The Green Organic Dutchman Holdings Ltd.

Unaudited Interim Condensed Consolidated Financial Statements

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

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

	Notes		As at March 31, 2020		As at December 31, 2019
ASSETS					
Current assets					
Cash and cash equivalents		**$**	**4,847**	$	27,569
Restricted cash	15[a]		**219**		8,578
Refundable sales taxes receivable			**2,566**		8,553
Trade receivables	16		**1,453**		1,488
Biological assets	7		**2,788**		2,771
Inventories	8		**11,197**		8,268
Prepaid expenses and deposits			**8,502**		8,382
Due from related parties			**448**		699
Other current assets	10		**518**		534
Deferred financing costs			**-**		1,324
		$	**32,538**	$	68,166
Non-current assets					
Property, plant and equipment	5		**203,970**		237,033
Intangible assets	6		**10,944**		12,019
Goodwill	6		**8,627**		8,101
Investments in associates	9		**2,194**		4,918
Other assets	10, 15[a]		**11,859**		11,944
Total assets		**$**	**270,132**	$	342,181
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**39,302**	$	52,074
Income tax payable			**14**		39
Current portion of loans	4		**549**		524
Current portion of lease liabilities	11		**870**		590
			40,735		53,227
Non-current liabilities					
Lease liabilities	11		**4,299**		2,955
Loans	4		**22,915**		16,909
Contingent consideration			**193**		462
Deferred tax liability			**959**		1,028
			28,366		21,354
Total liabilities		**$**	**69,101**	$	74,581
Shareholders' equity					
Share capital	12		**429,505**		428,651
Contributed surplus	13		**99,430**		95,763
Deficit			**(327,169)**		(254,018)
Reserve for foreign currency translations			**105**		(2,241)
Total Shareholders' Equity attributed to The Green Organic Dutchman Holdings Ltd.		**$**	**201,871**	$	268,155
Non-controlling interests			**(840)**		(555)
Total Shareholders' Equity			**201,031**		267,600
Total Liabilities and Shareholders' Equity		**$**	**270,132**	$	342,181
Total number of common shares outstanding			**313,608,518**		312,733,244
Going Concern	2				
Commitments and contingencies	15				
Events after the reporting period	2, 20				

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

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

	Notes	For the three months ended March 31, 2020	March 31, 2019
Revenue		**$ 3,059**	$ 2,406
Excise duties		**(128)**	—
Net revenue		**2,931**	2,406
Cost of sales related to inventory production		**1,916**	983
Cost of sales related to business combination fair value adjustments to inventories		**—**	270
Gross profit before change in fair value of biological assets		**1,015**	1,153
Realized fair value adjustment on sale of inventory		**(545)**	—
Unrealized gain on changes in fair value of biological assets	7	**1,236**	215
Gross profit		**$ 1,706**	$ 1,368
Operating expenses			
Sales and marketing expenses		**$ 2,463**	$ 2,995
Research and development expenses		**520**	436
General and administrative expenses		**9,792**	8,682
Share based compensation	13	**2,470**	3,419
Depreciation and amortization	5, 6	**1,719**	561
Total operating expenses	19	**$ 16,964**	$ 16,093
Loss from operations		**(15,258)**	(14,725)
Share of loss on investments in associates	9	**(148)**	(222)
Revaluation of contingent consideration		**269**	25
Loss on disposal of assets	5	**(32)**	—
Foreign exchange loss	16[c]	**(2,514)**	(159)
Finance income		**171**	1,186
Finance costs		**(139)**	(89)
Impairment of investment in associates	9	**(3,082)**	—
Impairment charge for non-financial assets	5, 6	**(52,765)**	—
Loss before income taxes		**(73,498)**	(13,984)
Current income tax recovery (expense)		**—**	(121)
Deferred income tax recovery		**62**	14
Net loss		**$ (73,436)**	$ (14,091)
Other comprehensive (income)/loss			
Foreign currency translation (income)/loss		**(1,840)**	1,302
Foreign currency translation (income)/loss on equity method investment	9	**(506)**	48
Comprehensive loss		**$ (71,090)**	$ (15,441)
Net loss attributable to:			
The Green Organic Dutchman Holdings Ltd.		**(73,151)**	(14,007)
Non-controlling interests		**(285)**	(84)
Comprehensive loss attributable to:			
The Green Organic Dutchman Holdings Ltd.		**(70,805)**	(15,357)
Non-controlling interests		**(285)**	(84)
Basic and diluted net loss per share		**$ (0.23)**	$ (0.05)
Weighted average number of outstanding common shares		**313,400,984**	271,282,510

