

SLANG Worldwide Inc.

Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

NOTICE TO READER

These interim condensed consolidated financial statements of SLANG Worldwide Inc. have been prepared by management and approved by the Board of Directors of the Company.

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3)(a), released by the Canadian Securities Administrators, the Company discloses that its external auditor has not reviewed these interim condensed consolidated financial statements, notes to the interim condensed consolidated financial statements, or the related Management's Discussion and Analysis.

SLANG Worldwide Inc.

Contents

	Page
Unaudited Interim Condensed Consolidated Statements of Financial Position	1
Unaudited Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)	2
Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Equity	3
Unaudited Interim Condensed Consolidated Statements of Cash Flows	4 - 5
Notes to the Unaudited Interim Condensed Consolidated Financial Statements	6 - 40

SLANG Worldwide Inc.

Unaudited Interim Condensed Consolidated Statements of Financial Position

As at March 31, 2020 and December 31, 2019
(Prepared in Canadian dollars)

	(Unaudited) March 31, 2020	(Audited) December 31, 2019
Assets		
Current assets		
Cash	\$ 3,695,693	\$ 8,233,860
Funds held in trust	701,500	701,500
Marketable securities (Note 7)	6,033,973	10,000,000
Accounts receivable (Note 8)	9,274,407	8,877,622
Other receivables	1,152,547	896,303
Income taxes receivable	111,602	102,170
Inventory (Note 9)	1,900,878	1,680,354
Prepays	1,601,353	942,508
Current portion of notes receivable (Note 10)	235,020	-
Investments, at fair value (Note 11)	2,218,664	1,972,710
Option asset, net (Note 18)	18,393,609	7,165,428
Total current assets	45,319,246	40,572,455
Notes receivable (Note 10)	7,837,706	5,301,794
Investments, at fair value (Note 11)	2,493,983	2,488,503
Investment in associate (Note 12)	928,736	2,027,142
Due from related parties (Note 13)	5,617,637	5,192,121
Investment properties (Note 14)	5,368,385	4,947,593
Property, plant and equipment (Note 15)	990,607	1,022,951
Intangible assets (Note 16)	41,466,625	39,291,407
Right of use assets (Note 17)	2,441,923	-
Total assets	\$ 112,464,848	\$ 100,843,966
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Notes 19 & 33)	\$ 7,703,239	\$ 8,870,025
Current portion of notes payable (Note 21)	577,065	853,018
Current portion of deferred revenue (Note 23)	713,300	653,016
Contract liability	133,690	293,190
Due to related parties (Note 24)	4,101,985	3,873,365
Option liability, net (Note 18)	7,244,651	21,353,309
Total current liabilities	20,473,930	35,895,923
Loan payable (Notes 20 & 30)	2,251,343	1,966,262
Notes payable (Note 21)	428,988	532,279
Lease liability (Note 22)	2,599,648	-
Deferred revenue (Note 23)	19,021,324	17,577,010
Derivative liability (Note 25)	1,488,838	4,222,002
Total liabilities	46,264,071	60,193,476
Shareholders' equity		
Share capital (Note 26)	219,119,332	219,119,332
Share capital to be issued	1,132,480	1,053,120
Restricted share capital (Note 26)	27,854,103	26,800,983
Contributed surplus	12,987,426	11,710,326
Warrants (Note 26)	15,736,929	15,736,929
Deficit	(208,666,678)	(232,184,194)
Foreign currency translation reserve	(1,962,815)	(1,586,006)
Total shareholders' equity	66,200,777	40,650,490
Total liabilities and shareholders' equity	\$ 112,464,848	\$ 100,843,966

SLANG Worldwide Inc.**Unaudited Interim Condensed Consolidated Statements of
Income (Loss) and Comprehensive Income (Loss)**

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

(Prepared in Canadian dollars)

	March 31, 2020	(Recast Note 5) March 31, 2019
Revenue		
Product and licensing revenue (Notes 23 & 29)	\$ 3,889,453	\$ 3,786,041
Rental income	379,934	106,361
Interest income	<u>420,898</u>	<u>113,718</u>
Total revenue	4,690,285	4,006,120
Cost of goods sold (Note 9)	<u>1,836,034</u>	<u>4,190,489</u>
Gross margin	<u>2,854,251</u>	<u>(184,369)</u>
Expenses		
Consulting and subcontractors (Note 29)	689,774	418,171
Depreciation and amortization (Notes 14, 15, 16 & 17)	1,581,324	4,236,199
Expected credit losses (Notes 8, 10 & 13)	1,232,829	70,936
General and administrative	1,344,985	1,000,947
Marketing	498,637	588,809
Professional fees	727,458	1,228,530
Salaries and wages (Note 29)	2,297,470	2,293,112
Share based payments (Notes 26 & 29)	<u>2,409,580</u>	<u>2,015,562</u>
Total expenses	<u>10,782,057</u>	<u>11,852,266</u>
Loss from operations	(7,927,806)	(12,036,635)
Share of loss on investment in associate (Note 12)	1,098,406	239,478
Financing cost and FV adjustment (Note 27)	(27,791,946)	3,529,307
Gain on sale of assets	(380,563)	-
Unrealized exchange gain	<u>(4,371,219)</u>	<u>-</u>
Income (loss) before income taxes	23,517,516	(15,805,420)
Current tax	-	379
Deferred tax (recovery)	<u>-</u>	<u>(1,256,410)</u>
Net income (loss) for the period	<u>23,517,516</u>	<u>(14,549,389)</u>
Other comprehensive income (loss) for the period		
Exchange differences on translation of foreign operations	<u>(376,809)</u>	<u>(388,052)</u>
Total comprehensive income (loss) for the period	<u>\$ 23,140,707</u>	<u>\$ (14,937,441)</u>
Net income (loss) per common and restricted voting share		
Basic (Note 28)	\$ 0.08	\$ (0.08)
Diluted (Note 28)	\$ 0.07	\$ (0.08)
Weighted average number of common and restricted voting shares outstanding		
Basic (Note 28)	283,060,076	188,970,013
Diluted (Note 28)	297,488,411	188,970,013

SLANG Worldwide Inc.

Unaudited Interim Condensed Consolidated Statements of Changes in Equity

For the three months ended March 31, 2020 and 2019

(Prepared in Canadian dollars)

	Common share capital	Restricted voting share capital	Shares to be issued	Warrants	Subscription receipt	Contributed surplus	Foreign Currency Translation	Deficit	Total
Balance as at December 31, 2018	\$ 29,315,764	\$ -	\$ -	\$ 2,173,464	\$ 59,041,705	\$ 3,971,005	\$ 225,020	\$ (29,127,599)	\$ 65,599,359
Net loss for the period	-	-	-	-	-	-	-	(14,549,389)	(14,549,389)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(388,052)	-	(388,052)
Stock-based compensation expense	-	-	-	-	-	1,179,328	-	-	1,179,328
Restricted share unit compensation expense	-	-	-	-	-	493,851	-	-	493,851
Issued pursuant to services	-	-	-	-	-	342,383	-	-	342,383
Issued pursuant to business combinations	108,131,196	23,625,000	-	-	-	-	-	-	131,756,196
Shares re-acquired in NCG business combination	2,720,381	-	-	-	-	-	-	(2,720,381)	-
Issued pursuant to subscription receipt offering, net	50,607,176	-	-	8,434,529	(59,041,705)	-	-	-	-
Stock options exercised	17,466	-	-	-	-	(4,966)	-	-	12,500
Warrants and compensation options exercised	3,851,402	-	-	(475,554)	-	-	-	-	3,375,848
Balance as at March 31, 2019	194,643,385	23,625,000	-	10,132,439	-	5,981,601	(163,032)	(46,397,369)	187,822,024
Balance as at December 31, 2019	219,119,332	26,800,983	1,053,120	15,736,929	-	11,710,326	(1,586,006)	(232,184,194)	40,650,490
Net income for the period	-	-	-	-	-	-	-	23,517,516	23,517,516
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(376,809)	-	(376,809)
Stock based compensation expense	-	-	-	-	-	650,084	-	-	650,084
Restricted share unit compensation expense	-	-	-	-	-	627,016	-	-	627,016
Transfer from shares to be issued to restricted voting share capital	-	1,053,120	(1,053,120)	-	-	-	-	-	-
Issued pursuant to services	-	-	1,132,480	-	-	-	-	-	1,132,480
Balance as at March 31, 2020	\$ 219,119,332	\$ 27,854,103	\$ 1,132,480	\$ 15,736,929	\$ -	\$ 12,987,426	\$ (1,962,815)	\$(208,666,678)	\$ 66,200,777

SLANG Worldwide Inc.

