



**PLUS PRODUCTS INC.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(Expressed in U.S. Dollars unless otherwise noted)
(Unaudited)**

PLUS PRODUCTS INC.

Condensed Interim Consolidated Statements of Financial Position (Expressed in U.S. Dollars - Unaudited)

	Note	As at September 30, 2020	As at December 31, 2019
		\$	\$
Assets			
Current			
Cash and cash equivalents		12,627,236	15,176,184
Trade receivables		3,545,814	4,040,183
Prepays and deposits	5	553,316	1,262,269
Taxes recoverable		112,973	112,377
Note receivable	6	180,260	200,000
Inventory	7	2,175,467	3,872,175
		19,195,066	24,663,188
Non-current			
Prepays and deposits	5	977,945	789,521
Property and equipment	8	2,440,789	3,703,597
Intangible assets	3, 9	54,997	98,665
Deferred tax asset		1,862,111	-
Total assets		24,530,908	29,254,971
Liabilities			
Current			
Accounts payable and accrued liabilities	10	1,319,067	2,289,393
Current portion of vehicle loans		28,498	27,753
Current portion of lease liabilities	11	198,577	284,588
		1,546,142	2,601,734
Non-current			
Vehicle loans		115,930	137,588
Lease liabilities	11	731,303	1,028,218
Deferred tax liability		297,194	-
Convertible debentures	12	18,023,160	17,188,223
Total liabilities		20,713,729	20,955,763
Shareholders' equity			
Share capital	13	41,984,088	41,782,711
Reserves	13	8,577,679	7,884,184
Deficit		(46,945,906)	(41,138,127)
Accumulated other comprehensive income (loss)		201,318	(229,560)
Total shareholders' equity		3,817,179	8,299,208
Total liabilities and shareholders' equity		24,530,908	29,254,971

Nature of operations and going concern (Note 1)

Commitments (Note 19)

Events after the reporting period (Note 20)

Approved on behalf of the Board of Directors on November 23, 2020:

"Craig Heimark"	"Jacob Heimark "
_____ Director	_____ Director

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

PLUS PRODUCTS INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Expressed in U.S. Dollars, except number of shares - Unaudited)

Note	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Revenue	3,650,028	3,531,465	12,715,331	10,353,270
Cost of sales	2,200,425	3,084,729	8,043,581	8,493,054
Gross margin	1,449,603	446,736	4,671,750	1,860,216
Operating expenses				
Advertising and promotion	322,035	3,910,055	879,917	4,620,615
Depreciation and amortization	25,319	13,694	75,956	14,772
Consulting fees	151,504	331,753	446,091	1,411,113
General and administrative	277,719	509,261	1,121,244	1,537,888
Meals and travel expenses	14,806	337,446	152,701	753,756
Professional fees	201,208	933,869	998,443	2,554,863
Regulatory fees	20,184	15,739	34,219	21,774
Research and development	5,385	538,512	24,677	675,531
Salaries and benefits	1,296,287	1,935,043	4,451,068	4,788,153
Share-based compensation	618,590	1,382,390	1,395,097	2,559,189
Loss from operations	(1,483,434)	(9,461,026)	(4,907,663)	(17,077,438)
Other (income) expense				
Interest and other income	(1,014)	(30,662)	(22,689)	(104,849)
Accretion finance income	(40,436)	-	(126,916)	-
Accretion expense	424,907	433,240	1,265,815	1,005,047
Interest expense	407,698	422,864	1,234,214	1,014,293
Foreign exchange loss (gain)	9,020	(73,534)	69,681	(140,373)
Gain on lease termination	-	-	(12,900)	-
Loss on sale of fixed assets	28,289	-	28,289	-
Impairment of property and equipment	-	-	10,765	-
Impairment of intangible assets and goodwill	-	803,159	-	803,159
Loss before income taxes	(2,311,898)	(11,016,093)	(7,353,922)	(19,654,715)
Income tax (recovery) expense	118,585	384,400	(1,546,143)	565,695
Loss for the period	(2,430,483)	(11,400,493)	(5,807,779)	(20,220,410)
Currency translation adjustment	377,274	-	(430,878)	-
Loss and comprehensive loss for the period	(2,807,757)	(11,400,493)	(5,376,901)	(20,220,410)
Weighted average shares outstanding:				
Basic and diluted	49,056,135	32,979,665	39,254,970	29,554,811
Loss per share:				
Basic and diluted	(0.05)	(0.35)	(0.15)	(0.68)

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

PLUS PRODUCTS INC.

Condensed Interim Consolidated Statement of Changes in Equity
(Expressed in U.S. Dollars, except number of shares - Unaudited)

	Class A Common Shares ¹ (Proportionate)		Common Shares ¹ (Subordinate)		Class B Common Shares ² (Subordinate B)				Accumulated other	Total
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Reserves	Deficit	comprehensive income (loss)	shareholders' equity
	#	\$	#	\$	#	\$	\$	\$	\$	\$
Balance, December 31, 2018	153,226	2,539,834	24,330,799	31,525,357	-	-	2,391,055	(10,776,340)	-	25,679,906
Proportionate shares converted to subordinate (Notes 13(c)(d))	(57,013)	(1,094,233)	5,701,271	1,094,233	-	-	-	-	-	-
Proportionate shares returned to treasury (Note 13(c))	(1,896)	-	-	-	-	-	-	-	-	-
Proportionate shares issued on warrant exercise (Notes 13(c)(g))	4,042	954,422	-	-	-	-	(111,871)	-	-	842,551
Subordinate shares issued on warrant exercise (Notes 13(d)(g))	-	-	3,157,212	5,926,865	-	-	(828,185)	-	-	5,098,681
Subordinate shares issued on RSUs (Notes 13(d)(h))	-	-	30,546	138,275	-	-	(138,275)	-	-	-
Value of warrants and conversion option on issuance of convertible debentures units (Notes 12 and 13(g))	-	-	-	-	-	-	2,385,758	-	-	2,385,758
Subordinate shares and warrants issued for services (Notes 13(d)(g))	-	-	318,471	598,642	-	-	446,164	-	-	1,044,806
Subordinate shares issued on conversion of debt (Notes 12 and 13(d)(g))	-	-	769	4,022	-	-	(246)	-	-	3,776
Share-based compensation – options and RSUs vested (Notes 13(f)(h))	-	-	-	-	-	-	2,769,242	-	-	2,769,242
Impact of the adoption of IFRS 16	-	-	-	-	-	-	-	(121,224)	-	(121,224)
Loss and comprehensive loss for the period	-	-	-	-	-	-	-	(20,321,706)	101,296	(20,220,410)
Balance, September 30, 2019	98,359	2,400,023	33,539,068	39,287,394	-	-	6,913,642	(31,219,270)	101,296	17,483,085
Proportionate shares converted to subordinate (Notes 13(c)(d))	(2,787)	(68,006)	278,705	68,006	-	-	-	-	-	-
Proportionate shares issued for RSUs (Notes 13(c)(h))	294	95,294	-	-	-	-	(95,294)	-	-	-
Share-based compensation – options and RSUs vested (Notes 13(f)(h))	-	-	-	-	-	-	1,065,836	-	-	1,065,836
Restructuring of the GOOD earn-out shares held in escrow (Notes 3 and 13(h))	-	-	(167,653)	-	-	-	-	-	-	-
Loss and comprehensive loss for the period	-	-	-	-	-	-	-	(9,918,857)	(330,856)	(10,249,713)
Balance, December 31, 2019	95,866	2,427,311	33,650,120	39,355,400	-	-	7,884,184	(41,138,127)	(229,560)	8,299,208
Proportionate shares converted to subordinate (Notes 13(c)(d))	(3,427)	(88,702)	342,684	88,702	-	-	-	-	-	-
Subordinate shares converted to Class B Common shares (Notes 13(d)(e)) ²	-	-	(75,500)	(87,721)	15,100,000	87,721	-	-	-	-
Proportionate shares issued for RSUs (Notes 13(c)(h))	941	304,943	-	-	-	-	(304,943)	-	-	-
Subordinate shares issued for RSUs (Notes 13(d)(h))	-	-	12,500	42,678	-	-	(42,678)	-	-	-
Subordinate shares and warrants cancelled for services (Notes 13(d)(g)) ³	-	-	-	(299,321)	-	-	(223,081)	-	-	(522,402)
Share-based compensation – options and RSUs vested (Notes 13(f)(h))	-	-	-	-	-	-	1,417,274	-	-	1,417,274
Restructuring of the GOOD earn-out shares held in escrow (Notes 3 and 13(h))	-	-	-	153,077	-	-	(153,077)	-	-	-
Loss and comprehensive loss for the period	-	-	-	-	-	-	-	(5,807,779)	430,878	(5,376,901)
Balance September 30, 2020	93,380	2,643,552	33,929,804	39,252,815	15,100,000	87,721	8,577,679	(46,945,906)	201,318	3,817,179

¹ Pursuant to the Company's public listing (Note 1), the Class A Common Shares were converted to Proportionate Shares (not publicly listed) at a ratio of 100 to 1, and the Common Shares were converted to publicly listed Subordinate Shares at a ratio of 1 to 1. The Proportionate Shares are convertible to Subordinate Shares at a ratio of 1 to 100.