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

The Green Organic Dutchman Holdings Ltd.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(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	Shares to be issued	Total Contributed surplus	Reserve for foreign currency translations	Accumulated deficit	Non-Controlling Interests	Total
		#	$	$	$	$	$	$	$	$	$	$	$
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**
Share based compensation	13[a], 13[c]	**—**	**15**	**2,205**	**—**	**—**	**—**	**—**	**2,205**	**—**	**—**	**—**	**2,220**
Exercise of stock options	13[a]	**847,600**	**763**	**(339)**	**—**	**—**	**—**	**—**	**(339)**	**—**	**—**	**—**	**424**
Exercise of warrants	13[b]	**500**	**1**	**—**	**—**	**—**	**—**	**—**	-	**—**	**—**	**—**	**1**
Expiry of options		**—**	**—**	**(272)**	**—**	**272**	**—**	**—**	-	**—**	**—**	**—**	-
RSU exercised during period	13[c]	**27,174**	**75**	**(75)**	**—**	**—**	**—**	**—**	**(75)**	**—**	**—**	**—**	-
Shares to be issued	13[d]	**—**	**—**	**—**	**—**	**—**	**—**	**1,876**	**1,876**	**—**	**—**	**—**	**1,876**
Comprehensive loss for period		**—**	**—**	**—**	**—**	**—**	**—**	**—**	-	**2,346**	**(73,151)**	**(285)**	**(71,090)**
Balance at March 31, 2020		**313,608,518**	**429,505**	**23,766**	**64,415**	**1,401**	**7,972**	**1,876**	**99,430**	**105**	**(327,169)**	**(840)**	**201,031**

		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
Stock based compensation	13[a], 13[c]	—	38	3,381	—	—	—	3,381	—	—	—	3,419
Exercise of stock options		134,800	176	(73)	—	—	—	(73)	—	—	—	103
Exercise of warrants	13[b]	4,264,354	10,937	—	(1,749)	—	—	(1,749)	—	—	—	9,188
Cancellation of shares		(5,880)	—	—	—	—	—	—	—	—	—	-
Contribution from non-controlling interest		—	—	—	—	—	—	—	—	—	40	40
Net loss and comprehensive loss		—	—	—	—	—	—	—	(1,350)	(14,007)	(84)	(15,441)
Balance at March 31, 2019		274,369,898	403,219	11,361	61,052	1,111	7,972	81,496	(837)	(72,870)	(44)	410,964

An unlimited number of common shares are authorized for issue.

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

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

	Notes	For the three months ended March 31, 2020	March 31, 2019 (Recast - See Note 3[a])
OPERATING ACTIVITIES			
Net loss		**$ (73,436)**	$ (15,441)
Items not affecting cash:			
Share based compensation	13	**2,470**	3,419
Depreciation of property, plant and equipment	5	**1,263**	262
Amortization of intangible assets	6	**456**	299
Realized fair value adjustment on sale of inventory		**545**	—
Unrealized gain on change in fair value of biological assets	7	**(1,236)**	(215)
Share of loss on investments in associates	9	**148**	222
Revaluation of contingent consideration		**(269)**	(25)
Loss on disposals of property, plant and equipment	5	**32**	—
Impairment of investment in associates	9	**3,082**	—
Impairment of property, plant and equipment	5	**51,725**	—
Impairment of intangible assets	6	**1,040**	—
Current income tax recovery expense		**—**	121
Deferred income tax recovery		**(62)**	(14)
Income taxes paid		**—**	—
Changes in non-cash operating working capital items	14	**1,145**	(11,135)
Net cash used in operating activities		**$ (13,097)**	$ (22,507)
INVESTING ACTIVITIES			
Additions to property, plant and equipment	5	**(25,535)**	(25,996)
Disposals to property, plant and equipment		**—**	7
Transfer from restricted cash	15[a]	**8,359**	—
Advances to related parties, net of repayments		**251**	(109)
Additions to intangible assets	6	**—**	(913)
Net cash used in investing activities		**$ (16,925)**	$ (27,011)
FINANCING ACTIVITIES			
Proceeds from issuance of debt	4	**6,658**	—
Proceeds from the exercise of stock options and warrants	12	**425**	9,291
Interest received		**124**	374
Interest paid on lease liabilities	11	**(133)**	—
Interest paid on debt	4	**(520)**	—
Principal payments of lease liabilities	11	**(82)**	—
Repayments of short-term loans		**—**	(171)
Capital contributed by non-controlling interest		**—**	40
Net cash provided by financing activities		**$ 6,472**	$ 9,534
Net cash outflow		**$ (23,550)**	$ (39,984)
Net effects of foreign exchange		**828**	863
Cash, beginning of period		**27,569**	213,549
Cash and cash equivalents, end of period		**$ 4,847**	$ 174,428

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

1. NATURE OF ACTIVITIES

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 unaudited interim condensed consolidated financial statements for the three months ended March 31, 2020 and 2019 ("Interim 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 federally 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 interests in 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.

The outbreak of the novel strain of the coronavirus, SARS-COV-2 ("COVID-19"), and its eventual declaration as a pandemic by the World Health Organization ("WHO") on March 11, 2020 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruption to businesses globally resulting in an economic slowdown. The Company rapidly implemented strategic measures to protect its global workforce from COVID-19 and endeavouring to mitigate any long-term impact of the pandemic on its business.

2. BASIS OF PRESENTATION

[i] Going concern

These interim 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 assets and discharge liabilities in the normal course of its operations.

As of March 31, 2020, the Company had negative working capital of $8,197 (December 31, 2019 – positive working capital of $14,939) and an accumulated deficit of $327,169 (December 31, 2019 - $254,018). The Company used cash in operating activities of $13,097 (three months ended March 31, 2019 - $22,507) resulting primarily from the net loss of $73,436 (three months ended March 31, 2019 - $14,091) offset by items not affecting cash such as depreciation, amortization, stock based compensation and impairment charges of $60,036 (three months ended March 31, 2019 - $3,980). The Company has insufficient cash to fund its planned operations and construction investments 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 interim 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.

