The Green Organic Dutchman Holdings Ltd.

Consolidated Financial Statements

For the years ended December 31, 2019 and December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of The Green Organic Dutchman Holdings Ltd.

Opinion

We have audited the consolidated financial statements of The Green Organic Dutchman Holdings Ltd. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018
- the consolidated statements of loss and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Entity incurred a net loss of $195,750 during the year ended December 31, 2019 and, as of that date, the Company's accumulated deficit is $254,018.

As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

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

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Pardeep Singh Gill.

Vaughan, Canada
March, 10, 2020

The Green Organic Dutchman Holdings Ltd.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(expressed in thousands of Canadian dollars, except common shares outstanding)

	Notes		As at December 31, 2019		As at January 1, 2019 [see note 3(u)]		As at December 31, 2018
ASSETS							
Current assets							
Cash and cash equivalents		$	**27,569**	$	213,549	$	213,549
Restricted cash	15[a]		**8,578**		50,000		50,000
Refundable sales taxes receivable			**8,553**		13,332		13,332
Trade receivables	18		**1,488**		1,199		1,199
Biological assets	4		**2,771**		395		395
Inventories	5		**8,268**		3,925		3,925
Prepaid expenses and deposits			**8,382**		3,521		3,521
Due from related parties			**699**		800		800
Other current assets	8		**534**		864		864
Deferred financing costs			**1,324**		—		—
		$	**68,166**	$	287,585	$	287,585
Non-current assets							
Property, plant and equipment	6		**237,033**		108,808		107,529
Intangible assets	7		**12,019**		13,535		13,535
Goodwill	7		**8,101**		10,702		10,702
Investments in associates	11		**4,918**		10,944		10,944
Other assets	8, 15[a]		**11,944**		15,662		15,662
Total assets		$	**342,181**	$	447,236	$	445,957
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current liabilities							
Accounts payable and accrued liabilities		$	**52,074**	$	28,258	$	28,258
Income tax payable			**39**		781		781
Current portion of loans	9		**524**		688		688
Current portion of lease liabilities	12		**590**		263		151
			53,227		29,990		29,878
Non-current liabilities							
Lease liabilities	12		**2,955**		1,468		261
Loans	9		**16,909**		—		—
Contingent consideration	10		**462**		688		688
Deferred tax liability	16		**1,028**		1,435		1,435
			21,354		3,591		2,384
Total liabilities		$	**74,581**	$	33,581	$	32,262
Shareholders' equity							
Share capital	13		**428,651**		392,068		392,068
Contributed surplus	14		**95,763**		79,937		79,937
Deficit			**(254,018)**		(58,863)		(58,823)
Reserve for foreign currency translations			**(2,241)**		513		513
Total Shareholders' Equity attributed to The Green Organic Dutchman Holdings Ltd.		$	**268,155**	$	413,655	$	413,695
Non-controlling interests			**(555)**		—		—
Total Shareholders' Equity			**267,600**		413,655		413,695
Total Liabilities and Shareholders' Equity		$	**342,181**	$	447,236	$	445,957
Total number of common shares outstanding			**312,733,244**		269,976,624		269,976,624
Going Concern	2						
Business combination	10						
Commitments and contingencies	15						
Events after the reporting period	23						

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

The Green Organic Dutchman Holdings Ltd.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(expressed in thousands of Canadian Dollars, except per share amounts)

	Notes	For the year ended December 31, 2019	December 31, 2018
Revenue		$ **11,163**	$ 1,879
Excise duties		**(206)**	—
Net revenue		**10,957**	1,879
Cost of sales related to inventory production		**3,213**	686
Cost of sales related to business combination fair value adjustments to inventories		**270**	1,285
Gross profit before change in fair value of biological assets		**7,474**	(92)
Realized fair value adjustment on sale of inventory		**(435)**	—
Unrealized gain on changes in fair value of biological assets	4	**2,505**	304
Gross profit		$ **9,544**	$ 212
Operating expenses			
Sales and marketing expenses		$ **13,281**	$ 6,096
Research and development expenses		**2,271**	2,815
General and administrative expenses		**44,160**	25,611
Share based compensation	14	**14,288**	9,154
Depreciation and amortization	6, 7	**4,237**	1,060
Total operating expenses		$ **78,237**	$ 44,736
Loss from operations		**(68,693)**	(44,524)
Strategic business initiatives		**(789)**	(852)
Share of loss on investments in associates	11	**(1,072)**	(1,136)
Revaluation of contingent consideration	10	**226**	—
Foreign exchange loss		**(964)**	(1,810)
Finance income		**2,819**	2,942
Finance costs		**(215)**	(172)
Impairment of investment in associates	11	**(4,296)**	—
Impairment charge for non-financial assets	6, 7	**(123,432)**	—
Loss before income taxes		**(196,416)**	(45,552)
Current income tax recovery (expense)	16	**346**	(65)
Deferred income tax recovery	16	**320**	414
Net loss		$ **(195,750)**	$ (45,203)
Other comprehensive loss			
Foreign currency translation loss		**2,096**	(563)
Foreign currency translation loss on equity method investment	11	**658**	50
Comprehensive loss		$ **(198,504)**	$ (44,690)
Net loss attributable to:			
The Green Organic Dutchman Holdings Ltd.		**(195,155)**	(45,203)
Non-controlling interests		**(595)**	—
Comprehensive loss attributable to:			
The Green Organic Dutchman Holdings Ltd.		**(197,909)**	(44,690)
Non-controlling interests		**(595)**	—
Basic and diluted net loss per share		$ **(0.71)**	$ (0.21)
Weighted average number of outstanding common shares		**275,840,350**	219,968,129

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

The Green Organic Dutchman Holdings Ltd.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(expressed in thousands of Canadian Dollars, except number of shares)

		Share Capital		Contributed Surplus								
	Notes	Common Shares	Amount	Reserve for share based payments	Reserve for warrants	Other contributed surplus	Escrowed share units	Total Contributed surplus	Reserve for foreign currency translations	Accumulated deficit	Non-Controlling Interests	Total
		#	$	$	$	$	$	$	$	$	$	$
Balance at December 31, 2018		269,976,624	392,068	8,053	62,801	1,111	7,972	79,937	513	(58,823)	—	413,695
Effect of adoption of IFRS 16		—	—	—	—	—	—	—	—	(40)	—	(40)
Balance at January 1, 2019		269,976,624	392,068	8,053	62,801	1,111	7,972	79,937	513	(58,863)	—	413,655
Bought deal offering	13	36,800,000	21,567	—	3,103	—	—	3,103	—	—	—	24,670
Issuance of warrants in connection with debt	9	—	—	—	758	—	—	758	—	—	—	758
Share based compensation	14	—	106	14,182	—	—	—	14,182	—	—	—	14,288
Exercise of stock options	14	506,933	718	(288)	—	—	—	(288)	—	—	—	430
Exercise of warrants	14	5,455,567	14,192	—	(2,229)	—	—	(2,229)	—	—	—	11,963
Expiry of warrants	14	—	—	—	(18)	18	—	-	—	—	—	—
Issuance of convertible units	14	—	—	300	—	—	—	300	—	—	—	300
Cancellation of shares		(5,880)	—	—	—	—	—	-	—	—	—	—
Contribution from non-controlling interest		—	—	—	—	—	—	-	—	—	40	40
Comprehensive loss for period		—	—	—	—	—	—	-	(2,754)	(195,155)	(595)	(198,504)
Balance at December 31, 2019		312,733,244	428,651	22,247	64,415	1,129	7,972	95,763	(2,241)	(254,018)	(555)	267,600

The accompanying notes are an integral part of consolidated financial statements

The Green Organic Dutchman Holdings Ltd.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(expressed in thousands of Canadian Dollars, except number of shares)

		Share Capital		Contributed Surplus							
	Notes	Common Shares	Amount	Reserve for share based payments	Reserve for warrants	Contributed surplus	Escrowed share units	Total Contributed surplus	Reserve for foreign currency translations	Accumulated deficit	Total
		#	$	$	$	$	$	$	$	$	$
Balance as at January 1, 2018		142,594,801	72,572	4,413	13,883	—	—	18,296	—	(13,620)	77,248
Initial public offering	13	31,510,000	106,504	—	8,508	—	—	8,508	—	—	115,012
Initial public offering - over-allotment	13	4,726,500	15,975	—	1,277	—	—	1,277	—	—	17,252
Private placement of units	13	47,200,400	46,474	—	31,132	—	—	31,132	—	—	77,606
Bought deal offering - $76 million	13	10,950,000	63,379	—	12,844	—	—	12,844	—	—	76,223
Exercise of warrants	14	22,543,412	70,386	—	(6,987)	—	—	(6,987)	—	—	63,399
Expiry of warrants	14	—	—	—	(501)	501	—	—	—	—	-
Exercise of stock options	14	3,929,868	4,268	(1,833)	—	—	—	(1,833)	—	—	2,435
Stock based compensation	14	1,929,500	2,521	5,473	18	—	—	5,491	—	—	8,012
Issuance of common shares on Epican acquisition	11	247,353	1,521	—	—	—	—	-	—	—	1,521
Finders' compensation - Units	13	692,290	934	—	208	—	—	208	—	—	1,142
Issuance of special warrants - $25 million	13	—	—	—	—	25,024	—	25,024	—	—	25,024
Conversion of special warrants	13	3,910,000	20,625	—	4,399	(25,024)	—	(20,625)	—	—	-
Issuance of escrowed share units on HemPoland acquisition	10	—	—	—	—	—	7,972	7,972	—	—	7,972
Issuance of underwriter special warrants	13	—	—	—	—	610	—	610	—	—	610
Share and warrants issuance costs	13	—	(13,091)	—	(1,980)	—	—	(1,980)	—	—	(15,071)
Net loss and comprehensive loss	13	—	—	—	—	—	—	—	513	(45,203)	(44,690)
Cancellation of shares		(257,500)	—	—	—	—	—	—	—	—	-
Balance at December 31, 2018		269,976,624	392,068	8,053	62,801	1,111	7,972	79,937	513	(58,823)	413,695

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

The Green Organic Dutchman Holdings Ltd.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(expressed in thousands of Canadian dollars)