² In June 2020, the Company created a new class of non-publicly listed Class B Common Shares (Subordinate B Shares), which are convertible to Subordinate Shares at a ratio of 200 to 1, with 15,100,000 Subordinate B Shares issued from the transfer and cancellation of 75,500 Subordinate Shares (Note 13(d)(e)).

³ 37,062 subordinate shares were returned to treasury subsequent to September 30, 2020 (Note 20).

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

PLUS PRODUCTS INC.

Condensed Interim Consolidated Statements of Cash Flows (Expressed in U.S. Dollars - Unaudited)

		Nine Months Ended September 30,	
	Note	2020	2019
		\$	\$
Cash flows used in operating activities			
Loss for the period		(5,807,779)	(20,220,410)
Non-cash items:			
Depreciation and amortization	8, 9	810,731	722,356
Accretion, net	12	1,138,899	1,005,047
Interest expense		1,234,214	1,014,293
Income tax expense		(1,564,917)	565,695
Shares issued for services	13(g)	(522,402)	-
Share-based compensation	13(f)(h)	1,417,274	2,769,243
Unrealized foreign exchange		-	(101,297)
Impairment of property and equipment		10,765	-
Impairment of intangible assets and goodwill		-	803,159
Gain on lease termination		(12,900)	-
Loss on sale of fixed assets		28,289	-
Changes in operating assets and liabilities:			
Trade receivables		494,369	(2,131,475)
Prepays and deposits		646,849	(2,891,236)
Inventory		1,696,708	(1,632,801)
Note receivable		19,740	(400,000)
Accounts payable and accrued liabilities		(1,350,524)	(260,483)
Income taxes payable		-	(250,000)
Net cash used in operating activities		(1,760,684)	(21,007,909)
Cash flows provided by (used in) investing activities			
Purchase of intangible assets		-	(92,448)
Purchase of property and equipment	8	(54,158)	(2,384,967)
Proceeds from sale of equipment	8	313,639	-
Net cash provided by (used in) investing activities		259,481	(2,477,415)
Cash flows provided by (used in) financing activities			
Proceeds from issuance of loan payable			179,039
Proceeds from issuance of shares, net of share issuance costs		-	5,941,231
Proceeds from issuance of convertible debentures units, net of share issuance costs	12	-	17,910,854
Repayments of vehicle payable		(20,913)	(7,003)
Payments for lease liabilities	11	(292,217)	(155,482)
Interest paid on vehicle loans and convertible debenture		(734,615)	(503,250)
Net cash provided by (used in) financing activities		(1,047,745)	23,365,389
Change in cash and cash equivalents		(2,548,948)	(119,935)
Cash and cash equivalents, beginning of the period		15,176,184	22,398,587
Cash and cash equivalents, end of the period		12,627,236	22,278,652

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

PLUS PRODUCTS INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019
(Expressed in U.S. Dollars unless otherwise noted - Unaudited)

NOTE 1 – NATURE OF OPERATIONS AND GOING CONCERN

Plus Products Inc. (“Plus Products”, “Plus”, or the “Company”) was incorporated on March 29, 2018 under the laws of British Columbia. The Company’s head office is located at 1500 – 1055 West Georgia Street, Vancouver, BC V6E 4N7. On October 26, 2018, the Company completed an initial public offering whereby its subordinate voting shares became listed on the Canadian Securities Exchange (the “CSE”) under the symbol “PLUS” and then subsequently on the OTC Market Group (“OTCQB”) in the United States (“U.S.”) under the symbol “PLPRF”.

Plus Products is a Canadian-listed cannabis company with operations in the U.S. specializing in the development, manufacturing, marketing and sale of cannabis infused products in the state of California and Nevada. Its products consist of cannabis-infused edibles, which the Company sells to both the regulated medicinal and adult-use, or recreational markets.

In Q1 2020, there was a global outbreak of COVID-19, which continues to evolve. PLUS has responded by reducing business travel while continuing core operations, which have remained relatively stable through Q3 2020. The extent to which the COVID-19 coronavirus may impact the Company will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the duration of the outbreak, continued travel restrictions, social distancing, business closures or business disruptions, and the effectiveness of actions taken in the United States and other countries to contain and treat the disease.

Going concern

The Company is currently in the product development and expansion stage with operations in California and Nevada for its cannabis line, along with a CBD line which can be shipped to most states in the U.S. The Company may seek additional capital, as well as consider mergers, acquisitions, joint ventures, partnerships and other business arrangements to expand its product offerings in the cannabis industry and grow its revenues.

These unaudited condensed interim consolidated financial statements (the “financial statements”) have been prepared on a going concern basis, which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses from inception and as at September 30, 2020, has not generated sufficient revenue to fund operations. The Company has an accumulated deficit of \$46,945,906 as at September 30, 2020, (December 31, 2019 – \$41,138,127) and during the three and nine months ended September 30, 2020, incurred net losses of \$2,430,483 and \$5,807,779, respectively (for the three and nine months ended September 30, 2019 - \$11,400,493 and \$20,220,410, respectively). For the nine months September 30, 2020, the Company had net cash used in operating activities of \$1,760,684 (for the nine months ended September 30, 2019 - \$21,007,909).

The Company’s ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations, to convert its debentures into shares, or obtain the necessary financing to meet its near and long term obligations such that it can repay its liabilities when they become due. Management plans to continue its efforts to consider additional external financing through the issuance of equity and debt to finance the operations, expansion, and capital expenditures of the Company; however, there can be no certainty that such funds will be available on a timely basis and on terms acceptable to the Company. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

PLUS PRODUCTS INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019
(Expressed in U.S. Dollars unless otherwise noted - Unaudited)

NOTE 2 – BASIS OF PRESENTATION**(a) Statement of compliance**

These financial statements were approved by the Directors of the Company and authorized for issue on November 23, 2020.

These financial statements have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. These financial statements follow the same accounting policies and methods of applications as the Company’s most recent annual financial statements. As such, these financial statements do not contain all the disclosures required by IFRS for annual financial statements and should be read in conjunction with the Company’s audited annual consolidated financial statements for the years ended December 31, 2019 and 2018.

(b) Basis of preparation and consolidation

These financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities which are measured at fair value, or amortized cost, as applicable. The presentation currency is the U.S. dollar; therefore, all amounts are presented in U.S. dollars unless otherwise noted. Balances presented in Canadian dollars are referenced as C\$.

These financial statements include the accounts of the Company and its wholly owned subsidiaries, Plus Holdings Nevada, Plus Wonders LLC, Plus Products Services LLC, Carberry LLC, and Plus Products Nevada LLC (“Plus Products Nevada”). All intercompany transactions and balances have been eliminated on these financial statements.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of loss and comprehensive loss from the effective date of acquisition up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the results of subsidiaries to bring their accounting policies into line with those used by the Company.

(c) Critical accounting judgments and estimates

The preparation of these financial statements in accordance with IFRS requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management’s experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Critical judgments exercised in applying accounting policies, apart from those involving estimates, that have the most significant effect on the amounts recognized in the financial statements are as follows:

i. Functional currency

The functional currency for each of the Company’s subsidiaries is the currency of the primary economic environment in which the respective entity operates; the Company has determined the functional currency of each entity to be the U.S. dollar, except for the parent entity which has been determined to be the Canadian dollar. Such determination involves certain judgments to identify the primary economic environment. The Company reconsiders the functional currency of its subsidiaries if there is a change in events and/or conditions which determine the primary economic environment.

PLUS PRODUCTS INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019
(Expressed in U.S. Dollars unless otherwise noted - Unaudited)

NOTE 2 – BASIS OF PRESENTATION (continued)

Estimates and assumptions exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

i. Impairment of long-lived assets

Property and equipment are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). Impairment indicators include discontinued use, idleness, costs above recoverable value and reduction in expected economic value. 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. The recoverable amount of an asset or a CGU is the higher of its fair value, less costs of disposal, and its value in use. An impairment loss is recognized for the value by which the asset's carrying value exceeds its recoverable value.

ii. Provisions

Provisions recognized in the financial statements involve judgments on the occurrence of future events, which could result in a material outlay for the Company. In determining whether an outlay will be material, the Company considers the expected future cash flows based on facts, historical experience and probabilities associated with such future events. Uncertainties exist with respect to estimates made by management and as a result, the actual expenditure may differ from amounts currently reported.

iii. Estimated useful life, depreciation and amortization

Management estimates the useful lives of property and equipment, and intangible assets based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of property and equipment or amortization of intangibles for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property and equipment, and intangible assets in the future.

iv. Determination of share-based payments

The estimation of share-based payments (including stock options and warrants) requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The model used by the Company is the Black-Scholes valuation model at the date of the grant. The Company makes estimates as to the volatility, the probable life, dividend yield and the time of exercise, as applicable. The expected volatility is based on the average volatility of the Company shares in the public market to date. The expected life is based on Company estimates and historical data. These estimates may not necessarily be indicative of future actual patterns. The Company applies the proportionate method in allocating the fair value of share-based payments when issued in units with other equity or financial instruments.

