Consolidated Financial Statements

Bhang Inc.
(formerly Pele Mountain Resources Inc.)

For the years ended December 31, 2019 and 2018

(Stated in United States Dollars)

INDEX

Independent Auditor's Report

To the Shareholders of Bhang Inc. (formerly Pele Mountain Resources Inc.):

Opinion

We have audited the consolidated financial statements of Bhang Inc. (formerly Pele Mountain Resources Inc.) and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of loss and other comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that during the year ended December 31, 2019, the Company incurred a net loss of $15,079,185 and as of that date, the Company's accumulated deficit was $18,181,634. As at December 31, 2019, the Company had a working capital deficit of $1,108,493. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on July 9, 2019.

Other Information

Management is responsible for the other information. The other information comprises Management’s Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Anand Beejan.

MNP SENCRL, srl [1]

Montréal, Québec

June 29, 2020

[1] CPA auditor, CA, public accountancy permit no. A126822

MNP SENCRL srl / LLP

Bhang Inc. (formerly Pele Mountain Resources Inc.)

Consolidated Statements of Financial Position as at December 31
(Stated in United States Dollars)

	2019	2018
Assets		
Current Assets		
Cash	$ 390,655	$ 490,970
Trade and other receivables, net (note 23(c))	437,975	655,164
Inventory (note 7)	560,595	55,950
Marketable securities (note 9)	-	590,637
Deferred transaction costs (note 2)	-	2,119,103
Prepaid expenses	184,944	1,683,016
Contract assets	188,610	101,234
Deposits	15,515	-
	1,778,294	5,696,074
Property and equipment (note 10)	352,272	182,176
Right-of-use asset (note 12)	29,289	-
Investment in Joint Venture (note 8)	75,288	158,647
Deposits	-	18,515
	$ 2,235,143	$ 6,055,412
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,905,658	$ 594,016
Contract liability	310,000	184,715
Lease liabilities (note 15)	45,842	-
Convertible promissory notes payable (note 18)	465,287	-
Notes payable (note 13)	160,000	-
	2,886,787	778,731
Shareholders' Equity (Deficiency)		
Share capital (note 19)	15,782,234	7,704,130
Contributed surplus (note 20)	776,664	-
Treasury shares	-	(325,000)
Share subscriptions payable (note 19(vii))	1,000,000	1,000,000
Equity portion of promissory notes (note 18)	36,995	-
Accumulated other comprehensive loss	(65,903)	-
Accumulated deficit	(18,181,634)	(3,102,449)
	(651,644)	5,276,681
	$ 2,235,143	$ 6,055,412

Going Concern (Note 1)
Commitments (Note 32)
Contingencies (Note 33)
Subsequent Events (Note 34)

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

Approved on behalf of the Board

Signed "Jamie Pearson" , Director   Signed "Stephen Gledhill" , Director

Bhang Inc. (formerly Pele Mountain Resources Inc.)

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31
(Stated in United States Dollars)

	2019	2018
Revenue		
Product sales (notes 22(ii) and 29)	$ 3,904,340	$ 791,471
Licensing (note 22(ii and iii))	787,005	782,886
Other (note 22(ii))	86,750	64,380
	4,778,095	1,638,737
Cost of Sales	5,284,913	651,305
Gross (Loss)/Profit	(506,818)	987,432
Expenses		
Wages and salaries (note 22(v))	1,947,221	878,150
Sales and marketing	1,838,041	412,505
Professional fees	2,133,541	485,128
Publicity and investor relations	5,488	-
Product development	-	10,784
General and administrative (note 25)	746,636	459,415
Share-based compensation	1,073,950	-
Provision for bad debts	339,982	306,518
Loss on disposal of assets	11,614	-
	8,096,473	2,552,500
Loss before the Undernoted	(8,603,291)	(1,565,068)
Interest expense	(49,691)	(41,667)
Interest expense on lease liabilities (note 15)	(28,836)	-
Interest accretion (note 18)	(40,037)	-
Unrealized (Loss) gain on marketable securities (note 9)	(85,055)	85,055
Realized gain on marketable securities (note 9)	220,506	-
Share of loss of joint venture (note 8)	(81,538)	(16,928)
Gain on settlement of debt (notes 19(xi) and 30)	42,958	-
Transaction costs (note 2)	(4,615,778)	-
Foreign exchange loss	(21,112)	-
Due diligence costs	(252,500)	-
Loss on impairment of goodwill (note 3)	(1,564,811)	-
Net Loss for the year	(15,079,185)	(1,538,608)
Currency translation adjustment	(65,903)	-
Comprehensive Loss for the Year	$ (15,145,088)	$ (1,538,608)
Net Loss per Share - basic and diluted	$ (0.15)	$ (0.02)
Weighted Average Number of SVS and MVS Outstanding - basic and diluted	98,770,343	74,256,845

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

Bhang Inc. (formerly Pele Mountain Resources Inc.)

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
For the years ended December 31
(Stated 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, 2018	11,793,240	52,489.581	$ 664,206	$ (325,000)	$ 777,461	$ -	$ -	$ -	$ (1,563,841)	$ (447,174)
Proceeds from issuance of common shares (note 19(i))	1,888,551	-	591,692	-	-	-	-	-	-	591,692
Issued for services rendered note (19(ii), (iii) and (vi)	11,988,518	1,991.029	4,108,996	-	-	-	-	-	-	4,108,996
Shares subscriptions received (note 19(vii))	-	-	-	-	-	1,000,000	-	-	-	1,000,000
Issued pursuant to exercise of warrants (note 19(v))	6,215,104	-	3,277,461	-	(777,461)	-	-	-	-	2,500,000
Issued pursuant to conversion of note payable (note 19(iv))	538,545	2,153.518	1,000,000	-	-	-	-	-	-	1,000,000
Issuance costs (note 19(vi))	-	-	(1,938,225)	-	-	-	-	-	-	(1,938,225)
Net loss for the year	-	-	-	-	-	-	-	-	(1,538,608)	(1,538,608)
Balance - December 31, 2018	32,423,958	56,634.128	$ 7,704,130	$ (325,000)	$ -	$ 1,000,000	$ -	$ -	$ (3,102,449)	$ 5,276,681

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

Bhang Inc. (formerly Pele Mountain Resources Inc.)