Unaudited Interim Condensed Consolidated Statements of Cash Flows

For the three months ended March 31, 2020 and 2019
(Prepared in Canadian dollars)

	March 31, 2020	March 31, 2019
Cash flows used in operating activities		
Net income (loss) for the period	\$ 23,517,516	\$ (14,549,389)
Items not affecting cash		
Expected credit losses (Note 13)	1,232,829	70,936
Interest not received in cash	(346,839)	(56,057)
Depreciation and amortization (Notes 14, 15, 16 & 17)	1,608,947	4,236,199
Fair value adjustment derivative liability (Note 25)	(2,733,164)	4,934,155
Fair value adjustment on option asset and liability, net (Note 18)	(25,336,838)	-
Fair value adjustment on investments (Note 11)	-	(1,197,792)
Accretion expense (Notes 20 & 22)	181,311	-
Share of loss on investment	1,098,406	239,478
Share-based payment (Note 26)	2,409,580	2,015,562
Amortization of deferred revenue	(169,049)	(141,495)
Deferred taxes (recovery)	-	(1,256,410)
Gain on sale of assets	(380,563)	-
Unrealized foreign exchange (gain) loss	(4,371,219)	-
	<u>(3,289,083)</u>	<u>(5,704,813)</u>
 Change in non-cash working capital balances		
Accounts receivable	395,361	(788,800)
Other receivables	(248,332)	(82,373)
Inventory	(61,999)	24,200
Prepays	(611,675)	(2,833,851)
Accounts payable and accrued liabilities	(1,734,025)	(1,405,408)
Contract liability	(176,861)	-
	<u>(5,726,614)</u>	<u>(10,791,045)</u>
 Cash flows from financing activities		
Repayment of note payable	(124,487)	(72,143)
Net advances from related parties	(107,795)	463,664
Proceeds pursuant to issuance of warrants, net	-	3,388,348
	<u>(232,282)</u>	<u>3,779,869</u>

SLANG Worldwide Inc.

Unaudited Interim Condensed Consolidated Statements of Cash Flows

For the three months ended March 31, 2020 and 2019
(Prepared in Canadian dollars)

	March 31, 2020	March 31, 2019
Cash flows from (used in) investing activities		
Sale of marketable securities	3,966,027	-
Advances of notes receivable	(1,623,589)	(4,312,723)
Repayment of notes receivable	-	114,386
Purchase of property, plant and equipment, net	(17,637)	-
Purchase of intangible assets	-	(459,850)
Net advances to related parties	(1,157,219)	(1,634,637)
Cash paid on business combinations (Note 5)	-	(37,142,562)
Cash acquired through business combinations (Note 5)	-	1,414,040
	<u>1,167,582</u>	<u>(42,021,346)</u>
Net decrease in cash and funds held in trust	(4,791,314)	(49,032,522)
Exchange rate changes on foreign currency cash balances	253,147	(2,394)
Cash and funds in trust, beginning of period	<u>8,935,360</u>	<u>64,105,588</u>
Cash and funds held in trust, end of period	<u>4,397,193</u>	<u>15,070,672</u>
Cash, end of year	3,695,693	13,072,897
Funds held in trust, end of year	<u>\$ 701,500</u>	<u>\$ 1,997,775</u>
Supplemental cash flow information		
Income taxes paid	\$ -	\$ 379
Interest expense paid	\$ 18,849	\$ 56,529

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

1. Nature of operations

SLANG Worldwide Inc. formerly known as Fire Cannabis Inc., (the “Company”) was incorporated on May 29, 2017 under the laws of Canada Business Corporations Act. On November 26, 2018 the Company filed articles of amendment to change its name to SLANG Worldwide Inc.

The Company’s head office and principal address is located at 50 Carroll Street, Toronto, Ontario, M4M 3G3. The Company’s registered and records office is located at 77 King Street West, Suite 400, Toronto, Ontario, M5K 1A2. The Company is listed on the Canadian Securities Exchange (“CSE”) under the symbol SLNG. The Company is also quoted on the Frankfurt Stock Exchange under the trading symbol 84S.

The Company invests and operates in the cannabis industry. The Company invests in companies that have a consumer centric product portfolio with brands that have widespread distribution.

The unaudited interim condensed consolidated financial statements were approved by the Company’s Board of Directors on July 6, 2020.

2. Basis of presentation

a) Statement of compliance

The Company’s interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34, “Interim financial reporting”. These interim condensed consolidated financial statements do not include all notes of the type normally included within the annual financial report and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2019, which have been prepared in accordance with International Financial reporting standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations committee (“IFRIC”). Any changes or additions to accounting policies and methods from the audited consolidated financial statements for the year ended December 31, 2019 are detailed in Note 3.

(b) Basis of measurement

The Company’s interim condensed consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. Historical cost is generally based on fair value of the consideration given in exchange for assets.

(c) Basis of consolidation

The interim condensed consolidated financial statements for the three months ended March 31, 2020 include the accounts of the Company and its wholly-owned subsidiaries, The Purple Organization, Inc. (“Purple”), National Concessions Group, Inc. (“NCG”), NCG Transport LLC, a non-operational dormant entity and SLANG Worldwide US Inc., a non-operational dormant entity, on a consolidated basis after elimination of intercompany transactions and balances. The subsidiaries are controlled by the Company. Control exists when the Company has power over an investee, when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are fully consolidated from the date that control commences and de-consolidated from the date control ceases.

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

2. Basis of presentation, continued

On December 31, 2019, NWT Holdings, LLC (“NWT”) was amalgamated with NCG and the assets and liabilities of NWT were transferred at their carrying amount on the date of amalgamation. Comparative figures are presented as though NCG and NWT have always been combined.

The functional currency of the Company is Canadian Dollar which is also the presentation currency of the interim condensed consolidated financial statements. The functional currency of Purple, NCG, NCG Transport LLC and SLANG Worldwide US Inc. is the US dollar.

(d) COVID-19 estimation uncertainty

In March 2020, there was a global outbreak of COVID-19 which has a significant impact on businesses through the restrictions put in place by the Canadian and American authorities regarding travel, business operations and isolation/quarantine orders. These restrictions did not materially disrupt the Company's operations during the first quarter of 2020 as the sale of cannabis products have been recognized as essential services across Canada and the United States. As at March 31, 2020, we have not observed any material impairments of our assets or a significant change in the fair value of assets due to the COVID-19 pandemic.

Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the extent of the impact the COVID-19 outbreak will have on our business, financial position and operating results in the future. Additionally, it is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such estimates could be material, which could result in, among other things, impairment of long-lived assets. An impairment test has not been performed as at March 31, 2020 for the Company's long-lived assets. Management is closely monitoring the impact of the pandemic on all aspects of its business.

3. Summary of significant accounting policies

The same accounting policies are applied in these unaudited condensed interim consolidated financial statements as those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2019. Any new accounting policies are described below:

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

3. Summary of significant accounting policies, continued

Right-of-use assets and lease liability

The Company recognizes right-of-use assets and a lease liabilities on the balance sheet at lease possession date. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any lease payments made in advance of the lease commencement date (net of incentives received), initial direct costs, and any restoration costs of the underlying asset.

The Company depreciates right-of-use assets on a straight-line basis over the shorter of the lease term or economic useful life. The Company also assesses right-of-use assets for impairment when such indicators exist.

At the possession date, the Company measures the lease liability at the present value of the lease payment unpaid at that date, discounted using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed) and variable lease payments that are based on an index or rate. Subsequent to initial measurement, the liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

Variable lease payments that are not based on an index or a rate are not included in the measurement of both the lease liabilities and right-of-use assets. The related liabilities are recognized as an expense in the period in which the conditions that trigger those payments occur and are recorded as general and administrative expenses in the consolidated statement of income (loss) and other comprehensive income (loss).

4. Significant accounting judgements and estimation uncertainties

The preparation of these interim condensed consolidated financial statements under IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and revenue and expenses. The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation were the same as those described in the last audited consolidated financial statements, except as detailed above.

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

5. Business combinations

The Company has determined that the below acquisitions are business combinations under IFRS 3, Business Combinations. They are accounted for by applying the acquisition method, whereby the assets acquired, and the liabilities assumed are recorded at their fair values with any excess of the aggregate consideration over the fair values of the identifiable net assets allocated to goodwill. Operating results have been included in these Financial Statements from the date of the acquisition. Any goodwill recognized is attributed based on Cash Generating Units (“CGUs”).

On January 22, 2019, the Company acquired 92.5% of the issued and outstanding shares of NCG it didn't own and 100% of the outstanding membership interests of NWT. Each of the acquisitions is a business combination accounted for using the acquisition method in accordance with IFRS 3 Business Combinations.

At December 31, 2019, the Company finalized the purchase price allocations related to the acquisitions of NCG and NWT. In accordance with IFRS 3, Business Combinations, the Company's provisional purchase price allocations were updated and comparative figures were restated. The measurement period adjustments were made to reflect facts and circumstances existing as of the acquisition date and did not result from intervening events subsequent to the acquisition date. A summary of the changes to the purchase price allocations at January 22, 2019 and the loss for the three month comparative period ended March 31, 2019 are outlined below.

NCG Acquisition

NCG maintains a portfolio of brand-related intellectual property that is synergistic with the cannabis business sector. NCG's primary business consists of licensing its intellectual property to cannabis-related businesses in exchange for customary royalty payments. Because the Company held a 7.5% equity interest in NCG before closing of this acquisition, this is considered to be a business combination achieved in stages under IFRS 3. The fair value of the Company's pre-existing equity interest in NCG immediately before the acquisition was \$11,967,314.