		For the year ended	
	Notes	December 31, 2019	December 31, 2018 [Recast - Note 3(t)]
OPERATING ACTIVITIES			
Net loss		**$ (195,750)**	$ (44,690)
Items not affecting cash:			
Share based compensation - finders' units	14	**—**	1,142
Share based compensation - shares and options	14	**14,180**	8,012
Share based compensation - restricted share units	14	**108**	—
Convertible share units issued	14	**300**	—
Depreciation of property, plant and equipment	6	**2,809**	527
Amortization of intangible assets	7	**1,428**	533
Realized fair value adjustment on sale of inventory		**435**	—
Unrealized gain on change in fair value of biological assets	4	**(2,505)**	(304)
Share of loss from investments in associates	11	**1,072**	1,136
Revaluation of contingent consideration	10	**(226)**	—
Loss on disposals of property, plant and equipment	6	**—**	84
Impairment of investment in associates	11	**4,296**	—
Impairment of property, plant and equipment	6	**118,797**	—
Impairment of intangible assets and goodwill	7	**4,635**	—
Current income tax (recovery) expense		**(346)**	65
Deferred income tax recovery	16	**(320)**	(413)
Income taxes paid		**(396)**	—
Changes in non-cash operating working capital items	17	**(5,214)**	(28,359)
Net cash used in operating activities		**$ (56,697)**	$ (62,267)
INVESTING ACTIVITIES			
Additions to property, plant and equipment	6	**(219,654)**	(81,631)
Net cash outflow on investment in associates	8	**—**	(10,608)
Net cash outflow on business acquisitions		**—**	(9,931)
Net cash acquired on business acquisitions		**—**	1,520
Transfer from (to) restricted cash	15[a]	**41,422**	(50,000)
Net cash outflow on other investment	8	**(1,434)**	—
Advances to related parties, net of repayments		**(1,350)**	(1,087)
Additions to intangible assets	7	**(3,078)**	(226)
Net cash used in investing activities		**$ (184,094)**	$ (151,963)
FINANCING ACTIVITIES			
Proceeds from issuance of shares and warrants, net of share issue costs		**24,670**	296,656
Proceeds from issuance of debt		**16,293**	—
Proceeds from the exercise of stock options and warrants		**12,393**	65,834
Interest received		**3,342**	2,007
Interest paid on lease liabilities		**(139)**	—
Interest paid on debt	9	**(60)**	—
Principal payments of lease liabilities		**(319)**	104
Deferred share subscription receipts		**—**	(16,000)
Transfer from restricted cash		**—**	16,000
Repayments of short-term loans		**(123)**	—
Capital contributed by non-controlling interest		**40**	—
Net cash provided by financing activities		**$ 56,097**	$ 364,601
Net cash (outflow) inflow		**$ (184,694)**	$ 150,371
Net effects of foreign exchange		**(1,286)**	(558)
Cash, beginning of period		**213,549**	63,736
Cash and cash equivalents, end of period		**$ 27,569**	$ 213,549

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

1. DESCRIPTION OF BUSINESS

The Green Organic Dutchman Holdings Ltd. ("TGODH" or the "Company") was incorporated on November 16, 2016, under the *Canada Business Corporations Act* ("CBCA"). The Company is a reporting issuer domiciled in Canada whose shares and certain warrants are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol "TGOD" and on the OTCQX under the symbol "TGODF". The Company's registered and head office is located at 6205 Airport Road, Building A – Suite 200, Mississauga, ON, L4V 1E3. These consolidated financial statements for the years ended December 31, 2019 and 2018 ("Consolidated Financial Statements") include the financial statements of The Green Organic Dutchman Holdings Ltd. and its subsidiaries from the date the Company gained control of each subsidiary.

The Company's wholly-owned subsidiaries, The Green Organic Dutchman Ltd. ("TGOD") and Medican Organic Inc. ("Medican") are licensed producers under the *Cannabis Act* (Canada) and hold licences to produce cannabis plants, cannabis plant seeds, dried cannabis, fresh cannabis, cannabis oils, cannabis topicals, cannabis extracts and edible cannabis and to sell such cannabis products within Canada to provincially authorized retailers or distributors and federal licensed entities. The Company has built a cultivation facility near Hamilton, Ontario and is building another facility located in Valleyfield, Québec.

In addition to its Canadian operations, the Company, through its subsidiaries and strategic investments, is pursuing an international growth strategy, including through interests in a fully integrated medical cannabis cultivation and retail operation in Jamaica and a hemp cultivation and extraction business based in Poland. The Company has also formed a strategic partnership for the distribution of cannabis and hemp-derived medical products in Mexico and joint ventures in Denmark for producing organic medical cannabis and developing cannabis genetics. It has also established a company in Germany for the distribution of medical cannabis.

2. BASIS OF PRESENTATION

[i] Statement of compliance

These Consolidated Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). These Consolidated Financial Statements were approved and authorized for issue by the Board of Directors of the Company on March 10, 2020.

[ii] Going concern

These consolidated financial statements have been prepared on a going concern basis which presumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of its operations.

As of December 31, 2019, the Company had working capital of $14,939 (December 31, 2018 - $257,707) and an accumulated deficit of $254,018 (December 31, 2018 - $58,823). The Company used cash in operating activities of $56,697 (year ended December 31, 2018 - $62,267), resulting primarily from the net loss of $195,750 (year ended December 31, 2018 - $44,690) offset by items not affecting cash such as depreciation, amortization, stock based compensation and impairment charges of $146,253 (year ended December 31, 2018 - $10,214). The Company has insufficient cash to fund its planned construction investments and operations for the next twelve months (see note 15). The Company's ability to continue as a going concern is dependent upon its ability to obtain sufficient additional funding and to generate sufficient revenues and positive cash flows from its operating activities to meet its obligations and fund its planned investments and operations.

The Company will need further financing in the form of debt, equity or a combination thereof for the next twelve months. There can be no assurance that additional funding will be available to the Company, or, if available, that this financing will be on acceptable terms. If adequate financing is not available, the Company may be required to delay or reduce the scope of any or all of its projects. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to generate sufficient cash flow from financing and operating activities, the carrying value of the Company's assets could be subject to material adjustments and other adjustments may be necessary to these financial statements should such events impair the Company's ability to continue as a going concern.

[iii] Basis of measurement

These Consolidated Financial Statements have been presented in thousands of Canadian dollars (unless otherwise noted) on a historical cost basis, except for certain financial instruments that are measured at fair value and biological assets which are recorded at fair value less costs to sell. The Company's functional currency is Canadian dollars. The expenses within the statements of operations and comprehensive loss are presented by function.

[iv] Use of estimates and judgments

The preparation of these Consolidated Financial Statements requires the use of estimates and judgements that affect the application of the Company's accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods effected.

(a) Biological assets and inventory

In calculating the fair value less costs to sell of the biological assets, management is required to make a number of judgements and estimates, including estimating the stage of growth of the cannabis plants up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plants. In calculating inventory values, management is required to determine an estimate of indirectly attributable production costs as well as obsolete inventory and compares the inventory cost to estimated net realizable value.

(b) Impairment, estimated useful lives, depreciation and amortization of property, plant and equipment and intangible assets

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, residual values, and depreciation rates. The depreciation and amortization methods are judgements based on the Company's assessment of the pattern of use of the assets. The estimate of useful lives and residual values are based on the Company's intended use of the assets. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions.

(c) Business combinations

Judgment is used in determining whether an acquisition is a business combination, or an asset acquisition based on the facts and circumstances of the transaction in relation to the criteria listed in *IFRS 3 Business Combinations*. Determining the purchase price of a business combination, including any acquisition-related contingent consideration, and determining the allocation of that purchase price requires estimation of the fair value of the non-cash consideration and fair value of the assets acquired and liabilities assumed.

[v] Basis of consolidation

These Consolidated Financial Statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Intercompany balances and transactions are eliminated upon consolidation and preparation of these Consolidated Financial Statements. The Company's primary controlled subsidiaries are as follows:

Major subsidiary	Percentage ownership	Functional currency
The Green Organic Dutchman Ltd. ("TGOD")	100%	Canadian Dollar
Medican Organic Inc. ("Medican")	100%	Canadian Dollar
TGOD Europe B.V.	100%	European Euro
HemPoland S.p.a. Z.o.o. ("HemPoland")	100%	European Euro
TGOD Germany GmbH	100%	European Euro

All shareholdings are of ordinary shares or other equity. Other subsidiaries, while included in the consolidated financial statements, are not material and have not been included in the table above.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The Company measures the consideration transferred, the assets acquired, and liabilities assumed in a business combination at their acquisition-date fair values. Acquisition related costs are recognized as expenses in the periods in which the costs are incurred and the services are received, except for the costs to issue debt or equity securities which are recognized according to specific requirements. The excess of the consideration transferred to obtain control, over the net of the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

Contingent consideration for a business combination is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as an asset or liability is measured at subsequent reporting dates at fair value, with the corresponding gain or loss being recognized in profit or loss.

(b) Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Depreciation is recognized on a declining basis using the following rates:

Building	2.5 - 5%
Furniture and fixtures	20 - 33%
Production equipment	14 - 100%
Building and leasehold improvements	5 - 20%, or straight line over the lease term if applicable
Computer equipment	33 - 100%
Automobiles	14 - 30%

Residual values, useful lives and depreciation methods of property, plant and equipment are reviewed at least each financial year and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Land is not depreciated.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item at the date of disposal and recognized in profit or loss.

Assets and construction in progress are transferred to building, production equipment, and building improvements when available for use and depreciation of the asset commences at that point.

(c) Intangible assets

Finite-lived intangible assets are recorded at cost less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis over the following term:

Health Canada Licences	20 years, in accordance with the estimated useful life of a building at the Hamilton facility
Technology Licences	6 years
IT Systems and Applications	10 years
Distribution Channels	10-20 years
Brands	10-20 years

The estimated useful lives and amortization methods of intangible assets are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The Company does not currently have any intangible assets with indefinite useful lives.

(d) Impairment of non-financial assets

Non-financial assets (other than biological assets and inventories) are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. Goodwill is tested for impairment annually in the fourth quarter or more often if events or circumstances indicate there may be an impairment. For the purpose of impairment testing, assets 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"). Goodwill arising from a business combination is allocated to the CGU or group of CGUs that are expected to benefit from the synergies of the combination. The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other non-financial assets in the CGU, excluding biological assets and inventories, on a pro-rata basis. Impairment losses in respect of goodwill are not subsequently reversed. For other non-financial assets excluding biological assets and inventories, an impairment loss is subsequently reversed only to an amount that is the lesser of the revised estimate of recoverable amount, and the carrying amount, net of depreciation or amortization, that would have been recorded at the date of the reversal had no impairment loss been recognized previously. The Company currently has three CGUs being (i) cannabis related activities from production in Canada, ("Canadian CGU") (ii) hemp related activities in Europe ("European CGU") and (iii) other strategic international investments ("International CGU").

(e) Inventories

Inventories are valued at the lower of cost and net realizable value. Inventories of harvested cannabis (i.e. – raw materials) are transferred from biological assets at their fair value less costs to sell at harvest, which becomes the initial deemed cost of the harvested cannabis. Any subsequent post-harvest costs, such as processing and packaging the inventories to a finished state, are capitalized to inventory as they are incurred to the extent that the aggregated cost of the inventory item is less than its net realizable value and are subsequently recorded within cost of sales related to inventory production costs in the consolidated statement of loss and comprehensive loss. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis.

(f) Biological assets

While the Company's biological assets are within the scope of IAS 41 Agriculture, the direct and indirect costs of biological assets are capitalized using an approach similar to the capitalization criteria outlined in IAS 2 Inventories. Direct and indirect costs of biological assets include the direct cost of seeds and growing materials, and indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included. Certain direct and indirect costs of biological assets, excluding depreciation, are capitalized as they are incurred, and are subsequently recorded in inventories on the consolidated statement of financial position after the biological assets are harvested, and subsequently recorded within the line item 'cost of sales related to inventory production' on the consolidated statement of loss and comprehensive loss in the period that the related product is sold or impaired. Unrealized gain on changes in fair value of biological assets are recorded in a separate line on the consolidated statement of loss and comprehensive loss. Biological assets are measured at their fair value less costs to sell on the consolidated statement of financial position.