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
For the years ended December 31
(Stated 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 19(viii))	941,958	-	350,000	-	-	-	-	-	-	350,000
Cancellation of treasury shares (note 19 (xiv))	-	-	-	325,000	(325,000)	-	-	-	-	-
SVS issued to shareholders of Bhang Canada	100	-	-	-	-	-	-	-	-	-
SVS issued to existing shareholders of the Company (note 2)	4,563,976	-	1,738,393	-	-	-	-	-	-	1,738,393
SVS issued pursuant to subscription receipts (note 19(ix))	11,182,635	-	3,962,800	-	-	-	-	-	-	3,962,800
SVS issued as settlement of accounts payable (note 19(xi))	684,325	-	143,829	-	-	-	-	-	-	143,829
SVS issued to consultants for services rendered (note 19(xii))	1,500,000	-	630,000	-	-	-	-	-	-	630,000
SVS issued pursuant to exercise of broker warrants (note 19(x)	215,550	-	66,751	-	14,149	-	-	-	-	80,900
MVS issued upon acquisition of Red Ace (note 19(xiii))	-	4,743.074	1,186,331	-	-	-	-	-	-	1,186,331
Fair value of equity of conversion feature (note 18)	-	-	-	-	-	-	36,995	-	-	36,995
Share-based compensation (note 20(i))	-	-	-	-	1,087,515	-	-	-	-	1,087,515
Net loss for the year	-	-	-	-	-	-	-	-	(15,079,185)	(15,079,185)
Cumulative Translation Reserve	-	-	-	-	-	-	-	(65,903)	-	(65,903)
Balance - December 31, 2019	51,512,502	61,377.202	$ 15,782,234	$ -	$ 776,664	$ 1,000,000	$ 36,995	$ (65,903)	$ (18,181,634)	$ (651,644)

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

Bhang Inc. (formerly Pele Mountain Resources Inc.)

Consolidated Statements of Cash Flows
For the years ended December 31
(Stated in United States Dollars)

	2019	2018
Cash provided by (used in)		
Operating Activities		
Net loss	$ (15,079,185)	$ (1,538,608)
Adjustment for items included in net loss:		
Interest	4,691	(593,845)
Interest expense on lease liabilities	28,836	-
Transaction costs	4,615,778	-
Adjustments for non-cash items in net loss:		
Depreciation of property and equipment	70,245	28,771
Depreciation of right of use assets	89,092	-
Bad debt expense	339,982	306,518
Share of loss of joint venture	81,538	16,928
Unrealized loss (gain) on marketable investments	85,055	(85,055)
Realized gain on disposition of marketable investments	(220,506)	-
Unrealized gain on foreign exchange	(36,676)	-
Share-based compensation	1,073,950	-
Gain on settlement of debt	(42,958)	-
Loss on impairment of goodwill	1,564,811	-
Interest accretion	40,037	-
Loss on disposal of assets	11,614	-
Shares issued for services rendered	630,000	291,825
	(6,743,696)	(1,573,466)
Changes in non-cash working capital items (note 26)	2,545,398	(2,112,649)
Net cash used in operating activities	(4,198,298)	(3,686,115)
Net cash provided by (used in) investing activities (note 27)	3,319,268	(574,009)
Net cash provided by financing activities (note 28)	778,715	4,595,537
Change in cash	(100,315)	335,413
Cash - beginning of year	490,970	155,557
Cash - end of year	$ 390,655	$ 490,970
Supplemental cash flow disclosure		
Interest paid	$ 73,836	$ (635,512)
Common shares issued for services rendered	$ 773,829	$ 4,108,996
Common shares issued in connection with the Transaction	$ 1,738,393	$ -
Common shares issued to acquire Bhang Canada	$ 3,962,800	$ -
Common shares issued to acquire Red Ace	$ 1,186,331	$ -
Common shares issued pursuant of conversion of note payable	$ -	$ 1,000,000

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

1. Nature of Operations and Going Concern

Bhang Inc. (formerly Pele Mountain Resources 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 consolidated financial statements for the years ended December 31, 2019 and 2018, include the Company, its wholly-owned subsidiaries Bhang Canada Corp., and Bhang Corporation ("Bhang") and Bhang's wholly-owned subsidiary Red Ace, LLC ("Red Ace"), 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 RTO.

These 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 year ended December 31, 2019, the Company incurred a net loss of $15,079,185 (2018 - $1,538,608) and as of that date, the Company's accumulated deficit was $18,181,634 (2018 - $3,102,449). As at December 31, 2019, the Company had a working capital deficit of $1,108,493 (2018 - working capital of $4,917,343). In addition, during the year ended December 31, 2019, the Company had negative cash flows from operations of $4,198,298 (2018 - $3,686,115). 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 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 consolidated financial statements. The Company intends to generate additional capital through the issuance of common shares of the Company through private placements (see note 34).

(Stated 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	(12,325)
Transaction costs	$ 1,750,718

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.

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.

(Stated in United States Dollars)

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	3,962,800
Transaction costs	$ -

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, 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)	227,813
Fair value of purchase consideration	$ 1,414,756

The amount of goodwill is calculated as follows:

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

(Stated 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		172,185
Current Liabilities		
Accounts payable		117,805
Due to Bhang		33,906
Lease liability		10,529
Long-Term Debt		160,000
Total Liabilities Acquired		322,240
Net Identifiable Assets/ (Liabilities) Acquired	$	(150,055)

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 were $142,384 and $108,682 respectively. As at December 31, 2019, there are 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.

4. Basis of Presentation

a) Statement of Compliance

The Company's consolidated financial statements for the years ended December 31, 2019 and 2018 have been prepared and are in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved by the Board of Directors for issuance on June 29, 2020.

b) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, and stock options and warrants, which have been measured at fair value.

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

The 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.

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 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.

4. Basis of Presentation (continued)

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 consolidated financial statements reflect the results of operations and the assets, liabilities and shareholders' equity of Bhang.

5. Significant Accounting Policies

The significant accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, unless otherwise indicated.

a) Cash

Cash includes cash on hand and deposits with reputable financial institutions.

b) Inventory

Inventory is valued at the lower of cost and net realizable value. Manufactured inventory and work-in-progress includes an allocation of production overhead, which is based on normal operating capacity. The Company reviews inventories for obsolete, redundant and slow-moving goods and any such inventories identified are written down to net realizable value. The cost of inventory is recognized in cost of goods sold as items of inventory are sold on a first-in first-out basis.

c) Revenue

Revenue is recognized by the Company in accordance with IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). Through application of the standard, the Company recognizes revenue to depict the transfer of control of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

The Company records revenue when it has transferred the risks and rewards of ownership of the goods to the purchaser, when it has no continuing managerial involvement over the goods, when it is probable the Company will receive the consideration, and when it can reliably measure the amount of revenue and costs associated with the transaction.

5. Significant Accounting Policies (continued)

c) Revenue (continued)

In order to recognize revenue under IFRS 15, the Company applies the following five (5) steps:

- Identify a customer along with a corresponding contract;
- Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to a customer;
- Determine the transaction price the Company expects to be entitled to in exchange for services to a customer;
- Allocate the transaction price to the performance obligation(s) in the contract; and
- Recognize revenue when or as the Company satisfies the performance obligation(s).

