The Green Organic Dutchman Holdings Limited

Consolidated Financial Statements

For years ended
December 31, 2018
and December 31, 2017

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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 statement of financial position as at December 31, 2018
- the consolidated statement of loss comprehensive income for the year then ended
- the consolidated statement of changes in shareholders' equity for the year then ended
- the consolidated statement of cash flows for the year 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, 2018, and its consolidated financial performance and its consolidated cash flows for the year 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.

Other Matter – Comparative Information

The financial statements for the year ended December 31, 2017, excluding the adjustments that were applied to restate certain comparative information, were audited by another auditor who expressed an unmodified opinion on those financial statements on April 20, 2018.

As part of our audit of the financial statements for the year ended December 31, 2018, we also audited the adjustments that were applied to restate certain comparative information as described in note 3(t) of the financial statements.

In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information as described in note 3(t) to the financial statements, we were not engaged to audit, review or apply any procedures to the financial statements for the year ended December 31, 2017.

Accordingly, we do not express an opinion or any other form of assurance on those consolidated financial statements for the year ended December 31, 2017 taken as a whole.

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 19, 2019

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, 2018		As at December 31, 2017
ASSETS					
Current assets					
Cash and cash equivalents		$	**213,549**	$	63,736
Restricted cash	15, 16		**50,000**		16,000
Refundable sales taxes receivable			**13,332**		566
Trade receivables	16		**1,199**		—
Biological assets	5		**395**		—
Inventories	6		**3,925**		—
Prepaid expenses and deposits			**3,521**		266
Due from related parties	10		**800**		714
Other current assets			**864**		184
		$	**287,585**	$	81,466
Non-current assets					
Property, plant and equipment	7		**107,529**		6,965
Intangible assets	9		**13,535**		5,575
Goodwill	9		**10,702**		2,007
Investments in associates	8		**10,944**		—
Loan receivable	8		**1,001**		—
Other assets	15[a]		**14,661**		964
Total assets		$	**445,957**	$	96,977
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		$	**28,258**	$	3,729
Deferred subscription receipts	11		**—**		16,000
Income tax payable	13		**781**		—
Short-term loans	15		**688**		—
Current portion of finance lease obligations			**151**		—
			29,878		19,729
Non-current liabilities					
Finance lease obligations			**261**		—
Contingent consideration	4		**688**		—
Deferred tax liability	13		**1,435**		—
			2,384		—
Total liabilities		$	**32,262**	$	19,729
Shareholders' equity					
Share capital	11		**392,068**		72,572
Contributed surplus	11, 12		**79,937**		18,296
Deficit			**(58,823)**		(13,620)
Reserve for foreign translations			**513**		—
Total Shareholders' Equity		$	**413,695**	$	77,248
Total Liabilities and Shareholders' Equity		$	**445,957**	$	96,977
Total number of common shares outstanding			**269,976,624**		142,594,801
Business combination	4				
Commitments and contingencies	15				
Subsequent events	20				

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)

		For the year ended	
	Notes	December 31, 2018	December 31, 2017
Revenue		**1,879**	—
Cost of sales related to inventory production		**686**	—
Cost of sales related to business combination fair value adjustments to inventories	4	**1,285**	—
Gross loss before change in fair value of biological assets		**(92)**	—
Unrealized gain on changes in fair value of biological assets	5	**304**	300
Gross profit		**$ 212**	$ 300
Operating expenses			
Sales and marketing expenses	19	**$ 6,096**	1,165
Research and development expenses	19	**2,815**	1,403
General and administrative expenses	19	**25,611**	4,266
Share based compensation	12	**9,154**	8,109
Depreciation and amortization		**1,060**	455
Total operating expenses		**$ 44,736**	$ 15,398
Loss from operations		**(44,524)**	(15,098)
Strategic business initiatives	4	**(852)**	—
Share of loss on investments in associates	8	**(1,136)**	—
Foreign exchange loss		**(1,810)**	(169)
Finance income		**2,942**	252
Finance costs		**(172)**	—
Loss before income taxes		**(45,552)**	(15,015)
Income tax recovery	13	**349**	1,556
Net loss		**$ (45,203)**	$ (13,459)
Other comprehensive loss			
Foreign currency translation gain		**(563)**	—
Foreign currency translation loss on equity method investment	8	**50**	—
Comprehensive loss		**$ (44,690)**	$ (13,459)
Basic and diluted net loss per share		**$ (0.21)**	$ (0.12)
Weighted average number of outstanding common shares		**219,968,129**	112,526,107

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)

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

	Number of shares	Share capital	Contributed surplus	Accumulated deficit	Total
	#	$	$	$	$
Balance as at January 1, 2017	60,389,400	10,415	—	(161)	10,254
Private placement of common shares	21,194,172	10,618	—	—	10,618
Issuance of agent compensation shares	1,404,288	702	—	—	702
Private placement of units	46,269,907	50,792	12,975	—	63,767
Broker compensation - Units	526,599	455	207	—	662
Settlement for services - common shares	11,860,400	980	—	—	980
Cancellation of settlement for services - common shares	(500,000)	—	—	—	-
Finders compensation - common shares	669,372	335	—	—	335
Issuance of agent compensation units	780,663	586	320	—	906
Issuance of agent compensation options		—	381	—	381
Share based compensation	—	—	4,413	—	4,413
Share issue costs	—	(2,311)	—	—	(2,311)
Net loss and comprehensive loss	—	—	—	(13,459)	(13,459)
Balance at December 31, 2017	142,594,801	72,572	18,296	(13,620)	77,248