PLUS PRODUCTS INC.

Notes to the Condensed Interim Consolidated Financial Statements
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NOTE 2 – BASIS OF PRESENTATION (continued)**v. Income taxes**

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions, including application of IRS section 280E for taxes, at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

The Company's effective income tax rate can vary significantly for various reasons, including the mix and volume of business in lower income tax jurisdictions.

NOTE 3 – GOOD CO-OP INC. ACQUISITION

On December 13, 2018, the Company completed the acquisition of all the assets of California-based cannabis-infused baked goods brand GOOD CO-OP, INC. ("GOOD") for total consideration of \$930,557.

Consideration consisted of the issuance of 34,013 subordinate voting preferred shares with a value \$122,233 based on the closing price at the date of acquisition of C\$4.80 (\$3.58) and the forgiveness of a \$105,000 non-interest-bearing loan which was receivable to the Company from GOOD. The sellers were also entitled to additional equity contingent consideration of 323,449 subordinate voting preferred shares if GOOD can meet or exceed quarterly sales targets over the next two years as per the earn-out provisions of the agreement. The equity contingent consideration was measured at a fair value of \$703,324 based on management's judgment on the probability and timing of when quarterly sales targets will be met and will be evaluated every reporting period until completion.

The Company recorded the assets acquired at fair value based on an independent valuation and recorded the remaining amount as goodwill, following the guidelines of IFRS 3.

On September 30, 2019, the Company determined the contingent criteria would not be met based on sales targets that would not be met as a result of new products not being introduced within the timeline to meet those sales targets. The Company therefore reclassified the \$703,324 contingent consideration in equity to contributed surplus reserve in equity (both within reserves) and impaired the full fair-value of the related goodwill and license (see Note 9).

On October 15, 2019, the Company cancelled and returned to treasury 167,653 of the 323,449 contingent consideration Subordinate Shares held in escrow (subject to repurchase criteria). The remaining 155,796 escrow shares (the "GOOD Escrow shares") will be held against new RSUs granted concurrently as an incentive to retain key staff. These new RSUs (the "GOOD RSU's") have a vesting and release period through December 2021 (see Note 13(h)).

PLUS PRODUCTS INC.

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NOTE 4 – TAPROOT NEVADA

On May 24, 2019 (the “Effective Date”), the Company, through its wholly-owned subsidiary Plus Holdings Nevada entered into a Product Manufacturing and Distribution Agreement (“TapRoot Agreement”) with TapRoot Holdings NV, LLC (“TapRoot”). The TapRoot Agreement gives the Company access to TapRoot’s rights to engage in cultivation, production and distribution of medical and adult-use marijuana-infused products in the State of Nevada.

TapRoot has agreed to the dedication of approximately 1,800 square feet of its production facility (the “Facility”) to the exclusive manufacturing, and distribution of Plus branded products (the “Products”), including all services related to selling the Products in exchange for non-exclusive licensing rights to the Products, a 10% royalty on gross sales receipts of the Products and the Company has agreed to make certain capital expenditures to the Facility necessary to bring the Facility to an acceptable standard for production. On July 24, 2019, the Company advanced \$1,250,000 (the “Royalty Advance”) to TapRoot, as per the contract terms, which will be settled through future royalties, or will be repaid to the Company upon termination of the TapRoot Agreement.

Prior to the Effective Date, the Company had advanced \$111,444 towards early construction costs of the Facility, and TapRoot, upon execution of the TapRoot agreement, agrees to assume 50% of these costs which will be reflected as a decrease in the Royalty Advance. An additional \$91,647 was advanced towards Facility costs which TapRoot also assumes 50% of these costs.

On inception of the Royalty Advance, the Company determined a \$401,841 recognition loss relating to a deemed financing benefit when applying an estimated 15.5% market interest rate to the multi-year prepaid amount.

During the year ended December 31, 2019, the Company determined there were likely lower sales than expected and potential collection/recovery difficulties on the Royalty Advance. After assessing for future outcomes and probabilities of at-risk amounts, including assumptions to probability weight loss scenarios, the Company recorded a \$229,966 provision (approximately 17% of the at-risk amount) for the expected credit loss against the Royalty Advance. The Company will continue to monitor the Royalty Advance and if applicable, adjust its value each period end based on updated expected credit loss assumptions.

Continuity of the TapRoot related advances is as follows:

	As at September 30, 2020	As at December 31, 2019
	\$	\$
Opening balance	799,597	-
Royalty advance	-	1,250,000
Advances at recoverable amount (to settle via royalties)	-	101,546
Recognition of loss for deemed financing benefit	-	(408,841)
Royalty payments received	(35,030)	(34,402)
Accretion (finance income)	126,916	121,260
Provision for expected credit losses	-	(229,966)
Total	891,483	799,597

PLUS PRODUCTS INC.

Notes to the Condensed Interim Consolidated Financial Statements
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NOTE 5 – PREPAIDS AND DEPOSITS

	As at September 30, 2020	As at December 31, 2019
	\$	\$
Prepaid expenses	312,284	366,219
Prepaid supplies	168,943	181,883
Prepaid marketing services	-	447,774
Royalty advance (see Note 4)	891,483	799,597
Deposits	158,551	256,317
Total	1,531,261	2,051,790
Less long-term Royalty Advance (see Note 4)	(891,483)	(695,977)
Less long-term deposits	(86,462)	(93,544)
Total long-term portion	(977,945)	(789,521)
Current portion	553,316	1,262,269

NOTE 6 – NOTE RECEIVABLE

On June 5, 2019, the Company entered into a purchase option agreement (the “Emerald Purchase Option”) with Emerald Bay Wellness LLC (“Emerald Bay”) for the exclusive, irrevocable right, but not the obligation, to purchase substantially all the business assets of Emerald Bay Extracts from Emerald Bay. Concurrent with the Emerald Purchase Option, the Company advanced \$400,000 to Emerald Bay via a secured term promissory note (the “Note Receivable”), which would be used towards the purchase price, or repaid at maturity on March 5, 2020. In October 2019, the maturity date was extended to June 5, 2020. The Note Receivable shall accrue interest at an annual rate of 3% starting December 5, 2019, until maturity. The Emerald Purchase Option had an expiry date of September 5, 2019, which the Company chose to let expire.

On April 16, 2020, the Company amended its note receivable with Emerald Bay. The new due date is extended three months to September 5, 2020 and the interest rate is increased to 8%. Emerald Bay can also reduce the note through discounts on THC and CBD distillate purchases that will be applied to the principle balance. As of September 30, 2020, the Company has applied discounts of \$19,740 against the principal payment of the Note Receivable.

On September 4, 2020, the Company further amended its note receivable with Emerald Bay. Per the terms of the agreement, the new due date is extended to July 5, 2021 and the new interest rate is 12%. The Company has agreed to purchase \$180,000 of cannabis product prior to December 4, 2020 from Emerald Bay at no cost and the purchase price will be applied to the outstanding balance of the note. Additional purchases of cannabis product may continue to be applied to the remaining balance through maturity to further reduce the outstanding balance.

On inception, as the \$400,000 short term advance was provided with the intent to acquire, the Company initially treated the Note Receivable as a financial asset with the face value equaling the fair value. During the year ended December 31, 2019, the Company determined there were potential collection difficulties on the Note Receivable and determined that circumstances existed that may result in a collection loss. After assessing for future outcomes and probabilities of at-risk amounts, including assumptions to probability weight loss scenarios, as at December 31, 2019, the Company recorded a \$200,000 provision (approximately 50% of the at-risk amount) for expected credit loss against the Note Receivable. The Company will continue to monitor the Note Receivable and adjust its value each period end based on updated expected credit loss assumptions.