Subsequent to March 31, 2020, the Company entered into various agreements for further financing:

a) On April 13, 2020, the Company executed an amendment (the "Senior Loan Amendment") with the lender of the first lien senior secured credit facility (obtained by the Company on December 24, 2019 as described in note 4) which contained an accordion feature of up to $15,000 based on the Company meeting certain operational milestones. The Senior Loan Amendment made $5,000 of the accordion available upon closing an equity financing which was achieved on April 27, 2020, see Note 2[i](c). The Company received gross proceeds of the accordion loan of $5,000 on April 27, 2020. In addition, on April 27, 2020 a total of 1,500,000 warrants of the Company were issued to the lender of the first lien senior secured credit facility which are exercisable at $0.39 for 36 months from the date the warrants were issued into one common share of the Company.

b) On April 22, 2020, the Company closed a secured revolving credit facility which provided the Company with gross proceeds of $10,000 with further funding available of up to an additional $20,000 secured on eligible trade receivables and inventory. As part of the agreement, a total of 3,000,000 warrants of the Company were issued to this lender exercisable at $0.39 for 36 months from April 22, 2020 into one common share of the Company.

c) On April 27, 2020, the Company completed a bought-deal equity financing of 20,536,700 units of the Company at $0.28 per unit for gross proceeds of $5,750. Each unit consists of one common share of the Company and one-half purchase warrant of the Company exercisable at $0.38 for 36 months with two half warrants exercisable into one common share of the Company.

d) On May 20, 2020, the Company entered into an agreement to complete a bought-deal equity financing of 37,500,000 units of the Company at $0.40 per unit for gross proceeds of $15,000. Each unit consists of one common share of the Company and one purchase warrant of the Company with each full purchase warrant exercisable at $0.50 into one common share of the Company for 48 months from the closing date of the transaction. The offering is subject to certain conditions including but not limited to, the receipt of all necessary regulatory and stock exchange approvals, including the approval of the TSX and the applicable securities regulatory authorities.

Refer to Note 20 – Events after the reporting period.

[ii] Interim Financial Reporting

These Interim Consolidated Financial Statements have been prepared by management in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The same accounting policies and methods of computation were followed in the preparation of these Interim Consolidated Financial Statements as those disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2019.

These Interim Consolidated Financial Statements do not include all of the information required for full annual consolidated financial statements and accordingly should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2019 which are made available on SEDAR at www.sedar.com.

These Interim Consolidated Financial Statements were approved by the Board of Directors of the Company and authorized for issue by the Board of Directors of the Company on May 26, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

The preparation of these Interim Consolidated Financial Statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Interim Consolidated Financial Statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2019.

[a] Comparative figures

During the prior year, the Company retrospectively reclassified certain immaterial cash flow information presented in the statement of cash flow. The Company has reclassified the change in accounts payable related to additions to property, plant and equipment and intangible assets from the investing section of the statement of cash flows to the operating section of the statement of cash flows in addition to reclassifying the related party transactions to investing activities from financing. The reclassifications do not affect the total change in cash for the periods or the opening and closing balances of cash. The reclassification has the following effect on the statement of cash flows for the respective period noted below:

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

	For the three months ended		
	March 31, 2019 (as previously reported)	Reclassification	March 31, 2019 (as reclassified)
Operating activities			
Changes in non-cash operating working capital items	$ 11,823	$ (22,958)	$ (11,135)
Net cash used in operating activities	451	(22,958)	(22,507)
Investing activities			
Change in non-cash working capital related to property, plant and equipment	$ (22,666)	$ 22,666	$ —
Change in non-cash working capital related to intangible assets	(292)	292	—
Advances to related parties, net of repayments	—	(109)	(109)
Net cash used in investing activities	(49,860)	22,849	(27,011)
Financing activities			
Advances to related parties	$ (152)	$ 152	$ —
Repayment on related party loans	43	(43)	—
Net cash used in financing activities	9,425	109	9,534

4. LOANS

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

	March 31, 2020	December 31, 2019
Opening Balance	$ 17,433	$ 688
Additions	6,658	21,042
Deferred financing fee	(1,324)	(3,425)
Residual fair value of equity portion	—	(758)
Accretion	716	50
Principal payments	—	(123)
Effects of movements in foreign exchange	(19)	(41)
Ending Balance	$ 23,464	$ 17,433

	March 31, 2020	December 31, 2019
Loans	$ 23,464	$ 17,433
Current portion	(549)	(524)
Long term portion	$ 22,915	$ 16,909

Senior secured credit facility

On December 24, 2019, the Company closed a senior secured first lien credit facility (the "Senior Loan") with a commercial lender. The first tranche of the Senior Loan for gross proceeds of $21,042 was advanced by the lender upon closing 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, with the remaining unpaid balance due upon maturity on June 21, 2021. During the three months ended March 31, 2020, the lender advanced the remaining $6,658 of the first tranche. The second tranche of the Senior Loan made available up to an additional $15,000 which could be advanced upon the achievement by the Company of certain operational milestones. Both tranches of the Senior Loan mature on June 21, 2021. The Company may repay the Senior Loan at any time with a 2% penalty on the outstanding principal of the Senior Loan. The Senior Loan possesses several covenants which the Company has met as at March 31, 2020.