The following tables summarize the purchase price allocation for the NCG acquisition:

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

5. Business combinations, continued

	<u>Preliminary</u>	<u>Adjustments</u>	<u>Final</u>
Fair value of consideration transferred			
Cash paid	\$ 26,427,903	\$ 42,659	\$ 26,470,562
Common shares issued	97,500,000	-	97,500,000
Restricted voting shares issued	26,250,000	(2,625,000)	23,625,000
Fair value of existing equity interest in NCG	12,246,000	(278,686)	11,967,314
Net fair value of ACG options (Note 18)	-	35,065,524	35,065,524
Net fair value of NSH options (Note 18)	-	19,721,856	19,721,856
Settlement of pre-existing relationships	-	(2,421,156)	(2,421,156)
Shares to be issued to employees for pre-combination services	-	4,400,381	4,400,381
	<u>-</u>	<u>4,400,381</u>	<u>4,400,381</u>
Total consideration transferred	\$ 162,423,903	\$ 53,905,578	\$ 216,329,481
Fair value of identifiable net assets			
Cash	85,925	(549)	85,376
Accounts receivable	4,942,292	176,266	5,118,558
Prepaid expenses	-	509,588	509,588
Inventory	4,595,630	-	4,595,630
Property and equipment	1,258,410	(448)	1,257,962
Due from related parties	1,909,296	314,482	2,223,778
Investment in associate	17,472,312	(12,977,752)	4,494,560
Intangibles - proprietary technology & know how	34,737,360	(13,993,660)	20,743,700
Intangibles - brands	96,768,360	17,462,060	114,230,420
Intangibles - distributor relationship	18,009,000	760,380	18,769,380
Equity investments	60,964	(764)	60,200
Accounts payable and accrued liabilities	(26,916,139)	21,421,602	(5,494,537)
Deferred revenue	-	(19,394,809)	(19,394,809)
Notes payable	-	(1,847,278)	(1,847,278)
Deferred tax liability	-	(34,648,612)	(34,648,612)
Net fair value of ACG options	(41,263,288)	41,263,288	-
Net fair value of NSH options	(37,062,522)	37,062,522	-
	<u>-</u>	<u>37,062,522</u>	<u>-</u>
Total identifiable net assets	\$ 74,597,600	\$ 36,106,316	\$ 110,703,916
Goodwill on acquisition	\$ 87,826,303	\$ 17,799,262	\$ 105,625,565

As consideration for the NCG shares, the Company issued 65,000,000 common shares which were estimated at \$1.50 per share (based on quoted market price) and 17,500,000 restricted voting shares which were estimated at \$1.35 per share on the date of acquisition. A discount of 10% was applied to the restricted voting shares due voting restrictions placed on these shares.

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

5. Business combinations, continued

The following pre-existing relationships were effectively settled on the acquisition date:

Reacquired shares

NCG held an equity interest in the Company as of the acquisition date, resulting in the Company having reacquired 3,000,000 shares of its own equity at a fair value of \$4,400,381, which were recorded as treasury shares on the date of acquisition. The return of treasury shares resulted in a net increase in share capital of \$2,720,381, and a corresponding increase in deficit of \$2,720,381. NCG was obligated to grant these shares to certain employees as compensation. Since this obligation was settled in the Company's own shares, it was recognized as share-based payment relating to pre-combination services, and included as part of the consideration on the acquisition date. Settlement of the share-based payment transaction occurred in April 2019.

Note receivable

The Company had a previous note receivable from NCG, which was effectively settled at its fair value of \$1,979,225 on the date of acquisition.

Identifiable intangible assets

The identifiable proprietary technology and know-how, brands and distributor relationship have been valued using an income approach. Specifically, proprietary technology and know-how were valued using a discounted cash flow method. Brands and the distributor relationships were valued using the multi-period excess earnings method. All methods applied a 19% discount rate.

Proprietary technology and know-how and distributor relationships are considered definite useful life intangible assets and are being amortized over their remaining useful lives of 5 years. Brands were estimated to have a useful life of 10 years and as such are being amortized over that period.

Goodwill

Goodwill of \$105,625,565 is primarily related to growth expectations, particularly driven by introduction of brands in new markets where cannabis regulations are shifting toward legalization. Goodwill recognized will not be deductible for income tax purposes.

Acquisition costs charged to general and administrative expenses amounting to \$771,141 and \$342,383 were recognized as part of professional fee expenses and share based payments, respectively, for the three months ended March 31, 2019.

NWT Acquisition

NWT is a supplier and distributor of vaporizer products to wholesale distributors and online consumers. NWT's vaporizers service multiple cannabis formats including flower, liquid oil, and solid extracts.

The following tables summarize the purchase price allocation for the NWT acquisition:

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

5. Business combinations, continued

	<u>Preliminary</u>	<u>Adjustments</u>	<u>Final</u>
Fair value of consideration transferred			
Cash paid	\$ 10,654,800	\$ 17,200	\$ 10,672,000
Shares issued	10,631,196	-	10,631,196
Settlement of pre-existing relationship	<u>-</u>	<u>1,051,192</u>	<u>1,051,192</u>
Total consideration transferred	<u>\$ 21,285,996</u>	<u>\$ 1,068,392</u>	<u>\$ 22,354,388</u>
Recognized amounts of identifiable net assets			
Cash	1,328,823	(159)	1,328,664
Accounts receivable	1,067,325	(1,024,637)	42,688
Inventory	257,462	(14,674)	242,788
Prepaid and other	88,093	(12,055)	76,038
Property, plant and equipment	42,585	2,771	45,356
Intangibles - proprietary technology	7,697,180	(3,361,680)	4,335,500
Intangibles - brand	4,442,220	(160,080)	4,282,140
Intangibles - distributor relationship	2,854,760	2,441,220	5,295,980
Accounts payable, notes payable & other liabilities	<u>(4,032,018)</u>	<u>2,065,600</u>	<u>(1,966,418)</u>
Total identifiable net assets	<u>\$ 13,746,430</u>	<u>\$ (63,694)</u>	<u>\$ 13,682,736</u>
Goodwill on acquisition	<u>\$ 7,539,566</u>	<u>\$ 1,132,086</u>	<u>\$ 8,671,652</u>

As consideration for the NWT shares, the Company issued 7,087,464 common shares which were estimated at \$1.50 per share (based on quoted market price) on the date of acquisition.

A pre-existing relationship consisting of a note receivable issued by the Company to NWT with a fair value of \$1,051,192 on the date of acquisition was effectively settled.

Identifiable intangible assets

The identifiable proprietary technology and know-how, brands and distributor relationship have been valued using an income approach. Specifically, proprietary technology and know-how and brands using a relief from royalty method. Distributor relationships were valued using the multi-period excess earnings method. All methods applied a 33.7% discount rate.

Proprietary technology and know-how and distributor relationships are considered definite useful life intangible assets and are being amortized over their remaining useful lives of 5 years. Brands were estimated to have a useful life of 10 years and as such are being amortized over that period.

Goodwill

Goodwill of \$8,671,652 is primarily related to growth expectations, particularly driven by introduction of brands and products in new markets where cannabis regulations are shifting toward legalization. Goodwill recognized will not be deductible for income tax purposes going forward.

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

5. Business combinations, continued

Measurement period adjustments effecting income (loss)

The measurement period adjustments for NCG and NWT outlined above also resulted in a decrease of \$1,564,216 to the net loss and a decrease of \$1,426,401 to total comprehensive loss for the three months ended March 31, 2019. Significant increases and decreases in specific line items are outlined as follows: a decrease in depreciation and amortization expense of \$735,298, and increase in deferred tax recovery of \$1,256,410 and other net changes to the net loss for the period of \$427,492. Furthermore, other comprehensive income from the translation of foreign operations increased by \$137,815.

Revised basic and diluted earnings per share for the three months ended March 31, 2019 is a loss of \$0.08 (previously reported - loss of \$0.09).

6. Asset acquisition

On October 1, 2019 the Company entered into an Intellectual Property Purchase Agreement and separately, an Asset Purchase Agreement, with National Patent Solutions, LLC, SPJ & Co, LLC, and their unit holders. Pursuant to the agreements the Company acquired certain intellectual property, real estate and equipment assets and settled a pre-existing lease liability the Company owed to National Patent Solutions. Under Amendments to IFRS 3, Business Combinations, it was determined that the acquisition did not qualify as a business combination, and therefore it was accounted for as an asset acquisition. The aggregate consideration payable was comprised of the issuance of 6,416,128 restricted voting shares of the Company totaling \$3,175,983 (based on quoted market price) and US \$1.2 million in cash (CAD - \$1,589,280). A discount of 10% was applied to the restricted voting shares due voting restrictions placed on these shares. The allocation of the purchase price was based on the relative fair values of the assets acquired as summarized below:

Intellectual property - District Edibles	\$ 3,736,542
Investment property	635,712
Equipment	255,271
Settlement of pre-existing lease liability	<u>137,738</u>
	<u>\$ 4,765,263</u>

On October 1, 2019, Company also entered into a consulting agreement with the unit holders whereby the unit holders will provide consulting, marketing and advertising services to the Company in exchange for restricted voting shares of the Company. The consulting agreement covers a period of three years and the payout of restricted voting shares are due quarterly based on achievement of performance conditions.

The second quarterly payment totaled \$1,132,480, resulting in 4,458,582 restricted voting shares to be issued, and was recorded as shares to be issued in the consolidated statement of changes in shareholders' equity and share based compensation in the consolidated statement of income (loss) and comprehensive income (loss).

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

7. Marketable securities

Marketable securities represent short term investments recorded at fair value through profit and loss. At March 31, 2020 the Company held a guaranteed investment certificate in the amount of \$6,033,973 bearing interest at 2%, maturing on December 24, 2020.

8. Accounts receivable

Accounts receivables consist of the following:

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Accounts receivable	\$ 15,281,527	\$ 14,505,022
Expected credit losses	<u>(6,007,120)</u>	<u>(5,627,400)</u>
	<u>\$ 9,274,407</u>	<u>\$ 8,877,622</u>

The change in expected credit losses was a result of the translation of foreign operations recorded in other comprehensive income.