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NOTE 6 – NOTE RECEIVABLE (continued)

	As at September 30, 2020	As at December 31, 2019
	\$	\$
Opening balance	200,000	-
Principal payment	(19,740)	-
Funds advanced	-	400,000
Provision for expected credit losses	-	(200,000)
Total	180,260	200,000

NOTE 7 – INVENTORY

	As at September 30 2020	As at December 31 2019
	\$	\$
Cannabis extract	491,578	869,567
Other raw material	289,942	393,846
Packaging	1,050,632	1,209,353
Work-in-progress	207,114	135,968
Finished goods	340,252	1,395,518
Inventory reserve	(204,051)	(132,077)
Total	2,175,467	3,872,175

During the three and nine months ended September 30, 2020, \$2,068,225 and \$7,530,277, respectively (three and nine months ended September 30, 2019 - \$2,977,782 and \$8,218,859, respectively) of inventory was sold and recognized in cost of sales.

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NOTE 8 – PROPERTY AND EQUIPMENT

	Vehicles	Computer and office equipment	Machinery and equipment	Leasehold improvements	Right-of-use assets	Furniture and fixtures	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance at December 31, 2018	-	12,847	743,248	1,581,805	-	8,623	2,346,523
Recognition of right-of-use assets	-	-	-	-	1,539,785	-	1,539,785
Additions	197,039	16,398	2,061,786	740,345	219,123	62	3,234,753
Balance at December 31, 2019	197,039	29,245	2,805,034	2,322,150	1,758,908	8,685	7,121,061
Additions	-	-	41,668	12,490	-	-	54,158
Disposals	-	-	(341,927)	-	(219,123)	-	(561,050)
Balance at September 30, 2020	197,039	29,245	2,504,775	2,334,640	1,539,785	8,685	6,614,169
Accumulated depreciation							
Balance at December 31, 2018	-	4,539	86,849	377,563	-	2,171	471,122
Recognition of right-of-use assets	-	-	-	-	367,227	-	367,227
Depreciation	16,651	6,110	186,552	533,927	262,809	2,170	1,008,219
Impairments	-	-	535,109	1,035,787	-	-	1,570,896
Balance at December 31, 2019	16,651	10,649	808,510	1,947,277	630,036	4,341	3,417,464
Depreciation	24,977	7,311	156,711	366,014	210,420	1,630	767,063
Disposals	-	-	-	-	(21,912)	-	(21,912)
Impairment	-	-	-	10,765	-	-	10,765
Balance at September 30, 2020	41,628	17,960	965,221	2,324,056	818,544	5,971	4,173,380
Carrying values							
At December 31, 2019	180,388	18,596	1,996,524	374,873	1,128,872	4,344	3,703,597
At September 30, 2020	155,411	11,285	1,539,554	10,584	721,241	2,714	2,440,789

PLUS PRODUCTS INC.

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NOTE 8 – PROPERTY AND EQUIPMENT (continued)

During the year ended December 31, 2019, the Company identified indicators of impairment due to lower than expected sales and shift in Company's strategy relating to the GOOD CGU (see Note 3 for more details). As a result, the Company performed an impairment analysis by comparing its value in use (the present value of the future cash flows) to the carrying amount. As a result of the analysis performed, during the year ended December 31, 2019, the Company recorded an impairment loss of \$1,570,896, \$1,035,787 of this pertained to leasehold improvements, and \$535,109 to machinery and equipment for service lines and facilities that the Company determined the value in use would be below the carrying amount.

During the three and nine months ended September 30, 2020, the Company recorded \$nil and \$10,765, respectively (three and nine months ended September 30, 2019 - \$nil and \$nil, respectively) impairment expense to leasehold improvements. There were no reversals of impairment in either the three and nine months ended September 30, 2020, or the year ended December 31, 2019.

During the three and nine months ended September 30, 2020, the Company sold equipment for net proceeds and carrying value of \$161,927 and \$341,927, respectively, and disposed of (terminated) the Oregon facility right of use asset with a \$208,167 carrying value. There were no sales or disposals during the year ended December 31, 2019.

During the three and nine months ended September 30, 2020, the Company included \$280,780 and \$734,775, respectively (three and nine months ended September 30, 2019 - \$257,039 and \$707,584, respectively) of depreciation in cost of goods sold.

The Company's right-of-use assets consist of the following:

	Sacramento facility	Adelanto facility	Oregon facility	Total
	\$	\$	\$	\$
Cost				
Balance, January 1, 2019	206,025	1,333,760	-	1,539,785
Additions	-	-	219,123	219,123
Balance, December 31, 2019	206,025	1,333,760	219,123	1,758,908
Disposals	-	-	(219,123)	(219,123)
Balance, September 30, 2020	206,025	1,333,760	-	1,539,785
Accumulated depreciation				
Balance, January 1, 2019	33,775	333,452	-	367,227
Depreciation	40,530	211,323	10,956	262,809
Balance, December 31, 2019	74,305	544,775	10,956	630,036
Amortization	30,397	169,067	10,956	210,420
Disposal	-	-	(21,912)	(21,912)
Balance, September 30, 2020	104,702	713,842	-	818,544
Carrying values				
As at December 31, 2019	131,720	788,985	208,167	1,128,872
As at September 30, 2020	101,323	619,918	-	721,241

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NOTE 9 – INTANGIBLE ASSETS AND GOODWILL

	License	Website	Total
	\$	\$	\$
Cost			
Balance at December 31, 2018	741,863	-	741,863
Additions	-	116,448	116,448
Impairment (Note 3)	(741,863)	-	(741,863)
Balance at December 31, 2019	-	116,448	116,448
Additions	-	-	-
Balance at September 30, 2020	-	116,448	116,448
Accumulated amortization			
Balance at December 31, 2018	-	-	-
Amortization	-	17,783	17,783
Balance at December 31, 2019	-	17,783	17,783
Amortization	-	43,668	43,668
Balance at September 30, 2020	-	61,451	61,451
Carrying values			
At December 31, 2019	-	98,665	98,665
At September 30, 2020	-	54,997	54,997

Goodwill was \$nil as at September 30, 2020 and December 31, 2019, whereby during the year ended December 31, 2019 the Company fully impaired \$61,296 of goodwill and \$741,863 license intangible relating to the GOOD acquisition (Note 3). There was no impairment of goodwill or intangibles during the three and nine months ended September 30, 2020, and there were also no reversals of impairment in either the three and nine months ended September 30, 2020, or the year ended December 31, 2019.

NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at September 30, 2020	As at December 31, 2019
	\$	\$
Accounts payables	463,588	1,516,518
Accrued liabilities	855,479	772,875
Total	1,319,067	2,289,393

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NOTE 11 – LEASE LIABILITIES

	Sacramento facility	Adelanto facility	Oregon facility	Total
	\$	\$	\$	\$
Balance, January 1, 2019	190,465	1,117,418	-	1,307,883
Additions	-	-	219,123	219,123
Interest expense	26,399	151,535	8,132	186,066
Payments	(58,933)	(331,327)	(10,006)	(400,266)
Balance, December 31, 2019	157,931	937,626	217,249	1,312,806
Less: non-current portion	(118,108)	(723,544)	(186,566)	(1,028,218)
Current portion, December 31, 2019	39,823	214,082	30,683	284,588
Balance, December 31, 2019	157,931	937,627	217,249	1,312,807
Interest expense	16,325	95,204	7,871	119,400
Payments	(45,511)	(231,696)	(15,010)	(292,217)
Termination	-	-	(210,110)	(210,110)
Balance, September 30, 2020	128,745	801,135	-	929,880
Less: non-current portion	(82,637)	(648,666)	-	(731,303)
Current portion, September 30, 2020	46,108	152,469	-	198,577

On May 7, 2020, the Company terminated its Portland, Oregon facilities lease. Pursuant to the lease termination the Company paid a termination fee equal to 6 months' rent and vacated the premises by June 30, 2020. The intended use of the leased property was for production of hemp-derived CBD products, which the Company will accommodate at an alternate facility to be identified at a future date.

NOTE 12 – CONVERTIBLE DEBENTURES

	As at September 30, 2020	As at December 31, 2019
	\$	\$
Opening balance	17,188,223	-
Proceeds from issuance of convertible debentures units, net of issuance costs and transaction fees	-	17,910,854
Amount allocated to warrants reserve (shown in reserves)	-	(1,154,968)
Amount allocated to conversion option (shown in reserves)	-	(1,230,791)
Conversion into shares	-	(3,776)
Accretion expense	1,265,815	1,437,344
Foreign exchange	(430,878)	229,560
Total	18,023,160	17,188,223

On February 28, 2019, the Company raised gross proceeds of \$18,983,978 (C\$25,000,000) through the issue of 25,000 unsecured convertible debentures units ("Note Units") at a price of C\$1,000 per convertible debenture. Each Note Unit consists of one unsecured convertible note (each, a "Convertible Note") accruing interest at 8% per annum, payable semi-annually in arrears until maturity, and 77 Subordinate Share purchase warrants of the Company (each, a "Warrant"). The Convertible Notes have a maturity date of February 28, 2021.