(g) Revenue

The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

To determine the amount and timing of revenue to be recognized, the Company follows the five-step model:

1. Identifying the contract with a customer.
2. Identifying the performance obligations.
3. Determining the transaction price.
4. Allocating the transaction price to the performance obligations.
5. Recognizing revenue when/as performance obligations are satisfied.

Revenue from the direct sale of cannabis and cannabis oil for a fixed price is recognized when the Company transfers control of the good to the customer, which is at the point of shipment for medical cannabis and at the point of delivery for recreational cannabis. For sales of hemp-based products the Company transfers control of the good to the customer on delivery.

Revenue earned in Canada includes excise taxes, which the Company pays as principal, but excludes duties and taxes collected on behalf of third parties. Revenue also includes the net consideration to which the Company expects to be entitled. Revenue is recognized to the extent that it is highly probable that a significant reversal will not occur. Therefore, revenue is stated net of expected price discounts, allowances for customer returns and certain promotional activities and similar items. Generally, payment of the transaction price is due within credit terms that are consistent with industry practices, with no element of financing.

(h) Financial instruments

[i] Recognition and initial measurement

Trade receivables are initially recognized when they are originated. All other financial assets and liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

[ii] Classification and subsequent measurement

Financial Assets

On initial recognition, a financial asset is classified and measured at: amortized cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whole objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocable elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment by investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets, if applicable. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial Assets – Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized costs	These assets are subsequently measured at amortized cost using the effective interest rate method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequent measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit and loss.
Equity investments at FVOCI	These assets are subsequent measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI. Changes in fair value are recognized in OCI and are never recycled to profit and loss, even if the asset is sold or impaired.

Financial Liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

[iii] Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Company may enter into transactions whereby it transfers assets recognized in its statements of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguish and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Transaction Costs

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

[iv] Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(i) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses ("ECLs") on financial assets measured at amortized costs, debt investments measured at FVOCI, and contract assets – the Company had no debt investment measured at FVOCI and no contract assets as at December 31, 2019 and December 31, 2018.

When determining whether the credit risk of a financial asset has increased significantly and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analyses, based on the Company's historical experience and informed credit assessment and including forward looking information.

(j) Investments in associates

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Significant influence is usually evidenced by but not limited to, the ability to exercise significant influence through board representation, material transactions with the investee, provision of technical information, and the interchange of managerial personnel.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost, inclusive of transaction costs. Subsequent to initial recognition, the Company includes in its consolidated financial statements the Company's share of the income and expenses of equity accounted investees until the date on which significant influence ceases. In accordance with IFRS, the investee's most recent available financial statements are used in the application of the equity method. The Company does not recognize losses exceeding the carrying value of its interest in the associate.

Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses arising from transaction with equity-accounted investees are eliminated against the investment to the extent of the Company's interest in the investee, but only to the extent there is no evidence of impairment.

(k) Goodwill

Goodwill represents the excess of the price paid for a business combination over the net fair value of the identifiable assets acquired and liabilities assumed in the business combination and is subsequently measured at historical cost less accumulated impairment losses, if any.

(l) Research and development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically, and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred. Subsequent to initial recognition, capitalized development expenditures are measured at costs less accumulated amortization and impairment losses.

(m) Taxes

Income tax expense comprises of current and deferred tax. It is recognized in net loss except to the extent that it relates to a business combination, or items recognized directly in equity or other comprehensive income.

Current taxes

Current tax comprises the expected tax payable or receivable on the taxable earnings for the period and any adjustments to the tax payable or receivable in respect of previous years. Taxable earnings may differ from earnings as reported in the Consolidated Statement of Loss and Comprehensive Loss because of items of income and expenses that are taxable or deductible in other years and items that will never be taxable or deductible. The Company's receivables and liabilities for current tax are calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes

The Company uses the liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

Refundable sales tax receivable

The Company recognizes receivables for refundable input tax credits for various value added taxes paid in conjunction with the laws governing each jurisdiction where the credits are claimed.

(n) Share-based compensation

The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate. For share-based payments granted to non-employees the compensation expense is measured at the fair value of the good and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. The fair value of share-based compensation to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. Consideration paid by employees or non-employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from share-based reserve to share capital.

(o) Loss per share

The Company presents basic and diluted earnings (loss) per share data for its common shares. Basic earnings (loss) per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares. In a period of losses, the options are excluded for the determination of dilutive net loss per share because their effect is antidilutive.

(p) Strategic business initiatives

Costs of strategic business initiatives that are directly attributable to any business combinations are expensed through the consolidated statements of loss and comprehensive loss.

(q) Related party transactions

Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount, which is the amount of consideration paid or received as established and agreed to by the related parties.

(r) Foreign currency transactions

(expressed in thousands of Canadian Dollars except as otherwise indicated)

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies at the reporting date are re-measured to the functional currency at the exchange rate at the reporting date and the date they are settled. Non-monetary items that are based on historical cost in a foreign currency are translated into Canadian dollars using the exchange rate at the date of the transaction. Foreign currency gains and losses due to translating foreign currency transactions are reported in the consolidated statement of loss and comprehensive and loss on a net basis. The effect of currency translation adjustments on cash and cash equivalents is presented separately in the statements of cash flows and separated from investing and financing activities when deemed significant.

(s) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars using average exchange rates for the month during which the transactions occurred. These foreign currency differences are recognized in other comprehensive income in the reserve for foreign currency translations.

(t) Comparative information

During the current period, the Company retrospectively reclassified certain immaterial cash flow information presented in the statement of cash flows. The Company has reclassified the change in accounts payable related to additions to property, plant and equipment and intangible assets so that the change in accounts payable related to additions to property, plant and equipment and intangible assets is appropriately reflected in the investing section of the statement of cash flows. In addition, the Company reclassified the transfer of cash to restricted cash and advances to related parties from the financing section to the investing section. The reclassifications do not affect the total change in cash for these periods or the opening and closing balances of cash. The reclassification has the following effect on the statement of cash flows for the respective periods noted below:

				For the year ended		
		December 31, 2018 (as previously reported)		**Reclassification**		**December 31, 2018 (as reclassified)**
Operating activities						
Changes in non-cash operating working capital items	$	(11,057)	$	(17,302)	$	(28,359)
Net cash used in operating activities		(44,965)		(17,302)		(62,267)
Investing activities						
Change in non-cash working capital related to property, plant and equipment	$	(17,302)	$	17,302	$	—
Transfer to restricted cash		—		(50,000)		(50,000)
Advances to related parties, net of repayments		—		(1,087)		(1,087)
Net cash used in investing activities		(118,178)		(33,785)		(151,963)
Financing activities						
Transfer to (from) restricted cash	$	(34,000)	$	50,000	$	16,000
Advances to related parties, net of repayments		(1,087)		1,087		—
Net cash provided in financing activities		313,514		51,087		364,601

Certain other comparative figures have been reclassified to conform to the current period's presentation.

(u) New standards, interpretations and amendments and changes in accounting policies adopted by the Company

[i] IFRS 16 Leases ("IFRS 16")

Effective January 1, 2019, the Company adopted IFRS 16, which supersedes previous accounting standards for leases, including IAS 17, *Leases* ("IAS 17") and IFRIC 4, *Determining whether an arrangement contains a lease* ("IFRIC 4").

IFRS 16 introduced a single accounting model for lessees unless the underlying asset is of low value or less than twelve months in duration. A lessee is required to recognize, on its statements of financial position, a right-of-use asset, representing its right to use the underlying lease asset, and a lease liability, representing its obligation to make lease payments. As a result of adopting IFRS 16, the Company has recognized an increase to both assets and liabilities on the consolidated statements of financial position, as well as a decrease to general and administrative expenses (for the removal of rent expense for leases), an increase to depreciation and amortization (due to depreciation of the right-of-use assets), and an increase to finance costs (due to accretion of the lease liability). The accounting treatment for lessors remains largely the same as under IAS 17.

The Company adopted IFRS 16 with the cumulative effect of initial application recognized as an adjustment to retained earnings within shareholders' equity on January 1, 2019. The Company has not restated comparative figures for 2018. At transition, we applied the practical expedient available to us as lessee that allows us to maintain our lease assessments made under IAS 17 and IFRIC 4 for existing contracts. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed after January 1, 2019.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

For leases that were classified as operating leases under IAS 17, lease liabilities at transition have been measured at the present value of remaining lease payments, discounted at the related incremental borrowing rate as at January 1, 2019, or if available, the interest rate implicit in the lease contract. Generally, right-of-use assets at transition have been measured at an amount equal to the corresponding lease liabilities, adjusted for any prepaid or accrued rent relating to that lease. For certain leases where the Company has readily available information, the Company has elected to measure the right-of-use assets at their carrying amounts as if IFRS 16 had been applied since the lease commencement date using the related incremental borrowing rate for the remaining lease period as at January 1, 2019.

On transition, the Company has elected to apply the recognition exemptions on short-term leases and low-value leases; however, the Company may choose to not elect the recognition exemptions on a class-by-class basis for new classes, and lease-by-lease basis, respectively, in the future. The Company does not currently have any contracts where it acts as the lessor.

Reconciliation of condensed consolidated statement of financial position as at January 1, 2019

Below is the effect of transition to IFRS 16 on the impacted line items of the Company's consolidated statement of financial position as at January 1, 2019:

	Reference		As reported as at December 31, 2018		Effect of IFRS 16 transition		Subsequent to transition as at January 1, 2019
ASSETS							
Non-current assets							
Property, plant and equipment	(i)	**$**	**107,529**	$	1,279	**$**	**108,808**
Total assets		**$**	**445,957**	$	1,279	**$**	**447,236**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current liabilities							
Current portion of lease liabilities	(i)	**$**	**151**	$	112	**$**	**263**
Non-current liabilities							
Lease liabilities	(i)		**261**	$	1,207		**1,468**
Total liabilities		**$**	**32,262**	$	1,319	**$**	**33,581**
Shareholders' equity							
Deficit			**(58,823)**		(40)		**(58,863)**
Total Shareholders' Equity		**$**	**413,695**	$	(40)	**$**	**413,655**
Total Liabilities and Shareholders' Equity		**$**	**445,957**	$	1,279	**$**	**447,236**

(i) Right-of-use assets and lease liabilities

The Company has recorded a right-of-use asset and a lease liability for all existing leases at the lease commencement date, which is January 1, 2019 for the purposes of adoption. The lease liability has been initially measured at the present value of lease payments that remain to be paid at the commencement date. Lease payments included in the measurement of the lease liability include:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or rate;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

After transition, the right-of-use assets will initially be measured at cost, consisting of:

- the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date; plus
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset or restore the site on which it is located; less
- any lease incentives received.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

The right-of-use assets will typically be depreciated on a straight-line basis over the lease term, unless the Company expects to obtain ownership of the leased asset at the end of the lease. The lease term will consist of:

- the non-cancellable period of the lease;
- periods covered by options to extend the lease, where we are reasonably certain to exercise the option; and
- periods covered by options to terminate the lease, where we are reasonably certain not to exercise the option.

The Company's weighted average borrowing rate applied to lease liabilities at January 1, 2019 is 2.99%. The difference between operating lease commitments disclosed as at December 31, 2018 under IAS 17 and discounted using the incremental borrowing rate at the date of initial application on January 1, 2019 and the lease liabilities recognized at the date of initial application is not significant.

