology or processes. It is likely that other companies can duplicate a production process similar to the Company's. To the extent that any of the above would occur, revenue could be negatively affected, and in the future, the Company 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 Company'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 Company's names and logos. If the Company'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 Company's business and might prevent its brands from achieving or maintaining market acceptance.

The Company 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 Company to incur significant penalties and costs.

Trade Secrets may be Difficult to Protect

The Company's success depends upon the skills, knowledge and experience of its scientific and technical personnel, consultants and advisors, as well as contractors. Because the Company 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 Company'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 Company's competitive position.

Use of Customer Information and Other Personal and Confidential Information

The Company collects, process, maintains and uses data, including sensitive information on individuals, available to the Company through online activities and other customer interactions with its business. The Company'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 Company 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 Company's practices or fail to be observed by its employees or business partners. If so, the Company 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 Company's reputation, force it to spend significant amounts to defend its practices, distract its management or otherwise have an adverse effect on its business.

The Company is a Holding Company

The Company is a holding company and essentially all of its assets are the capital stock of its operating subsidiary. As a result, investors in the Company are subject to the risks attributable to its operating subsidiary. As a holding company, the Company conducts substantially all of its business through its operating subsidiary, which generates substantially all of its revenues. Consequently, the Company'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 Company. 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 Company'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 Company.

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 Company'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 Company's control, including, but not limited to the following:

- actual or anticipated fluctuations in the Company'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 Company will operate;
- addition or departure of the Company'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 Company's industry generally and its business and operations both domestically and abroad;
- announcements of developments and other material events by the Company 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 Company or its competitors;
- operating and share price performance of other companies that investors deem comparable to the Company 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 Company'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 Company'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 Company's operations could be adversely impacted, and the trading price of the Subordinate Voting Shares may be materially adversely affected.

Liquidity

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

Reliance on Management

Success of the Company will be dependent upon the ability, expertise, judgment, discretion and good faith of its senior management and key personnel. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

Insurance and Uninsured Risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labour disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability. Although the Company intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Emerging Industry

The recreational cannabis industry is emerging. There can be no assurance that an active and liquid market for shares of the Company will develop and shareholders may find it difficult to resell their Subordinate Voting Shares. Accordingly, no assurance can be given that the Company or its business will be successful.

Management of Growth

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

Internal Controls

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

Litigation

The Company may become party to litigation from time to time which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue operating and the market price for the Subordinate Voting Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant resources of Bhang and/or the Company.

Product Liability

The Company 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 Company'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 Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company'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 Company could result in increased costs, could adversely affect the Company'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 Company. There can be no assurances that the Company 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 Company'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 Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company 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 Company's products and could have significant reputational and brand damage. Although the Company 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 Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by the FDA, or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Competition

The Company 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 Company. Increased competition by larger and better financed competitors could materially and adversely affect the proposed business, financial condition and results of operations of the Company. Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. If the number of users of recreational cannabis in the states in which the Company will operate its business increases, the demand for products will increase and the Company 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 Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company 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 Company's ability to raise capital. Because a significant portion of the Company'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 Company's liquidity and its operations. Such reductions may force the Company to reallocate funds from other planned uses and may have a significant negative effect on the Company's business plan and operations, including its ability to develop new products and continue its current operations. If the Company's stock price declines, it can offer no assurance that the Company will be able to raise additional capital or generate funds from operations sufficient to meet its obligations. If the Company is unable to raise sufficient capital in the future, the Company may not be able to have the resources to continue its normal operations.

Creating, Maintaining and Promoting the Company's Brand

Management believes that creating, maintaining and promoting the Company's brand is critical to expanding its customer base. Maintaining and promoting the Company's brand will depend largely on its ability to continue to provide quality, reliable and innovative products, which it may not do successfully. The Company may introduce new products or services that its customers do not like, which may negatively affect its brand and reputation. Maintaining and enhancing the Company's brand may require it to make substantial investments, and these investments may not achieve the desired goals. If the Company 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.

Limited Market for Securities

The Subordinate Voting Shares will trade on the CSE, however, there can be no assurance that an active and liquid market for the Subordinate Voting Shares will develop or be maintained in order to consider market equity funding.