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)

	Notes	For the year ended December 31, 2018	December 31, 2017
OPERATING ACTIVITIES			
Net loss after income taxes		**$ (44,690)**	$ (13,459)
Items not affecting cash:			
Share based compensation - shares and options	12	**8,012**	5,516
Share based compensation - finders' units	12	**1,142**	2,593
Depreciation of property, plant and equipment	7	**527**	160
Amortization of intangible assets	9	**533**	295
Unrealized gain on change in fair value of biological assets	5	**(304)**	(300)
Non-cash write-down in biological assets	5	**—**	122
Non-cash write-down in inventory	5	**—**	364
Impairment of fixed assets		**84**	80
Share of loss from investments in associates	8	**1,136**	—
Current income tax payable	13	**65**	—
Deferred income tax recovery	13	**(413)**	(1,556)
Changes in non-cash operating working capital items	14	**(11,057)**	2,033
Net cash used in operating activities		**$ (44,965)**	$ (4,152)
INVESTING ACTIVITIES			
Change in non-cash working capital related to property, plant and equipment		**(17,302)**	(915)
Additions to property, plant and equipment		**(81,631)**	(5,832)
Net cash outflow on investment in associates	8	**(10,608)**	—
Net cash outflow on business acquisitions	4	**(9,931)**	
Net cash acquired on business acquisitions	4	**1,520**	
Additions to intangible assets		**(226)**	—
Net cash used in investing activities		**$ (118,178)**	$ (6,747)
FINANCING ACTIVITIES			
Deferred share subscription receipts		**(16,000)**	(3,176)
Interest received		**2,007**	117
Proceeds from issuance of shares and warrants, net of share issue costs		**273,307**	72,344
Proceeds from issuance of special warrants, net of share issue costs		**23,349**	—
Proceeds from the exercise of stock options		**2,435**	—
Proceeds from the exercise of warrants		**63,399**	—
Transfer (to) from restricted cash		**(34,000)**	3,176
Loan receivable		**(1,001)**	—
Additions to finance lease obligations		**104**	
Advances to related parties	10	**(7,356)**	(446)
Repayment on related party loans		**7,270**	(250)
Net cash provided by financing activities		**$ 313,514**	$ 71,765
Net cash inflow		**$ 150,371**	$ 60,866
Net foreign exchange difference		**(558)**	61
Cash, beginning of period		**63,736**	2,809
Cash and cash equivalents, end of period		**$ 213,549**	$ 63,736

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 301, Mississauga, ON, L4V 1E3. These consolidated financial statements for the year ended December 31, 2018 and December 31, 2017 ("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 Green Organic Dutchman Limited ("TGOD"), a subsidiary of TGODH, is a premium organic licensed producer of cannabis solutions. The principal activities of TGOD include growing and possessing medical cannabis as regulated by the Cannabis Act. The Company uses its existing facility for production and for a research and development centre consisting of, among other things, an analytical and microbiology laboratory and a research and development kitchen for product development. TGOD obtained a wholesale licence to sell cannabis from Health Canada on August 10, 2017 ("The Licence"). The Licence was amended on April 20, 2018 to include the production of cannabis oil. The Licence was further amended on October 12, 2018 to allow for direct sales to medical patients. The Company also formed a wholly owned subsidiary, Medican, under the Statuts de constitution of Québec to invest in and develop a property in Valleyfield, Québec and build a facility ("The Québec Facility"). 9371-8633 Québec Inc. ("QuébecCo"), in which the Company has a 49.99% interest, was incorporated under the *Québec Business Corporations Act* ("QBCA") on January 10, 2018 for the purpose of investing in the Valleyfield land for the Québec Facility and operate similarly to TGOD. The Company incorporated The Green Organic Hemp Ltd ("TGOH") under the CBCA for the purpose of exploring opportunities related to industrial hemp cultivation and associated products. During the year ended December 31, 2018, the Company expanded its international footprint by investing in a company in Jamaica, Epican Medicinals Ltd ("Epican") which holds various licences issued under by the Cannabis Licensing Authority ("CLA") of Jamaica. During the year ended December 31, 2018, the Company also purchased all of the issued and outstanding shares of HemPoland sp. z.o.o. ("HemPoland"), a manufacturer and marketer of premium CBD oils, located in Poland.

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 19, 2019.

[ii] Basis of measurement

These Consolidated Financial Statements have been presented in Canadian dollars on a historical cost basis, except for 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.

[iii] 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 value 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 the obsolete inventory and compares the inventory cost to estimated net realizable value.

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

(b) Estimated useful lives and 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, 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 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. including market based and appraisal values are used.

[iv] 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 balance and transactions are eliminated upon consolidation and preparation of these Consolidated Financial Statements. 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.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company (see 2(iv)). 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 amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

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 in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, 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%
Growing equipment	14 - 100%
Building and leasehold improvements, or shorter of lease term	5 - 20%
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 accumulated impairment losses. Amortization is provided on a straight-line basis over the following term:

Health Canada Licence	Useful life of Facility, 20 years
Technology Licence	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) Inventories

Inventories of harvested and processed finished goods and packing materials are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less costs to sell at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs, such as processing and packaging the materials to a finished state, are capitalized to inventory as they are incurred to the extent that the aggregated cost of inventory item is less than net realizable value and are subsequently recorded in 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.