Revenue is recognized upon the satisfaction of the performance obligation. For product sales the Company satisfied its performance obligation and transfers control upon delivery and acceptance by the customer and in some circumstances, at that time of shipment from the Company's supplier to the customer. Under IFRS 15, revenues from the sale product are generally recognized at a point of time when control of the goods have been transferred to the customer. Payment is typically due upon transferring the goods to the customer or within a specified time period permitted under the Company's credit policy.

With respect to licensing revenue, the Company satisfies its performance obligation over the term of the underlying agreement. Under IFRS 15, licensing revenue has two components that are recognized at different times. Revenue related to minimum monthly amounts are recognized over the time of the license. Revenue related to royalties are recognized during the period in which the underlying sales occur.

The Company will present a contract asset on the consolidated statements of financial position when the Company has satisfied its performance obligation and recognized the associated revenue before the consideration is paid or before payment is due. The contract asset represents the right to consideration in exchange for the use of items under license by the licensee. The Company will present a contract liability on the consolidated statements of financial position if the licensee has paid consideration, or if the Company has a right or consideration that is unconditional, before the use of the items under license by the license has occurred.

d) Cost of Goods Sold

Cost of goods sold includes the cost of packaged goods and finished products sold during the period, as well as associated freight and shipping costs, and inventory write-downs during the period.

e) Impairment of Trade and Other Receivables

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, financial condition of the customer and probability of payment, and anticipated industry conditions. Customer payments are regularly monitored and a loss allowance for expected credit losses based on the lifetime expected credit losses is established based on specific situations and overall industry conditions.

5. Significant Accounting Policies (continued)

f) Accounts Payable and Accrued Liabilities

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle this obligation are both probable and able to be reliably measured.

g) Related Party Transactions

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

h) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. Depreciation begins when an asset is available for use, meaning that it is in the location and condition necessary for it to be used in the manner intended by management. The estimated useful lives, residual values and method of depreciation are reviewed at each period end, with the effect of any changes in estimated useful lives and residual values accounted for on a prospective basis.

Depreciation is calculated applying the following useful lives:

Computer equipment	3 years on a straight line basis
Office furniture and equipment	5 years on a straight line basis
Trade equipment	5 years on a straight line basis
Leasehold improvements	3 years on a straight line basis

5. Significant Accounting Policies (continued)

i) Financial Instruments

IFRS 9 Financial Instruments ("IFRS 9") replaced IAS 39, Financial Instruments: recognition and measurement. IFRS 9 includes guidelines on classification and measurement of financial instruments, a new expected credit/loss model for calculating impairment on financial assets and new general hedging requirements.

IFRS 9 permits entities to elect into an irrevocable option for equity instruments to report changes in fair value in other comprehensive income.

On initial recognition, a financial asset is classified as fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI"), or amortized cost.

i) Financial assets classified at fair value through profit and loss

Financial assets are classified as FVTPL if the asset is an equity investment, if the Company has not elected to classify the equity investment as FVOCI, or if the Company's business model for holding the investment is achieved other than by both collecting contractual cash flows and by selling the assets.

FVTPL assets are initially recorded at fair value with gains and losses on disposition and subsequent changes in fair value recorded in net loss. Directly attributable transaction costs are reported in the Company's net loss as incurred.

5. Significant Accounting Policies (continued)

i) Financial Instruments (continued)

ii) Financial assets other than assets at fair value through profit and loss

Financial assets that are managed to collect contractual cash flows consisting of principal and interest on specified dates are subsequently measured at amortized cost.

Financial assets recorded at amortized cost are measured at initial cost plus interest calculated using the effective interest rate method net of cumulative repayments and cumulative impairment losses. Subsequent to initial measurement, financial assets are measured at amortized cost using the effective interest rate method. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred substantially all the risks and rewards of the asset. The Company assessed at each reporting date whether objective evidence that a financial asset is impaired exists. For financial assets deemed to be impaired, the impairment provision is based on the expected loss.

iii) Non-derivative financial liabilities

Non-derivative financial liabilities are recognized initially on the date the Company becomes a party to the contractual obligations of the financial instrument. All non-derivative financial liabilities are recognized initially at fair value along with directly attributable transaction costs. Subsequent to initial measurement, non-derivative financial liabilities are measured at amortized cost using the effective interest rate method.

iv) Derivative financial instruments - warrants and options

A financial derivative such as warrants or options that will be settled with the Company's own equity instruments will be classified as an equity instrument if the derivative is to acquire a fixed number of the Company's own equity instruments for a fixed amount of Canadian dollars.

A financial derivative will be considered a financial liability at fair value through profit or loss if it's to acquire either a variable number of equity instruments and the options/warrants were not offered pro-rata to all existing owners of the case class of non-derivative equity instruments.

5. Significant Accounting Policies (continued)

i) Financial Instruments (continued)

Classification and measurement of financial statements is dependent on the entity's business model for managing the financial assets and related contractual cash flows. IFRS 9 retains most of the requirements of IAS 39 related to classification and measurement of financial liabilities.

The Company's classification and measurement of its financial assets and financial liabilities are as follows:

Asset/Liability	Classification	Measurement
Cash	FVTPL	Fair value
Marketable securities	FVTPL	Fair value
Trade and other receivables	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Note payable	Amortized cost	Amortized cost
Other liabilities	Amortized cost	Amortized cost
Convertible promissory notes payable	Amortized cost	Amortized cost

j) Impairment of financial assets

IFRS 9 includes a three-stage expected credit loss (“ECL”) model for determining impairment of financial assets. The expected credit loss model does not require the occurrence of a triggering event before an entity recognizes credit losses. IFRS 9 requires an entity to recognize expected credit losses upon initial recognition of a financial asset and to update the quantum of expected credit losses at the end of each reporting period to reflect changes to credit risk of the financial asset. The Company has applied the simplified approach for its accounts receivable and contract assets as permitted by IFRS 9, whereby the recognition of expected losses does not require the Company to track changes in credit risk. As such, the Company will recognize a loss allowance at each reporting date based on the lifetime expected credit losses from the date of the receivable. For financial assets measured at amortized cost, loss allowances for expected credit losses are presented in the consolidated statements of financial position as a deduction from the gross carrying amount of the financial asset.