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NOTE 12 – CONVERTIBLE DEBENTURES (continued)

Each Convertible Note shall be convertible into subordinate voting shares in the capital of the Company (each, a “Conversion Share”) at a price of C\$6.50 (the “Conversion Price”) per Conversion Share commencing on August 28, 2019 (the “Conversion Feature”).

Each Warrant entitles the holder thereof to acquire one subordinate voting share in the capital of the Company (each, a “Warrant Share”) for an exercise price of C\$8.00 per Warrant Share for a period of five years. If exercised during the first 12 months, the underlying shares shall be subject to a 365-day contractual hold from the closing date.

The agents received a cash commission on the sale of the offering of \$963,133 (C\$1,268,350) plus \$74,987 (C\$98,750) as agents’ expenses, including legal fees. The agents also received 100,823 compensation warrants, each carrying the right to purchase one subordinate voting share in the capital of the Company (each, a “Compensation Warrant Share”) at a price of C\$8.00 per Compensation Warrant Share for a period of two years. The Compensation Warrant Shares were valued at \$211,660 (C\$278,735) (see Note 13(g)). Transaction costs of \$53,732 (C\$70,759) were also incurred and netted against the proceeds received from the offering.

The fair value of the liability component of the convertible debt on inception was estimated at \$15,506,368 (C\$20,420,336) based on an estimated 16% market discount rate less \$1,143,224 (C\$1,505,511) pro-rata portion of the \$1,303,511 (C\$1,716,594) transaction costs. The residual value (“Residual Value”) of \$2,174,098 (C\$2,863,070) including \$160,288 (C\$211,083) of transaction costs was allocated to the equity components as below. During the nine months ended September 30, 2020, \$1,265,815 (year ended December 31, 2019, \$1,437,343) of accretion was recorded on the Convertible Note.

Based on a proportional allocation of the Residual Value after calculating the Black-Scholes fair value of each of the Warrants and the Conversion Feature, \$943,308 (C\$1,242,242) was allocated to the Warrants and \$1,230,791 (C\$1,620,828) was allocated to the Conversion Feature on initial recognition. The Black-Scholes fair value of the Warrants was calculated with the following assumptions: a five-year expected average life, share price of C\$6.64; exercise price of C\$8.00; 100% volatility; risk-free interest rate of 1.8%; and an expected dividend yield of nil%. The Black-Scholes fair value of the Conversion Feature was calculated with the following assumptions: a two-year expected average life, share price of C\$6.64; conversion price of C\$6.50; 86% volatility; risk-free interest rate of 1.8%; and an expected dividend yield of nil%.

NOTE 13 – SHARE CAPITAL**(a) Authorized share capital**

At the 2020 annual general and special meeting of the shareholders on June 15, 2020, the shareholders of the Company authorized the creation of a new Class B voting common share (the Subordinate B Shares as defined below). At a previous annual general and special meeting of the shareholders, the shareholders of the Company cancelled the historic and unused share classes including Class B preferred voting shares (comprising Series Seed preferred voting shares; Series Seed-1 preferred voting shares; Series A preferred voting shares; and Series B-1 preferred voting shares) and Class C preferred voting shares (comprising Series B-3 preferred voting shares; Series C-1 preferred voting share; and Series C-3 preferred voting shares).

The authorized share capital of the Company consists of the following:

- i. An unlimited number of common voting shares (“Subordinate Shares”) without par value – non-redeemable and noncumulative (the listed shares);
- ii. An unlimited number of Class A common voting shares (“Proportionate Shares”) without par value –non-redeemable and noncumulative, and convertible at the option of the holder, at any time and subject to the restrictions set out in the Company’s Articles, into 100 Subordinate Shares for each Proportionate Share; and

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NOTE 13 – SHARE CAPITAL (continued)

- iii.* An unlimited number of Class B common voting shares (“Subordinate B Shares”) without par value – non-redeemable and noncumulative, and convertible at the option of the holder, at any time and subject to the restrictions set out in the Company’s Articles, into 1/200th of one Subordinate Share for each Class B Subordinate voting share.

(b) Issued share capital

As at September 30, 2020, the Company had the following shares issued and outstanding:

- i.* 93,380 Proportionate Shares each convertible into 100 Subordinate Shares (December 31, 2019 – 95,866)
- ii.* 33,929,804 Subordinate Shares (December 31, 2019 – 33,650,120)
- iii.* 15,100,000 Subordinate B Shares each convertible into 1/200th Subordinate Shares (December 31, 2019 – nil)

(c) Proportionate Share transactions

During the nine months ended September 30, 2020, the Company had the following Proportionate Share transactions:

- i.* In various tranches over the nine months ended September 30, 2020, the Company’s shareholders converted 3,427 Proportionate Shares into 342,684 Subordinate Shares resulting in a reclass of \$88,702 from Proportionate Share amount to Subordinate Share amount, representing the fair value of the shares converted.
- ii.* In various tranches over nine six months ended September 30, 2020, the Company issued 941 Proportionate Shares to settle fully vested RSUs. The \$304,943 fair-value of the RSUs was transferred from reserves to Proportionate Share amount.

During the year ended December 31, 2019, the Company had the following Proportionate Share transactions:

- iii.* In March 2019, the Company returned 1,896 Proportionate Shares to treasury through a claw-back provision in an employment agreement which allowed for the return of shares back to the Company. No consideration was exchanged by the Company.
- iv.* In May 2019, the Company issued 4,042 Proportionate Shares from the exercise of 404,171 Series B-2 warrants for gross proceeds of \$842,551. The \$111,871 fair-value of the warrants was transferred from reserves to share capital.
- v.* In December 2019, the Company issued 294 Proportionate Shares to settle fully vested RSUs. The \$95,294 fair-value of the RSUs was transferred from reserves to share capital.
- vi.* In various tranches over the year ended December 31, 2019, the Company’s shareholders converted 59,800 Proportionate Shares into 5,979,976 Subordinate Shares resulting in a reclass of \$1,162,239 from Proportionate Share amount to Subordinate Share amount, representing the fair value of the shares converted.

(d) Subordinate Share transactions

During the nine months ended September 30, 2020, the Company had the following Subordinate Share transactions:

- i.* In various tranches over the nine months ended September 30, 2020, the Company’s shareholders converted 3,427 Proportionate Shares into 342,684 Subordinate Shares resulting in a reclass of \$88,702 from Proportionate Share amount to Subordinate Share amount, representing the fair value of the shares converted.

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NOTE 13 – SHARE CAPITAL (continued)

- ii. During the nine months ended September 30, 2020, the Company reclassified \$153,077 from RSU reserve to Subordinate Share amount relating to 91,771 GOOD Escrow shares released from escrow (the repurchase criteria lapsed) pursuant to vesting of the related RSU's (see Note 3 and 13(h) for details).
- iii. On February 21, 2020, the Company and JLV Ventures terminated the promotion agreement capping the fees and warrants at 50% of the original amount agreed (see Note 13(d)x). As a result of the termination 159,235 Subordinate Shares and 159,235 Subordinate Share purchase warrants were cancelled whereby the shares will be returned to treasury. Pursuant to the termination \$299,321 was reversed from Subordinate Share amount and \$223,081 was reversed from warrant reserve, with an offsetting \$522,402 reduction to prepaids and deposits.
- iv. In June 2020, the Company's shareholders converted 75,500 Subordinate Shares into 15,100,000 Subordinate B Shares resulting in a reclass of \$87,721 from Subordinate Share amount to Subordinate B Share amount representing the fair value of the shares converted. Fair value was determined based on the fair value at the time of the reclass.
- v. In June 2020, the Company issued 12,500 Subordinate shares to settle fully vested RSUs. The \$42,678 fair value of the RSUs was transferred from reserves to share capital.