Risk of Damage to Reputation and Negative Publicity

The Company's ability to retain existing management contracts and client relationships and to attract new business is dependent on the maintenance of its reputation. The Company 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 Company'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 Company, could have a material adverse effect on the financial condition, results or operations of the Company.

Risks in Fluctuations in Foreign Currency

Fluctuations in the value of Canadian and US currencies in which the Company may generate revenues or incur costs may be difficult to predict and could cause the Company to incur currency exchange losses. Receivables and liabilities in currencies other than the functional currency could also move adversely to the Company from the date of accrual by the Company 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 Company's business. The Company cannot predict the effect of exchange rate fluctuations on future operating results. Future fluctuations in currency exchange rates could materially and adversely affect the Company's business. The Company 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 Company 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 Company's assets are governed or located outside of Canada, investors may have difficulty collecting from the Company any judgments obtained in the Canadian courts and predicated on the civil liability provisions of securities legislation.

The Company has limited operating history, a history of losses and the Company cannot assure profitability.

As the Company has yet to generate profits, it is extremely difficult to make accurate predictions and forecasts of its finances. This is compounded by the fact the Company operates in the cannabis industry, which is rapidly transforming. There is no guarantee that the Company's products or services will continue to be attractive to existing and potential consumers.

Inability to Sustain Pricing Models

Significant price fluctuations or shortages in the cost of materials may increase the Company's cost of goods sold and cause its results of operations and financial condition to suffer. If the Company 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 Company. If the Company 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.

Uncertainty about the Company's ability to continue as a going concern.

The Company may seek additional capital, as well as consider possible mergers, acquisitions, joint ventures, partnerships and other business arrangements intended to expand its product offerings in the cannabis industry and grow its revenue. The Company's ability to continue as a going concern is dependent upon its ability in the future to grow its revenue and achieve profitable operations and, in the meantime, to obtain the necessary financing to meet its obligations and repay its liabilities when they become due. External financing, predominantly by the issuance of equity and debt, will be sought to finance the operations of the Company; however, there can be no certainty that such funds will be available at terms acceptable to the Company. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

The Company's actual financial position and results of operations may differ materially from the expectations of the Company's management.

The Company's actual financial position and results of operations may differ materially from management's expectations. As a result, the Company's revenue, net income and cash flow may differ materially from the Company's projected revenue, net income and cash flow. The process for estimating the Company's revenue, net income and cash flow requires the use of judgment in determining the appropriate assumptions and estimates. These estimates and assumptions may be revised as additional information becomes available and as additional analyses are performed. In addition, the assumptions used in planning may not prove to be accurate, and other factors may affect the Company's financial condition or results of operations.

If the Company is unable to attract and retain key personnel, it may not be able to compete effectively in the cannabis market.

The Company's success has depended and continues to depend upon its ability to attract and retain key management, including the Company's CEO. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain

sufficient additional employees or engineering and technical support resources could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition. Shortages in qualified personnel or the loss of key personnel could adversely affect the financial condition of the Company, results of operations of the business and could limit the Company's ability to develop and market its cannabis-related branded products. The loss of any of the Company's senior management or key employees could materially adversely affect the Company's ability to execute the Company's business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all. The Company does not maintain key person life insurance policies on any of the Company's employees.

Failure to successfully integrate acquired businesses, its products and other assets into the Company, or if integrated, failure to further the Company's business strategy, may result in the Company's inability to realize any benefit from such acquisition.

The consummation and integration of any acquired business, product or other assets into the Company may be complex and time consuming and, if such businesses and assets are not successfully integrated, the Company may not achieve the anticipated benefits, cost-savings or growth opportunities. Furthermore, these acquisitions and other arrangements, even if successfully integrated, may fail to further the Company's business strategy as anticipated, expose the Company to increased competition or other challenges with respect to the Company's products or geographic markets, and expose the Company to additional liabilities associated with an acquired business, technology or other asset or arrangement.