5. Significant Accounting Policies (continued)

k) Impairment of Long-lived Assets

Property and equipment and definite lived intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Indefinite lived Intangible assets, including goodwill, are tested for impairment annually. For the purposes of measuring recoverable values, assets are aggregated into cash generating units ("CGUs") based on an assessment of the lowest levels for which there are separately identifiable cash flows. The determination of individual CGUs is based on management's judgment regarding shared infrastructure, geographical proximity and similar exposure to market risk. The recoverable value is the greater of an asset's fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset. An impairment loss is recognized for the value by which the asset's carrying value exceeds its recoverable value. Impairment losses are recognized in the consolidated statements of loss and comprehensive loss.

Impairment losses may be reversed in a subsequent period where the impairment no longer exists or has decreased. The carrying amount after a reversal must not exceed the carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized. A reversal of impairment loss is recognized in the consolidated statements of loss and comprehensive loss.

l) Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Any good will recognized on an acquisition is allocated to the cash-generating unit ("CGU") or CGUs that are expected to benefit from the synergies of the combination.

Goodwill and intangible assets with indefinite lives are not subject to depreciation and are tested for impairment annually, or more frequently if events or conditions exist that indicate they may be impaired.

An impairment loss is recognized for goodwill and intangible assets with indefinite lives for the amount by which the carrying value of a CGU or group of CGU's, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs of disposal and the value-in-use. Impairment losses are first allocated to the carrying value of goodwill and intangible assets with indefinite lives, with any excess allocated to the carrying amount of assets in the CGU or group of CGUs. Any impairment loss is recognized in net loss for the period in which the impairment is identified. Impairment losses on goodwill are not reversed in subsequent periods.

5. Significant Accounting Policies (continued)

m) Cost of private placement financing

Costs incurred with respect to raising capital through private placements are charged against the equity proceeds raised. Costs incurred with respect to the issuance of convertible debt are recognized against the liability and equity components of the convertible debt. Issuance costs allocated to the liability component are amortized over the term of the convertible debt and accrete to the principal amount at maturity or at the expected timing of principal repayment, whichever is earlier. Costs related to the issuance of share capital and convertible debt, and incurred prior to issuance, are recorded as deferred issuance costs and subsequently netted against proceeds when they are received. The accretion, depreciation of issuance costs and the interest paid are expensed on the consolidated statements of comprehensive loss.

n) Share-Based Compensation

Share-Based Payment Transactions

Transactions with non-employees that are settled in equity instruments of the Company are measured at the fair value of the services rendered. In situations where the fair value of the goods or services received by the Company as consideration cannot be reliably measured, transactions are measured at fair value of the equity instruments granted. The fair value of the share-based payments is recognized together with a corresponding increase in equity over a period that services are provided or goods are received.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options issued pursuant to its Stock Option Plan described in note 20. This pricing model incorporates highly subjective assumptions, including volatility and expected time until exercise, which can affect the fair value of the stock options. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in net loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity.

No expense is recognized for awards that do not ultimately vest.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of loss per share.

5. Significant Accounting Policies (continued)

o) Loss Per Share

Loss per share is computed by dividing the loss for the year by the weighted average number of Subordinate Voting Shares and Multiple Voting Shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of Subordinate Voting Shares outstanding is increased to include potentially issuable Subordinate Voting Shares from the assumed exercise of share purchase options and warrants, if dilutive. During the years ended December 31, 2019 and 2018, all the outstanding stock options, warrants and brokers' warrants were anti-dilutive.

p) Warrants

The Company uses the Black-Scholes Model to calculate the value of warrants issued as part of the Company's public and/or private placements. The Black-Scholes Model requires six key inputs to determine a value for a warrant: risk-free interest rate, exercise price, market price at date of issuance, expected yield, expected life, and expected volatility. Certain of the inputs are estimates, which involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. Proceeds from unit placements, net of issuance costs, are allocated between common shares and warrants issued according to their relative fair value.

q) Income Taxes

Current tax assets and/ or liabilities comprise those claims from, or obligations to, government authorities relating to the current or prior reporting periods that are unpaid as of the reporting date. Current taxes payable on profit for income tax purposes differs from net income or loss in the consolidated financial statements. The calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on the differences between the carrying amount of assets and liabilities on the statement of financial position and their corresponding tax value, using the substantively enacted tax rates expected to apply when these temporary differences are reversed. Deferred income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is probable that they will be realized. Income tax expense is recognized in the consolidated statements of loss and comprehensive loss except to the extent that it relates to a business combination, or items recognized directly in equity.

Deferred tax liabilities are recognized for all temporary differences except when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

5. Significant Accounting Policies (continued)

r) Investment in Joint Venture

Joint ventures are all entities over which the Company has joint control. The Company's investments in the joint ventures is accounted for using the equity method and is initially recognized at cost. Accounting policies the joint venture have been adjusted where necessary to ensure consistency with the policies adopted by the Company.

The Company assesses annually where there is any objective evidence that its interest in its joint venture impaired. If impaired, the carrying value of the Company's share of the underlying assets of the joint venture is written down to its estimated recoverable amount (being the higher of fair value less costs of the disposal or the value in use) and charged to the consolidated loss and comprehensive loss. If the financial statements of an associate are prepared on a date different from that used by the Company, adjustments are made for the effects of significant transactions or events that occur between the date and the date of these consolidated financial statements.

s) Leases

Prior to the adoption of IFRS 16, the Company applied the provisions of IAS 17. Pursuant to IAS 17, leases are classified as finance leases whenever substantially all the risks and rewards of ownership of the leased asset are transferred to the Company. Leased assets are measured initially at an amount equal to the lower of fair value and present value of minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to the asset.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of loss and comprehensive loss on a straight line basis over the period of the lease.

The following are the Company’s new accounting policies for its leases under IFRS 16:
As a lessee, the Company recognizes a lease obligation and a right-of-use asset in the consolidated statements of financial position on a present-value basis at the date when the leased asset is available for use. Each lease payment is apportioned between a finance charge and a reduction of the lease obligation. Finance charges are recognized in finance cost in the consolidated statements of loss and comprehensive loss. The right of-use asset is depreciated over the shorter of its estimated useful life and the lease term on a straight-line basis.

Lease obligations are initially measured at the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

5. Significant Accounting Policies (continued)

s) Leases (continued)

Lease payments are discounted using the interest rate implicit in the lease, or if this rate cannot be determined, the Company’s incremental borrowing rate. Right-of-use assets are initially measured at cost comprising the following:

- the amount of the initial measurement of the lease obligation;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- rehabilitation costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statements of operations and comprehensive loss. Short-term leases are leases with a lease term of 12 months or less.

t) Newly Adopted Accounting Policies

Leases

IFRS 16 Leases ("IFRS 16") was issued in January 2016 and replaces IAS 17 Leases. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. If the lease was classified as a finance lease, a lease liability was included on the consolidated statements of financial position.