On April 13, 2020, the Company executed an amendment with the lender of the Senior Loan which contained an accordion feature of up to $15,000. The Company received gross proceeds from the accordion loan of $5,000 on April 27, 2020. In addition, on April 27, 2020 a total of 1,500,000 warrants were issued to this lender exercisable at $0.39 for 36 months from the date of issuance. See Note 20 – Events after the reporting period.

HemPoland Loan

The Company assumed a loan payable on certain premises in Poland ("HemPoland Loan") on the acquisition of its wholly owned subsidiary HemPoland on October 1, 2018, of which approximately $505 remained outstanding as at March 31, 2020 (December 31, 2019 - $524). During the three months ended March 31, 2020, the Company received an extension to defer payment on the outstanding balance to December 31, 2021; therefore, the loan payable was reclassified to the long-term portion as at March 31, 2020.

As at March 31, 2020 the carrying amount of the Senior Loan and HemPoland Loan is $22,959 and $505, respectively, (December 31, 2019 - $16,909 and $524, respectively).

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

5. 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, 2019	$ 2,683	$ 56,480	$ 265	$ 15,674	$ 710	$ 1,337	$ 551	$ 277,646	$ 4,154	$ 359,500
Transfers	—	279	237	38	—	—	8	(562)	—	—
Additions	—	—	13	116	—	—	37	17,377	2,403	19,946
Disposals	—	—	—	(27)	—	—	(28)	(4)	(21)	(80)
Effects of movements in foreign exchange	—	(8)	(1)	25	—	—	(2)	(1)	(8)	5
Balance, March 31, 2020	$ 2,683	$ 56,751	$ 514	$ 15,826	$ 710	$ 1,337	$ 566	$ 294,456	$ 6,528	$ 379,371
Accumulated depreciation and impairment:										
Balance, December 31, 2019	$ —	$ 19,559	$ 139	$ 5,730	$ 401	$ 673	$ 261	$ 95,062	$ 642	$ 122,467
Depreciation	—	456	10	491	9	55	33	—	209	1,263
Disposals	—	—	—	(6)	—	—	(21)	—	(21)	(48)
Impairment	—	7,521	25	1,713	36	128	20	42,282	—	51,725
Effects of movements in foreign exchange	—	—	—	(2)	—	—	—	—	(4)	(6)
Balance, March 31, 2020	$ —	$ 27,536	$ 174	$ 7,926	$ 446	$ 856	$ 293	$ 137,344	$ 826	$ 175,401
Net book value, March 31, 2020	$ 2,683	$ 29,215	$ 340	$ 7,900	$ 264	$ 481	$ 273	$ 157,112	$ 5,702	$ 203,970

Impairment of property, plant and equipment

The Company performs tests for impairment for its property, plant and equipment, a non-financial asset, when there are indicators of impairment. The following factors were identified as impairment indicators during the three months ended March 31, 2020:

i. Economic environment: On March 11, 2020, the WHO declared the COVID-19 outbreak a global health pandemic which subsequently has resulted in a change of expected outcomes initially forecasted by management;
ii. Change in strategic plans: On March 27, 2020, the Company temporarily ceased construction activities and temporarily laid off the majority of its staff located at the Quebec Facility multiple factors, most particularly the COVID pandemic, affecting planned production output.

As a result of an impairment assessment at March 31, 2020, the cannabis related activities from production in Canada ("the Canadian CGU") yielded a lower recoverable amount in comparison to its applicable carrying values considering different scenarios that have been probability weighted due to economic uncertainty arising from the COVID-19 pandemic. 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 March 31, 2020, the carrying amount of the CGU was determined to be higher than its recoverable amount of $196,600 for which a non-cash impairment charge of $52,765 was recognized.

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

iii. 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 period);
iv. 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. The terminate value growth rate used by management was calculated as 2%;
v. 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, over 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 discount rate calculated and used by management in calculating the recoverable amount tested for impairment as at March 31, 2020 was 16.5%.

The non-cash impairment charge was allocated pro rata on the basis of the carrying amount of each non-financial asset, excluding biological assets and inventories, in the CGU. The non-cash impairment charges specific to property, plant and equipment for the three months ended March 31, 2020 was $51,725 (March 31, 2019 - $nil). Refer to Note 6 for non-cash impairment charge of intangible assets.

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

6. INTANGIBLE ASSETS AND GOODWILL

A continuity of the intangible assets and goodwill is as follows:

	Health Canada Licence	Technology Licences	Website	Distribution Channels	Brands	Other acquired rights	Goodwill	Total
Cost:								
Balance, December 31, 2019	$ 5,870	$ 2,872	$ 400	$ 5,500	$ 982	$ 1,256	$ 10,108	$ 26,988
Additions	—	—	—	—	—	—	—	—
Effect of movements in foreign exchange	—	21	—	358	64	80	526	1,049
Balance, March 31, 2020	**$ 5,870**	**$ 2,893**	**$ 400**	**$ 5,858**	**$ 1,046**	**$ 1,336**	**$ 10,634**	**$ 28,037**
Accumulated amortization and impairment:								
Balance, December 31, 2019	$ 2,596	$ 1,035	$ 159	$ 491	$ 88	$ 492	$ 2,007	$ 6,868
Amortization for the period	48	182	11	100	18	97	—	456
Impairment	685	306	49	—	—	—	—	1,040
Effect of movements in foreign exchange	—	22	—	37	7	36	—	102
Balance, March 31, 2020	**$ 3,329**	**$ 1,545**	**$ 219**	**$ 628**	**$ 113**	**$ 625**	**$ 2,007**	**$ 8,466**
Net book value, March 31, 2020	**$ 2,541**	**$ 1,348**	**$ 181**	**$ 5,230**	**$ 933**	**$ 711**	**$ 8,627**	**$ 19,571**

Impairment of intangible assets

During the three months ended March 31, 2020, the Company recognized non-cash impairment charges within its Canadian CGU as described in Note 5, of which $1,040 related to intangible assets (March 31, 2019 - $nil).