(e) 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 is 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 assets in the CGU 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 two CGUs, cannabis related activities in North America and hemp related activities in Europe are considered another CGU.

(f) 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 note 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. Whether an investment is classified as an investment in associate can have a significant impact on the entries made on and after acquisition.

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 influences 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 vale of its interest in the associate.

(g) 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.

(h) 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.

(i) Taxes

Income tax expense comprises of current and deferred tax. It is recognized in net loss 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.

(j) 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.

(k) 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.

(l) Strategic business initiatives (transaction costs)

Strategic business initiatives (transaction costs) that are directly attributable to any business combinations are expensed through the consolidated statements of loss and comprehensive loss.

(m) Impairment of financial assets

The Company recognized loss allowances for expected credit losses (“ECLs”) on financial assets measured at amortized costs, debt investments measured at fair value through other comprehensive income (“FVTOCI”), and contract assets – the Company had no debt investment measured at FVTOCI and no contract assets as at December 31, 2018 and December 31, 2017.

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.

(n) 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.

(o) Comparative figures

Certain comparative figures related to the year ended December 31, 2017 have been reclassified to conform to the current period’s presentation. Unrealized gain on changes in the fair value of biological assets in the amount of $453 were recorded within operating expenses and have been reclassified to gross profit (loss). Foreign exchange losses on research and development related transactions of $160 were previously included in research and development expenses and are now presented separately as foreign exchange losses. Foreign exchange losses on general and administrative related transactions of $9 were grouped with general and administrative expenses and have been presented separately as foreign exchange losses. Share based compensation of $8,109 and depreciation and amortization of $455 were previously included within general and administrative expenses and research and development expenses and presented separately in the current year. There is no material impact on the ending net loss of the Company’s Consolidated Financial Statements as a result of these reclassifications. On the consolidated statement of financial position, the reserves for warrants and share based compensation have been reclassified to contributed surplus with the associated details described in the notes to these Consolidated Financial Statements.

(p) New standards, interpretations and amendments adopted by the Company during the year

[i] IFRS 15 - Revenue from contracts with customers (“IFRS 15”)

IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. On April 12, 2016, the IASB published final clarifications to IFRS 15 with respect to identifying performance obligations, principal versus agent considerations, and licensing. IFRS 15 became effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard retrospectively on January 1, 2018 but determined that there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard. 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.

[ii] IFRS 9 Financial Instruments ("IFRS 9")

In July 2014, the IASB issued IFRS 9 to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a new concept for classification and measurement of financial assets as well as a new impairment model.

Summary of the new requirements

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss ("FVTPL"). IFRS 9 eliminated the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. The classification of debt financial assets in IFRS 9 is generally based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The assessment of the contractual cash flow characteristics addresses whether the contractual terms of a financial asset give rise on specific dates to cash flows that consist of solely payments of both principal and interest on the principal outstanding, often referred to as "SPPI test".

Based on the business model and the SPPI test results, financial assets are measured at:

- amortized cost,
- fair value through other comprehensive income or
- fair value through profit or loss.

A financial asset is measured at amortized cost if it:

a) is held in a business model with the objective of collecting the contractual cash flows of the financial asset; and
b) passes the SPPI test.

A financial asset is measured at fair value through other comprehensive income if it:

a) is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b) passes the SPPI test.

In all other situations, including when an entity chooses to irrevocably designate to eliminate an accounting mismatch, a debt financial asset is measured at fair value through profit or loss, unless the Company makes an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in fair value in other comprehensive income.

Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss and amortized cost.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead the hybrid financial instruments as a whole is assessed for classification. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

All debt financial assets measured at either amortized cost or fair value through other comprehensive income fall under the new expected credit loss model introduced by IFRS 9.

The standard is effective for annual periods beginning on January 1, 2018.

Impact on the Company's financial statements on initial adoption

Based on the new classification and measurement requirements for financial assets, the Company's financial assets previously classified as loans and receivables (cash and cash equivalents, restricted cash, refundable sales tax receivable, notes receivable, and advances to related parties) are classified as amortized cost financial assets. There was no change in the measurement basis of these financial assets. The impact resulting from the new expected credit loss model was determined to be immaterial. Based on the Company's assessment, financial liabilities previously classified as financial liabilities at amortized cost (accounts payable and accrued liabilities and deferred subscription receipts), continue to be measured at amortized cost. The Company had no financial instruments classified as available for sale, held for trading, held to maturity, fair value through profit or loss as at December 31, 2017.

The Company retrospectively adopted the standard on January 1, 2018 and, in line with the transitional provisions of the standard, chose not to restate comparative financial information. The adoption of IFRS 9 did not require any material adjustments to the consolidated financial statements, hence no adjustment to opening retained earnings was recorded.

(q) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of subsidiaries of the Company 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.

(r) 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 cumulative translation account.

(s) New and revised IFRS in issue but not yet effective

IFRS 16 Leases ("IFRS 16")

IFRS 16 was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Company has completed a high-level scoping analysis to determine which agreements contain leases and to determine the expected conversion differences for leases currently accounted for as operating leases under the existing standard. The next assessment phase will involve a detailed analysis and solution development to ensure the Company is ready for the implementation of the standard effective January 1, 2019. The Company is currently assessing the potential impact of IFRS 16.