Conflict of Interest

Certain of the Company's directors and officers are also directors and officers of other companies. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers conflict with or diverge from the Company's interests. In accordance with the *Business Corporations Act* (Ontario), directors who have a material interest in any person who is a party to a material contract or a proposed material contract are required to disclose that interest and generally abstain from voting on any resolution to approve the contract.

General Economic and Political Risks

The Company may be affected by possible political or economic instability. The risks include, but are not limited to, terrorism, military repression, extreme fluctuations in currency exchange rates, high rates of inflation or unemployment, consumer trends and spending and an outbreak of a public health crisis including epidemics, pandemics or outbreaks of new infectious diseases or viruses, as well as related events that can result in volatility and disruption to global supply chains, operations, mobility of people, patterns of consumption and services or goods. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, distribution, price controls, export controls, income taxes, expropriation of property, maintenance of assets, environmental legislation, land use, land claims of local people and water use. The effect of these factors cannot be accurately predicted.

Global Economic Uncertainty

Demand for the Company's products and services are influenced by general economic and consumer trends beyond the Company's control. There can be no assurance that the Company'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 Company'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 Company might experience reductions in business activity, increased funding costs and funding pressures, as applicable, a decrease in the market price of the Subordinate Voting Shares, a decrease in asset values, additional write-downs and impairment charges and lower profitability.

Global Outbreak of COVID 19 (Coronavirus)

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the federal, state, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders in Canada and the United States. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put in place by Canada, the United States and other countries to fight the virus. While the extent of the impact is unknown, we recognize this outbreak may cause reduced customer demand, supply chain disruptions, staff shortages, and increased government regulations, all of which may negatively impact the Company's business and financial condition.

The COVID-19 pandemic has forced the Company to reassess some of its business plans and priorities given the uncertain economic future. For example, the Company's launch into new states has been delayed and, in some cases, may be put on hold for the moment. Bhang's licensee sales and ability to produce chocolate in California has been reduced due to social distancing policies and/or delivery only rules in certain municipalities in California. Producing chocolate within social distancing rules has limited the number of people who can be in a factory at any one time. Although Bhang itself does not produce cannabis products, these cover-related factors have had an impact on the Company's actual operations. Working with Bhang's licensees during COVID-19 quarantine has required an extra amount of coordination and paperwork and logistics management between its licensees and internal Bhang departments.

The impacts of the COVID-19 pandemic may also include: a decrease in demand for the products; a reduction in production levels; increased costs resulting from the Company's efforts to mitigate the impact of the COVID-19 pandemic on operations; a deterioration of worldwide credit and financial markets that could limit the Company's ability to obtain external financing to fund the Company's capital expenditures or its operations; and a disruption to the Company's distribution channels or supply chains. A material adverse effect on the Company's licensees, employees, customers, suppliers and/or distributors could have a material adverse effect on the Company.

The transmission of COVID-19 and efforts to contain its spread have recently resulted in international, national and local border closings, travel restrictions, significant disruptions to business operations, supply chains and customer activity and demand (across all sectors), service cancellations, reductions and other changes, and quarantines, as well as considerable general concern and uncertainty.

The overall severity and duration of COVID-19-related adverse impacts on the Company's business will depend on future developments which cannot currently be predicted, including directives of government and public health authorities, the speed at which licensees, suppliers and distributors can return to full

production, the status of labour availability and the ability to staff operations and facilities. Even after the COVID-19 outbreak has subsided, the Company may continue to experience material adverse impacts to its business as a result of the global economic impact, including any related recession.

See Section 17 “Risk Factors” of the Company’s Listing Statement for additional risks relating to the Company.

Canadian Securities Administrators Staff Notice 51-352 (Revised)

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 addresses the disclosure expectations outlined in Staff Notice 51-352. The Company has ancillary involvement in the US marijuana industry through its intellectual property licensing program in which Bhang branded marijuana 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. The Company does not directly own, hold or handle any marijuana or marijuana derived products.