7. BIOLOGICAL ASSETS

As at March 31, 2020, the Company's biological assets consisted of cannabis seeds and cannabis plants. The continuity of the Company's biological assets is as follows:

	Capitalized cost	Biological asset fair value adjustment	Amount
Balance, January 1, 2019	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
Unrealized gain on changes in fair value of biological assets	**—**	**1,236**	**1,236**
Production costs capitalized	**1,436**	**—**	**1,436**
Transfer to inventory upon harvest	**(1,267)**	**(1,388)**	**(2,655)**
Balance, March 31, 2020	**$ 1,412**	**$ 1,376**	**$ 2,788**

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 cost.

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 March 31, 2020 and December 31, 2019 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 of a 10% increase or decrease in each input would have on the fair value of biological assets:

	As at March 31, 2020	As at December 31, 2019	Impact of 10% change as at March 31, 2020	Impact of 10% change as at December 31, 2019
Estimated net selling price per gram (1)	$1.50 to $6.29	$1.50 to $6.29	$ 414	$ 466
Estimated stage of growth	12 to 13 weeks	8 to 9 weeks	$ 514	$ 163
Estimated yield of agricultural produce by plant (2)	70 to 75 grams	70 to 75 grams	$ 318	$ 303

(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.

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.

8. INVENTORY

The Company's inventory assets include the following as of March 31, 2020 and December 31, 2019:

	Dried Cannabis	Hemp and Hemp Derived Products	As at March 31, 2020
Raw Materials	$ —	$ 1,868	$ 1,868
Work-in-progress	3,589	2,395	5,984
Finished Goods	481	883	1,364
Packaging and Supplies	1,785	196	1,981
Total Inventory	$ 5,855	$ 5,342	$ 11,197

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

	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

9. INVESTMENTS IN ASSOCIATES

The carrying value of investments in associates consist of:

	Note	% ownership	Balance, December 31, 2019	Share of net income (loss) (1)	OCI foreign exchange gain	Impairment	Balance, March 31, 2020
QuebecCo	9 [a]	49.99%	**2,191**	**3**	**—**	**—**	**2,194**
Epican	9 [b]	49.18%	**2,727**	**(151)**	**506**	**(3,082)**	**—**
			4,918	**(148)**	**506**	**(3,082)**	**2,194**

(1) Represents an estimate of the Company's share of net loss based on the latest available information of each investee.

[a] Investment in QuébecCo

The Company holds 2,001,134 Class A share of QuébecCo representing a 49.99% interest. QuébecCo holds a property located in the City of Salaberry-de-Valleyfield, Québec with a carrying value of $4,002 and negligible liabilities.

[b] Investment in Epican Medicinals Limited ("EML")

During the three months ended March 31, 2020, the Company recognized an asset-specific impairment of $3,082 (for the three months ended March 31, 2019 - $nil) due to changing market conditions in Jamaica and the COVID-19 pandemic. The Company calculated a negligible recoverable amount due to the operating restrictions caused by COVID-19 therefore limiting EML's ability to generate immediate cash flows and relative illiquidity of the shares due to the regulatory environment in Jamaica. See Note 20 – Events after the reporting period.

10. OTHER ASSETS

A summary of other assets is presented as follows:

	As at March 31, 2020	As at December 31, 2019
Deposit per Hydro-Quebec contribution agreement	**5,681**	5,681
Investments in Califormulations and QuebecCo	**3,887**	3,887
Term deposits held as collateral	**1,800**	1,800
Deposits related to facility construction and operational readiness	**690**	690
Term deposits not held as collateral	**197**	292
Accrued interest receivable	**69**	60
Other	**53**	68
	12,377	12,478
Less: Current portion	**(518)**	(534)
	11,859	11,944

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

11. LEASES

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

Lease liabilities, December 31, 2019	$	**3,545**
Additions		**1,709**
Interest on lease liabilities		**133**
Interest payments on lease liabilities		**(133)**
Principal payments on lease liabilities		**(82)**
Foreign exchange differences		**(3)**
Lease liabilities, March 31, 2020	$	**5,169**
Current portion lease liabilities, March 31, 2020	$	**870**
Long-term portion lease liabilities, March 31, 2020	$	**4,299**

12. SHARE CAPTIAL

Issued capital

i. During the three months ended March 31, 2020, a total of 847,600 shares of the Company were issued as a result of previously issued and outstanding options of the Company that were exercised at a weighted average exercise price of $0.50 per option, for aggregate gross proceeds of $424. During the three months ended March 31, 2019, a total of 134,800 shares of the Company were issued as a result of previously granted and outstanding options of the Company that were exercised at a weighted average exercise price of $0.76 per option, for aggregate gross proceeds of $103.

ii. During the three months ended March 31, 2020, a total of 500 shares of the Company were issued as a result of 500 previously issued and outstanding warrants of the Company that were exercised at a weighted average exercise price of $1.00 per option, for aggregate gross proceeds of $1. During the three months ended March 31, 2019, a total of 4,264,354 shares of the Company were issued as a result of previously issued and outstanding warrants of the Company that were exercised at a weighted average exercise price of $2.15 per option, for aggregate gross proceeds of $9,188.

iii. During the three months ended March 31, 2020, a total of 27,174 shares of the Company were issued as a result of 27,174 previously issued and outstanding equity settled restricted share units ("RSU's") of the Company that were previously issued at a fair value of $2.76 per RSU. There are no proceeds related to RSUs.