On January 1, 2019, the Company adopted IFRS 16. As such, the Company reviewed all leases and assessed whether these contracts are or contain a lease. In accordance with IFRS 16, the Company determines if an arrangement is a lease at inception based on whether there is an identified asset, whether the Company has the right to obtain substantially all of the economic benefits from the use of the asset and whether the Company has the right to direct the use of the asset. The Company has accounted for its leases upon adoption of IFRS 16 using a modified retrospective approach whereby the Company recognizes a lease liability and a right-of-use asset at the date of initial application, being January 1, 2019. The lease liability is measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate. The Company has measured the right-of-use asset at an amount equal to the lease liability. A company has the option to forego the requirements of IFRS 16 in the case of leases with a remaining term of less than 12 months and those with low underlying asset value. Neither of these practical expedients applied to the Company's leases. See Notes 12 and 15 for further disclosures and detail regarding the Company’s leases.

The Company’s leases do not provide a readily determinable implicit rate; therefore, an estimate of the Company’s incremental borrowing rate is used to discount the lease payments based on information available at the lease commencement date. The discount rate used was 13%.

The adoption of IFRS 16 resulted in the recognition of ROU assets and lease liabilities of $283,852 on January 1, 2019.

5. Significant Accounting Policies (continued)

u) Future Accounting Pronouncements

The following new accounting standards and interpretations have been adopted by the Company subsequent to December 31, 2019.

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 company does not expect that adoption of this amendment will have significant impact on the 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 company does not expect that adoption of this amendment will have significant impact on the consolidated financial statements.

6. Significant Accounting Judgments, Estimates and Assumptions

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. 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.

6. Significant Accounting Judgments, Estimates and Assumptions (continued)

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, property and equipment and intangible assets with indefinite lives are allocated to the CGU that represents the lowest level within the Company at which management monitors goodwill, property and equipment 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.

(Stated in United States Dollars)

6. Significant Accounting Judgments, Estimates and Assumptions (continued)

Impairment of Long-lived Assets

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.

7. Inventory

As of December 31, 2019, and 2018, the Company's inventory included the following:

	December 31, 2019	December 31, 2018
Finished goods for resale	$ 392,222	$ 54,700
Raw materials	724,273	1,250
Obsolescence provision	(555,900)	-
	$ 560,595	$ 55,950

As at December 31, 2019, inventory includes inventory acquired pursuant to the acquisition of Red Ace, which consists of raw materials of $22,122 and finished goods of $34,239. The cost of inventories included as an expense and included in cost of goods sold, for the year ended December 31, 2019 was $5,102,232 (2018 - $574,358). During the year ended December 31, 2019, the Company incurred write-downs of the carrying value of its inventories in the amount of $555,900 (2018 - $Nil). These write-downs are presented as part of cost of goods sold.

(Stated in United States Dollars)

8. Investment in Joint Venture

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 December 31, 2019 and 2018, the Company held 500,000 of the outstanding 1,000,000 membership units. Movement in the Company's capital account for the years ended December 31, 2019 and 2018, are as follows:

	December 31, 2019	December 31, 2018
Capital - beginning of year	$ 158,647	$ 94,391
Capital contributions (return of capital)	(1,821)	81,184
Share of net loss	(81,538)	(16,928)
Capital - end of year	$ 75,288	$ 158,647

Presented below is the net loss and comprehensive loss of CB Brands LLC, for the years ended December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
Net loss and comprehensive loss	$ (163,076)	$ (33,857)

9. Marketable Securities

During the year ended December 31, 2018, the Company received 124,922 common shares of CannaRoyalty Corp. as a payment for licensing fees in the amount of $505,582. 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.

(Stated in United States Dollars)

10. Property and Equipment

	Computer Equipment	Office Furniture and Equipment	Trade Equipment	Leasehold Improvements	Total
Cost					
Balance - January 1, 2018	$ 805	$ 2,688	$ 91,757	$ 5,174	$ 100,424
Additions	8,121	35,017	140,251	-	183,389
Disposals	-	-	-	-	-
Balance - December 31, 2018	8,926	37,705	232,008	5,174	283,813
Additions	711	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
Accumulated Depreciation					
Balance - January 1, 2018	$ 154	$ -	$ 78,481	$ 5,174	$ 83,809
Depreciation for the year	669	2,976	14,183	-	17,828
Disposals	-	-	-	-	-
Balance - December 31, 2018	823	2,976	92,664	5,174	101,637
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
Net Book Value					
As at December 31, 2018	$ 8,103	$ 34,729	$ 139,344	$ -	$ 182,176
As at December 31, 2019	$ 5,604	$ 26,059	$ 320,609	$ -	$ 352,272

(Stated in United States Dollars)

11. 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.

12. Right-of-Use Assets

In connection with the adoption of IFRS 16 as disclosed in note 5(t), the Company has recognized a right-of-use asset for its office premises with a corresponding lease liability (see note 15) 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 15) upon acquisition of Red Ace (see note 3).

	Land and Buildings
Balance, January 1, 2019	$ -
Adoption of IFRS 16 (note 5(t))	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

12. 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 goods sold for the year ended December 31, 2019, is $56,547 related to the depreciation of the Company's right-of-use assets.

13. Notes Payable

During the year ended December 31, 2015, the Company issued a note payable in a principal amount of $1,000,000. The note was non-interest bearing and payable on demand. During the year ended December 31, 2017, the note was purchased by the Company's CEO. The Company amended the note such that only monthly payments of interest at a rate of 5% per annum were to commence January 1, 2017 for a period of two years, following which interest would continue to accrue at a rate of 5% with principal and accrued interest due December 31, 2024. No prepayment penalty and no conversion rights are available unless authorized by the Company's Board of Directors at a future date. During the year ended December 31, 2018, the note payable was converted into 2,153.518 MVS and 538,545 SVS of the Company (see note 19(iv)).

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. As at December 31, 2019, this note was in default. Subsequent to the year ended December 31, 2019, the Company began to make repayments of the note as agreed with the lender.

14. Other Liability

During the year ended December 31, 2014, the Company entered into a Cannabis Brands Cooperative Agreement ("the Agreement") with another party pursuant to which the other party made aggregate payments of $1,500,000 towards its acquisition of an ownership interest in the Company. During the year ended December 31, 2014, the Company declared the Agreement to be in default as a result of the other party's inability to make all of the payments contemplated in the Agreement. The other party, shortly thereafter, declared the Agreement to be rescinded and initiated a claim against the Company for repayment of the $1,500,000. During the year ended December 31, 2017, the Company entered into an investment agreement to issue 10,000 common shares for gross proceeds of $2,000,000, the proceeds of which were deposited into, and held in escrow as at December 31, 2017. During the year ended December 31, 2018, the funds held in escrow were used to pay outstanding principal and accrued interest and other costs in full satisfaction of a Judgement dated December 29, 2016 as issued by the United States District Court for the Northern District of California. As such, there were no amounts of accrued interest included in the consolidated statements of financial position as at December 31, 2019 or 2018.