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

(t) Change in accounting policy

Biological assets

During the year ended December 31, 2018, the Company made a voluntary change in accounting policy to capitalize the direct and indirect costs attributable to the biological asset transformation. The previous accounting policy was to expense these costs as period costs. The new accounting policy is as follows:

While the Company's biological assets are within the scope of IAS 41 Agriculture, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 Inventories. They include the direct cost of seeds and growing materials as well as other 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 are capitalized as they are incurred, 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 face of 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. The new accounting policy provides more reliable and relevant information to users as the gross profit before changes in fair value of biological assets only considers the costs incurred on inventory sold during the year, and excludes costs incurred on the biological transformation until the related harvest is sold.

The Company has assessed the retrospective impact of this change in accounting policy as follows:

	For the year ended December 31, 2018			For the year ended December 31, 2017		
Consolidated statements of loss and comprehensive loss	**Original Accounting Policy**	**New Accounting Policy**	**Impact**	**Original Accounting Policy**	**New Accounting Policy**	**Impact**
Items included in gross loss, before changes in fair value of biological assets:						
Cost of sales before fair value adjustments	**546**	**92**	**454**	153	—	153
Items included in gross profit:						
Unrealized gain on changes in fair value of biological assets	**(758)**	**(304)**	**(454)**	(453)	(300)	(153)
Impact on net loss and comprehensive loss						
Net loss and comprehensive loss	**(212)**	**(212)**	**—**	**(300)**	**(300)**	**—**
Consolidated statements of cash flows						
Items not affecting cash:						
Unrealized gain on changes in fair value of biological assets	**(758)**	**(304)**	**(454)**	(453)	(300)	(153)
Net changes in non-cash working capital:						
Increase (decrease) in biological assets	**364**	**(90)**	**454**	—	—	—
Increase in inventory	**394**	**394**	**—**	453	300	153
Impact on net operating cash flows						
Net operating cash flows	**—**	**—**	**—**	**—**	**—**	**—**

There is no material impact of this policy change on the Company's net loss, the consolidated statement of financial position, or the consolidated statement of changes in equity and any changes to any other individual line items were also deemed to be immaterial.

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

4. 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 Company is in the process of determining the fair value of the net assets acquired and, as a result, the fair value of the net assets acquired may be subject to adjustments pending completion of final valuations and post-closing adjustments as permitted by IFRS. The table below summarizes the preliminary estimated fair value 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				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
CannibiGold 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 capital lease obligation				86
Non-current liabilities				
Capital lease obligation				203
Deferred tax liability				1,770
Total liabilities				**4,641**
Total net assets acquired				**$ 18,591**

(i) Recorded at fair value, which was determined based on the 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.

The Company recognized $852 in transaction costs in the strategic business initiatives line item in the consolidated statement of loss and other comprehensive loss connection with the business combination. Proforma results of operations of HemPoland 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)

5. BIOLOGICAL ASSETS

As at December 31, 2018, the Company's biological assets consisted of seeds and cannabis plants. The continuity of biological assets is as follows:

	Capitalized cost	Biological asset fair value adjustment	Amount
Balance, January 1, 2017	$ 33	—	$ 33
Unrealized gain on changes in fair value of biological assets		452	452
Transfer to inventory upon harvest	(33)	(331)	(364)
Write-down of biological assets		(121)	(121)
Balance, December 31, 2017	$ —	$ —	$ —
Purchases 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

The Company measures its biological assets at their fair values less 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 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:

- Estimated selling price per gram – calculated as the expected approximate future per gram selling prices of the Company's cannabis products. With no prior 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 18 to 20 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, 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.

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

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:

	December 31, 2018	**December 31, 2017 (1)**	**Impact of 10% change as at December 31, 2018**	**Impact of 10% change as at December 31, 2017 (1)**
Estimated selling price per gram (2)	$3.00 to $10.75	Nil	$ 54	Nil
Estimated stage of growth	16.68 weeks	Nil	$ 47	Nil
Estimated yield of agricultural produce by plant (3)	52 to 80 grams	Nil	$ 54	Nil

(1) During the third quarter of the year ended December 31, 2017, the Company decided that the biological assets and inventory on-hand would be used for research and development activities. As such, the carrying value of biological assets and inventory were reduced to nil, with a corresponding charge to research and development expenses in the consolidated statements of net loss and comprehensive loss of $121.

(2) The estimated selling prices per gram 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 in addition to the estimated selling price direct to medical patients and not wholesale pricing.

(3) 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.

6. INVENTORY

The Company's inventory assets include the following as of December 31, 2018 and December 31, 2017:

	Dried Cannabis	**Hemp and Hemp Derived Products**	**December 31, 2018**	**December 31, 2017**
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**	$ —

During the third quarter of the year ended December 31, 2017, the Company decided that the biological assets and inventory on-hand would be used for research and development activities. As such, the carrying value of biological assets and inventory were reduced to nil, with a corresponding charge to research and development expenses in the consolidated statements net loss and comprehensive loss of $121.