9. Inventory

The following comprise inventory:

Category	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Batteries	\$ 792,349	\$ 691,567
Packaging	492,174	411,307
Cartridges	587,225	382,271
Finished goods	199,982	361,104
Other	236,331	207,133
Reserve for obsolete inventory	<u>(407,183)</u>	<u>(373,028)</u>
	<u>\$ 1,900,878</u>	<u>\$ 1,680,354</u>

During the three months ended March 31, 2020 the total inventory expensed through cost of goods sold was \$1,551,750 (2019 - \$1,814,519).

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

10. Notes receivable

On November 8, 2017 the Company loaned \$750,000 ("Original Promissory Note") to Pine River Consulting Ltd. (controlled by the Company's CEO) ("Pine River"). The loan was pursuant to a credit facility in the amount of \$1,000,000. Pine River and the Company subsequently amended and restated the Original Promissory Note on July 30, 2018, and again on October 15, 2018. During the year ended December 31, 2019 the Company advanced an additional \$26,497 to Pine River. The maturity date of the loan was extended to November 8, 2020 at 15% interest for up to \$1,500,000. Ten percent of the quarterly interest shall be payable by Pine River to the Company and the remaining five percent of the quarterly interest payment shall be added to the principal amount. As at March 31, 2020, principal and interest due is \$1,857,126 (2019 - \$1,798,113). In a prior period, the Company estimated an expected credit loss of \$192,240, the remaining balance of the loan is \$1,664,886. Interest income for the three months ended March 31, 2020 amounted to \$59,013 (2019 - \$37,372). The loan remains outstanding at the date of these interim condensed consolidated financial statements.

On March 21, 2019, the Company entered into a promissory note with NS Holdings, LLC ("NSH"), a related entity, in the amount of US\$3,206,188 (CAD - \$4,285,267), which is secured by substantially all of the assets of NSH, bears interest at 12% per annum and is due in full in February 2022. On May 3, 2019, July 24, 2019 and August 13, 2019, the Company advanced a further US\$1,028,755 (CAD - \$1,383,080), US\$528,907 (CAD - \$690,398) and US\$399,410 (CAD - \$528,191), respectively, under the same terms of the original note. During the three months ended March 31, 2020, interest accrued and included in the principal amounted to \$210,405. An unrealized foreign exchange gain of \$658,164 was recognized in the three months ended March 31, 2020. Previously, on December 31, 2019, the Company estimated an expected credit loss of \$3,547,439. The loan remains outstanding at the date of these interim condensed consolidated financial statements.

On October 23, 2019, the Company entered into a promissory note with Pleasant Valley Ranch, an unrelated entity, in the amount of US\$165,659 (CAD - \$215,158), which is unsecured, bears interest at 15% per annum and is due in full on December 31, 2020. During the three months ended March 31, 2020, interest income of \$14,511 and a foreign exchange gain of \$19,862 was recorded in the statement of income (loss) and comprehensive income (loss). The loan remains outstanding at the date of these interim condensed consolidated financial statements.

On February 26, 2020, the Company entered into a promissory note with Pleasant Valley Ranch, an unrelated entity, in the amount of US\$1,300,000 (CAD - \$1,734,330), which is unsecured, bears interest at 15% per annum with monthly principal and interest payments of US\$30,927. The loan matures February 1, 2025. During the three months ended March 31, 2020, principal repayments of \$14,677 were made and a gain on currency translation of \$103,835 was recorded in the statement of loss and comprehensive loss. The loan remains outstanding at the date of these interim condensed consolidated financial statements.

SLANG Worldwide Inc.
Notes to the Unaudited Interim Condensed Consolidated
Financial Statements

For the three months ended March 31, 2020 and 2019

10. Notes receivable, continued

A summary of the Company's loans and notes receivable is as follows:

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Pine River, net of allowance	\$ 1,664,886	\$ 1,605,873
NSH, net of allowance	4,349,332	3,480,763
Pleasant Valley Ranch Note 1	235,020	215,158
Pleasant Valley Ranch Note 2	<u>1,823,488</u>	<u>-</u>
Less: Current portion	<u>(235,020)</u>	<u>-</u>
	<u>\$ 7,837,706</u>	<u>\$ 5,301,794</u>

11. Investments, at fair value

A summary of all investments held at fair value include the following:

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Allied Concessions Group Inc. ("ACG") (a)	\$ 1,865,104	\$ 1,865,104
NS Holdings Inc. ("NSH") (a)	155,140	155,140
10663522 Canada Inc. (b)	408,889	408,889
Duby (c)	64,850	59,370
LBA - Convertible loan (d)	<u>2,218,664</u>	<u>1,972,710</u>
Less: Current portion	<u>(2,218,664)</u>	<u>(1,972,710)</u>
	<u>\$ 2,493,983</u>	<u>\$ 2,488,503</u>

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

11. Investments, at fair value, continued

a. NSH & ACG Warrants

As at March 31, 2020 and December 31, 2019 the Company held warrants which entitle the Company to acquire 339,930 and 327,601 shares of NSH and ACG respectively at an exercise price of US\$0.001 per share until March 20, 2028. Had the warrants been exercised before or on March 31, 2020 and December 31, 2019, the Company would have owned 7.5% outstanding common shares of each of ACG and NSH respectively. The warrants were re-valued on March 31, 2020 and there was no change in their valuation from December 31, 2019, the date of the last valuation. The fair value of the warrants was estimated using the Monte Carlo Simulation approach using a risk-free rate of 0.59%, NSH volatility of 420.99%, ACG volatility of 367.95%, stock price of \$0.20 and term of 7.97 years. A 1% change in any key input would not result in a significant change in the value of the warrants.

b. 10663522 Canada Inc.

On May 31, 2018, the Company entered into an investment agreement with 10663522 Canada Inc. whereby the Company acquired 1,111,111 shares of 10663522 Canada Inc. At December 31, 2019, the Company estimated a decrease in the fair value of the investment in 10663522 Canada Inc., resulting in a loss of \$91,111 which was recorded in the consolidated statements of loss and comprehensive loss in 2019. The fair value at December 31, 2019 was estimated by reference to a financing which closed in the valuation assessment period. The Company has estimated no change in the value of the investment for the period ended March 31, 2020.

c. DUBY Inc.

Prior to acquisition by the Company of NCG, NCG had invested a total of \$180,000 in DUBY Inc, (DUBY) representing a 2.6% ownership interest. DUBY provides a network for people to gain and share knowledge around their cannabis experiences. NCG invested in DUBY for a strategic marketing purpose. DUBY is a private company, no quoted market prices are available for its shares. Prior to the acquisition of NCG by the Company, NCG had recognized an impairment loss on the investment, bringing the net investment value to US \$45,700 (CAD - \$64,850). The Company has estimated no change in the value of the investment for the period ended March 31, 2019.

d. LBA - Convertible Loan

On May 23, 2019, the Company loaned US \$1,500,000 (CAD - \$2,021,626) to LBA Global Corporation, an unrelated third party. The loan is unsecured, carries interest at 12% per annum and is due in full in May 2020. Interest of \$119,045 was paid by LBA in 2019 and interest accrued and receivable for the three months ended March 31, 2020 amounted to \$61,126. The loan is convertible at the Company's option, and it is measured at fair value through profit or loss. The fair value adjustment recognized in the three months ended March 31, 2020 was \$Nil and a foreign exchange gain totaled of \$184,828. The loan has not been repaid as of the date of these interim condensed consolidated financial statements.

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

12. Investment in associate

Prior to the acquisition of NCG by the Company, NCG received a 20% ownership share in Agripharm Corp. (Agripharm), a licensed producer located in Creemore, Ontario, for the use of intellectual property ("IP"), over a period of 30 years plus two 5-year renewal periods, valued on initial recognition at \$19,200,000 (USD - \$15,083,520). As such, the consideration transferred has been recorded as deferred revenue and will be amortized over the 30-year period (Note 23). During the three months ended March 31, 2020, NCG recognized an equity pick-up of a loss of \$1,098,406 (2019 - \$239,478) in the consolidated statement of income (loss) and comprehensive income (loss).

Investment in Agripharm can be summarized as follows:

Investment on December 31, 2019	\$ 2,027,142
Loss on share of investment	<u>(1,098,406)</u>
Total investment at March 31, 2020	<u>\$ 928,736</u>

13. Due from related parties

The Company's wholly owned subsidiary, NCG, routinely conducts business with Allied Concessions Group, Inc. ("ACG"), GNT Oregon LLC ("GNT"), CalVape Inc ("CalVape"), and NS Holdings Inc. ("NSH"). ACG, GNT, CalVape and NSH have common management with the Company. All entities are separate entities due to the US marijuana regulation licensing requirements. ACG, GNT, Calvape and NSH operate labs that manufacture oil, packages and market products to be sold to dispensaries. Peter Miller Enterprises and Green House Holdings North America are controlled by a senior management member of the Company.

Balances due from related parties have no specific repayment terms and consist of the following:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
CalVape	\$ 6,124,449	\$ 5,310,557
ACG	5,302,271	4,530,338
GNT	976,837	346,353
Peter Miller Enterprises	315,366	315,430
Expected credit losses	<u>(7,101,286)</u>	<u>(5,310,557)</u>
	<u>\$ 5,617,637</u>	<u>\$ 5,192,121</u>

Expected credit losses increased by \$1,232,829 for the three months ended March 31, 2020 and the remaining increase of \$557,900 relating to the translation of foreign operations recorded in other comprehensive income.