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.	<i>The Company has ancillary involvement in the US marijuana industry through its intellectual property licensing program in which Bhang branded marijuana products are manufactured and sold by its licensees in states where they are permitted to sell marijuana products.</i>
	Prominently state that marijuana is illegal under U.S. federal law and that enforcement of relevant laws is a significant risk.	<i>See above under “United States Regulatory Matters”</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.	<i>See Listing Statement Section 3.3– Trends, Commitments, Events or Uncertainties – Regulation of Cannabis in the United States Federally</i> <i>See above under “Risk Factors”</i>
	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.	<i>See above under “Risk Factors”</i>
	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	<i>The Company has historically relied on equity financings to satisfy its capital requirements and will continue to depend upon</i>

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
	order to support continuing operations.	<i>equity capital to finance its planned development and expansion activities moving forward.</i> <i>See above under “Risk Factors”</i>
	Quantify the issuer’s balance sheet and operating statement exposure to U.S. marijuana-related activities.	<i>The Company estimates that 19% of its balance sheet in the Financial Statements relates to its marijuana related business.</i>
	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.	<i>The Company receives legal advice from U.S. attorneys regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law. The Company and its U.S. counsel continue to monitor compliance very carefully.</i>
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.	N/A
	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	N/A

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
	which the issuer is aware, that may have an impact on the investee's licence, business activities or operations.	
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.	<i>To the best of Company's knowledge, all companies to which it licenses its intellectual property are in compliance with the State cannabis laws in which it operates.</i>

Contingencies

- a) During the three months ended March 31, 2020, an action for wrongful dismissal by a former officer of Bhang was filed against Bhang claiming US\$475,000, plus CAD\$250,000 for moral damages and CAD\$1,000,000 for aggravated and punitive damages, plus costs and interest and other unspecified amounts. The Company believes the damages claimed are remote and exaggerated. During the year ended December 31, 2019, Bhang terminated the former officer's employment for cause.
- b) On December 4, 2019, a putative class action was filed against Bhang in the United States District Court for the Central District of California, alleging that the class members were harmed because the labels on certain chocolate products bearing the Bhang name that were purchased during a certain time frame misrepresented the THC and CBD content of those products. On February 20, 2020, the plaintiff filed a First Amended Complaint that contained the same substantive allegations and causes of action but added the Company and other parties not related to the Company or its subsidiaries as additional defendants. The plaintiff and the putative class seek, among other things, damages, restitution, and injunctive relief. The plaintiff had not identified the amount of his or the purported class' claimed damages in the pleadings. Subsequent to the period ended June 30, 2020, the Company entered into a settlement agreement and mutual release with the plaintiff, pursuant to which, the Company agreed to pay a series of payments totalling \$40,000 to the plaintiff in exchange for a full release against all claims against the Company. While the Company has, at all times, denied any wrongdoing since the Company neither manufactured or distributed the products at issue during the relevant time period, the Company entered into the settlement agreement solely to avoid the legal costs and inconvenience that would be incurred in defending the action.
- c) On April 17, 2018, Bhang entered into a joint venture agreement with a Canadian corporation (the "other party") to carry out the production, marketing, distribution and sale of all Bhang-branded "Marijuana" products on an exclusive basis in Canada and a non-exclusive right to export Bhang-branded "Marijuana" products world-wide. The Board of Directors of the joint venture consists of two nominees of each party. While the other party is the manager of the joint venture, all spending programs require a proposal to the Board and unanimous approval of the Board. Pursuant to the joint venture agreement, each party is to contribute \$100,000 to the joint venture company. As at December 31, 2018 and 2019, the Company had yet to make its

contribution. During the six months ended June 30, 2020, the contribution was made by the Company.