(Stated in United States Dollars)

15. Lease Liabilities

In connection with the adoption of IFRS 16 as disclosed in note 5(t), the Company has recognized a right-of-use asset (see note 12) 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 year ended December 31, 2019 are as follows:

	Land and Buildings
Balance, January 1, 2019	$ -
Adoption of IFRS 16 (note 5(t))	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)
	45,842
Less: current portion	(45,842)
Balance December 31, 2019	$ -

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

16. 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 December 31, 2019, 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 December 31, 2019, accounts payable and accrued interest included $10,000 related to the unpaid balloon interest payment.

17. 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.

(Stated in United States Dollars)

18. 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 year ended December 31, 2019, include the following:

	Carrying amount
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 expense on long-term debt	-
Interest accretion	40,037
Effects of foreign exchange	5,202
Balance - December 31, 2019	465,287
Less: current portion	465,287
Balance - net of current portion	$ -

19. 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.

The following table summarizes the changes to the issued and outstanding shares for the years ended December 31, 2019 and 2018:

i) During the year ended December 31, 2018, Bhang issued 1,888,551 SVS for aggregate cash consideration of $591,692.

ii) During the year ended December 31, 2018, Bhang issued 1,991.029 MVS to an employee in connection with an employment agreement. Of the estimated fair value of the common shares of $588,030, $291,825 has been expensed as wages and salaries during the year ended December 31, 2018, while the balance of $296,205 had been recorded as wages and salaries during the year ended December 31, 2017 and was included in accounts payable and accrued liabilities as at that date. The fair value of the shares issued was estimated using the share price of cash subscriptions to third parties completed around the time of the issuances of the shares to the employee.

iii) During the year ended December 31, 2018, Bhang issued 5,695,556 SVS to various service providers in connection with the transaction disclosed in note 2. The estimated fair value of these shares of $1,672,741 has been included in deferred transaction costs as at December 31, 2018. The fair value of the shares issued was estimated using the share price of cash subscriptions to third parties completed around the time of the issuances of the shares to the service providers. This issuance of shares is included in the total shares issued to service providers of 11,988,518 SVS during the year ended December 31, 2018 as disclosed in the consolidated statement of changes in shareholders' equity (deficiency).

iv) During the year ended December 31, 2018, Bhang issued 2,153.518 MVS and 538,545 SVS of the Company upon conversion of the note payable disclosed in note 13.

v) During the year ended December 31, 2018, Bhang issued 6,215,104 SVS of the Company for gross proceeds of $2,500,000 pursuant to the exercise of warrants. Upon exercise of the warrants, the fair value of the warrants of $777,461, was re-allocated from contributed surplus to share capital.

vi) During the year ended December 31, 2018, Bhang issued 6,292,962 SVS of Bhang to service providers for services rendered in connection with the exercise of the warrants disclosed in note 20(v) above. The estimated fair value of the shares of $1,848,225 has been recorded as a share issuance cost and was estimated using the share price of cash subscriptions to third parties completed around the time of the issuances of the shares to the service providers. This issuance of shares is included in the total shares issued to service providers of 11,988,518 SVS during the year ended December 31, 2018 as disclosed in the consolidated statement of changes in shareholders' equity (deficiency). Share issuance costs also include $90,000 of legal fees paid in 2018.

19. Share Capital (continued)

vii) 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).

viii) During the year ended December 31, 2019, Bhang received proceeds of $350,000 for the subscription of 941,958 SVS of the Company.

ix) 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.

19. Share Capital (continued)

x) During the year ended December 31, 2019, 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 entities the holder to acquire one SVS at an exercise price of CAD$0.65 per share for a period of 24 months.

xi) During the year ended December 31, 2019, 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.

xii) During the year ended December 31, 2019, 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.

xiii) During the year ended December 31, 2019, 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.

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

(Stated in United States Dollars)

20. 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:

	December 31 2019	
	Number of Options	**Weighted Average Exercise Price ($CAD)**
Beginning balance	-	$ -
Issued pursuant to the Transaction	44,130	0.50
Granted	10,207,500	0.52
Forfeited	(3,622,000)	(0.52)
Outstanding at period end	6,629,630	$ 0.52

The Company had the following stock options outstanding at December 31, 2019:

Number of Options	Exercisable	Exercise Price ($CAD)	Remaining Contractual Life (Years)	Expiry Date
12,130	12,130	$ 0.50	1.00	December 31, 2020
217,500	217,500	$ 0.52	0.53	July 11, 2020
250,000	250,000	$ 0.55	1.56	July 24, 2021
1,870,000	206,250	$ 0.52	2.53	July 11, 2022
30,000	-	$ 0.52	3.53	July 11, 2023
4,250,000	2,250,000	$ 0.52	4.53	July 11, 2024
6,629,630	2,935,880	$ 0.52	3.71	

(Stated in United States Dollars)

20. Stock Options and Warrants (continued)

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.

For the year ended December 31, 2019, share-based compensation expense includes $34,045 with respect to these stock options.

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.

For the year ended December 31, 2019, share-based compensation expense includes $38,626 with respect to these stock options.

(Stated in United States Dollars)

20. 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.

For the year ended December 31, 2019, share-based compensation expense includes $199,882 with respect to these stock options.

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.

For the year ended December 31, 2019, share-based compensation expense includes $6,021 with respect to these stock options.

(Stated in United States Dollars)

20. 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.

For the year ended December 31, 2019, share-based compensation expense includes $795,376 with respect to these stock options.

(Stated in United States Dollars)

20. 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 table summarizes the warrant activities for the year ended December 31, 2019 and 2018:

	Number of Warrants	Weighted Average Exercise Price ($CAD)
Balance, December 31, 2018	-	-
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

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

i) Issued 5,591,316 Resulting Issuer Warrants as disclosed in note 19(ix). 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.