SLANG Worldwide Inc.
Notes to the Unaudited Interim Condensed Consolidated
Financial Statements

For the three months ended March 31, 2020 and 2019

14. Investment properties

	Building and land improvements	Land	Total
Cost			
Balance at December 31, 2019	\$ 3,089,138	\$ 2,013,140	\$ 5,102,278
Currency translation	285,177	185,845	471,022
Balance at March 31, 2020	<u>\$ 3,374,315</u>	<u>\$ 2,198,985</u>	<u>\$ 5,573,300</u>
Accumulated depreciation			
Balance at December 31, 2019	\$ 154,685	\$ -	\$ 154,685
Depreciation expense	34,079	-	34,079
Currency translation	16,151	-	16,151
Balance at March 31, 2020	<u>204,915</u>	<u>-</u>	<u>204,915</u>
Net book value March 31, 2020	<u>\$ 3,169,400</u>	<u>\$ 2,198,985</u>	<u>\$ 5,368,385</u>

SLANG Worldwide Inc.**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**For the three months ended March 31, 2020 and 2019

15. Property, plant and equipment

	<u>Office equipment</u>	<u>Equipment and machinery</u>	<u>Computer equipment</u>	<u>Leasehold improvements</u>	<u>Vehicles</u>	<u>Total</u>
Cost						
Balance at December 31, 2019	\$ 159,683	\$ 1,006,962	\$ 24,679	\$ 39,707	\$ 37,665	\$ 1,268,696
Additions	9,289	7,424	12,551	-	-	29,264
Disposals	-	(42,188)	-	-	-	(42,188)
Currency translation	15,251	91,051	2,966	3,666	3,477	116,411
Balance at March 31, 2020	\$ 184,223	\$ 1,063,249	\$ 40,196	\$ 43,373	\$ 41,142	\$ 1,372,183
Accumulated depreciation						
Balance at December 31, 2019	\$ 27,928	\$ 186,305	\$ 16,428	\$ 1,895	\$ 13,189	\$ 245,745
Depreciation expense	7,188	122,251	5,421	522	2,438	137,820
Disposals	-	(30,561)	-	-	-	(30,561)
Currency translation	2,973	22,230	1,814	204	1,351	28,572
Balance at March 31, 2020	\$ 38,089	\$ 300,225	\$ 23,663	\$ 2,621	\$ 16,978	\$ 381,576
Net book value at March 31, 2020	\$ 146,134	\$ 763,024	\$ 16,533	\$ 40,752	\$ 24,164	\$ 990,607

SLANG Worldwide Inc.
Notes to the Unaudited Interim Condensed Consolidated
Financial Statements

For the three months ended March 31, 2020 and 2019

16. Intangible assets

	Proprietary technology & know how	Brands	Distributor relationships	Total
Cost				
Balance at December 31, 2019	\$ 10,636,609	\$ 42,948,365	\$ 5,666,125	\$ 59,251,099
Currency translation	<u>981,929</u>	<u>3,964,820</u>	<u>523,074</u>	<u>5,469,823</u>
Balance at March 31, 2020	<u>\$ 11,618,538</u>	<u>\$ 46,913,185</u>	<u>\$ 6,189,199</u>	<u>\$ 64,720,922</u>
Accumulated amortization				
Balance at December 31, 2019	\$ 4,602,994	\$ 10,947,761	\$ 4,408,937	\$ 19,959,692
Amortization expense	384,022	912,275	80,178	1,376,475
Currency translation	<u>446,002</u>	<u>1,060,713</u>	<u>411,415</u>	<u>1,918,130</u>
Balance at March 31, 2020	<u>5,433,018</u>	<u>12,920,749</u>	<u>4,900,530</u>	<u>23,254,297</u>
Net book value March 31, 2020	<u>\$ 6,185,520</u>	<u>\$ 33,992,436</u>	<u>\$ 1,288,669</u>	<u>\$ 41,466,625</u>

17. Right-of-use assets

During the period the Company entered into a new lease agreement for its office space in Denver, Colorado. The lease term spans 10 years with two optional extension periods of five years each. The associated lease liability is outlined in Note 22.

Balance at December 31, 2019	\$ -
Additions	2,292,630
Depreciation expense for the period	(60,573)
Currency translation	<u>209,866</u>
Balance at March 31, 2020	<u>\$ 2,441,923</u>

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

18. Options to acquire ACG and NSH

As part of the acquisition of NCG, the Company also acquired an option to acquire 92.5% of the outstanding equity interests of Allied Concessions Group, Inc. (“ACG”) and NS Holdings Inc. (“NSH”). Under the terms of the option agreements, the Company can choose to acquire either or both ACG and NSH (“call options”), in exchange for the issuance of an additional 33 million and 49.5 million of the Company’s shares, respectively. These call options expire 36 months after closing of the NCG acquisition. During a 120 day period, commencing on the 13th month after closing of the NCG acquisition, the shareholders of ACG and NSH also have the right to sell 92.5% of the outstanding equity (“put rights”) of ACG or NSH, to the Company, on the same terms as the call options.

On February 26, 2020, the Company delivered notice of its intent to exercise its option to acquire Allied Concessions Group, Inc. (“ACG”) pursuant to the option purchase agreement between SLANG, ACG and the shareholders of ACG. Completion of the proposed acquisition of ACG is subject to the negotiation and execution of a definitive purchase agreement and the satisfaction or waiver of all closing conditions, including the receipt of all necessary regulatory approvals (including the approval of the Marijuana Enforcement Division of the Department of Revenue of the State of Colorado).

The call options and put rights (collectively, “the options”) related to ACG and NSH were re-measured at fair value on December 31, 2019 and March 31, 2020. The revaluation at March 31, 2020 resulted in a fair value gain of \$11,228,181 on the ACG options resulting in an option asset of \$18,393,609 and a fair value gain of \$14,108,657 on the NSH options resulting in an option liability of \$7,244,651.

The fair value of the option asset and liability as at March 31, 2020 and December 31, 2019 was estimated using an option pricing methodology based on the Monte Carlo Simulation approach using the following assumptions:

	March 31, 2020	December 31, 2019
Company’s Share price	\$0.20	\$0.48
Stock price volatility		
NSH	421%	266%
ACG	368%	238%
Slang Worldwide Inc.	126%	92%
Risk-free rate	0.07%	1.57%
Expected life of the option liability	0.14 years	0.39 years

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

19. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	March 31, 2020	December 31, 2019
Accounts payable	\$ 4,092,250	\$ 3,802,470
Accrued liabilities	1,912,289	3,245,979
Government remittances	<u>1,698,700</u>	<u>1,821,576</u>
	<u>\$ 7,703,239</u>	<u>\$ 8,870,025</u>

20. Loan payable

The loan payable represents a balance owing to Green House Holdings North America Inc. ("GHNA"), a company partially owned by the Company's CEO. The loan is non-interest bearing and matured on July 31, 2019, at which time the loan was extended to July 9, 2021 with the same terms and conditions. In 2019 a gain of \$713,576 was recorded in the consolidated statement of income (loss) and comprehensive income (loss) on the modification of the loan. Refer to Note 30.

	March 31, 2020
Balance on December 31, 2019	\$ 1,966,262
Advances	-
Foreign exchange loss	192,717
Accretion expense (Note 27)	<u>92,364</u>
Balance on March 31, 2020	<u>\$ 2,251,343</u>

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

21. Notes payable

Prior to acquisition of NCG by the Company, NCG entered into a promissory note agreement with a third party for a total principal amount of US\$1,750,000. The note is secured, bears interest at 15% per annum and has a term of 60 months, with repayments made on a monthly basis. The note carries a pre-payment penalty of 12% if the balance is repaid before the first anniversary of the note and 10% and 8% if the note is repaid before the second and third anniversaries, respectively.

All assets of NCG have been pledged as security for the above note. During the three months ended March 31, 2020, the Company paid interest of \$39,116 (2019 -\$32,019).

Prior to acquisition of NCG by the Company, NCG acquired the assets from the owner-operator SC-GH Holdings, LLC, ("SC-GH") the Colorado trade name "The Magic Buzz" from Inspired Specialty Products, LLC and the related registered trademark from an individual. The trade name and trademark are associated with the preparation, manufacture, assembly and creation of non-THC infused drinks, drink formulas, and recipes to be sold to producers and thereafter infused with THC.