During the year ended December 31, 2019, the Company had the following Subordinate Share transactions:

- vi. In various tranches over the year ended December 31, 2019, the Company's shareholders converted 59,800 Proportionate Shares into 5,979,976 Subordinate Shares, resulting in a reclass of \$1,162,239 from Proportionate Share amount to Subordinate Share amount, representing the fair value of the shares converted.
- vii. In various tranches over the year ended December 31, 2019, the Company issued 3,157,212 Subordinate Shares on the exercise of warrants for gross proceeds of \$5,926,865. The \$828,185 fair-value of the warrants was transferred from reserves to share capital.
- viii. In various tranches over the year ended December 31, 2019, the Company issued 30,546 Subordinate Shares to settle fully vested RSUs. The \$138,275 fair-value of the RSUs was transferred from reserves to share capital.
- ix. During September 2019, the Company issued 769 Subordinate Shares on the conversion of \$3,776 (C\$5,000) convertible debt ("CD") principle. The \$246 fair-value of the CD conversion feature was transferred from reserves to share capital.
- x. During September 2019, the Company issued 318,471 units comprising of one Subordinate share and one Subordinate share purchase warrant (the "Subordinate Warrants") for advertising services worth \$1,044,806 (including within advertising and promotion in the consolidated statement of loss and comprehensive loss) with JLV Ventures pertaining to the launch of the hemp-based CBD line. The 318,471 Subordinate Warrants are exercisable for five years with an exercise price of C\$4.32. The fair value of the Subordinate Warrants at the issuance date was estimated at \$446,164 and the fair value of the Subordinate Shares was \$598,642, based on a proportional allocation of the value of the services. The underlying Black-Scholes assumptions of the Subordinate Warrants calculations is as follows: a five-year expected average life; share price of C\$4.32; exercise price of C\$4.32; 100% volatility; risk-free interest rate of 1.36%; and an expected dividend yield of nil%.
- xi. During October 2019, the Company cancelled and returned to treasury 167,653 Subordinate Shares held in escrow (subject to repurchase criteria) pursuant to the GOOD acquisition (see Note 3), noting that the related \$703,324 of contingent consideration in reserves was reclassified to contributed surplus (also within reserves).

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NOTE 13 – SHARE CAPITAL (continued)**(e) Subordinate B Share transactions**

During the nine months ended September 30, 2020, the Company had the following Subordinate B Share transactions:

- i. In June 2020, the Company's shareholders converted 75,500 Subordinate Shares into 15,100,000 Subordinate B Shares resulting in a reclass of \$87,721 from Subordinate Share amount to Subordinate B share amount, representing the fair value of the shares converted.

There were no Subordinate B Share transactions during the year ended December 31, 2019.

(f) Stock options

On July 23, 2018, the Board of Directors (the "Board") approved the 2018 Stock and Incentive Plan, which reserved for issuance, on a rolling basis, an aggregate of 10% (amended to 15% on May 7, 2019 – see below), of the number of Subordinate Shares outstanding, including the number of Subordinate Shares issuable on conversion of the Proportionate Shares, Class B Preferred Shares and Class C Preferred Shares. The options vest at the discretion of the Board.

On May 7, 2019, the Board approved amendments to the Amended and Restated Stock Option Plan and on August 15, 2019, the Shareholders holding over 50% of the voting securities of the Company approved and consented in writing to a further amendment to the Amended and Restated Stock Option Plan to increase the number of Common Shares reserved for the issuance of stock options pursuant to the Amended and Restated Stock Option Plan to 15% percent of the issued and outstanding Common Shares (including the number of Common Shares issuable upon conversion of the Class A Shares) in the capital of the Company from time to time.

During the three and nine months ended September 30, 2020, the Company recorded \$483,932 and \$963,430, respectively (three and nine months ended September 30, 2019 - \$1,368,863, and \$2,440,625, respectively) of share-based compensation relating to vesting of Proportionate and Subordinate Share purchase options, of which \$21,611 share-based compensation expense and a credit of \$49,386, respectively (three and nine months ended September 30, 2019 - \$147,118 and \$210,053, respectively) is included in cost of sales. The credit arose due to forfeitures.

Proportionate Share purchase options

During the nine months ended September 30, 2020, the Company had the following Proportionate Share purchase option transactions:

- i. During the nine months ended September 30, 2020, 4,817 Proportionate Share purchase options were forfeited due to terminations.
- ii. On March 26, 2020 and May 7, 2020, the Board approved the cancellation (forfeiture by active employees) of 1,250 and 1,500 Proportionate Share purchase options, respectively, which were replaced with modified Subordinate Share purchase options including modified performance terms, service terms, price, and number (see Subordinate Share purchase options below).

During the year ended December 31, 2019, the Company had the following Proportionate Share purchase option transactions:

- iii. During the year ended December 31, 2019, 5,237 Proportionate Share purchase options were forfeited due to terminations.

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NOTE 13 – SHARE CAPITAL (continued)

As at September 30, 2020, the Company had the following Proportionate Share purchase options outstanding and exercisable:

Expiry date	Exercise price	Options outstanding	Options exercisable
	C\$	#	#
July 25, 2023	35.39	876	332
September 17, 2028	131.23	1,500	766
September 23, 2028	131.23	800	500
		3,176	1,598

The weighted average life of the options outstanding is 6.55 years. The following is a summary of the Company's Proportionate Share purchase options activities:

Proportionate Share options	As at September 30, 2020	Weighted average exercise price	As at December 31, 2019
	#	\$	#
Beginning	10,743	229.97	15,980
Forfeited	(4,817)	287.73	(5,237)
Cancelled (for replacement)	(2,750)	300.83	-
Outstanding	3,176	80.88	10,743

Subordinate Share purchase options

During the nine months ended September 30, 2020, the Company had the following Subordinate Share purchase option transactions:

- i. On February 27, 2020, the Board granted 3,750 Subordinate Share purchase options at an exercise price of C\$0.95 which vest immediately.
- ii. On March 26, 2020 and May 7, 2020, the Board approved the cancellation (forfeiture by active employees) of 1,446,214 and 160,000 Subordinate Share purchase options, respectively, which were replaced with modified Subordinate Share purchase options including modified performance terms, service terms, price, and number (see below).
- iii. On June 2, 2020, the Board granted 2,060,999 Subordinate Shares purchase options (of which 1,165,322 relates to the cancellation and modification of 1,606,214 Subordinate Share purchase options and 2,270 Proportionate Share purchase options, and 895,677 were new or additional grants) with an exercise price of C\$0.86 of which the majority vest 50% in 9 months and 50% subject to performance terms.
- iv. On June 10, 2020, the Board granted 50,000 Subordinate Share purchase options with an exercise price of C\$0.86 of which 50% vest in 9 months and 50% subject to performance terms.
- v. On July 8, 2020, the Board granted 202,128 Subordinate Share purchase options with an exercise price of C\$0.65 which vest quarterly over 12 months.
- vi. On July 17, 2020, the Board granted 72,000 Subordinate Share purchase options with an exercise price of C\$0.56 which immediately vested.

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- vii.** On September 29, 2020, the Board granted 325,000 Subordinate Share purchase options with an exercise price of C\$0.56 of which 50% vest in 6 months and 50% subject to performance terms.
- viii.** During the nine months ended September 30, 2020, 1,097,000 Subordinate Share purchase options were forfeited due to terminations.

During the year ended December 31, 2019, the Company had the following Subordinate Share purchase option transactions:

- ix.** On April 30, 2019, the Board granted options for 1,566,874 Subordinate Shares at an exercise price of C\$4.59 vested over 4 years.
- x.** On August 6, 2019, the Board granted options for 451,140 Subordinate Shares at an exercise price of C\$4.35 vested over 4 years.
- xi.** On September 9, 2019, the Board granted options for 575,000 Subordinate Shares at an exercise price of C\$4.49 vested over 4 years.
- xii.** On September 11, 2019, the Board granted options for 144,000 Subordinate Shares at an exercise price of C\$4.50 vested over 4 years.
- xiii.** During the year ended December 31, 2019, a total of 31,500 Subordinate Share purchase options were forfeited due to terminations.

As at September 30, 2020, the Company had the following Subordinate Share purchase options outstanding and exercisable:

Expiry date	Exercise price	Options outstanding	Options exercisable
	\$	#	#
July 25, 2022	0.27	150,000	150,000
April 30, 2029	C\$4.56	12,000	4,255
August 6, 2029	C\$4.35	6,300	1,708
September 11, 2029	C\$4.50	9,000	9,000
February 27, 2030	C\$0.95	3,750	3,750
June 2, 2030	C\$0.86	2,035,999	401,677
June 10, 2030	C\$0.86	50,000	-
July 9, 2030	C\$0.65	202,128	50,532
July 17, 2030	C\$0.56	72,000	72,000
September 29, 2030	C\$0.56	325,000	-
		2,866,177	692,922

The weighted average life of the options outstanding is 9.30 years. The following is a summary of the Company's Subordinate Share purchase option activities:

Subordinate Share options	As at September 30, 2020	Weighted average exercise price	As at December 31, 2019
	#	\$	#
Beginning	2,855,514	3.23	150,000
Granted	2,713,877	0.58	2,737,014
Forfeited	(1,097,000)	3.35	(31,500)
Cancelled (for replacement)	(1,606,214)	3.38	-
Outstanding	2,866,177	0.59	2,855,514

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NOTE 13 – SHARE CAPITAL (continued)

The following are the weighted average assumptions used for the Black-Scholes option pricing model valuation of the 2,713,877 Subordinate Share purchase options granted during the nine months ended September 30, 2020, and the 2,737,014 Subordinate Share purchase options granted during the year ended December 31, 2019:

	September 30, 2020	December 31, 2019
Risk-free interest rate	0.45%	1.48%
Expected life of options	10.0 years	10.0 years
Annualized volatility	100.00%	100.00%
Dividend rate	nil%	nil%

(g) WarrantsSubordinate Share warrants issued on Convertible Note

On February 28, 2019, the Company completed a private placement of 25,000 Note Units comprised of one C\$1,000 Convertible Note and 77 Warrants (see Note 12). Each 1,925,000 Warrant Share entitles the holder thereof to acquire one subordinate voting share in the capital of the Company for an exercise price of \$8.00 per Warrant Share for a period of five years following the closing date. If exercised during the first 12 months after the closing date, the underlying shares shall be subject to a 365-day contractual hold from the closing date.