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

7. PROPERTY, PLANT AND EQUIPMENT

Cost:	**Land**	**Buildings**	**Furniture and fixtures**	**Growing equipment**	**Building improvements**	**Computer equipment**	**Automobiles**	**Construction in Progress**	**Total**
Balance, January 1, 2018	$ 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)	—
Impairment of fixed assets	—	—	—	(14)	—	—	(70)	—	(84)
Effects of movements in foreign exchange	—	58	—	54	—	—	23	7	142
Balance, December 31, 2018	**$ 2,683**	**$ 2,711**	**$ 196**	**$ 1,823**	**$ 699**	**$ 503**	**$ 697**	**$ 99,010**	**$ 108,322**

Accumulated depreciation:	**Land**	**Buildings**	**Furniture and fixtures**	**Growing equipment**	**Building improvements**	**Computer equipment**	**Automobiles**	**Construction in Progress**	**Total**
Balance, January 1, 2018	$ —	$ 23	$ 2	$ 52	$ 145	$ 16	$ 12	$ —	$ 250
Depreciation	—	73	30	172	86	105	61	—	527
Effects of movements in foreign exchange	—	—	—	14	—	1	1	—	16
Balance, December 31, 2018	**$ —**	**$ 96**	**$ 32**	**$ 238**	**$ 231**	**$ 122**	**$ 74**	**$ —**	**$ 793**
Net book value, December 31, 2018	**$ 2,683**	**$ 2,615**	**$ 164**	**$ 1,585**	**$ 468**	**$ 381**	**$ 623**	**$ 99,010**	**$ 107,529**

Cost:	**Land**	**Buildings**	**Furniture and fixtures**	**Growing equipment**	**Building improvements**	**Computer equipment**	**Automobiles**	**Construction in Progress**	**Total**
Balance, January 1, 2017	$ 790	$ -	$ 5	$ 29	$ 404	$ 3	$ —	$ —	$ 1,231
Additions	1,831	620	1	432	67	105	66	2,960	6,082
Disposals	—	—	—	(98)	—	—	—	—	(98)
Balance, December 31, 2017	$ 2,621	$ 620	$ 6	$ 363	$ 471	$ 108	$ 66	$ 2,960	$ 7,215

Accumulated depreciation:	**Land**	**Furniture and fixtures**	**Furniture and fixtures**	**Growing equipment**	**Building improvements**	**Computer equipment**	**Automobiles**	**Construction in Progress**	**Total**
Balance, January 1, 2017	$ —	$ —	$ 1	$ 5	$ 101	$ 3	$ —	$ —	$ 110
Depreciation	—	23	1	65	44	13	12	—	158
Disposals	—	—	—	(18)	—	—	—	—	(18)
Balance, December 31, 2017	$ —	$ 23	$ 2	$ 52	$ 145	$ 16	$ 12	$ —	$ 250
Net book value, December 31, 2017	$ 2,621	$ 597	$ 4	$ 311	$ 326	$ 92	$ 54	$ 2,960	$ 6,965

The Company recognized an impairment charge of $84 in general and administrative expenses for the year-ended December 31, 2018 which related to fair value adjustments on agricultural equipment. The Company recognized an impairment charge of $80 in research and development expense for the year-ended December 31, 2017 which related to obsolete lighting equipment that was replaced by newer equipment.

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

8. INVESTMENTS IN ASSOCIATES

9371-8633 Québec Inc. ("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 in cash consideration. QuébecCo holds a property located in the City of Salaberry-de-Valleyfield, Québec. Concurrent with the purchase, the Company:

(i) entered into a shareholders' agreement with the other shareholders of QuébecCo whereby the Company obtained the option to purchase the remaining shares of QuébecCo, being 1,000,569 Class A shares and 1,000,569 Class B shares, the whole agreement subject to obtaining an approval from the *Commission de protection du territoire agricole du Québec* ("CPTAQ"). The Company also granted an option to the other shareholders of QuébecCo to sell their shares of QuébecCo to the Company upon the same occurrence of the event. Under each option the purchase price is equal to $1 per share plus any dividend cumulated or declared but remaining unpaid. The Class B shares bear dividends at a cumulative and preferential rate of 9% of the fair market value of the consideration received by QuébecCo at the time of the issuance of such Class B shares while the dividends on Class A shares are left at the discretion of the directors of QuébecCo.

(ii) granted a loan in the amount of $1,001 (the "Loan") to the vendor of the Class A shares ("Vendor"). The Loan bears no interest and is secured by the Vendor's shares in QuébecCo. Upon the exercise of either the Company's or the Vendor's option under the shareholders' agreement, the Loan will be set-off against the purchase price of the 1,000,569 Class A shares still held by the Vendor in QuébecCo. The loan has been classified as a long-term loan on the Company's consolidated statement of financial position. It is a considered a financial asset under IFRS 9 and does not pass the SPPI test. Therefore, it is measured at fair value through profit and loss. See financial instruments (note 15).

(iii) granted the Vendor 30,000 stock options to purchase common shares of the Company exercisable at $1.65 per common share vesting over three years.

(iv) entered into a long-term lease agreement through a wholly owned subsidiary, Medican, with two shareholders of 9371-8633 Québec Inc., for annual rent of $25 with an option to buy 100% of the property should the CPTAQ grant the exemption to the Company to take non-Québec resident ownership.

The Company is accounting for its investment in QuébecCo using the equity method. As at December 31, 2018, the net assets of QuébecCo were $4,002. The Company paid $2,001 for 49.99% and capitalized the transaction costs of $170 in accordance with IAS 28 Investment in Associates.