As part of the purchase price NCG provided a note payable to SC-GH for US\$319,000 maturing January 1, 2020, with an option to extend the note for an additional year at a penalty cost of US\$5,000. Payments on the note are to be made monthly and are variable based on the total revenue made by the Company on the sales made associated with the trademark acquired. In February 2020, the Company sold the Magic Buzz trademark which resulted in the termination of the note payable with no further payments being required. The sale of the Magic Buzz trademark resulting in a gain on sale of \$363,525 recorded in the statement of loss and comprehensive loss

The following transactions occurred on the notes:

	March 31, 2020
Balance on December 31, 2019	\$ 1,385,297
Repayment	124,487
Termination on sale of Magic Buzz trademark	(344,049)
Currency translation	(159,682)
	1,006,053
Notes payable - March 31, 2020	577,065
Less current portion	428,988
Long term portion	\$ 148,077

Estimated principal re-payments are as follows:

Less than one year	\$ 577,065
One year	428,988
	\$ 1,006,053

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

22. Lease Liability

The lease liability associated with the right-of-use asset for the Company's office space is summarized below:

Balance at December 31, 2019	\$ -
Additions	2,292,630
Cash outflows for the period	-
Accretion expense for the period (Note 27)	88,947
Currency translation	<u>218,071</u>
Balance at March 31, 2020	<u>\$ 2,599,648</u>

Current and long-term portions of the lease liability and the contractual undiscounted maturity analysis at March 31, 2020 are as follows:

Current	\$ 76,614
Long-term	2,523,034
Maturity Analysis - Undiscounted Cash Flows	
Less than one year	461,518
One year	473,056
Two years	484,882
Three years	497,004
Four years	509,432
Five years and beyond	2,744,672

23. Deferred revenue

Prior to the acquisition of NCG by the Company, NCG received a 20% ownership share in Agripharm Corp. (Agripharm), a licensed producer located in Creemore, Ontario, for the use of intellectual property ("IP"), over a period of 30 years plus two 5-year renewal periods, valued on initial recognition at \$19,200,000 (US - \$15,083,520). As such, the consideration transferred has been recorded as deferred revenue and will be amortized over the 30-year period.

Deferred revenue can be summarized as follows:

	March 31,
	<u>2020</u>
Balance on December 31, 2019	\$ 18,230,026
Recognized as license revenue	(169,049)
Currency translation	<u>1,673,647</u>
Total deferred revenue	19,734,624
Less current portion	<u>(713,300)</u>
Long term portion	<u>\$ 19,021,324</u>

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

24. Due to related parties

Balances due to related parties consist of the following;

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
NS Holdings Inc.	\$ 3,661,522	\$ 3,480,764
The Wppd Initiative	199,576	177,398
Peter Miller Enterprises	28,510	22,576
The Purple Company	2,976	2,292
Other	<u>209,401</u>	<u>190,335</u>
	<u>\$ 4,101,985</u>	<u>\$ 3,873,365</u>

The Wppd Initiative is controlled by the President of the Company. All balances are non-interest bearing and have no specified terms of repayment.

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

25. Derivative liability

On April 30, 2018, the Company issued a 4-year, 4% unsecured convertible promissory note to The Purple Co. (controlled by the Company's CEO) in the amount of US\$1,843,031 (CAD \$2,364,849) (the "Purple Note") to exchange an existing loan to Purple Organization, Inc. The expiry date of the Purple Note is April 30, 2022. The transaction met the definition of extinguishment, and the Company recognized a loss on extinguishment of \$3,059,668 in financing cost and fair value adjustments in its consolidated statement of loss and comprehensive loss (Note 28). The Company has the right to prepay all or a portion of the amount due under the Purple Note any time and from time to time. The Purple Co. has the right to convert the principal amount outstanding under the Purple Note into common shares in the capital of the Company, at a conversion price of CAD\$0.20 per share, on thirty (30) days' written notice.

The conversion option created an embedded derivative which meets the definition of a financial liability as it being denominated in a currency other than the Company's functional currency.

Accordingly, it must be bifurcated and recorded at fair value on initial recognition and at the end of each reporting period. The host contract is a financial liability that is stated at amortized cost using the effective interest method.

The Company estimated the fair value of the derivative liability as \$5,424,517, \$4,222,002 and \$1,488,838 on issuance date, April 30, 2018, December 31, 2019 and March 31, 2020 accordingly and assigned a nominal value to the host contract on April 30, 2018. The amortized cost of the host contract at March 31, 2020 is nominal (2019 - nominal). The loan is accreted using an effective interest rate of 428.94%. The fair value adjustment to the derivative liability on March 31, 2020 resulted in a fair value gain of \$2,733,164 (2019 - gain of \$4,934,155).

Interest expense on the convertible note for the three months ended March 31, 2020 of \$24,352 (2019 - \$24,510) was recorded in the consolidated statements of income (loss) and comprehensive income (loss).

The fair value of the derivative liability as at March 31, 2020 and December 31, 2019 was estimated using Black-Scholes valuation model based on the following assumptions:

	March 31, 2020	December 31, 2019
Share price	0.2	\$ 0.48
Stock price volatility	111	102%
Expected life of the derivative liability	2 years	2.33 years
Risk free rate	0.62%	1.66%

Inter-relationship between key unobservable inputs and fair value measurement as at March 31, 2020:

- If the share price was lower (higher) by 10%, the fair value would decrease (increase) by \$202,869 (\$207,749).
- If the volatility was lower (higher) by 10%, the fair value would decrease (increase) by \$123,132 (\$115,803).

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

26. Share capital

Authorized

Unlimited number of Class A preferred shares

Unlimited number of common shares

Unlimited number of restricted voting shares

There are no outstanding Class A preferred shares as at March 31, 2020 and December 31, 2019.

Each restricted voting share may be converted to one common share, without payment of additional consideration if the following conditions are met: (a) conversion is not during a restricted period as determined by the Board; (b) following the date that is the three year anniversary of the date of issuance of such restricted voting shares; and (c) with the consent of the Board.

Common share continuity:

	<u>Number of shares</u>	<u>Share capital</u>
Balance - December 31, 2019 & March 31, 2020	<u>257,729,502</u>	<u>\$ 219,119,332</u>

Restricted voting share continuity:

	<u>Number of shares</u>	<u>Share capital</u>
Balance - December 31, 2019	23,916,128	\$ 26,800,983
Issued during the reporting period	<u>2,340,266</u>	<u>1,053,120</u>
Balance - March 31, 2020	<u>26,256,394</u>	<u>\$ 27,854,103</u>

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

26. Share capital, continued

2019

In 2019 an option to acquire 250,000 common shares was exercised at a price of \$0.05 per share.

In 2019, 13,181,997 common shares were issued pursuant to the exercise of 13,181,997 warrants at an exercise price of \$1.15 per share.

In 2019, 100,000 common shares were issued pursuant to the exercise of 100,000 warrants at an exercise price of \$2.25 per share.

In 2019, 749,516 common shares were issued pursuant to the exercise of 749,516 compensation units at an exercise prices between of \$0.75 - \$1.50 per share.

On September 17, 2019, the Company entered into a subscription agreement with a third-party, whereby the Company issued 347,222 units for gross proceeds of \$250,000. Each subscription unit consists of one common share and one common share purchase warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.89 per share, expiring in September 2024. The common shares and the purchase warrants were valued at \$145,192 and \$104,808, respectively, using the relative fair value method.

On November 26, 2019, the Company entered into a subscription agreement with a group of existing shareholders, whereby the Company issued 30,922,579 units for gross proceeds of \$15,111,814, net of \$40,250 in share issuance costs. Each subscription unit consists of one common share and one common share purchase warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.52 per share, expiring in November 2024. The common shares and the purchase warrants were valued at \$8,793,079 and \$6,358,985, respectively, using the relative fair value method.

On December 5, 2019, the Company entered into a subscription agreement with a group of existing shareholders, whereby the Company issued 3,570,407 units for gross proceeds of \$1,749,499. Each subscription unit consists of one common share and one common share purchase warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.52 per share, expiring in December 2024. The common shares and the purchase warrants were valued at \$1,018,520 and \$730,979, respectively, using the relative fair value method.

On February 5, 2020, the Company issued 2,340,266 restricted voting shares under a consulting agreement with a third party (Note 7). The shares had been recorded as shares to be issued totaling \$1,053,120 at December 31, 2019. An equal amount was recorded as share based payments in the consolidated statement of loss and comprehensive loss for the year-ended December 31, 2019. At March 31, 2020, 4,458,582 restricted voting shares were recorded as shares to be issued under the same consulting agreement and share based payments for \$1,132,480 were recorded in the consolidated statement of loss and comprehensive loss for the three months ended March 31, 2020.

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

26. Share capital, continued

Shares issued for investments:

On January 22, 2019 the Company issued 7,087,464 common shares at estimated value of \$1.50 per share in connection with its acquisition of NWT (see Note 5).

On January 22, 2019 the Company issued 65,000,000 common shares which were estimated at \$1.50 per share and 17,500,000 restricted voting shares which were estimated at \$1.35 per share in connection with its acquisition of NCG (see Note 5).

On October 1, 2019 the Company issued 6,416,128 restricted voting shares at estimated value of \$0.495 per share in connection with its asset acquisition outlined in Note 6.

Share-based payments

During 2017, the shareholders of the Company approved the stock option plan (the Plan). Stock options granted under the Plan (options) are equity settled, will be non-transferable and will be exercisable for a period not to exceed ten years. Stock options vest evenly over the related service period between one to four years.