The Warrants were determined to have a fair value of \$943,308 on the issuance date (see Note 12). The agents received 100,823 Compensation Warrant Shares, each carrying the right to purchase one subordinate voting share in the capital of the Company at a price of \$8.00 per Compensation Warrant Share for a period of two years from the closing date. The Compensation Warrant Shares were determined to have a fair value of \$211,660 (C\$278,735) based on the Black-Scholes model with the following assumptions: a two year expected average life, share price of C\$6.64; exercise price of C\$8.00; 100% volatility; risk-free interest rate of 1.8%; and an expected dividend yield of nil%.

Subordinate Share warrants issued on JLV services agreement

On September 9, 2019, the Company issued 318,471 warrants to JLV Ventures in exchange for promotion services for the launch of the hemp-based CBD line at an exercise price of C\$4.32 per share which expire September 6, 2024 with a fair value of \$446,164 (see Note 13(d)x). On February 21, 2020, the Company and JLV Ventures terminated the promotion agreement capping the fees and warrants at 50% of the original amount. As a result of this termination 159,235 Subordinate Shares purchase warrants were cancelled, and \$223,082 was reversed from warrant reserve with an offsetting reduction to prepaids and deposits.

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NOTE 13 – SHARE CAPITAL (continued)Proportionate Share warrants

As at September 30, 2020 and December 31, 2019, the Company had nil Proportionate Share warrants outstanding. The following is a summary of the Company's Proportionate Share warrant activities:

Proportionate Share warrants	As at September 30, 2020	Weighted average exercise Price	As at December 31, 2019
	#	\$	#
Beginning	-	-	497,922
Issued	-	-	-
Expired	-	-	(93,750)
Exercised	-	-	(404,172)
Outstanding	-	-	-

Subordinate Share warrants

As at September 30, 2020, the Company had the following Subordinate Share warrants outstanding:

Expiry date	Exercise price	Warrants exercisable and outstanding
	C\$	#
October 26, 2020	3.25	179,301
February 28, 2021	8.00	100,823
February 28, 2024	8.00	1,925,000
September 6, 2024	4.32	159,236
		2,364,360

The weighted average life of the warrants outstanding is 3.07 years.

The following is a summary of the Company's Subordinate Share warrant activities:

Subordinate Share warrants	As at September 30, 2020	Weighted average exercise price	As at December 31, 2019
	#	\$	#
Beginning	2,523,595	5.46	3,595,203
Issued	-	-	2,344,294
Expired	-	-	(258,667)
Exercised	-	-	(3,157,235)
Cancelled	(159,235)	3.28	-
Outstanding	2,364,360	5.61	2,523,595

The fair value and Black-Scholes option pricing model assumptions for the 2,344,294 warrants issued during the year ended December 31, 2019, are disclosed in Note 13(d), as applicable.

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NOTE 13 – SHARE CAPITAL (continued)**(h) Restricted stock units**

During the three and nine months ended September 30, 2020, the Company recorded \$166,631 and \$453,844 respectively (three and nine months ended September 30, 2019 - \$160,645 and \$328,617, respectively) of share-based compensation relating to vesting of Proportionate and Subordinate Share RSUs of which \$10,362 and \$71,563, respectively (three and nine months ended September 30, 2019 - \$nil and \$nil) is included in cost of sales.

Proportionate Share Restricted Stock Units

During the nine months ended September 30, 2020, the Company had the following Proportionate Share RSU transactions:

- i. In February 2020, the Company issued 314 Proportionate Shares to settle fully vested RSUs. The \$101,626 fair-value of the RSUs was transferred from reserves to Proportionate Share amount.
- ii. In June 2020, the Company issued 78 Proportionate Shares to settle fully vested RSUs. The \$25,415 fair-value of the RSUs was transferred from reserves to Proportionate Share amount.
- iii. In August 2020, the Company issued 549 Proportionate Shares to settle fully vested RSUs. The \$177,902 fair-value of the RSUs was transferred from reserves to Proportionate Share amount.

During the year ended December 31, 2019, the Company had the following Proportionate Share RSU transactions:

- iv. In December 2019, the Company granted 2,118 Proportionate Share RSUs as replacement for 211,765 Subordinate Share RSUs. These RSUs had a fair value of \$324 per Proportionate Share which is equivalent to \$3.24 per replacement Subordinate Share (total fair value of \$686,119) and vest a portion on grant date and the balance monthly until September 2022. During December 2019, 294 of these Proportionate Share RSU's had vested and were issued resulting in a reclass from RSU reserve to Proportionate Share amount of \$95,294, and 882 of these RSUs were forfeited resulting in a \$16,336 reclass from RSU reserve to contributed surplus (also in reserves).

As at September 30, 2020, the Company had nil (December 31, 2019 – 942) Proportionate Share RSUs outstanding. The following is a summary of the Company's Proportionate RSU activities:

Proportionate Share RSUs	RSUs at September 30, 2020	RSUs at December 31, 2019
	#	#
Beginning	942	-
Granted	-	2,118
Issued Proportionate Shares	(942)	(294)
Forfeited	-	(882)
Outstanding	-	942

Subordinate Share Restricted Stock Units

During the nine months ended September 30, 2020, the Company had the following Subordinate Share RSU transactions:

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- i.* In June, 2020 the Company granted 41,667 Subordinate Share RSUs with a grant date fair value of \$0.64 per Subordinate Share (total fair value of \$23,863) which vest fully in 7 months.
- ii.* In July, 2020 the Company granted 510,639 Subordinate Share RSUs with a grant date fair value of \$0.44 per Subordinate Share (total fair value of \$209,340) which vest quarterly over 12 months.
- iii.* During the nine months ended September 30, 2020, 138,643 Subordinate Share RSUs (including 95,870 contingent) were forfeited due to termination with no reclass to contributed surplus required as all unvested.
- iv.* As of September 30, 2020, 91,771 of the GOOD Escrow shares were released from escrow (the repurchase criteria lapsed) relating to vesting of GOOD RSUs which resulted in a reclass of \$153,077 from RSU reserve to Subordinate Share amount. Of the original 155,797 GOOD Escrow shares (Note 3), 64,026 continued to be subject to repurchase criteria as at September 30, 2020, noting that 37,062 of were forfeited and returned to treasury subsequent to period end (Note 20).
- v.* In June 2020, the Company issued 12,500 Subordinate Shares to settle fully vested RSUs. The \$42,678 fair value of the RSUs was transferred from reserves to share capital.

During the year ended December 31, 2019, the Company had the following Subordinate Share RSU transactions:

- vi.* On January 31, 2019, the Company granted 27,546 Subordinate Share RSUs with a grant date fair value of \$4.53 per Subordinate Share (total fair value of \$124,695) of which 11,046 vest immediately, and 1,500 vest each month thereafter. Of these RSUs 21,546 Subordinate Shares were issued from treasury during 2019. During the year ended December 31, 2019, the Company expensed the full \$124,695 as share-based compensation relating to these RSUs, which was reclassified from RSU reserve to Subordinate Share amount.
- vii.* On January 31, 2019, the Company granted 9,000 Subordinate Share RSUs with a grant date fair value of \$4.53 per Subordinate Share (total fair value of \$40,741) which vest immediately in exchange for consulting services. Of these RSUs 9,000 Subordinate Shares were issued from treasury during 2019. During the year ended December 31, 2019, the Company expensed the full \$40,741 as share-based compensation relating to these RSUs, which was reclassified from RSU reserve to Subordinate Share amount.
- viii.* On April 30, 2019, the Company granted 212,389 Subordinate Share RSUs with a grant date fair value of approximately \$3.42 per Subordinate Share (total fair value of \$720,00 based on the underlying performance incentive bonus target) which vest subject to performance criteria being met prior to October 31, 2020. As of September 30, 2020, none of the performance criteria had been met and \$nil was expensed relating to these RSUs. During February 2020, 95,870 of these RSUs were forfeited (see Subordinate Share RSU (i) above).
- ix.* In April 2019, 40,000 Subordinate Share RSUs, each with a \$3.24 grant date fair value, were cancelled with \$129,600 transferred from RSU reserve to contributed surplus (also in reserves).
- x.* On September 11, 2019, the Company granted 50,000 Subordinate Share RSUs with a grant date fair value of \$3.41 per Subordinate Share (total fair value of \$170,700) which vest evenly over 36 months.
- xi.* During October and December 2019, the Company granted a total of 155,796 GOOD RSUs (Note 3), which vest at various intervals up to 2021. The GOOD RSUs have a grant date fair value of \$1.67 per Subordinate Share (total fair value of \$259,876).
- xii.* On December 13, 2019, the Company granted 125,000 Subordinate Share RSUs with a grant date fair value of \$1.23 per Subordinate Share (total fair value of \$153,607) which vest annually each November 1 over 2020 through 2022.
- xiii.* In December 2019, 211,765 Subordinate Share RSUs, each with a \$3.24 grant date fair value, were cancelled and re-issued as 2,118 Proportionate Share RSUs (see Note 13(h)iii above).