Epican Medicinals Ltd. ("Epican")

Epican is a licensed producer in Jamaica which holds a cultivator's licence, processing licence and a retail (herb house) licence issued by the CLA of Jamaica. 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. As a result of this transaction, the Company obtained a 49.18% ownership interest of Epican and the right to appoint two persons as board members of the board of directors of Epican's six-member board. As the Company does not control Epican, but does have significant influence over Epican, the Company is accounting for its investment in Epican using the equity method of accounting. The carrying value of the investment is included in investments in associates. Summary financial information for Epican, including purchase price adjustments, for the period from the investment date on July 5, 2018 to December 31, 2018 is as follows:

	As at December 31, 2018
Assets	
Current assets	5,364
Non-current assets	23,402
Total assets	**28,766**
Liabilities	
Current liabilities	420
Non-current liabilities	4,171
Total Liabilities	**4,591**

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

	For the period from July 5, 2018 to December 31, 2018
Revenue	757
Operating expenses	3,068
Net loss from operations	(2,311)
Effect of foreign currency translation	(101)
Comprehensive loss	(2,412)

The Company recognized a loss on its investment in Epican of $1,186 (December 31, 2017 - $Nil) for the period from July 5, 2018 to December 31, 2018. The loss consisted of a loss on share of operations of $1,136. and a loss on foreign currency translation of $50. The Company also capitalized approximately $90 in transaction costs in accordance with IAS 28 Investment in Associates. Management continues to work on refining the estimate of the Company's share of the fair value of identifiable net assets acquired. As such, the allocation of the purchase price to the various assets acquired is subject to change.

9. INTANGIBLE ASSETS AND GOODWILL

A continuity of the intangible assets is as follows:

Cost:	**Health Canada Licence**	**Technology Licence**	**Distribution Channels**	**Brands**	**Other acquired rights**	**Goodwill**	**Total**
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:	**Health Canada Licence**	**Technology Licence**	**Distribution Channels**	**Brands**	**Other acquired rights**	**Goodwill**	**Total**
Balance, January 1, 2018	$ (295)	$ —	$ —	$ —	$ —	$ —	$ (295)
Amortization	(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

Cost:	**Health Canada Licence**
Balance, January 1, 2017	$ 5,870
Additions	$ —
Balance, December 31, 2017	$ 5,870

Accumulated amortization:	**Health Canada Licence**
Balance, January 1, 2017	$ —
Amortization	(295)
Balance, December 31, 2017	$ (295)
Net book value, December 31, 2017	$ 5,575

During the year ended December 31, 2018, the Company entered into a licensing agreement with a licensor (the "Licensor"), which allows the Company to use the Licensor's proprietary cannabis oil extraction process and proprietary formulae and manufacturing processes for inhalable, topical and solid-state edible products incorporating compounds extracted from cannabis. The licence is depreciated on a straight-line basis over a period of six years. The purchase price for the licence was $200 (US$150,000).

10. RELATED PARTIES

Epican Medicinals Ltd.

On December 22, 2017, the Company loaned $267 (US$200,000) to Epican in the form of a convertible note (the "First Note") which was expected to mature on June 22, 2018. The First Note was unsecured and bore an annual interest of 10%.

On April 4, 2018, Epican incorporated a wholly-owned Canadian subsidiary ("Epican Canada"). Two TGOD officers were appointed to a five-member board of directors of Epican Canada making the Company and Epican Canada related parties. On May 7, 2018, the Company advanced a further $329 (US$250,000) to Epican in the form of a convertible note (the "Second Note") which was expected to mature on June 27, 2018.

On June 11, 2018, the Company entered into a strategic partnership agreement (the "Epican Agreement") with Epican whereby it signed a definitive agreement with Epican to acquire approximately 49% of Epican's shares. Also, on June 11, 2018, the Company agreed to advance a further $1,975 (US$1,500,000) (the "Third Note") to Epican. In addition to the Epican Agreement, the Company entered into an additional agreement with Epican which extended the maturity dates of the First Note and the Second Note to July 18, 2018, removed the conversion feature on the Second Note and waived all interest. The amounts for the First Note, the Second Note and the Third Note were applied towards the final cash consideration amount payable at the closing of the Epican arrangement.

During the year ended December 31, 2018, the Company advanced an additional $757 to Epican for normal course operating expenditures. The $757 advance is repayable to the Company and remained outstanding as at December 31, 2018.

Advances to TGOF Corp.

The Company advanced the following amounts to a related party entity, TGOF Corp., of which two former directors of the Company are shareholders:

a. $125 on March 31, 2017 in exchange for a note receivable for the same amount at an interest rate of 0% and a maturity date of June 30, 2017. This note payable was settled on June 30, 2017 with a replacement note payable in the same amount and interest rate with a maturity date of June 30, 2018. The note was repaid in full on July 27, 2018.

b. $132 (US $100,000) on June 26, 2017 in exchange for a note receivable for the same amount at an interest rate of 0% and a maturity date of September 26, 2017. This advance was replaced by a note receivable dated September 26, 2017 for the same amount, at an interest rate of 0% and a maturity date of September 26, 2018. $80 was repaid on September 12, 2018, while the remainder was repaid in full on October 31, 2018.

Advances to QuébecCo

The Company advanced $68 to QuébecCo during the year ended December 31, 2018. The entire balance remained outstanding as at December 31, 2018 (December 31, 2017 - $nil). The Company also has outstanding payments owing to QuébecCo of $25 as at December 31, 2018 which have been offset against the amounts due from related parties on the consolidated statement of financial position (December 31, 2017 - $nil).

Key Management Personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly and are identified above. During the year ended December 31, 2018, key management personnel received $9,619 total compensation (December 31, 2017 - $4,220). As at December 31, 2018, the Company has $487 of compensation owing to key management personnel, included in accounts payable and accrued liabilities.

11. SHARE CAPITAL

Authorized

An unlimited number of common shares.