13. CONTRIBUTED SURPLUS

[a] Share based payments

The Company's Employee Stock Option Plan (the "ESOP") 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 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. Under the ESOP, the Board of Directors may grant options 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 ESOP 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 three months ended March 31, 2020, the Company recorded $2,153 in non-cash share-based compensation expense pursuant to the grant of stock options (three months ended March 31, 2019 - $3,358).

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

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

	For the three months ended March 31, 2020		For the year ended December 31, 2019	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Outstanding - beginning of period	**17,897,599**	**3.24**	12,430,732	2.83
Granted	**2,722,000**	**0.37**	7,172,000	3.73
Exercised	**(847,600)**	**0.50**	(506,933)	0.85
Cancelled/Expired	**(1,600,599)**	**2.39**	(1,198,200)	2.91
Outstanding, end of period	**18,171,400**	**3.01**	17,897,599	3.24
Exercisable, end of period	**6,713,067**	**3.33**	5,871,199	2.34

Grant date	**Options Outstanding #**	**Options Exercisable #**	**Exercise Price $**	**Weighted Average remaining contractual life of outstanding options in years**
June 1, 2017 - January 12, 2018	2,769,400	1,805,400	$1.15 - $1.65	0.17 - 0.79
March 28, 2018	3,999,000	2,732,667	$3.65	0.99
June 25, 2018 - December 14, 2018	2,125,000	725,000	$3.08 - $6.91	3.24 - 3.71
January 8, 2019 - August 21, 2019	5,855,000	1,450,000	$2.67 - $5.13	3.78 - 4.39
November 18, 2019	771,000	-	$0.83	4.64
March 13, 2020	2,652,000	-	$0.37	4.95
Balance, March 31, 2020	**18,171,400**	**6,713,067**		**2.91**

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:

	For the three months ended March 31, 2020	**For the year ended December 31, 2019**
Risk-free interest rate	0.54%	1.55%
Expected dividend yield	Nil	Nil
Expected annualized volatility	82.00%	83.04%
Expected life of options (years)	3.50	3.50

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:

	Number of warrants	**Weighted Average Exercise Price**	**Amount, net of warrant issue costs**
	#	$	$
Balance, December 31, 2019	**91,855,628**	**4.02**	**64,415**
Warrants exercised in the period	**(500)**	**1.00**	**-**
Balance, March 31, 2020	**91,855,128**	**4.02**	**64,415**

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

	Number of warrants	Weighted Average Exercise Price	Amount, net of warrant issue costs
	#	$	$
Balance, January 1, 2019	69,759,127	5.07	62,801
Warrants exercised in the period	(4,264,354)	2.15	(1,749)
Balance, March 31, 2019	65,494,773	5.26	61,052
Warrants exercised in the period	(841,057)	2.40	(390)
Expiry of warrants in the period	(25,119)	2.15	(10)
Balance, June 30, 2019	64,628,597	5.29	60,652
Warrants exercised in the period	(350,156)	2.16	(90)
Expiry of warrants in the period	(30,813)	2.15	(8)
Balance, September 30, 2019	64,247,628	5.31	60,554
Bought deal offering units	20,608,000	1.00	3,103
Issuance of warrants in connection with debt	7,000,000	1.00	758
Balance, December 31, 2019	91,855,628	4.02	64,415

As at March 31, 2020, 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	20,607,500
December 20, 2022	1.00	7,000,000
		91,855,128

[c] Restricted share units

Under the Company's Restricted Share Unit Plan ("RSU Plan"), 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. The RSU's vest in tranches based on certain performance conditions being met, with share-based compensation expense being recognized from grant to the expected performance completion date.

At March 31, 2020, 2,562,174 (December 31, 2019 – 54,348) shares of the Company were reserved for issuance under the RSU Plan. For the three ended March 31, 2019, the Company recorded $52 in non-cash stock-based compensation related to restricted share unit compensation (three months ended March 31, 2019 - $23).

	March 31, 2020		**December 31, 2019**	
	Number of Units	**Weighted Fair Value**	**Number of Units**	**Weighted Fair Value**
Outstanding - beginning of period	**54,348**	**2.76**	—	-
Granted	**2,550,000**	**0.27**	54,348	2.76
Exercised	**(27,174)**	**2.76**	—	-
Forfeited	**(15,000)**	**0.27**	—	-
Outstanding, end of period	**2,562,174**	**0.30**	54,348	2.76

The accounting fair value of the equity settled RSUs as at the grant date is calculated using the number of RSU's expected to be earned multiplied by the grant date fair market value of a share of the Company's stock. Each reporting period, the number of RSU's that are expected to be earned is re-determined and the "fair value" of these RSU's is amortized over the remaining requisite period less amounts previously recognized.