[ii] Change in functional currency of HemPoland

For the year ended December 31, 2019, the functional currency of the Company's wholly owned subsidiary, HemPoland, was determined to be the European Euro, where it was previously the Polish Zloty. The Company determined there were no material impacts to the current period or prior periods' financial statements as a result of this change.

(v) New standards, interpretations and amendments not yet adopted by the Company

A number of new standards are effective for annual periods beginning on or after January 1, 2020 and earlier application is permitted. However, the Company has not early adopted the new or amended standards in preparing these consolidated financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Company's consolidated financial statements.

- Amendments to *References of Conceptual Framework in IFRS Standards*
- Definition of a *Business* (Amendments to *IFRS 3*)
- Definition of *Material* (Amendments to *IAS 1* and *IAS 8*)

4. BIOLOGICAL ASSETS

As at December 31, 2019, the Company's biological assets consisted of cannabis seeds and cannabis plants. The continuity of biological assets is as follows:

	Capitalized cost	Biological asset fair value adjustment	Amount
Balance, January 1, 2018	—	—	—
Purchase of seeds	44	—	44
Unrealized gain on changes in fair value of biological assets	—	304	304
Production costs capitalized	441	—	441
Transfer to inventory upon harvest	(220)	(174)	(394)
Balance, December 31, 2018	$ 265	$ 130	$ 395
Purchase of seeds	**12**	**—**	**12**
Unrealized gain on changes in fair value of biological assets	**—**	**2,505**	**2,505**
Production costs capitalized	**2,784**	**—**	**2,784**
Write-down of capitalized costs	**(341)**	**—**	**(341)**
Transfer to inventory upon harvest	**(1,477)**	**(1,107)**	**(2,584)**
Balance, December 31, 2019	**$ 1,243**	**$ 1,528**	**$ 2,771**

The Company measures its biological assets at their fair values less estimated costs to sell. This is determined using a model which estimates the expected harvest yields in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price per gram, waste and also for any additional costs to be incurred, such as post-harvest costs.

The following significant unobservable inputs, all of which are classified as level three on the fair value hierarchy, were used by management as part of this model:

(expressed in thousands of Canadian Dollars except as otherwise indicated)

- Estimated selling price per gram – calculated as the expected approximate future per gram selling prices of the Company's cannabis products. With no extensive history of sales, the Company evaluated industry data which is expected to closely approximate the Company's expected selling prices.

- Stage of growth – represents the weighted average number of weeks out of the estimated week growing cycle that biological assets have reached as of the measurement date based on historical experience. The Company accretes fair value on a straight-line basis according to the stage of growth and estimated costs to complete cultivation.

- Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant based on historical experience.

The inter-relationship between these aforementioned unobservable inputs and the fair-value of the biological assets is such that the carrying value of the biological assets as at December 31, 2019 and December 31, 2018 would increase (decrease) if any of these inputs were to be higher (lower).

Other unobservable, level three inputs into the biological asset model include estimated post harvest costs, costs to complete and wastage. These additional level three inputs are not considered to be significant.

The following table quantifies each significant unobservable input, and provides the impact that a 10% increase or decrease in each input would have on the fair value of biological assets:

	As at December 31, 2019	**As at December 31, 2018**	**Impact of 10% change as at December 31, 2019**	**Impact of 10% change as at December 31, 2018**
Estimated net selling price per gram (1)	$1.50 to $6.29	$3.00 to $10.75	$ 466	$ 54
Estimated stage of growth	8 to 9 weeks	16.68 weeks	$ 163	$ 47
Estimated yield of agricultural produce by plant (2)	70 to 75 grams	52 to 80 grams	$ 303	$ 54

(1) The estimated net selling prices per gram is based on the negotiated distribution selling prices which exclude duties but include an estimate for the selling price of trim collected as part of the harvesting process which may have value in the oil production process.

(2) The estimated yield varies based on the Company's different cannabis strains including trim.

The Company's estimates are, by their nature, subject to change. Changes in the significant assumptions described will be reflected in future changes in the gain or loss on biological assets. There were no changes between fair value hierarchy levels.

5. INVENTORIES

The Company's inventories include the following as of December 31, 2019 and December 31, 2018:

	Dried Cannabis	**Hemp and Hemp Derived Products**	**As at December 31, 2019**
Raw Materials	$ —	$ 1,566	$ 1,566
Work-in-progress	**2,041**	**2,442**	**4,483**
Finished Goods	**518**	**735**	**1,253**
Packaging and Supplies	**805**	**161**	**966**
Total Inventory	**$ 3,364**	**$ 4,904**	**$ 8,268**

	Dried Cannabis	**Hemp and Hemp Derived Products**	**As at December 31, 2018**
Raw Materials	$ —	$ 1,649	$ 1,649
Work-in-progress	394	1,089	1,483
Finished Goods	—	768	768
Packaging and Supplies	—	25	25
Total Inventory	$ 394	$ 3,531	$ 3,925

(expressed in thousands of Canadian Dollars except as otherwise indicated)

6. PROPERTY, PLANT AND EQUIPMENT

Cost:	Land	Buildings	Furniture and fixtures	Production equipment	Building improvements	Computer equipment	Automobiles	Construction in progress	Right-of-use assets	Total
Balance, December 31, 2018	$ 2,683	$ 2,711	$ 196	$ 1,837	$ 699	$ 503	$ 767	$ 99,010	$ —	$ 108,406
Impact of IFRS 16 transition	—	—	—	—	—	—	—	—	1,279	1,279
Transfers	—	53,838	4	11,525	—	(1)	(107)	(65,727)	468	—
Additions	—	—	65	2,403	12	836	—	244,403	2,446	250,165
Disposals	—	—	—	(31)	—	—	(97)	(22)	—	(150)
Effects of movements in foreign exchange	—	(69)	—	(60)	(1)	(1)	(12)	(18)	(39)	(200)
Balance, December 31, 2019	**$ 2,683**	**$ 56,480**	**$ 265**	**$ 15,674**	**$ 710**	**$ 1,337**	**$ 551**	**$ 277,646**	**$ 4,154**	**$ 359,500**
Accumulated depreciation and impairment:										
Balance, December 31, 2018	$ —	$ 96	$ 32	$ 252	$ 231	$ 122	$ 144	$ —	$ —	$ 877
Transfers	—	—	—	(96)	—	—	(53)	—	149	—
Depreciation	—	713	42	1,172	76	207	140	—	508	2,858
Disposals	—	—	—	(37)	—	2	(14)	—	—	(49)
Impairment	—	18,750	65	4,440	94	343	43	95,062	—	118,797
Effects of movements in foreign exchange	—	—	—	(1)	—	(1)	1	—	(15)	(16)
Balance, December 31, 2019	**$ —**	**$ 19,559**	**$ 139**	**$ 5,730**	**$ 401**	**$ 673**	**$ 261**	**$ 95,062**	**$ 642**	**$ 122,467**
Net book value, December 31, 2019	**$ 2,683**	**$ 36,921**	**$ 126**	**$ 9,944**	**$ 309**	**$ 664**	**$ 290**	**$ 182,584**	**$ 3,512**	**$ 237,033**

(expressed in thousands of Canadian Dollars except as otherwise indicated)

Cost:	**Land**	**Buildings**	**Furniture and fixtures**	**Production equipment**	**Building improvements**	**Computer equipment**	**Automobiles**	**Construction in progress**	**Total**
Balance, December 31, 2017	$ 2,621	$ 620	$ 6	$ 363	$ 471	$ 108	$ 66	$ 2,960	$ 7,215
Additions	62	—	189	779	217	395	300	96,991	98,933
Additions from a business combination	—	1,062	1	641	11	—	378	23	2,116
Transfers	—	971	—	—	—	—	—	(971)	—
Effects of movements in foreign exchange	—	58	—	54	—	—	23	7	142
Balance, December 31, 2018	$ 2,683	$ 2,711	$ 196	$ 1,837	$ 699	$ 503	$ 767	$ 99,010	$ 108,406
Accumulated depreciation and impairment:									
Balance, December 31, 2017	$ —	$ 23	$ 2	$ 52	$ 145	$ 16	$ 12	$ —	$ 250
Depreciation	—	73	30	172	86	105	61	—	527
Impairment	—	—	—	14	—	—	70	—	84
Effects of movements in foreign exchange	—	—	—	14	—	1	1	—	16
Balance, December 31, 2018	$ —	$ 96	$ 32	$ 252	$ 231	$ 122	$ 144	$ —	$ 877
Net book value, December 31, 2018	$ 2,683	$ 2,615	$ 164	$ 1,585	$ 468	$ 381	$ 623	$ 99,010	$ 107,529

(expressed in thousands of Canadian Dollars except as otherwise indicated)

Impairment

The Company performs tests for impairment for its property, plant and equipment, a non-financial asset, as set out in its accounting policy described in note 3 when there are indicators of impairment. As a result of an impairment assessment at December 31, 2019, the Canadian CGU yielded a lower recoverable amount in comparison to the applicable carrying values. The recoverable amount of this CGU was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU using level 3 inputs. As at December 31, 2019 , the carrying amount of the CGU was determined to be higher than its recoverable amount of $254,511 for which a non-cash impairment charge of $123,432 was recognized.

The non-cash impairment charge was first allocated to goodwill, with the remaining amount of the impairment charge allocated pro rata on the basis of the carrying amount of each non-financial asset, excluding biological assets and inventories, in the CGU, see Note 7. The non-cash impairment charge specific to property, plant and equipment was $118,797.

The significant assumptions applied in the determination of the recoverable amount are described as follows:

i. Cash flows: Estimated cash flows were projected based on industry and market trends in addition to the Company's own internal sources which included estimates for price compression and industry growth. The forecasts were extended to a total of five years (and a terminal year after);

ii. Terminal value growth rate: A long-term growth rate has been determined as the lower of the nominal gross domestic product rate for the country in which the CGU operates and the long-term compound annual growth rate estimated by management;

iii. Discount rate: The discount rate is based on the Company's weighted average cost of capital ("WACC") based on the Company's cost of capital in which the Company's cost of equity and cost of debt are proportionately weighted. The inputs into the WACC are based on the Company's specific borrowing rate, 10-year government bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for risk premium to reflect both the increased risk of investing in equities generally and the unsystematic risk on the specified CGU.

The key assumptions used in calculating the recoverable amount tested for impairment as at December 31, 2019 are outlined below.