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NOTE 13 – SHARE CAPITAL (continued)

As at September 30, 2020, the Company had 821,515 (December 31, 2019 – 549,185) Subordinate Share RSUs outstanding, of which 139,215 (December 31, 2019 – 64,013) were vested and unissued. The following is a summary of the Company's Subordinate Share RSU activities:

Subordinate Share RSUs	RSUs at September 30, 2020	RSUs at December 31, 2019
	#	#
Beginning	549,185	251,765
Granted	552,306	579,731
Cancelled		(40,000)
Forfeited	(175,705)	(211,765)
Issued Subordinate Shares	(23,276)	(30,546)
Subordinate Shares Released from Escrow	(80,995)	-
Outstanding	821,515	549,185

NOTE 14 – RELATED PARTY TRANSACTIONSSummary of key management personnel compensation:

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel made during the three and nine-month periods ended September 30, 2020 and 2019, is set out below:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Salaries and benefits	297,708	453,684	891,127	1,097,725
Share-based compensation	318,540	833,192	650,522	1,131,328
Total	616,248	1,286,876	1,541,649	2,229,053

During the three and nine months ended September 30, 2020, \$nil and \$526,822 of share-based compensation recovery, respectively (three and nine months ended September 30, 2019 - \$nil and \$nil, respectively) was recorded by the Company and included in the calculation of share-based compensation expense. The recovery related to forfeited stock options by related parties not included in the amounts above.

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NOTE 15 – FINANCIAL INSTRUMENT RISK MANAGEMENTClassification of financial instruments

Financial assets include cash and cash equivalents, trade receivables, note receivable and deposits. Financial liabilities include accounts payable and accrued liabilities, vehicle loans, and convertible debentures.

Fair value:

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The carrying value of Company's financial assets and liabilities as at September 30, 2020 and December 31, 2019, approximate their fair values at September 30, 2020 and December 31, 2019, due to their short-term nature or because the effective interest rate applied to the balance approximates the market rate. During the nine months ended September 30, 2020 there were no transfers of amounts between levels (year ended December 31, 2019 – none).

Financial assets and liabilities, at their amortized costs, are shown below:

Financial Assets - Amortized Cost	As at September 30, 2020	As at December 31, 2019
	\$	\$
Cash and equivalents	12,627,236	15,176,184
Trade receivables	3,545,814	4,040,183
Note receivable	180,260	200,000
Income taxes recoverable	112,973	112,377
Royalty advance	891,483	799,597
Deposits	158,551	256,317
Total	17,516,317	20,584,658

Financial Liabilities - Amortized Cost	As at September 30, 2020	As at December 31, 2019
	\$	\$
Accounts payable and accrued liabilities	1,319,067	2,289,393
Vehicle loans	144,428	165,341
Convertible debentures	18,023,160	17,188,223
Total	19,486,655	19,642,957

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures.

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NOTE 15 – FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)Credit risk:

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, trade receivables, deposits with suppliers, note receivable, and prepaid royalties with customers. Cash is held with reputable banks in the United States and Canada which are closely monitored by management. Collection and credit risk relating to trade receivables, deposits with suppliers, note receivables, and prepaid royalties is assessed by the Company's management based on prior experience, an assessment of the current economic environment, credit worthiness of suppliers and counter parties, and an estimation of future outcomes and probabilities of at-risk amounts, as applicable.

During the three and nine months ended September 30, 2020, the Company recorded \$nil and \$nil, respectively (during the three and nine months ended September 30, 2019 - \$nil and \$nil, respectively) provision for expected credit losses. For the year ended December 31, 2019 the Company recorded the following provision for expected credit losses:

	Year ended December 31, 2019
	\$
Note receivable (Note 6)	200,000
Royalty advance (Note 4) (within prepaids and deposits)	229,966
Trade receivable	1,141,700
Total	1,571,666

The Company's aging of trade receivables, net of reserves, was approximately as follows:

	As at September 30, 2020	As at December 31, 2019
	\$	\$
0 to 60 days	2,698,265	2,084,045
Over 61 days	847,549	1,956,138
Total	3,545,814	4,040,183

During the year ended December 31, 2019, the Company booked a loss allowance of \$1,141,700 for expected credit losses on trade receivables with one distributor, Calyx Brands, Inc. As part of the assessment, the Company assessed future outcomes and probabilities of the at-risk amount, including assumptions to probability weight loss scenarios, and arrived at a 38% weighted average at-risk amount relating to this trade receivable. There were no changes in facts impacting this assessment during the three and nine month period ending September 30, 2020. The Company will continue to monitor the receivable each reporting period, and if applicable, adjust its value based on updated expected credit loss assumptions.

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient

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funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations, its holdings of cash and financial commitments (Note 19).

Historically, the Company's primary source of funding has been private placements of equity and public offerings of equity and convertible debentures for cash. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity or debt funding.

The Company has C\$25,000,000 in convertible debentures (Note 12) due February 28, 2021. There is no assurance that the Company will be able to raise additional capital to pay off these debentures or otherwise restructure these debentures prior to the due date. The Company has \$157,531 in vehicle lease commitments and \$609,362 in facility leases commitments due over the next six years. There is no assurance that the Company will have sufficient working capital to fulfill these lease obligations through their respective maturities.

Foreign exchange risk:

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company does not have material foreign exchange risk as the majority of the financial instruments are denominated in the functional currency of the respective entity

Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in interest rate. The Company pays interest on its convertible debenture at a fixed rate of 8% per annum. The Company does not have any material variable interest rates and is not exposed to any material interest rate risk on its cash and debt instruments.

NOTE 16 – CAPITAL MANAGEMENT

In order to support its operations and business development the Company manages its capital structure, and adjusts it, based on the funds available to the Company. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company has losses and negative cash flows from operations since its inception; therefore, the Company is dependent on external financing to fund its future intended business plan. The capital structure of the Company currently consists of common and preferred shares. The Company manages the capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There was no change to the Company's management of capital during the year. The Company is not subject to any externally imposed capital requirements.

NOTE 17 – ECONOMIC DEPENDENCE

During both the three and nine months ended September 30, 2020, one customer represented 90% of total revenue (during both the three and nine months ended September 30, 2019 - one customer represented 100% of total revenue).

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NOTE 18 – SEGMENTED INFORMATION

The Company operates primarily in one reportable operating segment, being the development, manufacturing, marketing and sale of cannabis infused products in the state of California, noting that operations in Nevada were negligible during the period. Segment results are as follows:

	2020	2019
	\$	\$
Loss for the period (for the three months ended September 30)	2,430,483	11,400,493
Loss for the period (for the nine months ended September 30)	5,807,779	20,220,410
Assets (As at September 30, 2020 and December 31, 2019)	24,530,908	29,254,971

NOTE 19 – COMMITMENTS

The Company has obligations under an operating lease for its manufacturing facility in Adelanto, California. During May, 2020, the Company signed an extension on the manufacturing facility in Adelanto, California. The lease expires during July, 2023 and includes an option for the Company to cancel the lease after April, 2021. The Company has a second operating lease for its manufacturing facility in Sacramento, California. The lease expires during March 2023 and the terms can be extended for another 24 months. During the year ended December 31, 2019, the Company entered in to six vehicle loans, all of which are to be repaid over 72 months.

The Company's future lease commitments by year as follows:

Year	\$
2020	54,941
2021	239,793
2022	275,227
2023	147,187
2024	33,165
Thereafter	16,580
Total	766,893

NOTE 20 – EVENTS AFTER THE REPORTING PERIOD

Subsequent to September 30, 2020, 37,062 GOOD Escrow shares were cancelled and returned to treasury relating to the termination of related GOOD RSUs.

On October 24, 2020, 179,301 of subordinate share warrants related to the Convertible Notes expired.