(Stated in United States Dollars)

20. Stock Options and Warrants (continued)

(ii) Warrants (continued)

ii) In connection with the issuance of the BCI Units disclosed in note 19(ix), 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 entities 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 19(x). 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 entities 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 December 31, 2019:

Number of Warrants	Exercisable	Exercise Price ($CAD)		Remaining Contractual Life (Years)	Expiry Date
5,699,091	5,699,091	$	0.65	1.61	July 9, 2021
215,550	215,550	$	0.50	0.52	July 9, 2020
5,914,641	5,914,641	$	0.64	1.57	

(Stated in United States Dollars)

21. Income Taxes

The Company intends to be treated as a United States corporation for federal income tax purposes under section 7874 of the U.S. Tax Code and is expected to be subject to United States federal income tax on its worldwide income. However, for Canadian tax purposes, the Company is expected, regardless of any application of section 7874 of the U.S. Tax Code, to be treated as a Canadian resident company (as defined in the Income Tax Act (Canada)) for Canadian income tax purposes. As a result the Company will be subject to taxation both in Canada and the United States which could have a material adverse effect on its financial condition and results of operations.

(i) Income Tax Expense

The following table reconciles income taxes calculated at combined United States federal/state tax rates with the income tax recovery in the financial statements:

	2019	2018
Loss before income taxes	$ (15,079,185)	$ (1,538,608)
Statutory rate	25.31 %	24.94 %
Expected income tax recovery	$ (3,816,543)	$ (383,748)
Permanent differences and other	2,166,000	(71,754)
Change in tax benefits not recognized	1,650,543	455,502
Income tax provision	$ -	$ -

(Stated in United States Dollars)

21. Income Taxes (continued)

(ii) Deferred Taxes

The deferred income tax assets (liabilities) as presented on the consolidated statements of financial position are as below:

	2019	2018
Deferred Tax Assets		
Amounts related to tax loss and credit carry forwards	$ 27,202	$ 43,626
Deferred Tax Liabilities		
Property, plant and equipment	(27,202)	(43,626)
Net Deferred Tax Assets	$ -	$ -

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income tax liabilities result primarily from amounts not deductible for accounting purposes until future periods. Deferred income tax assets result primarily from operating tax loss carry forwards and have been offset against deferred income tax liabilities.

The following are the unrecognized deductible temporary differences

Tax Loss Carryforwards - Canada	$ 5,004
Tax Loss Carryforwards - USA	$ 6,705,249

iii) Non-Capital Losses

The Company has non-capital losses carried forward of approximately $6,710,253 (2018 - $Nil) available to reduce future years' taxable income. These losses have an indefinite expiry.

22. Related Party Transactions

During the years ended December 31, 2019 and 2018, the Company incurred the following related party transactions:

i) Interest of $Nil (2018 - $41,667) was paid to an officer and director in connection with the note payable disclosed in note 13.

ii) Rental income of $Nil (2018 - $34,500) and revenue of $Nil (2018 - $191,605) was recognized on product sales and licensing revenue to companies in which a director, officer and shareholder of the Company is a director, officer and shareholder. During the year ended December 31, 2019, the Company issued credit memos of $3,903 (2018 - $Nil). As at December 31, 2019, accounts receivable (net of amounts included in the allowance for doubtful accounts) includes $Nil (2018 - $386,394), owing from these companies. As at December 31, 2019, $Nil (2018 - $167,363) were included in the allowance for doubtful accounts for amounts owed by these companies. In addition, the Company paid consulting fees of $30,000 (2018 - $135,000), made purchases of $Nil (2018 - $17,786) and paid rent of $Nil (2018 - $19,500) from companies in which a director, officer and shareholder of the Company is a director, officer and shareholder. As at December 31, 2019, accounts payable and accrued liabilities included $30,000 (2018 - $67,625) owed to these companies. 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. There were no such transactions during the year ended December 31, 2018. Included in share-based compensation for the year ended December 31, 2019 was $39,074 related to the continued vesting of stock options granted to one of these companies.

iii) Licensing and product sales revenue of $66,412 (2018 - $86,330) was recognized on sales to a company controlled by the sibling of the Company's former President and CEO. As at December 31, 2019, accounts receivable included $124,704 (2018 - $76,356) owing from this company. Included in the Company's expected credit losses for the year ended December 31, 2019 is $69,124 (2018 - $Nil) related to amounts owing from this company. As at December 31, 2019, accounts payable and accrued liabilities included $29,316 (2018 - $Nil) owed to this company. Included in share-based compensation for the year ended December 31, 2019 was $7,571 related to the continued vesting of stock options granted to this company.

iv) 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 year ended December 31, 2019 includes salaries of $779,177 (2018 - $361,667) and professional fees of $18,750. Included in share-based compensation for the year ended December 31, 2019 was $770,696 (2018 - $Nil) related to the continued vesting of stock options granted to key members of management. Included in wages and salaries for the year ended December 31, 2018 was $291,825 related to the fair value of 993.625 MVS issued to a key member of management. There were no such issuances during the year ended December 31, 2018.

v) Included in share-based compensation for the year ended December 31, 2019 was $3,029 related to the continued vesting of stock options granted to the other party to the Company's joint venture disclosed in note 8 and $21,950 related to the continued vesting of stock options granted to a director of the Company.

22. Related Party Transactions (continued)

As at December 31, 2019, accounts payable and accrued liabilities included $46,864 (2018 - $46,864) payable to the former Company's President and CEO. The amount is non-interest bearing and payable on demand.

23. Financial Instruments

i) Market Risk

a) Currency Risk

As at December 31, 2019, the Company's cash and cash equivalents included $127,688 Canadian Dollars (2018 - $Nil Canadian Dollars), accounts payable and accrued liabilities included $467,531 Canadian Dollars (2018 - $263,723 Canadian Dollars) and convertible promissory notes included $600,000 Canadian Dollars (2018 - $Nil 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 $80,403 higher (lower) (2018 - $19,357 higher (lower)).

b) Interest Rate Risk

As at December 31, 2019 and 2018, 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 $828,630 at December 31, 2019 (2018 - $1,146,134). The provision for expected credit losses included in trade accounts receivable as at December 31, 2019 is $259,366 (2018 - $943,954). Included in bad debt expenses of $339,982 (2018 - $306,518) for the year ended December 31, 2019, was $265,815 (2018 - $306,518) related to expected credit losses on the Company's trade accounts receivable and an amount of $74,167 (2018 - $Nil) related to the impairment of a promissory note receivable as the Company determined the outstanding balance would not be collectible following discussions with the debtor.

(Stated in United States Dollars)

23. Financial Instruments (continued)

c) Credit Risk (continued)

As at December 31, 2019 and 2018, the Company's trade accounts receivable were aged as follows:

	2019	2018
Current	$ 77,464	$ 41,785
1-30 days	76,317	7,161
31 days- 60 days	44,867	11,323
61 days-older	498,693	1,538,849
Expected credit losses	(259,366)	(943,954)
	$ 437,975	$ 655,164

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

	2019	2018
Balance, beginning of year	$ 943,954	$ 638,829
Amounts previously provided for, written-off during the year	(922,858)	-
Additional allowance	238,270	305,125
Balance, end of year	$ 259,366	$ 943,954

d) Liquidity Risk

Liquidity risk represents the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they become due. As at December 31, 2019, the Company has current assets of $1,778,294 (2018 - $5,696,074) and current liabilities of $2,886,787 (2018 - $778,731), which resulted in working capital deficit of $1,108,493 (2018-working capital of $4,917,343).