Discount rate	16.50%
Terminal value growth rate	2.00%

Following the non-cash impairment charges recognized, the recoverable amount of the CGU was equal to its carrying amount. Therefore, any adverse movement in a key assumption could lead to further impairment. Conversely, any favourable movement in a key assumption could lead to a reversal of impairment.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

7. INTANGIBLE ASSETS AND GOODWILL

A continuity of the intangible assets is as follows:

	Health Canada Licence	Technology Licences	Website	Distribution Channels	Brands	Other acquired rights	Goodwill	Total
Cost:								
Balance, January 1, 2019	$ 5,870	$ 200	$ —	$ 5,904	$ 1,054	$ 1,344	$ 10,702	$ 25,074
Additions	—	2,678	400	—	—	—	—	3,078
Effect of movements in foreign exchange	—	(6)	—	(404)	(72)	(88)	(594)	(1,164)
Balance, December 31, 2019	$ 5,870	$ 2,872	$ 400	$ 5,500	$ 982	$ 1,256	$ 10,108	$ 26,988
Accumulated amortization and impairment:								
Balance, January 1, 2019	$ 590	$ 22	$ —	$ 105	$ 19	$ 101	$ —	$ 837
Amortization for the period	295	222	33	401	72	405	—	1,428
Impairment	1,711	791	126	—	—	—	2,007	4,635
Effect of movements in foreign exchange	—	—	—	(15)	(3)	(14)	—	(32)
Balance, December 31, 2019	$ 2,596	$ 1,035	$ 159	$ 491	$ 88	$ 492	$ 2,007	$ 6,868
Net book value, December 31, 2019	$ 3,274	$ 1,837	$ 241	$ 5,009	$ 894	$ 764	$ 8,101	$ 20,120

	Health Canada Licence	Technology Licences	Distribution Channels	Brands	Other acquired rights	Goodwill	Total
Cost:							
Balance, January 1, 2018	$ 5,870	$ —	$ —	$ —	$ —	$ 2,007	$ 7,877
Additions	—	200	—	—	26	—	226
Additions from a business combination	—	—	5,600	1,000	1,250	8,247	16,097
Effect of movements in foreign exchange	—	—	304	54	68	448	874
Balance, December 31, 2018	$ 5,870	$ 200	$ 5,904	$ 1,054	$ 1,344	$ 10,702	$ 25,074
Accumulated amortization and impairment:							
Balance, January 1, 2018	$ 295	$ —	$ —	$ —	$ —	$ —	$ 295
Amortization for the period	295	22	101	18	97	—	533
Effect of movements in foreign exchange	—	—	4	1	4	—	9
Balance, December 31, 2018	$ 590	$ 22	$ 105	$ 19	$ 101	$ —	$ 837
Net book value, December 31, 2018	$ 5,280	$ 178	$ 5,799	$ 1,035	$ 1,243	$ 10,702	$ 24,237

Impairment

During the year ended December 31, 2019, the Company recognized non-cash impairment charges within its Canadian CGU as described in Note 6, of $2,007 related to goodwill and $2,628 related to intangible assets.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

8. OTHER ASSETS

A summary of other assets is presented as follows:

	Additional Reference	As at December 31, 2019	As at December 31, 2018
Deposit per Hydro-Quebec contribution agreement	8[a]	**5,681**	4,060
Deposits related to facility construction and operational readiness	15[a]	**690**	9,431
Investments in Califormulations and QuebecCo	8[b]	**3,887**	1,001
Term deposits held as collateral	15[a]	**1,800**	800
Term deposits not held as collateral		**292**	150
Accrued interest receivable		**60**	689
Other		**68**	395
		12,478	16,526
Less: Current portion		**(534)**	(864)
		11,944	15,662

[a] Power supply agreement

On May 31, 2018, the Company entered into a contribution agreement with a Québec power supply company for power supply for twenty years and the construction of equipment to ensure the adequate connection of the Québec Facility to the electricity network. A guarantee was provided in the amount of $4,060 in the form of a letter of credit which was collateralized with a guaranteed investment certificate held at a chartered Canadian financial institution and completed on June 26, 2018. On August 19, 2019, the agreement was modified to include updated power specification needs and required a greater deposit and guarantee. On August 19, 2019 the Company deposited $5,681 into an escrow account to complete the modified transaction. The arrangement was structured in such a way that the interest earned on the new deposit would be remitted to the Company and the previous letter of credit was to be released. On September 4, 2019, the aforementioned letter of credit from the original agreement was released and the funds held as collateral of $4,060 were returned to the Company's available cash.

[b] Investment in Califormulations

On April 18, 2019, the Company purchased 580,714 Class A units of Califormulations LLC ("Califormulations"), a US based beverage company, representing a 15% ownership in Califormulations, for total cash consideration of $1,434. In accordance with the Company's accounting policies, the investment met the criteria for initial recognition at fair value and subsequent recognition based on estimated discounted cash flows through fair value through profit and loss. In conjunction with the purchase, the Company issued a promissory note to Califormulations in the amount of $1,451 to be used for working capital purposes and is included in other assets.

9. LOANS

The following tables illustrate the continuity schedule and presentation of the Company's loans:

		December 31, 2019		December 31, 2018
Opening Balance	$	**688**	$	**—**
Additions		**21,042**		**688**
Deferred financing fee		**(3,425)**		**—**
Residual fair value of equity portion		**(758)**		**—**
Accretion		**110**		**—**
Principal payments		**(123)**		**—**
Interest payments		**(60)**		**—**
Effects of movements in foreign exchange		**(41)**		**—**
Ending Balance	$	**17,433**	$	**688**

		December 31, 2019		December 31, 2018
Loans	$	**17,433**	$	**688**
Current portion (HemPoland)		**(524)**		**(688)**
Long term portion	$	**16,909**	$	**—**

Loans assumed in connection with the HemPoland acquisition

On October 1, 2018, as part of the HemPoland transaction, the Company assumed HemPoland's operating line of credit of which the entire outstanding amount drawn upon of $123 (400 PLN [in thousands]) was repaid as at December 31, 2019 (December 31, 2018 - $146). Also, in connection with the HemPoland transaction, the Company assumed HemPoland's short-term loan payable on certain premises in Poland, of which approximately $524 remained outstanding as at December 31, 2019 (December 31, 2018 - $542). See notes 10.

Senior secured credit facility

On December 24, 2019, the Company closed a senior secured first lien credit facility (the "Loan") with a commercial lender. The first tranche of the Loan of gross proceeds of $27,700 is committed by the lender upon the Company meeting certain closing conditions with draws permitted in minimum increments of $500 at a thirteen percent (13%) rate of interest with no principal repayments required for the first twelve months after which the Company will make monthly principal repayments of $148 plus interest per the terms of the agreement. The second tranche of the Loan of up to an additional $15,000 may be advanced upon the achievement by the Company of certain operational milestones. Both tranches of the Loan mature on June 21, 2021. The Company may repay the Loan at any time with a 2% penalty on the outstanding principal of the Loan and contains financial and restrictive covenants. The Loan possesses several covenants which the Company has met as at December 31, 2019. In connection with the Loan the Company issued the lender 7,000,000 common share purchase warrants exercisable for a period of 36 months following the date of issuance at a price per share of $1.00. 9371-8366 Quebec Inc. ("QuébecCo") was also a party to the agreement with its assets included as part of the first lien described above and specifically related to the assets at the Hamilton and Quebec facilities. See notes 11 and 22.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

10. BUSINESS COMBINATION

Acquisition of HemPoland

On October 1, 2018, the Company entered into a share purchase agreement to purchase all of the shares of HemPoland, a manufacturer and seller of premium cannabidiols ("CBD") oils. In connection with the transaction, the Company paid $9,931 in cash and issued 1,968,323 restricted shares that are escrowed until September 30, 2021. Additionally, there is contingent consideration of up to 3,047,723 shares based on HemPoland achieving certain earnings targets by the end of the 2021 financial year which may be settled in cash pursuant to the terms of the agreement at the Company's option. The table below summarizes the fair values of the assets acquired and the liabilities assumed at the acquisition date:

	Note	Number of shares	Share price	Amount
Consideration paid				
Cash				9,931
Restricted shares issued	(i)	1,968,323	$ 6.75	7,972
Contingent consideration	(ii)			688
Total consideration paid				**$ 18,591**
Net assets acquired				
Current assets				
Cash and cash equivalents				1,520
Accounts receivable				420
Refundable Sales Taxes Receivable				462
Prepaids				17
Inventory				2,600
Non-current assets				
Property, plant and equipment				2,116
Distributor relationships				5,600
CannabiGold brand				1,000
Non-compete agreements				1,250
Goodwill				8,247
Total assets				**23,232**
Current liabilities				
Accounts payable and accrued liabilities				1,254
Income taxes payable				675
Short-term loans				653
Current portion of lease liabilities				86
Non-current liabilities				
Lease liabilities				203
Deferred tax liability				1,770
Total liabilities				**4,641**
Total net assets acquired				**$ 18,591**

(i) Recorded at fair value, which was determined using a share price and exercise price of $6.75, term of three years, discount rate of 2.31% and volatility of 75% with a corresponding entry included in contributed surplus. This represents a level three fair valuation.

(ii) Subject to revaluation based on the modified probability assessment of asymmetric payment structures model at each period end. As at December 31, 2019, the contingent consideration was revalued to $462, resulting in a gain on revaluation $226 for the year ended December 31, 2019 (December 31, 2018 - $nil). These represent level three fair valuations.

The Company recognized $852 in transaction costs in the strategic business initiatives line item in the consolidated statement of loss and other comprehensive loss in connection with the business combination for the year-ended December 31, 2018. The total revenue for HemPoland for the year ended December 31, 2019 was $9,886 (December 31, 2018 - $1,879). The net income including purchase price allocations related to the acquisition of HemPoland for the year ended December 31, 2019 was $556 (period from October 1, 2018 to December 31, 2018 – net loss of $1,590). Goodwill is calculated as the excess of the consideration paid in comparison to the net assets identified as at acquisition date including certain assets that did not qualify for separate recognition such as an acquired workforce in Europe. Goodwill is not tax deductible. Proforma results of operations of HemPoland for the year-ended ended December 31, 2018 have not been presented as it would be impracticable to do so given changes to some of HemPoland's operations.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

11. INVESTMENTS IN ASSOCIATES

The carrying value of investments in associates consist of:

	Note	% ownership	Balance, December 31, 2018	Share of net income (loss)	OCI foreign exchange loss	Impairment	Balance, December 31, 2019
QuebecCo	11 [a]	49.99%	2,171	20	—	—	2,191
Epican	11 [b]	49.18%	8,773	(1,092)	(658)	(4,296)	2,727
			10,944	(1,072)	(658)	(4,296)	4,918

	Note	% ownership	Balance, December 31, 2017	Additions	Transaction costs	Share of net loss	OCI foreign exchange loss	Balance, December 31, 2018
QuebecCo	11 [a]	49.99%	—	2,001	170	—	—	2,171
Epican	11 [b]	49.18%	—	9,869	90	(1,136)	(50)	8,773
			—	11,870	260	(1,136)	(50)	10,944

The following is a summary of financial information for the Company's associates at December 31, 2019 and for the year then ended (at 100%):

	QuébecCo		Epican	
	As at December 31, 2019	As at January 1, 2019	As at December 31, 2019	As at January 1, 2019
Assets				
Current assets	50	—	3,307	5,364
Non-current assets	4,002	4,002	17,006	19,071
Total assets	4,052	4,002	20,313	24,435
Liabilities				
Current liabilities	100	90	613	631
Non-current liabilities	—	—	4,228	4,774
Total liabilities	100	90	4,841	5,405

	For the year ended		For the year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Revenue	50	—	2,411	270
Expenses	—	—	4,631	981
Net profit (loss) from operations before taxes	50	—	(2,220)	(711)
Effect of foreign currency translation	—	—	(1,338)	—
Comprehensive income (loss)	40	—	(3,558)	(711)

[a] Investment in QuébecCo

On January 12, 2018, the Company completed the purchase of 2,001,134 Class A shares of QuébecCo representing a 49.99% interest in the company. The purchase price paid was $2,001 and $170 in transaction costs were capitalized in accordance with IAS 28 *Investment in Associates*. QuébecCo holds a property located in the City of Salaberry-de-Valleyfield, Québec. Also, on January 12, 2018, the Company advanced $1,001 to QuébecCo which is included in other assets.