Deferred Subscription Receipts

As at December 31, 2017, cash received for units that were not issued amounted to $16,000 and was recorded as restricted cash and deferred subscription receipts as it was payable to the subscribers until the shares are issued. All deferred subscription receipts were converted to units during the year ended December 31, 2018.

Key Transactions

a) During the year ended December 31, 2018, a total of 3,929,868 (December 31, 2017 – $nil) of the Company's granted and outstanding options were exercised at a weighted average exercise price of $0.62 per option, for aggregate gross proceeds of $2,435 (December 31, 2017 – $nil).

b) During the year ended December 31, 2018, a total of 22,543,412 (December 31, 2017 – $nil) of the Company's issued and outstanding warrants were exercised at a weighted average exercise price of $2.81 per warrant, for aggregate gross proceeds of $63,399 (December 31, 2017 – $Nil).

c) 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.

d) On July 6, 2018, unexercised warrants issued in conjunction with the March 2017 private placement (see Note 11(s)) expired. The corresponding reserve for warrants was reclassified to contributed surplus.

e) On July 5, 2018, the Company invested in Epican, whereby it issued 247,353 common shares at a fair value of $6.15 per share, for total share consideration of $1,521. See Note 8.

f) 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.

g) 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 (see note 11(s)). 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.

h) 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. See Note 11 (j).

i) 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.

j) 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 entitles 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.

k) 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.

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

m) 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. ALPI completed $950 worth design and consulting services in the year ended December 31, 2018. ALPI terminated its relationship on November 1, 2018.

n) 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.

o) 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.

p) On August 18, 2017, the Company issued 508,927 units for debt settlement, with each unit consisting of one common share and one full warrant at a price of $1.15 per unit. Each warrant is exercisable to acquire one common share at a price of $2.15 per share for a period expiring August 18, 2019.

q) In May 2017, the Company issued 10,400 common shares as compensation for financial services in connection with raising capital.

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

r) On April 5, 2017, the Company issued 11,500,000 common shares to Technical Administration Overseas S.A. ("TAO") pursuant to a financing services agreement with TAO as compensation for performance of certain financial and advisory services in connection with obtaining financing. Of the 11,500,000 shares, 500,000 shares were issued in error and were cancelled during the year-ended December 31, 2017.

s) On March 24 and April 4, 2017, the Company completed a private placement financing and issued 25,087,496 units, consisting of 23,934,671 private placement units and 1,152,825 finder's units, at $1.15 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable to acquire one common share at a price of $2.15 per share for a period of 2 years expiring March 24, 2019 and April 4, 2019. The warrants expiring on March 24, 2019 were accelerated per terms of the indenture to July 6, 2018.

12. CONTRIBUTED SURPLUS

The Company's contributed surplus balances include the following:

	Notes	Reserve for share based payments	Reserve for warrants	Reserve for special warrants and underwriter special warrants	Contributed surplus	Escrowed share units	Total
		$	$			$	$
Balance, January 1, 2017		—	—	—	—	—	—
Private placement of units	12 (b)	—	12,975	—	—	—	12,975
Broker compensation units	12 (b)	—	207	—	—	—	207
Issuance of agent compensation units	12 (b)	—	320	—	—	—	320
Issuance of agent compensation options	12 (b)	—	381	—	—	—	381
Share based compensation	12 (a)	4,413	—	—	—	—	4,413
Balance, December 31, 2017		**4,413**	**13,883**	—	—	—	**18,296**
Initial public offering	12 (b)	—	**8,508**	—	—	—	**8,508**
Initial public offering - over-allotment	12 (b)	—	**1,277**	—	—	—	**1,277**
Private placement of units	12 (b)	—	**31,132**	—	—	—	**31,132**
Bought deal offering - $76 million	12 (b)	—	**12,844**	—	—	—	**12,844**
Exercise of warrants	12 (b)	—	**(6,987)**	—	—	—	**(6,987)**
Issuance of special warrants - $25 million	12 (b)	—	—	**25,024**	—	—	**25,024**
Conversion of special warrants	12 (b)	—	**4,399**	**(25,024)**	—	—	**(20,625)**
Finders' compensation - Units	12 (b)	—	**208**	—	—	—	**208**
Issuance of underwriter special warrants	12 (b)	—	—	**610**	—	—	**610**
Expiry of warrants	12 (b)	—	**(501)**	—	**501**	—	—
Share and warrant issue costs	12 (b)	—	**(1,980)**	—	—	—	**(1,980)**
Stock based compensation	12 (a)	**5,473**	**18**	—	—	—	**5,491**
Exercise of stock options	12 (a)	**(1,833)**	—	—	—	—	**(1,833)**
Issuance of escrowed shares on HemPoland acquisition	12 (c)	—	—	—	—	**7,972**	**7,972**
Balance at December 31, 2018		**8,053**	**62,801**	**610**	**501**	**7,972**	**79,937**

[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.

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

On January 31, 2018, the Company adopted a new stock options plan which superseded the Original Plan. There were 5,200,732 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 Meeting ("AGM") 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 New 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. As at December 31, 2018, total options outstanding were 12,430,732. For the year ended December 31, 2018, the Company recorded $8,012 in non-cash share-based compensation expense pursuant to the grant of stock options and shares (December 31, 2017 - $5,516). In addition, the Company recognized stock-based compensation expense of $1,142 for the year ended December 31, 2018 in the form of finders' units (December 31, 2017 **-** $2,593).