The following provides a summary of the status of the Plan as at March 31, 2020:

	<u>Options issued</u>	<u>Weighted exercise price</u>
Balance outstanding - December 31, 2019	11,349,416	1.11
Granted	-	-
Forfeited / cancelled	(335,000)	1.42
Exercised	-	-
Balance outstanding - March 31, 2020	<u>11,014,416</u>	<u>\$ 1.10</u>

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

26. Share capital, continued

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price</u>	<u>Number outstanding</u>	<u>Weighted average remaining contractual life</u>	<u>Number exercisable</u>
Nov 2, 2017	Nov 2, 2027	\$ 0.05	1,250,000	0.89	625,000
Jul 6, 2018	Jul 6, 2023	\$ 0.75	525,000	0.17	525,000
Jul 6, 2018	Jul 6, 2023	\$ 0.75	850,000	0.27	212,500
Jul 16, 2018	Jul 16, 2023	\$ 0.75	550,000	0.18	550,000
Jan 22, 2019	Jan 22, 2029	\$ 1.50	2,500,000	2.06	625,000
Jan 22, 2019	Jan 22, 2029	\$ 1.50	665,888	0.55	665,888
Jan 28, 2019	Jan 28, 2024	\$ 1.50	300,000	0.11	300,000
Jan 28, 2019	Jan 28, 2024	\$ 1.50	3,113,528	1.15	778,382
Jun 3, 2019	Jun 3, 2024	\$ 1.89	60,000	0.02	-
Nov 26, 2019	Nov 26, 2024	\$ 0.49	<u>1,200,000</u>	<u>0.53</u>	<u>-</u>
			<u>11,014,416</u>	<u>5.93</u>	<u>4,281,770</u>

The options granted on November 2, 2017 vest over 4 years annually. The options granted in July 2018 vest over the period between 1 and 4 years.

The fair value of each of the 2018 options was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 1.57%; stock price: \$0.56; volatility: 102%; Dividend yield: 0%; and expected life: four years. During the three months ended March 31, 2020, 35,000 options were forfeited.

On January 22, 2019 the Company approved the grant of options to various employees, advisors and contractors. A total of 3,332,360 options were granted which will vest over a period between 1 and 2 years. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 1.83%, stock price: \$1.50; volatility: 108%; Dividend yield: 0%; and expected life: five years. During the three months ended March 31, 2020, no options were forfeited.

On January 28, 2019 the Company approved the grant of options to various employees, advisors and contractors. 3,923,528 options were granted which will vest over a 4-year period and 700,000 options were granted which vest on a monthly basis over 1 year. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 1.83%; stock price: \$1.50; volatility: 108%; Dividend yield: 0%; and expected life: five years. During the three months ended March 31, 2020, 300,000 options were forfeited.

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

26. Share capital, continued

On June 3, 2019 the Company approved the grant of options to various employees, advisors and contractors. A total of 220,000 options were granted which will vest over a 4-year period. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 1.42%; stock price: \$1.93; volatility: 97%; Dividend yield: 0%; and expected life: four years. During the three months ended March 31, 2020, no options were forfeited.

On November 26, 2019 the Company approved the grant of options to various employees, advisors and contractors. A total of 1,207,500 options were granted which will vest over a 4-year period. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 1.58%; stock price: \$0.44; volatility: 100%; Dividend yield: 0%; and expected life: four years. During the three months ended March 31, 2020, no options were forfeited.

Compensation expense related to stock options is recognized over the years in which entitlement to the compensation vests. For the three months ended March 31, 2020, the Company recorded \$650,084 in stock based compensation expense its consolidated statement of loss and comprehensive loss (2019 - \$1,179,328)

The expected volatility is based on the historical volatility of the Company and comparable companies, which may not necessarily be the actual outcome.

Restricted stock units

On January 22, 2019 and November 26, 2019 the Company provided key management personnel with a Restricted Share Units ("RSU") to vest in equal annual amounts over a two-year period and contingent on continued employment at the Company. There was a total of 6,050,000 RSUs issued. For the three months ended March 31, 2020, the Company recorded a compensation expense of \$627,016 for the RSUs in its consolidated statement of income (loss) and comprehensive income (loss) (2019 - \$493,851), based on the vesting period and a fair value of ranging from \$0.44 to \$1.50 per share.

Agents' options and compensation warrants

On February 21, 2018, pursuant to the terms of an agency agreement as between the Company and the Agents ("February Agency Agreement"), the Company issued 1,414,177 compensation options (the "February Compensation Options"). Each February Compensation Option entitles the holder thereof to purchase one (1) Compensation Unit an at exercise price of \$0.75 per Compensation Unit until the date that is the earlier of (i) twenty-four (24) months following the Liquidity Date (as defined in the February Agency Agreement) and (ii) July 21, 2020. Each Compensation Unit issued upon exercise of the Compensation Option shall consist of one common share and one-half of one Compensation Warrant. Each whole Compensation Warrant will entitle the holder thereof to purchase one common share at a price of \$1.15 per Compensation Warrant Share. During the three months ended March 31, 2020, no compensation options were exercised and no compensation warrants were exercised. At March 31, 2020, 673,855 compensation options were outstanding at an exercise price of \$0.75.

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

26. Share capital, continued

On September 26, 2018, pursuant to the terms of an agency agreement as between the Company and the Agents (“Agency Agreement”), the Company issued 1,465,448 broker warrants and 974,467 corporate finance warrants (together “Compensation Options”). Each compensation option will entitle the holder to acquire one unit at the subscription price of \$1.50 for the period of 24 months from the listing date as defined in the Agency Agreement. Each compensation option will be comprised of one common share (“compensation share”) and one half of one common share purchase warrant (each whole common share purchase warrant, a “compensation warrant”). Each compensation warrant shall entitle the holder to acquire one common share (“compensation warrant share”) at an exercise price of \$2.25 per warrant for the period of 24 months following the listing date. During the three months ended March 31, 2020, no compensation options were exercised, and no compensation warrants were exercised. At March 31, 2020, 2,430,721 compensation options were outstanding at an exercise price of \$1.50.

On January 29, 2019, pursuant to an advisory services agreement with PowerOne Management & Advisory Services Limited (“PowerOne”) whereby PowerOne agreed to provide corporate and financial advisory services to the Company in exchange for 439,985 compensation options with the same terms as those issued under the September 26, 2018 Agency Agreement, above. None of these compensation options or compensation warrants have been exercised and 439,985 of these compensation options are outstanding at an exercise price of \$1.50 at March 31, 2020.

Warrants issued:

	<u>Number of warrants</u>	<u>Total</u>
Outstanding - December 31, 2019 & March 31, 2020	<u>60,289,548</u>	<u>\$ 15,736,929</u>

27. Financing cost and fair value adjustment

	<u>March 31, 2020</u>	<u>March 31, 2019</u>
Fair value adjustment on option asset and liability (Note 18)	\$ (25,336,838)	\$ -
Fair value adjustment on derivative liability (Note 25)	(2,733,164)	4,934,155
Fair value adjustment on investments (Note 11)	-	(1,197,792)
Accretion on lease liability (Note 22)	88,947	-
Accretion expense (Note 20)	92,364	-
Interest on convertible note (Note 25)	24,352	24,510
Other interest expense	18,686	45,674
Foreign currency exchange loss (gain)	<u>53,707</u>	<u>(277,240)</u>
Total	<u>\$ (27,791,946)</u>	<u>\$ 3,529,307</u>

SLANG Worldwide Inc.
Notes to the Unaudited Interim Condensed Consolidated
Financial Statements

For the three months ended March 31, 2020 and 2019

28. Income (loss) per share

	<u>March 31, 2020</u>	<u>March 31, 2019</u>
Basic		
Net income (loss) attributable to shareholders	23,517,516	(14,549,389)
Basic income (loss) per share	<u>0.08</u>	<u>(0.08)</u>
Weighted average number of shares	<u>283,060,076</u>	<u>188,970,013</u>
Diluted		
Net income (loss) attributable to shareholders	20,802,250	(14,549,389)
Diluted income (loss) per share	<u>0.07</u>	<u>(0.08)</u>
Weighted average number of shares	<u>297,488,411</u>	<u>188,970,013</u>

29. Related party transactions

The Company routinely conducts business with ACG and GNT, a subsidiary of NSH. ACG, and NSH have common management with the Company. All entities are separate entities due to the US marijuana regulation licensing requirements. ACG and GNT operate labs that manufacture oil and packages and markets products to be sold to dispensaries. NCG provides all packaging and marketing materials for their operations. ACG products are sold in the State of Colorado, whereas GNT's products are sold in the state of Oregon.

The Company's net product sales to ACG and GNT Oregon (2019 - Calvape) for the three months ended March 31, 2020 and 2019, were approximately as follows:

	<u>March 31, 2020</u>	<u>March 31, 2019</u>
ACG	\$ 1,224,364	\$ 912,771
GNT	347,746	145,011
CalVape	-	1,177,214
	<u>\$ 1,572,110</u>	<u>\$ 2,234,996</u>

ACG and GNT accounted for approximately 26% and 7% of the Company's revenue respectively for the three months ended March 31, 2020.

As of March 31, 2020, the Company held accounts receivable balances (net of provision) with ACG, Calvape and GNT for merchandise of approximately \$5,162,625, 889,383 and \$884,040 respectively. These balances were included in accounts receivable.

Key management compensation for the three months ended March 31, 2020 and 2019 is detailed below. Key management includes the Company's directors and members of the executive team.

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

29. Related party transactions, continued

Type of expense	<u>March 31, 2020</u>	<u>March 31, 2019</u>
Management compensation and directors' expense	618,803	1,980,144
Restricted share unit compensation expense (Note 26)	585,879	493,851
Stock-based compensation expense (Note 26)	<u>391,613</u>	<u>1,179,328</u>
	<u>1,596,295</u>	<u>3,653,323</u>

Management compensation and directors' expense are included in salaries and wages and restricted share unit and stock-based compensation expense are included in share based payments in the statement of income (loss) and comprehensive income (loss).