[b] Investment in Epican

On July 5, 2018, the Company purchased 5,759,788 shares of Epican in exchange for total cash consideration of $8,348 and 247,353 shares of the Company, the fair value of which was determined to be approximately $1,521. During the year-ended December 31, 2019, the Company recognized an asset-specific impairment of $4,296 (for the year-ended December 31, 2018 - $nil) due to changing market conditions in Jamaica and a calculated recoverable amount based on a market multiple which is impacted by the

(expressed in thousands of Canadian Dollars except as otherwise indicated)

Company's strategic decision to focus its cannabis cultivation operations on the Canadian market and forgo additional investment needed to generate additional cash flows from Epican.

12 . LEASES

Below is a summary of the activity related to the Company's lease liabilities:

Lease liabilities, December 31, 2018	$	**412**
Effect of adoption of IFRS 16, January 1, 2019		**1,319**
Additions		**2,143**
Interest on lease liabilities		**139**
Interest payments on lease liabilities		**(139)**
Principal payments on lease liabilities		**(319)**
Foreign exchange differences		**(10)**
Lease liabilities, December 31, 2019	$	**3,545**
Current portion lease liabilities, December 31, 2019	$	**590**
Long-term portion lease liabilities, December 31, 2019	$	**2,955**

13. SHARE CAPITAL

[i] Authorized

An unlimited number of common shares.

[ii] Key Transactions in 2019

a) During the year ended December 31, 2019, a total of 506,933 (December 31, 2018 – 3,929,868) of the Company's granted and outstanding options were exercised at a weighted average exercise price of $0.85 per option, for aggregate gross proceeds of $430 (December 31, 2018 – $2,435). See Note 14.

b) During the year ended December 31, 2019, a total of 5,455,567 (December 31, 2018 – 22,543,412) of the Company's issued and outstanding warrants were exercised at a weighted average exercise price of $2.19 per warrant, for aggregate gross proceeds of $11,963 (December 31, 2018 – $63,399). See Note 14.

c) On December 19, 2019, the Company completed a bought deal financing of 36,800,000 units and 20,608,000 warrants at a price per unit of $0.75 for aggregate gross proceeds of $27,600. Each unit is comprised of one common share and one-half of one common share purchase warrant of the Company with the value of the warrant being detailed using a market price approach of $0.08 per half warrant. Each full warrant entitles the holder to purchase one common share at an exercise price of $1.00 for a period of 36 months from the date they were received. See Note 14.

[iii] Key Transactions in 2018

a) On October 19, 2018, the Company completed a bought deal financing of 10,950,000 units and 1,642,500 warrants at a price per unit of $6.85 for aggregate gross proceeds of $76,223. Each unit is comprised of one common share of the Company and one warrant. Each warrant entitles the holder to purchase one common share at an exercise price of $9.00 for a period of 30 months from the date they were received. The assumptions used in the determination of fair value of the warrant component include a risk-free rate of 2.29%, expected life of 2.5 years, annualized volatility of 55.00% and no dividend yield.

b) On July 5, 2018, the Company invested in Epican, whereby it issued 247,353 common shares at an average fair value of $6.15 per share, for total share consideration of $1,521. See Note 11.

c) On June 26, 2018, the Company completed a bought deal financing of 3,910,000 special warrants of the Company (the "Special Warrants") at $6.40 per Special Warrant for aggregate gross proceeds of $25,040. Each Special Warrant entitles the holder to receive, upon voluntary exercise prior to or deemed exercise on the Automatic Exercise Date, and without payment of additional consideration, 1 (one) unit (each a "Special Warrant Unit") of the Company. The Automatic Exercise Date is the earlier of: (i) October 27, 2018 and (ii) the third business day after the date on which a receipt for a final short form prospectus qualifying the Units underlying the Special Warrants is issued by the Ontario Securities Commission. Each Special Warrant Unit is comprised of 1 (one) common share and ½ (one half) of a common share purchase warrant of the Company (each whole common share purchase warrant, a "Warrant"). Each Warrant entitles the holder to purchase 1 (one) common share at an exercise price of $9.50

for a period of 36 months from the date they were received. In connection with this offering, the company also issued 234,600 underwriter special warrants. The fair value of the underwriter special warrants was determined using a Black-Scholes model. The assumptions in the determination of fair value include a risk-free rate of 1.87%, expected life of 3 years, annualized volatility of 86.87% and no dividend yield.

d) On June 5, 2018, the Company announced that it had elected to accelerate the expiry of certain warrants (the "accelerated warrants") of the Company issued under the Warrant Indenture dated March 24, 2017 and originally scheduled to expire March 24, 2019 pursuant to the private placement that closed in March 2017. The accelerated date of expiry was Friday, July 6, 2018. Each accelerated warrant entitles the holder to purchase one common share of the Company at a price of $2.15 per share. The corresponding reserve for warrants was reclassified to contributed surplus.

e) On May 9, 2018, the Company issued 4,726,500 Over-Allotment Units at $3.65 per over-allotment unit raising aggregate gross proceeds of $17,252. Each unit entitled the holder to one common share and one half of a common share purchase warrant consistent with the terms of the Company's IPO.

f) On May 2, 2018, the Company completed an initial public offering of 31,510,000 units ("IPO unit") of the Company at a price of $3.65 per Unit for total gross proceeds of $115,012. Each Unit consists of 1 (one) common share and ½ (one half) of a common share purchase warrant of the Company (each whole common share purchase warrant, a "Warrant"). Each Warrant entitled the holder to purchase 1 (one) common share at an exercise price of $7.00 for a period of two years from May 2, 2018, subject to an acceleration right whereby the Company may provide written notice to the registered holders of the Warrants (a "Warrant Acceleration Notice") that the expiry time of the Warrants shall be accelerated to a date which is 30 days after the date of such Warrant Acceleration Notice, if, at any time, the volume-weighted average trading price the common shares is equal to or greater than $9.00 for any ten (10) consecutive trading day period. On May 4, 2018, the Company's remaining deferred subscription receipts were converted into 33,333,334 common shares and 16,666,666 warrants. Each Warrant entitles the holder to purchase 1 (one) common share at an exercise price of $3.00 and expire on February 28, 2021.

g) On January 16, 2018, the Company completed a brokered and non-brokered private placement financing pursuant to which it issued an Offering Memorandum on November 3, 2017 (the "November Offering"). The offering was completed on January 16, 2018 whereby the Company issued 34,660,695 units at $1.65 per unit for total gross proceeds of $57,190. Each unit consists of 1 (one) common share and ½ (one half) of a common share purchase warrant of the Company. The Company issued 21,043,827 units at $34,722 pursuant to the November 3, 2017 Offering Memorandum, during the year-ended December 31, 2017. Pursuant to the Offering, the Company also issued 631,484 broker warrants ("compensation options"), 83,770 finders' units and 70,000 commission units during the year-ended December 31, 2017 which were included in general and administrative expense. The finder's units and the commission units have the same terms as the units issued under the Offering. For the year ended December 31, 2018, the Company issued the remaining units from the Offering and additional 692,290 finders' units included in general and administration expense.

h) On January 8, 2018, the Board of Directors approved the issuance of 162,000 shares to an employee.

i) On January 4, 2018, the Company entered into a subscription agreement (the "Subscription Agreement") with Aurora Cannabis Inc. ("Aurora"), pursuant to which Aurora has acquired subscription receipts totaling 33,333,334 units at $1.65 per unit, for gross proceeds of $55,000. The subscription receipts automatically converted into units upon the Company completing an initial public offering of its common shares and when the common shares are listed on a national Canadian stock exchange (the "Listing Date"). Each unit consisted of 1 (one) common share and ½ (one half) of a common share purchase warrant of the Company. Each whole warrant entitles the holder to purchase 1 (one) common share at the exercise of price $3.00. Pursuant to the Subscription Agreement, the Company also entered into:

(i) an investor rights agreement with Aurora (the "Investor Rights Agreement") whereby Aurora had the option to incrementally increase its ownership in the Company to 51% upon TGODH achieving certain operational milestones. During the year-ended December 31, 2018, Aurora chose not to exercise its rights under the Investor Rights Agreement thereby forfeiting any further rights pursuant to the agreement to any other milestones.

(ii) a cannabis supply agreement with Aurora's wholly owned subsidiary Aurora Cannabis Enterprises Inc. providing Aurora with the right to purchase up to 20% of the Company's annual production of organic cannabis;

(iii) a consulting and maintenance services agreement with Aurora's wholly owned subsidiary Aurora Larssen Projects Inc. ("ALPI") to provide services to the Company on the completion and commissioning of the Company's facilities in Ancaster, Ontario and Valleyfield, Québec. The work was terminated on November 1, 2018.

j) On January 2, 2018, the Company authorized 267,500 bonus units issued to a director, an advisor and an officer to be vested over 2.75 years. Each unit consists of one common share and one half of a common share purchase warrant. Each warrant is exercisable into one common share at $3.00 per share. On February 16, 2018, the shares and warrants were issued in trust and are outstanding. A corresponding reserve for shares held in trust charged in the consolidated statements of financial position for the value of the units that will be released according the approved vesting schedule. Also, on January 2, 2018, the Board of Directors approved bonus shares of 1,500,000 to an officer. The conditions to earn these bonus shares had been satisfied at as December 31, 2017 and $2,025 has been recognized in the reserve for share based compensation and general and administrative expenses as at December 31, 2017. On February 14, 2018, when the shares were officially issued to the officer, the reserve for share based compensation was charged with a corresponding increase in share capital.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

14. CONTRIBUTED SURPLUS

[a] Share based payments

The Company initiated an Employee Stock Option Plan (the "Original Plan") on February 2, 2017 that is administered by the Board of Directors of the Company which establishes exercise prices, at not less than the market price at the date of grant, and expiry dates, which have been set at three years from issuance. Options under the Original Plan remain exercisable in increments with one third being exercisable on each of the first, second and third anniversaries from the date of the grant, except as otherwise approved by the Board of Directors.

On January 31, 2018, the Company adopted a new stock options plan which superseded the Original Plan. There were 4,295,932 options issued and outstanding pursuant to the Original Plan, which will remain exercisable until their expiry or cancellation and in accordance with their vesting schedules. Under the Company's Amended Option Plan, adopted at the Annual General and Special Meeting ("AG&SM") on December 6, 2018, options may be granted for up to 10% of the common shares outstanding at the time of the grant for a term not exceeding five years. The exercise price of the options under the Amended Option Plan is fixed by the Board of Directors of the Company at the time of the grant at the market price of the common shares, subject to all applicable regulatory requirements. For the year ended December 31, 2019, the Company recorded $14,074 in non-cash share-based compensation expense pursuant to the grant of stock options (December 31, 2018 - $9,154).