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

The estimated fair value of the equity settled RSU's granted during the three months ended March 31, 2020 was $433 (three months ended March 31, 2019 $150) and will be recognized as an expense over the vesting period of the RSUs.

[d] Shares to be issued

i. On March 31, 2020, the Company agreed to issue 6,025,042 common shares to a consultant of the Company to settle liabilities of $1,626. The shares were issued subsequent to March 31, 2020 on April 14, 2020.

ii. In relation to services performed prior to March 31, 2020, the Company agreed to issue 833,333 common shares with a value of $250 to a former employee in respect of severance. The shares were issued subsequent to March 31, 2020, on April 30, 2020.

14. SUPPLEMENTARY CASH FLOW INFORMATION

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

	For the three months ended	
	March 31, 2020	**March 31, 2019**
Prepaid expenses	$ **(820)**	$ (398)
Harmonized sales tax receivable	**5,987**	3,074
Accounts receivable	**35**	(1,138)
Capitalized cost of biological assets	**1,098**	27
Inventory	**(3,353)**	255
Other current assets	**(108)**	(21)
Other assets	**85**	(15,782)
Accounts payable and accrued liabilities	**(1,779)**	2,848
Total	$ **1,145**	$ (11,135)

15. COMMITMENTS AND CONTINGENCIES

The Company has the following gross contractual obligations as at March 31, 2020, 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	**39,302**	**39,302**	39,302	-	-	-	-	-
Loans (1)	**23,464**	**32,577**	2,896	29,681	-	-	-	-
Lease liabilities	**5,169**	**8,925**	644	835	770	627	612	5,437
Commitments related to construction (2)	**-**	**5,979**	5,979	-	-	-	-	-
Contingent consideration payable	**193**	**319**	-	-	319	-	-	-
Total contractual obligations	**68,128**	**87,102**	**48,821**	**30,516**	**1,089**	**627**	**612**	**5,437**

(1) Contractual cash flows include interest payable until the maturity date for the Senior Loan amounts outstanding as at March 31, 2020. This table does not include additional loan transactions completed subsequent to March 31, 2020. Refer to Note 20 - Events after the reporting period.

(2) Payables related to construction activities that have been incurred are included in accounts payable and accrued liabilities whereas amounts yet

to be incurred have no carrying amount as at March 31, 2020 but have been committed and disclosed as contractual cash flows expected in fiscal year 2020. Subsequent to March 31, 2020, the Company was able to negotiate deferrals of $3,902 of payments beyond March 2021 but due prior to December 31, 2022 or earlier.

[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. These are all expected to be paid within twelve months, subject to ongoing negotiations with certain vendors to obtain credits and defer payment dates.

Pursuant to some of these agreements, as at March 31, 2020, 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 March 31, 2020, there have been no breaches and no amounts have been drawn on the letters of credit. As at March 31, 2020, the Company has outstanding deposits on construction related activities of $690 (December 31, 2019 – $690) also included in other assets.

The Company has also entered into escrow agreements in prior years with its construction partners in Ontario and in Québec and as such $8,578 was included in restricted cash at December 31, 2019. During the three months ended March 31, 2020, the Company paid $8,359 to the construction partners leaving a balance of $219 in restricted cash as at March 31, 2020.

[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 March 31, 2020, there have been no breaches and no amounts have been drawn upon this letter of credit.

The Company has also entered into certain agreements for equipment and services that allow for deferred payment terms and/or the inclusion of permitted subordinated liens on personal property, per the Senior Loan agreement, associated with the equipment located at both the Hamilton and the Quebec facilities should there be any material breaches of the agreements. As at March 31, 2020, 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 in accounts payable and accrued liabilities. 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 estimates that it is more likely than not that a present obligation does not exist that will result in a payment to be made by the Company for these claims. Other than the claims previously described, the Company is not aware of any other material or significant claims against the Company.

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

[a] Fair values

The Company's financial instruments were comprised of the following as at March 31, 2020: cash and cash equivalents; restricted cash; refundable sales tax receivable; trade receivables; due from related parties; certain other investments; certain 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 three months ended March 31, 2020, there were no transfers of amounts between levels (three months ended December 31, 2019 – 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 March 31, 2020, 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 three months ended March 31, 2020 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 March 31, 2020, a 10% change in the foreign exchange rate would result in an unrealized gain or loss of approximately $1,571.

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 March 31, 2020, the Company had term deposits of $2,000 bearing interest between 1.00% and 2.00% (December 31, 2019 - $2,000, bearing interest between 1.60% and 3.05%). The Company also has $219 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 March 31, 2020. 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.

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

As at March 31, 2020, the Company's trade receivables are primarily concentrated in Europe with the exception of $186 in Canada. The Company had two customers whose balances individually were greater than 10% of total trade receivables as at March 31, 2020 (December 31, 2019 – one customer).

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:

	March 31, 2020	**December 31, 2019**
	$	$
Total trade receivables	**2,265**	2,254
Less allowance for expected credit losses	**(812)**	(766)
Total trade receivables, net	**1,453**	1,488
Of which		
Current	**1,273**	1,053
31-90 days	**25**	372
Over 90 days	**967**	829
Less allowance for expected credit losses	**(812)**	(766)
Total trade receivables, net	**1,453**	1,488

[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. Refer to Note 15 – Commitments and Contingencies.