As at December 31, 2019, 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	$ 1,905,658	$ -
Lease liabilities	45,842	-
Convertible promissory notes payable	465,287	-
Notes payable	160,000	-
	$ 2,576,787	$ -

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 approximates their fair values as its interest rate is close to market rates.

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 years ended December 31, 2019 and 2018, 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 years ended December 31, 2019 and 2018. 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 December 31, 2019			As at December 31, 2018		
	Canada	United States	Total	Canada	United States	Total
Non-current assets	$ -	$ 456,849	$ 456,849	$ -	$ 359,338	$ 359,338
	Year Ended December 31, 2019			**Year ended December 31, 2018**		
	Canada	**United States**	**Total**	**Canada**	**United States**	**Total**
Net loss	$(5,160,548)	$ (9,918,637)	$(15,079,185)	$ -	$ (1,538,608)	$(1,538,608)

Included in revenue for the year ended December 31, 2019 was $2,556,086 from three customers (2018 - revenue of $1,274,067 from three customers), each of which represent greater than 10% of the Company's revenue.

(Stated in United States Dollars)

25. General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Bank charges and interest	$ 13,077	$ 8,255
Business taxes	7,491	3,900
Consulting expenses	189,436	240,665
Depreciation and amortization of property and equipment and right-of-use assets	102,790	17,828
Dues, subscriptions and licenses	21,977	10,487
Insurance	58,559	21,625
Occupancy	22,059	74,357
Office expense	154,814	34,475
Telephone	5,041	1,523
Travel	171,392	46,300
	$ 746,636	$ 459,415

26. Changes in Non-cash Working Capital

The changes to the Company's non-cash working capital for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Trade and other receivables, net	$ (69,625)	$ (294,227)
Inventory	(365,926)	(55,950)
Deposits	3,000	(15,515)
Prepaid expenses	1,555,212	(1,678,560)
Accounts payable and accrued liabilities	1,349,113	(74,331)
Contract asset	(87,376)	(98,066)
Contract liability	161,000	104,000
	$ 2,545,398	$ (2,112,649)

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 years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Investment in Joint Venture	$ 1,821	$ (81,184)
Deferred transaction costs	(830,597)	(298,493)
Promissory notes receivable, net	(74,167)	-
Purchase of property and equipment	(248,741)	(194,332)
Cash acquired from Pele on close of Transaction	1,381	-
Cash acquired from Bhang Canada on close of Transaction	3,962,800	-
Cash acquired upon acquisition of Red Ace	8,496	-
Proceeds of disposition of marketable securities	726,088	-
Promissory note issued to Red Ace	(227,813)	-
	$ 3,319,268	$ (574,009)

(Stated 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 years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Proceeds from disposition of assets	$ 2,881	$ -
Proceeds from issuance of common shares	350,000	591,692
Cash held in trust	-	2,000,000
Repayment of other liabilities	-	(1,406,155)
Share subscriptions payable	-	1,000,000
Share issuance costs	-	(90,000)
Repayment of lease liabilities	(101,650)	-
Proceeds of promissory notes	900,000	-
Repayment of promissory notes	(900,000)	-
Proceeds of short-term advances	225,000	-
Repayment of short-term advances	(225,000)	-
Proceeds of exercise of warrants	80,900	2,500,000
Convertible promissory notes payable	446,584	-
	$ 778,715	$ 4,595,537

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:

Year Ended December 31, 2019	Point-in-time	Over time	Total
Product sales	$ 3,904,340	$ -	$ 3,904,340
Licensing	2,234	784,771	787,005
Other	86,750	-	86,750
Gross Revenue	$ 3,993,324	$ 784,771	$ 4,778,095

Year Ended December 31, 2018	Point-in-time	Over time	Total
Product sales	$ 791,471	$ -	$ 791,471
Licensing	22,643	760,243	782,886
Other	64,380	-	64,380
	$ 878,494	$ 760,243	$ 1,638,737

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.

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 year ended December 31, 2019, 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 year ended December 31, 2019, 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 year ended December 31, 2019, this agreement was terminated.

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 year ended December 31, 2019, 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) Subsequent to the year ended December 31, 2019, 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 defenses 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.

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. 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. Subsequent to the year ended December 31, 2019, 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 19 (vii). 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 19(vii) 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. No legal proceedings have been commenced and the parties are in the process of discussing these issues.

34. Subsequent Events

a) On January 7, 2020, the Company and a licensee has agreed to mutually release of claims from a license agreement signed on February 21, 2018, as amended pursuant to an addendum signed July 3, 2019. Under the Termination and Release Agreement, The Company will receive royalty payments, input materials, manufacturing equipment, Bhang-branded finished goods, and Origin House shares, collectively valued at approximately $1,100,000.

(Stated in United States Dollars)

34. Subsequent Events (continued)

b) On January 22, 2020, DJ Muggs of Cypress Hill joins the Company as its chief brand strategist. In conjunction with the announcement, the Company through its operating subsidiary, has acquired the 50% membership units in CB Brands, LLC and CB Productions LLC (together, the "JV Entities") from Cypress Hill Musik, a general partnership owned by the three founding members of Cypress Hill. The JV Entities operate the Cypress Hill Bhang (CHB) joint-venture of which the Company's subsidiary was already a 50% owner. Under the terms of a membership unit purchase agreement, the partners of Cypress Hill Musik received an aggregate 536,016 subordinate voting shares of the Company at a price of $0.50 CAD per share, representing an agreed purchase price for the acquisition of $205,321. The shares are subject to a four month hold period expiring on May 23, 2020. Under the terms of a 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.

The preliminary 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, LLC acquired	155,904
Unallocated goodwill and intangible assets	$ 124,705

The preliminary 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	65,162
Total Assets Acquired	155,904
Total Liabilities Acquired	-
Net Identifiable Assets Acquired	$ 155,904

34. Subsequent Events (continued)

c) 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 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. 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") 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, and investor received 14,285,714 Shares 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.

d) Subsequent to December 31, 2019, 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.

e) Subsequent to December 31, 2019, 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.

f) Subsequent to December 31, 2019, 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.

34. Subsequent Events (continued)

g) Subsequent to December 31, 2019, 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.

h) Subsequent to December 31, 2019, 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.

i) 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 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.