The following is a summary of the changes in the Company's options:

	December 31, 2019		December 31, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding - beginning of period	**12,430,732**	**2.83**	9,436,000	0.82
Granted	**7,172,000**	**3.73**	8,026,000	4.04
Exercised	**(506,933)**	**0.85**	(3,929,868)	0.62
Cancelled/Expired	**(1,198,200)**	**2.91**	(1,101,400)	1.78
Outstanding, end of period	**17,897,599**	**3.24**	12,430,732	2.83
Exercisable, end of period	**5,871,199**	**2.34**	1,670,532	0.82

Grant date	Options Outstanding #	Options Exercisable #	Exercise Price $	Weighted Average remaining contractual life of outstanding options in years
February 7, 2017	1,526,532	1,526,532	$0.50	0.10
June 1, 2017 - January 12, 2018	2,769,400	1,716,000	$1.15 - $1.65	0.42 - 1.04
March 28, 2018	4,411,667	1,820,334	$3.65	1.24
May 28, 2018 - December 14, 2018	2,258,333	808,333	$3.08 - $6.91	3.41 - 3.96
January 8, 2019 - August 21, 2019	6,155,667	-	$2.67 - $5.13	4.02 - 4.64
November 18, 2019	776,000	-	$0.83	4.89
Balance, December 31, 2019	**17,897,599**	**5,871,199**		**2.57**

In determining the amount of share-based compensation, the Company uses the Black-Scholes option pricing model to establish the fair value as at the grant date of options granted. Stock options granted during the respective periods highlighted below were fair valued based on the following weighted average assumptions:

(expressed in thousands of Canadian Dollars except as otherwise indicated)

	For the year ended	
	December 31, 2019	**December 31, 2018**
Risk-free interest rate	1.55%	2.02%
Expected dividend yield	Nil	Nil
Expected annualized volatility	83.04%	93.40%
Expected life of options (years)	3.50	3.60

Volatility was estimated by using the historical volatility of the Company and other companies that the Company considers comparable that have trading and volatility history. The expected life of the options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the expected life of the options is indicative of future trends, which may also not necessarily be the actual outcome. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate was based upon the Canada government bonds with a remaining term equal to the expected life of the options.

[b] Reserve for warrants

The following table reflects the continuity of warrants:

	Notes	Number of warrants	Weighted Average Exercise Price	Amount, net of warrant issue costs
		#	$	$
Balance, January 1, 2019		**69,759,127**	**5.07**	**62,801**
Bought deal offering units	13[c]	**20,608,000**	**1.00**	**3,103**
Issuance of warrants in connection with debt	9	**7,000,000**	**1.00**	**758**
Warrants exercised in the period		**(5,455,567)**	**2.19**	**(2,229)**
Expiry of warrants in the period		**(55,932)**	**2.15**	**(18)**
Balance, December 31, 2019		**91,855,628**	**4.02**	**64,415**

	Number of warrants	Weighted Average Exercise Price	Amount, net of warrant issue costs
	#	$	$
Balance, January 1, 2018	37,609,842	2.40	13,883
Units held in trust	133,750	3.00	72
Issuance of finders' units	346,145	3.00	208
Private placement units	6,808,908	3.00	4,359
Initial public offering units	18,118,250	7.00	9,075
Issuance on conversion of subscription receipts	16,666,667	3.00	26,773
Issuance on conversion of special warrants	1,955,000	9.50	3,956
Bought deal financing units	12,592,500	9.00	12,017
Warrants exercised in the period	(22,543,412)	2.81	(7,041)
Expiry of warrants in the period	(1,928,523)	2.15	(501)
Balance, December 31, 2018	69,759,127	5.07	62,801

(expressed in thousands of Canadian Dollars except as otherwise indicated)

As at December 31, 2019, the following warrants were outstanding:

Expiry Date	Exercise Price	Number of Warrants
	$	#
May 2, 2020	7.00	15,092,363
October 2, 2020	3.00	130,250
February 28, 2021	3.00	34,477,515
April 19, 2021	9.00	12,592,500
June 26, 2021	9.50	1,955,000
December 19, 2022	1.00	20,608,000
December 20, 2022	1.00	7,000,000
		91,855,628

[c] Restricted share units

Under the Company's Restricted Share Unit Plan, adopted at the AG&SM on December 6, 2018, restricted share units may be granted up to a fixed maximum of 5,000,000 common shares, which entitle the holder to receive one common share without payment of additional consideration at the end of the restricted period, as determined by the Board of Directors of the Company at the time of the grant. For the year ended December 31, 2019, the Company recorded $108 in non-cash stock-based compensation related to restricted share unit compensation (year ended December 31, 2018 - $nil) with respect to 54,348 units issued each convertible to one common share and valued using market price on the date of issuance.

[d] Escrowed share units

In conjunction with the HemPoland acquisition on October 1, 2018, the Company issued 1,968,323 share units in escrow with a value of $7,972. (See note 10).

[e] Convertible share units

The Company issued 74,074 convertible share units with a value of $300 determined based on market value as at May 31, 2019 upon the licence from the Danish Medicinal Authority being assigned to *TGOD Genetics A/S*, pursuant to the joint venture agreement with Knud Jepsen. The units convert to common shares over a three-year period beginning on April 19, 2020. For the year ended December 31, 2019, the Company recorded $300 in strategic business initiatives related to convertible share unit compensation.

15. COMMITMENTS AND CONTINGENCIES

[a] Construction agreements

The Company has entered into contracts to facilitate the construction of its facilities in Hamilton, Ontario and Salaberry-de-Valleyfield, Québec with various vendors. The Company estimates as at December 31, 2019 that $10,383 is required to substantially complete its Hamilton facility of which $4,000 may be paid from restricted cash and that $14,277 is required to substantially complete the current phase of its Quebec Facility, of which $4,578 may be paid from restricted cash. These are all expected to be paid within twelve months. Pursuant to some of these agreements, as at December 31, 2019, the Company has letters of credit in the amount of $1,800 which may be drawn upon in the event of material breaches of the respective agreements. These letters of credit bear conventional rates of interest partially offset by the interest earned on guaranteed investment certificates ("GIC") securing the letters as collateral. The Company has pledged corresponding GICs as collateral, which has been recorded in other assets. As at December 31, 2019, there have been no breaches and no amounts have been drawn on the letters of credit. As at December 31, 2019, the Company has outstanding deposits on construction related activities of $690 (December 31, 2018 – $9,431) also included in other assets.

The Company has also entered into escrow agreements with its construction partners in Ontario and in Québec. During the year ended December 31, 2019, the Company paid $45,422 to construction partners in Québec leaving a balance of $8,578 in restricted cash as at December 31, 2019.

[b] Other contractual commitments

The lease for the office space of the Company's headquarters required the issuance of a letter of credit in the amount $350, which may be drawn upon by the landlord in the event of a material breach of the agreement. As at December 31, 2019, there have been no breaches and no amounts have been drawn upon this letter of credit.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

During the year ended December 31, 2019, the Company also entered into agreements for equipment that allowed for deferred payment terms and/or the inclusion of permitted liens on personal property, per the credit facility agreement, associated with the equipment should there be any material breaches of the agreements. The associated balances included in accounts payable and accrued liabilities as at December 31, 2019 is approximately $14,334. The associated equipment has been received and included in property, plant and equipment and the amounts payable have been included in accounts payable and accrued liabilities. As at December 31, 2019, there have been no breaches of the respective agreements.

[c] Claims and Litigation

From time to time, the Company and/or its subsidiaries may become defendants in legal actions and the Company intends to defend itself rigorously against all legal claims. The Company is subject to certain employment related claims by former employees for which provisions have been recognized only to the extent that they are likely to result in future economic outflows. The Company has also been subject to a claim by former warrant holders for approximately $1,250 and a separate claim for a customer in Europe for approximately $2,100. No provision in relation to these claims has been recognized as the Company's position is that these claims are meritless, and the outcome may depend on court proceedings. Other than the claims previously described, the Company is not aware of any other material or significant claims against the Company.

16. INCOME TAXES

Income tax expense (recovery) varies from the amount that would be computed by applying the basic federal and provincial tax rates to loss before income taxes, shown as follows:

	For the year ended	
	December 31, 2019	**December 31, 2018**
Expected tax rate	**26.50%**	26.50%
	$	$
Expected tax benefit resulting from loss	**(52,050)**	(12,071)
Permanent differences	**7,645**	3,971
Changes in deferred tax benefits not recognized	**44,435**	7,929
Differences from statutory tax rate	**38**	140
Non-taxable foreign exchange	**(88)**	—
Other	**(646)**	(318)
Income tax recovery	**(666)**	(349)

The following income tax expense (recovery) has been recognized for accounting purposes:

	December 31, 2019	**December 31, 2018**
	$	$
Current income tax expense (recovery)	**(346)**	65
Deferred income tax recovery	**(320)**	(414)
Income tax recovery	**(666)**	(349)

Deferred income taxes reflect the impact of loss carry forwards and of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The tax effects of temporary differences and loss carry forwards that give rise to significant portions of the deferred tax liability, which has been recognized during the year ended December 31, 2019 are as follows:

(expressed in thousands of Canadian Dollars except as otherwise indicated)

	Opening Balance	Recognized in Equity	Recognized in Other Comprehensive Loss	Recognized in Profit and Loss	Closing Balance
Deferred tax assets	$	$	$	$	$
Non-capital losses	8,937	**—**	**—**	**13,296**	**22,233**
Depreciation on property, plant and equipment	583	**—**	**—**	**31,684**	**32,267**
Contingent Reserves	115	**—**	**—**	**—**	**115**
Financing Costs	1,742	**776**	**—**	**527**	**3,045**
Other	143	**—**	**2**	**126**	**271**
Deferred tax liabilities					
Intangible assets	(3,006)	**—**	**85**	**1,098**	**(1,823)**
Unrealized gain on biological assets	(134)	**—**	**—**	**(472)**	**(606)**
Long term liabilities	—	**—**	**—**	**(1,079)**	**(1,079)**
Deferred tax assets not recognized	(9,815)	**(776)**	**—**	**(44,860)**	**(55,451)**
Net deferred tax liability	(1,435)	**—**	**87**	**320**	**(1,028)**

The tax effects of temporary differences and loss carry forwards that give rise to significant portions of the deferred tax liability, which has been recognized during the year ended December 31, 2018 are as follows:

	Opening Balance	Recognized upon acquisition of HemPoland	Recognized in Other Comprehensive Loss	Recognized in Profit and Loss	Closing Balance
Deferred tax assets	$	$	$	$	$
Non-capital losses	1,794	—	—	7,143	8,937
Depreciation on property, plant and equipment	527	—	—	56	583
Contingent Reserves	—	—	—	115	115
Financing Costs	1,045	—	—	697	1,742
Other	—	95	—	48	143
Deferred tax liabilities					
Intangible assets	(1,477)	(1,865)	(79)	415	(3,006)
Unrealized gain on biological assets	—	—	—	(134)	(134)
Deferred tax assets not recognized	(1,889)	—	—	(7,926)	(9,815)
Net deferred tax liability	**—**	**(1,770)**	**(79)**	**414**	**(1,435)**

The tax effects of temporary differences and loss carry forwards that give rise to significant portions of the deferred tax asset, which have not been recognized are approximately as follows:

	December 31, 2019	December 31, 2018
	$	$
Non-capital losses	**83,898**	33,669
Financing costs	**5,335**	1,975
Property, plant and equipment	**120,019**	1,410

The non-capital losses of $83,898 are expected to expire starting 2031.