17. 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 three months ended March 31, 2020, the Company had no customers that accounted greater than 10% of total revenue (three months ended March 31, 2019 – one customer accounting for greater than 10% of total revenue).

	For the three months ended March 31, 2020			**For the three months ended March 31, 2019**		
	Europe	**North America**	**Total**	Europe	North America	Total
Revenue	**$ 2,395**	**$ 664**	**$ 3,059**	**$** 2,404	$ 2	$ 2,406
Gross profit	**$ 1,485**	**$ 221**	**$ 1,706**	**$** 1,152	$ 216	$ 1,368
Operating expenses, excluding stock-based compensation, depreciation and amortization	**$ 2,101**	**$ 10,674**	**$ 12,775**	**$** 1,316	$ 10,797	$ 12,113
Share based compensation	**$ —**	**$ 2,470**	**$ 2,470**	**$** —	$ 3,419	$ 3,419
Depreciation and amortization	**$ 544**	**$ 1,175**	**$ 1,719**	**$** 281	$ 280	$ 561
Non-operating income	**$ (577)**	**$ (57,663)**	**$ (58,240)**	**$** 49	$ 692	$ 741
Net loss	**$ (1,674)**	**$ (71,762)**	**$ (73,436)**	**$** (503)	$ (13,588)	$ (14,091)

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

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

	March 31, 2020	December 31, 2019
North America	$ **199,675**	$ 232,827
Europe	**4,295**	4,206
	$ **203,970**	$ 237,033

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

	March 31, 2020	December 31, 2019
North America	$ **3,862**	$ 5,032
Europe	**15,709**	15,088
	$ **19,571**	$ 20,120

18. CAPITAL MANAGEMENT

The Company's objective is to maintain 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[i] – Going Concern). Management defines capital as the Company's shareholders' equity and loans. The Board of Directors of the Company does not establish 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 March 31, 2020, total managed capital was comprised of share capital and loans of $452,969 (December 31, 2019 - $446,084), contributed surplus of $99,430 (December 31, 2019 - $95,763), and accumulated other comprehensive loss of $105 (December 31, 2019 – $2,241). There were no changes in the Company's approach to capital management during the three ended March 31, 2020 (three ended March 31, 2019 – no changes).

19. OPERATING EXPENSES

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

	March 31, 2020	March 31, 2019
Cost of sales related to inventory production	$ **1,376**	$ 303
Sales and marketing expenses	**368**	465
Research and development expenses	**266**	255
General and administrative expenses	**2,179**	2,957

20. EVENTS AFTER THE REPORTING PERIOD

a) The Company entered into a definitive agreement for a second-lien revolving credit facility ("Revolver Loan") with a commercial lender for gross proceeds of up to $30,000 of which $10,000 was funded on April 22, 2020. The Revolver Loan is generally secured by a second lien over the assets of the Company with a first lien over certain eligible inventory and trade receivables. If the accounts receivable balance eligible for collateral increases, additional credit is becomes available to the Company up to a maximum of an additional $20 million. The Revolver Loan matures April 1, 2021, subject to renewal for an additional year. In connection with the Revolver Loan, the Company issued the lender of the Revolver Loan 3,000,000 common share purchase warrants of the Company exercisable for a period of 36 months following the date of issuance at a price of $0.39 in exchange for one common share of the Company. A finder's fee of $450 was paid to the lender of the Company's Senior Loan in connection with the closing of the initial proceeds of the Revolver Loan.

b) On April 13, 2020, the Company executed an amendment (the "Senior Loan Amendment") with the lender under the Senior

Loan. On April 27, 2020, the Company received the accordion advance of $5,000 and issued to the lender of the Senior Loan 1,500,000 warrants of the Company exercisable for 36 months from April 27, 2020 at $0.39 per warrant in exchange for one common share of the Company.

c) On April 27, 2020, the Company completed a bought-deal equity financing of 20,536,700 units of the Company at $0.28 per unit for gross proceeds of $5,750. Each unit consisted of one common share of the Company and one-half common share purchase warrant, which each whole warrant is exercisable at $0.38 for 36 months for one common share of Company. In addition, 1,232,202 broker warrants of the Company were issued to the underwriter; each broker warrant is exercisable at a price of $0.38 per share for a period of 36 months for one common share of the Company.

d) On May 2, 2020, 15,092,063 warrants of the Company exercisable at $7 per share expired unexercised.

e) On May 20, 2020, the Company entered into an agreement to complete a bought-deal equity financing of 37,500,000 units of the Company at $0.40 per unit for gross proceeds of $15,000. Each unit consists of one common share of the Company and one purchase warrant of the Company. Each purchase warrant is exercisable for 48 months from the closing date of the transaction for $0.50 in exchange for one common share of the Company. The offering is subject to certain conditions including but not limited to, the receipt of all necessary regulatory and stock exchange approvals, including the approval of the TSX and the applicable securities regulatory authorities.

f) On May 25, 2020, the Company sold its interest in EML to another shareholder of EML for a nominal amount. Upon completion of the disposition, EML repaid $258 of a $707 loan owing by EML as at March 31, 2020 to the Company and issued the Company a promissory note for the balance of $ 449.