On April 17, 2018, Bhang also entered into a subscription agreement with the other party to issue 5,000 shares from treasury for proceeds of \$1,000,000. As the other party was a publicly listed company, it agreed to take possession of the shares after meeting certain regulatory requirements. On June 14, 2018, the Company signed a letter of agreement stating that a loan of \$1,000,000 be made by the other party to the joint venture company. The letter provides that the \$1,000,000 loan was to be used by the joint venture company to prepay for expenses to be carried out or supplied by Bhang. This letter does not mention, nor does it confirm any re-characterization of the \$1,000,000 described in note 20 of the Financial Statements. The terms of the letter provide for conversion of the loan into the same number of common shares of Bhang as contemplated in the original subscription agreement for a period of six months from the date of the Transaction. During the year ended December 31, 2019, the Company received notice from the other party that the payment of \$1,000,000 described in note 20 of the Financial Statements represented an advance payment on royalties for Bhang from the joint venture company. The Company disagrees with this position and maintains the intent of the transaction was always the exchange of common shares of Bhang for the payment of \$1,000,000 once the other party was able to meet its regulatory requirements to hold such shares.

Further, the Company has concerns over the management of the joint venture which includes, but is not limited to, non-approved expenses for a total amount of \$785,330 incurred on behalf of the joint venture company, that occurred during the year ended December 31, 2019. As a result, the Company has not recorded any share of loss relating to the disputed amount of \$785,330. During the six months ended June 30, 2020, the joint venture had net income of \$99,600, of which the Company has not recorded any share. No legal proceedings had been commenced and the parties are in the process of discussing these issues.

Subsequent to the period ended June 30, 2020, the Company and the other party executed a settlement agreement (the "Settlement Agreement") with respect to the subscription agreement and the joint venture. Pursuant to the Settlement Agreement, the existing joint venture agreement, the license agreement from the Company to the joint venture, and any other agreements between or among the parties relating to the joint venture were terminated, and the Company disposed of its shares in the joint venture company to the other party for nominal consideration. The parties also entered into a new license agreement whereby the licensee has the exclusive right to manufacture and distribute selected Bhang THC-infused chocolate products in Canada and the non-exclusive right to export those products internationally until December 31, 2030 unless either party is in breach or the license agreement is terminated pursuant to the terms of the license agreement. Pursuant to the new license agreement, the \$1,000,000 previously paid to the Company is to be characterized as a non-refundable start-up fee.

Subsequent Events

- a) Subsequent to June 30, 2020, the Company and one of its shareholders formalized the terms of advances of \$196,240 (CAD\$267,435) made during the six month period ended June 30, 2020 by way of an operating facility of up to CAD\$1,000,000 for working capital purposes. All outstanding advances are repayable on demand, but have a maximum term of 36 months from the date of the agreement. All advances bear interest at a rate of 8% per annum, with interest payable monthly in arrears due on the first business day of each month. At the option of the lender, any interest or outstanding principal may be converted to listed shares of the Company at a price of

\$0.15 per share. In connection with the credit facility, the Company issued warrants to purchase 6,666,667 SVS of the Company at an exercise price of CAD\$0.15 per share for a period of 24 months.

- b) Subsequent to June 30, 2020, the Company and the lender entered into an agreement that settled the two convertible promissory notes with aggregate principal of CAD\$600,000 by the Company issuing to the lender a total of 6,666,667 SVS, at a deemed price of CAD\$0.09 per share. Furthermore, the lender has settled and released all other rights and remedies available under its Forbearance Agreement and prior financings in exchange for a lump sum payment of \$1,152,857 which was satisfied by the Company with (i) the issuance of 12,809,524 SVS, at a deemed price of \$0.09 per share, and (ii) the issuance of warrants for the purchase of 5,261,905 SVS, exercisable for a period of 24 months from the date of issuance at an exercise price of \$0.15 per share.
- c) Subsequent to June 30, 2020, 11,700 MVS of the Company were converted into 11,700,000 SVS.

The Company's other subsequent events are discussed in the Contingencies section of this MD&A.

Internal Control over Financial Reporting and Disclosure Controls and Procedures (“DC&P”)

Management, including the 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.

As the Company is a Venture Issuer (as defined under *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*) (“NI 52-109”), the Company and Management are not required to include representations relating to the evaluation, design, establishment and/or maintenance of disclosure controls and procedures (“DC&P”) and/or ICFR, as defined in NI 52-109, **nor has it completed such an evaluation**. Inherent limitations on the ability of the certifying officers to design and implement on a cost-effective bases DC&P and ICFR for the issuer may result in additional risks of quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.