17. SUPPLEMENTARY CASH FLOW INFORMATION

The changes in non-cash working capital items are as follows:

	For the year ended	
	December 31, 2019	**December 31, 2018**
Prepaid expenses	**$ (4,861)**	$ (3,238)
Harmonized sales tax receivable	**4,779**	(12,304)
Accounts receivable	**(289)**	(779)
Capitalized cost of biological assets	**499**	(265)
Inventory	**(5,148)**	(1,151)
Other current assets	**(3,012)**	(2,687)
Other assets	**(2,138)**	(13,697)
Accounts payable and accrued liabilities	**4,956**	5,762
Total	**$ (5,214)**	$ (28,359)

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

[a] Fair values

The Company's financial instruments were comprised of the following as at December 31, 2019: cash and cash equivalents; restricted cash; refundable sales tax receivable; trade receivables; due from related parties; other investments; other current assets; accounts payable and accrued liabilities; loans and contingent consideration.

The fair values of the financial assets and financial liabilities are determined at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The assumption for the instruments recorded at amortized costs that the instruments' fair values approximate their carrying amounts is largely due to the short-term maturities of these instruments.

[b] Fair value hierarchy

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

During the year ended December 31, 2019, there were no transfers of amounts between levels (year ended December 31, 2018 – none).

[c] Management of risks arising from financial instruments

[i] Market risk

All foreign currencies shown in this note are also presented in thousands.

Foreign currency risk

Foreign currency risk arises due to fluctuations in the fair value or cash flows of financial instruments due to changes in foreign exchange rates. As at December 31, 2019, a portion of the Company's financial assets and liabilities held in US dollars ("USD"), Polish Zloty ("PLN") and European Euros ("EUR") which consisted of cash and cash equivalents, trade receivables, accounts payable and accrued liabilities, lease liabilities, loans, and other assets. The Company's objective in managing its foreign currency risk is to minimize its net exposure to foreign currency cash flows by transacting, to the greatest extent possible, with third parties in the functional currency. The Company is exposed to currency risk in other comprehensive income, relating to foreign subsidiaries which operating in a foreign currency. The Company has not used foreign exchange contracts to hedge its exposure to foreign currency cash flows for the year ended December 31, 2019 as management has determined that this risk is not significant at this time. The Company is exposed to unrealized foreign exchange risk through its accounts payable and accrued liabilities. As at December 31, 2019, a 10% change in the foreign exchange rate would result in an unrealized gain or loss of approximately $1,617.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

Interest rate risk

The Company's exposure to interest rate risk relates to any investments of surplus cash as the Company's debt is fixed at a prescribed rate. The Company may invest surplus cash in highly liquid investments with short terms to maturity that would accumulate interest at prevailing rates for such investments. As at December 31, 2019, the Company had term deposits of $2,000 bearing interest between 1.60% and 3.05% (December 31, 2018 - $40,298, bearing interest between 1.50% and 2.00%). The Company also has $8,578 in restricted cash held in trust related to the Valleyfield and Hamilton construction projects and earning a conventional rate of interest from a reputable top tier Canadian bank.

[ii] Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit-related losses in the event of non-performance by the counterparties.

The carrying amount of cash and cash equivalents, trade receivable, refundable sales tax receivable, due from related parties, prepaids and deposits, and other assets represents the maximum exposure to credit risk as at December 31, 2019. The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counterparties, taking into account their financial position, past experience and other factors. Credit risk is mitigated by entering into sales contracts with stable, creditworthy parties and through frequent reviews of exposures to individual entities.

The Company assesses the credit risk of trade receivables by evaluating the aging of trade receivables based on the invoice date. The carrying amount of trade receivables is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of loss and comprehensive loss. When a trade receivable balance is considered uncollectible, it is written off against the allowance for expected credit losses. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of loss and comprehensive loss. As at December 31, 2019, the Company's trade receivables are primarily concentrated in Europe with the exception of $343 in Canada. The Company had one customer whose balance was greater than 10% of total trade receivables as at December 31, 2019, respectively (December 31, 2018 – two customers).

The following tables set forth details of trade receivables, including aging of trade receivables that are not overdue, as well as an analysis of overdue amounts and related allowance for doubtful accounts:

	December 31, 2019	**December 31, 2018**
	$	$
Total trade receivables	**2,254**	1,199
Less allowance for expected credit losses	**(766)**	—
Total trade receivables, net	**1,488**	1,199
Of which		
Current	**1,053**	1,123
31-90 days	**372**	59
Over 90 days	**829**	17
Less allowance for expected credit losses	**(766)**	—
Total trade receivables, net	**1,488**	1,199

(expressed in thousands of Canadian Dollars except as otherwise indicated)

[iii] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements in relation to its current cash balances, maturity schedules and internal budgets. The Company has the following gross contractual obligations as at December 31, 2019, which are expected to be payable in the following respective periods:

		Contractual cash flows						
	Carrying amount	**Total**	2020	2021	2022	2023	2024	Thereafter
	$	**$**	$	$	$	$	$	$
Accounts payable and accrued liabilities	**52,074**	**52,074**	52,074	-	-	-	-	-
Loans [(1)]	**17,433**	**25,572**	3,382	22,190	-	-	-	-
Contingent consideration payable	**462**	**799**	-	-	799	-	-	-
Lease liabilities	**3,545**	**10,442**	1,476	1,159	1,099	659	612	5,437
Total contractual obligations	**73,514**	**88,887**	**56,932**	**23,349**	**1,898**	**659**	**612**	**5,437**

[(1)] Includes interest payable until maturity date.

19. SEGMENTED INFORMATION

The Company's business activities are conducted through one operating segment which consists of the production and distribution of cannabis and related products. Segment performance is based by region.

[i] Revenue, gross profit and select expenses by region is as follows

For the year ended December 31, 2019, the Company had no customers that accounted for 10% of total revenue (year ended December 31, 2018 – one customer).

	For the year ended December 31, 2019			For the year ended December 31, 2018		
	Europe	**North America**	**Total**	Europe	North America	Total
Revenue	**$ 9,886**	**$ 1,277**	**$ 11,163**	$ 1,879	$ —	$ 1,879
Gross profit	**$ 7,488**	**$ 2,056**	**$ 9,544**	$ —	$ 212	$ 212
Operating expenses, excluding stock based compensation, depreciation and amortization	**$ 7,100**	**$ 52,612**	**$ 59,712**	$ 1,754	$ 32,768	$ 34,522
Share based compensation	**$ —**	**$ 14,288**	**$ 14,288**	$ —	$ 9,154	$ 9,154
Depreciation and amortization	**$ 1,626**	**$ 2,611**	**$ 4,237**	$ 281	$ 779	$ 1,060
Non-operating income	**$ (534)**	**$ (127,189)**	**$ (127,723)**	$ (102)	$ (926)	$ (1,028)
Net loss	**$ (1,108)**	**$ (194,642)**	**$ (195,750)**	$ (1,789)	$ (43,414)	$ (45,203)

[ii] Property, plant and equipment, net is domiciled as follows

	December 31, 2019	**January 1, 2019**	**December 31, 2018**
North America	$ **232,827**	$ 106,276	$ 104,997
Europe	**4,206**	2,532	2,532
	$ **237,033**	$ 108,808	$ 107,529

[iii] Intangible assets and goodwill, net are domiciled as follows

(expressed in thousands of Canadian Dollars except as otherwise indicated)

	December 31, 2019	December 31, 2018
North America	$ **5,032**	$ 7,465
Europe	**15,088**	16,772
	$ **20,120**	$ 24,237

20. CAPITAL MANAGEMENT

The Company's objective is to maintain a sufficient capital base to maintain investor, creditor and supplier confidence and to sustain future development of the business and provide the ability to continue as a going concern (See Note 2[ii] – Going Concern). Management defines capital as the Company's shareholders' equity and loans. The Board of Directors of the Company does not establish a quantitative return on capital criteria for management but rather promotes year over year sustainable profitable growth. The Company currently has not paid any dividends to its shareholders. As at December 31, 2019, total managed capital was comprised of share capital and loans of $446,084 (December 31, 2018 - $392,756), contributed surplus of $95,763 (December 31, 2018 - $79,937), and accumulated other comprehensive loss of $2,241 (December 31, 2018 – income of $513). The Company included loans in its approach to capital management during the year ended December 31, 2019 (year ended December 31, 2018 – no changes).

21. OPERATING EXPENSES

Sales and marketing expenses included the following items:

	For the year ended	
	December 31, 2019	December 31, 2018
Personnel costs	**2,907**	859
Third party marketing expenses	**6,542**	4,458
Travel and promotion expenses	**880**	477
Strategic partnership payments	**2,831**	302
Other marketing expenses	**121**	-
	13,281	6,096

Research and development expenses included the following items:

	For the year ended	
	December 31, 2019	December 31, 2018
Personnel costs	**1,313**	1,239
Product development	**602**	839
Travel related expenses	**102**	261
Other research and development expenses	**254**	476
	2,271	2,815

General and administrative expenses included the following items:

	For the year ended	
	December 31, 2019	December 31, 2018
Personnel costs	**14,528**	6,727
Professional and legal fees	**6,186**	6,108
Consulting fees	**5,731**	3,788
Travel and promotion expenses	**2,185**	1,222
Computer and IT expenses	**1,981**	1,168
Investor relations and advocacy costs	**1,057**	2,366
Occupancy costs	**1,064**	689
Insurance expense	**1,641**	580
Recruiting fees	**884**	508
Taxes, licenses and finance expenses	**578**	1,434
Directors fees	**470**	197
Allowance for expected credit losses	**766**	-
Office and administrative expenses	**7,089**	824
	44,160	25,611

(expressed in thousands of Canadian Dollars except as otherwise indicated)

The following table presents stock-based compensation, depreciation and amortization by function:

	For the year ended	
	December 31, 2019	**December 31, 2018**
Cost of sales related to inventory production	**3,542**	712
Sales and marketing expenses	**2,023**	1,159
Research and development expenses	**1,025**	296
General and administrative expenses	**11,935**	8,047

22. RELATED PARTIES

Key Management Personnel

Key management personnel compensation comprised the following:

	Transactions for the year ended		Outstanding balances payable as at	
	December 31, 2019	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
Compensation	**4,352**	3,582	**131**	487
Share-based payments	**9,339**	6,037	**-**	-
	13,691	9,619	**131**	487

Other related party transactions

	Transactions for the year ended		Outstanding balances as at	
	December 31, 2019	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
Purchases				
Purchase of goods and services	**-**	963	**-**	-
Advances and repayments				
Associates	**(101)**	825	**699**	800
	(101)	1,788	**699**	**800**

All outstanding balances with these related parties were conducted at the exchange amount. None of the balances are secured. No expense has been recognized in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties. No guarantees have been given or received by related parties other than QuebecCo's participation in the senior secured credit facility agreement.

23. EVENTS AFTER THE REPORTING PERIOD

On January 30, 2020, the Company drew $5,949 against the first tranche of its Loan. On February 13, 2020, the Company drew the remaining $709 of the first tranche of Loan.