30. Commitments

On July 9, 2018, the Company entered into a rights agreement with GHNA (a company partially owned by the Company's CEO), pursuant to which the Company has the right to license certain intellectual property of GHNA for use in certain territories. The Company and GHNA agreed on a future revenue share model based on a 60/40 split in favor of the Company, but subject to adjustment based on market conditions and potential opportunity for a particular territory. In consideration of the grant of rights, the Company entered a loan with GHNA for US\$2,000,000 (CAD \$2,728,400) and issued 10,000,000 common shares at estimated price of \$0.56 per share. Terms of the cash due is non-interest bearing and due July 9, 2021, repayable at any time (Note 22). The issuance of shares was ratified by the Company on August 3, 2018 and the Company recorded the full amount of \$8,211,000 as marketing expense in the consolidated statement of income (loss) and comprehensive income (loss) in the year ended December 31, 2018.

On July 11, 2018, the Company entered into a letter of intent with Agripharm, a company with a common management team as the Company, pursuant to which the Company agreed to license certain intellectual property to Agripharm. Refer to Note 25.

In January 2020 the Company entered into a definitive agreement to acquire Oregon based LBA Global Corporation ("LBA") for estimated share consideration of approximately \$11,000,000 which will be increased / decreased for closing indebtedness, working capital requirements and closing tax liabilities. The close of the transaction is subject to regulatory approval and certain performance targets being met by LBA.

In February 2020, the Company entered into a Membership Interest Purchase Agreement with Peoria Partners LLC ("Peoria") and its unitholders to acquire all of the outstanding membership interests of Peoria for estimated consideration of \$300,000 U.S. The close of the transaction is subject to regulatory approval.

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

31. Segmented information

Geographical Information:

The Company operates in two geographical locations: Canada and USA. The following tables present the Company's revenues and non-current assets by location.

	Three months ended March 31, 2020	Three months ended March 31, 2019
Revenue		
Canada	\$ 387,616	\$ 113,716
USA	4,302,669	3,892,404
	<u>-</u>	<u>-</u>
	<u>\$ 4,690,285</u>	<u>\$ 4,006,120</u>
	March 31, 2020	December 31, 2019
Non-current assets		
Canada	\$ 8,759,479	\$ 8,047,055
USA	58,386,123	52,224,456
	<u>-</u>	<u>-</u>
	<u>\$ 67,145,602</u>	<u>\$ 60,271,511</u>

Refer to Note 31 for sales to major customers who were related parties to the Company. ACG, CalVape, and GNT comprise a total of 34% of total Company revenue, and 37% of USA revenue for the three months ended March 31, 2020 (2019 - Company - 52% & USA - 54%)

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

32. Financial instruments and capital management

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements for invested assets are categorized into levels within a fair value hierarchy based on the nature of valuation inputs (Level 1, 2 or 3).

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the instrument's interest rate approximates current observable market rates.

Where other financial assets and financial liabilities are of longer duration, then fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates.

The table below summarizes the assets and liabilities that are included at their fair values in the Company's statement of financial position as at March 31, 2020 and December 31, 2019. These assets and liabilities have been categorized into hierarchical levels, according to the significance and reliability of the inputs used in determining fair value measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices

Represents unadjusted quoted prices for identical instruments exchanged in active markets.

Level 2 – significant other observable inputs

Includes directly or indirectly observable inputs, other than quoted prices for identical instruments exchanged in active markets.

Level 3 – significant unobservable inputs

Includes inputs that are not based on observable market data. (See Note 26 for inter-relationship between key unobservable inputs and fair value measurement.)

	As at March 31, 2020			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,695,693	\$ -	\$ -	\$ 3,695,693
Funds held in trust	701,500	-	-	701,500
Marketable securities	6,033,973	-	-	6,033,973
Investments	-	-	4,712,646	4,712,646
Option asset	-	-	18,393,609	18,393,609
Option liability	-	-	(7,244,651)	(7,244,651)
Derivative liability	-	-	(1,488,838)	(1,488,838)
	<u>\$ 10,431,166</u>	<u>\$ -</u>	<u>\$ 14,372,766</u>	<u>\$ 24,803,932</u>

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

32. Financial instruments and capital management, continued

	As at December 31, 2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 8,233,860	\$ -	\$ -	\$ 8,233,860
Funds held in trust	701,500	-	-	701,500
Marketable securities	10,000,000	-	-	10,000,000
Investments	-	-	4,461,213	4,461,213
Option asset	-	-	7,165,428	7,165,428
Option liability	-	-	(21,353,309)	(21,353,309)
Derivative liability	-	-	(4,222,002)	(4,222,002)
	<u>\$ 18,935,360</u>	<u>\$ -</u>	<u>\$ (13,948,670)</u>	<u>\$ 4,986,690</u>

Foreign currency risk

The operating results and financial position of the Company are reported in CAD. As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the CAD. The results of the Company's operations are subject to currency transaction and translation risks. The Company holds cash in US dollars. The Company's main risk is associated with fluctuations in the US dollar. Assets and liabilities are translated based on the foreign currency translation policy described in Note 3. As at March 31, 2020 and December 31, 2019, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks. The Company has estimated that the effect of a 10% increase or decrease in the US dollar against the Company's functional currency (CAD) on the financial assets and liabilities, as at March 31, 2020, including cash, accounts receivable, investments, notes receivable, accounts payable and loan payable would result in an increase or decrease of approximately \$3,090,000 (2019 - \$2,605,000) in the net income for the three months ended March 31, 2020.

Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rates on the notes payable to shareholders and third parties are fixed.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company typically settles its financial obligations in cash. The ability to settle obligations in cash dependent on the Company raising financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. As at March 31, 2020 the Company had a cash balance of \$3,695,693 (2019 - \$8,233,860) and current liabilities of \$20,473,930 (2019 - \$35,895,923), of which \$7,244,651 represents an option liability to be settled in shares. All of the Company's current liabilities are expected to be settled within the next 12 months.

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

32. Financial instruments and capital management, continued

Credit risk

The Company's financial instruments exposed to concentrations of credit risk consist primarily of cash, accounts receivable, other receivables and notes receivable. The Company minimizes the credit risk of cash by depositing with only reputable financial institutions. The Company's objective with regard to credit risk in its operating activities is to reduce its exposure to losses. As of March 31, 2020, the overdue accounts receivable balance, net of provision, is \$2,850,987 (2019 - \$3,962,327). The Company believes that the balance is collectable and that no additional allowance is required.

The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The loss allowance is based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate. There have been no significant changes in factors incorporated into the lifetime expected loss provision since the period ended December 31, 2019.

Management of capital

The Company's objective of managing capital (comprising share capital) is to ensure its continued ability to operate as a going concern. The Company manages its capital structure and makes changes to it based on economic conditions. With approval from the board of directors, management will adjust its capital structure through the issue of new shares, convertible debentures, debt or other activities deemed appropriate under the specific circumstances. Management and the board of directors review the Company's capital management approach on an ongoing basis and believe this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements and the Company's strategy with respect to capital risk management has not changed since the period ended December 31, 2019.

33. Subsequent events

The Company evaluated subsequent events through to July 6, 2020, the date these interim condensed consolidated financial statements were issued.

On May 4, 2020, the Company completed an acquisition of Cultivate Brands Corp "Cultivate". The acquisition was completed by way of a three-cornered amalgamation pursuant to which 1241306 B.C. Ltd., a newly incorporated subsidiary of the Company, amalgamated with Cultivate to form a newly amalgamated company which operates under the name "Cultivate Brands Corp." as a wholly owned subsidiary of the Company. Pursuant to the acquisition, the Company issued 25,996,722 common shares to shareholders of Cultivate in exchange for all the issued and outstanding shares of Cultivate. In addition, SLANG issued an aggregate of 1,418,181 common shares to certain officers of Cultivate as a change of control payment pursuant to the terms of existing agreements and has assumed options to purchase 122,000 common shares of the Company at an exercise price of \$0.41. The Company is working to complete the initial accounting for this transaction and perform an allocation of the purchase price to the assets.

SLANG Worldwide Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

33. Subsequent events, continued

Subsequent to March 31, 2020, the Company guaranteed a note offering by LBA Global Corporation to third parties in the amount of \$275,000 U.S. The note offering is guaranteed with Company restricted voting shares at a conversion price of \$0.46 U.S. per share. The Company has agreed to guarantee up to a maximum note offering of \$500,000 U.S.

Subsequent to March 31, 2020, the promissory note receivable ("PRC Note") from Pine River Consulting Ltd. ("PRC") was transferred to Pleasant Valley Ranch ("PVR"), an unrelated third party, by way of a Novation Agreement dated April 1, 2020. The existing terms and conditions and outstanding balance obligations under the PRC Note were effectively transferred and accepted by PVR.

In May 2020 the NSH put option rights (Note 18) expired without being exercised by the shareholders of NSH in accordance with the terms of the option agreement.

On June 11, 2020, the Company announced executive leadership transitions which will see Chris Driessen promoted to President and Chief Executive Officer, John Moynan promoted to Chief Operating Officer and General Counsel and Mikel Rutherford promoted to Chief Financial Officer. With these changes, Peter Miller will transition from Chief Executive Officer to Executive Chairman of the Board of Directors, Billy Levy will transition from President and Corporate Secretary to serve as a lead strategic advisor to the Company, and Kelly Ehler will transition from Chief Financial Officer to stand for election to the Board of Directors.