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

	December 31, 2018		December 31, 2017	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Outstanding - beginning of year	**9,436,000**	**0.82**	—	$ —
Granted	**8,026,000**	**4.04**	9,770,000	0.75
Exercised	**(3,929,868)**	**0.62**	—	—
Cancelled/Expired	**(1,101,400)**	**1.78**	(334,000)	0.50
Outstanding, end of period	**12,430,732**	**2.83**	9,436,000	$ 0.82
Exercisable, end of period	**1,670,532**	**0.82**	2,442,800	$ 0.56

Grant date	**Options Outstanding #**	**Options Exercisable #**	**Exercise Price $**	**Weighted Average remaining contractual life of outstanding options in years**	**Expiry Date**
February 7, 2017	2,110,932	890,132	0.50	1.10	February 7, 2020
June 1, 2017	967,000	278,000	1.15	1.42	June 1, 2020
October 2, 2017	1,700,000	438,400	1.15	1.76	October 2, 2020
January 8, 2018	400,000	64,000	1.65	2.02	January 8, 2021
January 12, 2018	22,800	—	1.65	2.04	January 12, 2021
March 28, 2018	4,805,000	—	3.65	2.24	March 28, 2021
May 28, 2018	250,000	—	4.12	4.41	May 28, 2023
June 25, 2018	80,000	—	6.91	4.48	June 25, 2023
June 26, 2018	200,000	—	6.83	4.49	June 26, 2023
August 2, 2018	210,000	—	5.50	4.59	August 2, 2023
August 13, 2018	550,000	—	5.25	4.62	August 13, 2023
September 7, 2018	25,000	—	6.20	4.69	September 7, 2023
October 1, 2018	250,000	—	6.75	4.67	September 1, 2023
October 9, 2018	160,000	—	6.37	4.78	October 9, 2023
October 22, 2018	75,000	—	4.93	4.81	October 22, 2023
October 25, 2018	450,000	—	4.53	4.82	October 25, 2023
November 9, 2018	75,000	—	3.82	4.86	November 9, 2023
December 4, 2018	25,000	—	3.22	4.93	December 4, 2023
December 14, 2018	75,000	—	3.08	4.96	December 14, 2023
Balance, December 31, 2018	**12,430,732**	**1,670,532**		**2.38**	

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. The following assumptions were used to measure the values of the stock options granted during the year ended December 31, 2018:

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

	January 8, 2018	January 12, 2018	March 28, 2018	May 28, 2018	June 25, 2018	June 26, 2018	August 2, 2018	August 13, 2018
Risk-free interest rate	1.83%	1.80%	1.92%	2.14%	1.95%	1.97%	2.25%	2.22%
Expected life of options (years)	3	3	3	5	5	5	5	5
Expected annualized volatility	88.06%	89.01%	87.16%	103.35%	102.77%	102.77%	108.13%	108.08%
Expected dividend yield	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Black-Scholes value of each option	$ 0.70	$ 0.71	$ 1.68	$ 3.14	$ 5.19	$ 4.94	$ 4.32	$ 4.12

	September 7, 2018	October 1, 2018	October 9, 2018	October 22, 2018	October 25, 2018	November 9, 2018	December 4, 2018	December 14, 2018
Risk-free interest rate	2.21%	2.42%	2.45%	2.40%	2.40%	2.43%	2.14%	2.04%
Expected life of options (years)	5	5	5	5	5	5	5	5
Expected annualized volatility	108.86%	109.05%	109.09%	109.64%	109.64%	109.63%	110.48%	110.42%
Expected dividend yield	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Black-Scholes value of each option	$ 4.89	$ 5.75	$ 5.04	$ 3.91	$ 2.86	$ 3.29	$ 2.28	$ 2.33

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:

For the year ended December 31, 2018	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**
For the year ended December 31, 2017			
Balance, January 1, 2017	—	—	—
Private placement units	34,423,391	2.15	12,528
Finder's units	1,774,304	2.15	654
Issuance of agent compensation units	780,663	2.15	320
Issuance of agent compensation options	631,484	3.00	381
Balance, December 31, 2017	37,609,842	2.16	13,883

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

As at December 31, 2018, the following warrants were outstanding:

Expiry Date	Exercise Price	Number of Warrants
	$	#
April 4, 2019	2.15	4,837,702
August 18, 2019	2.15	410,123
October 2, 2020	3.00	130,250
May 2, 2020	7.00	15,094,863
February 28, 2021	3.00	34,738,689
June 26, 2021	9.50	1,955,000
April 19, 2021	9.00	12,592,500
	$ 5.07	**69,759,127**

The estimated fair values of the warrants granted during the year ended December 31, 2018 were determined using the Black-Scholes option pricing model with the following assumptions:

	Granted under private placement closed January 16, 2018, Expiring on February 28, 2021	Granted January 2, 2018, Expiring on October 2, 2020	Granted January 4, 2018, Expiring on February 28, 2021	Granted May 2, 2018, Expiring on May 2, 2020	Granted August 15, 2018, Expiring on June 26, 2021	Granted October 19, 2018, Expiring on April 19, 2021
Risk-free interest rate	1.49%	1.96%	2.02%	1.94%	1.87%	2.29%
Expected life of warrants (years)	3.30	2.75	2.82	2.00	3.00	2.50
Expected annualized volatility	93.22%	88.06%	88.53%	95.97%	86.87%	55.00%
Expected dividend yield	Nil	Nil	Nil	Nil	Nil	Nil
Black-Scholes value of each warrant	$ 0.61	$ 0.56	$ 1.61	$ 0.54	$ 2.25	$ 1.02

The following table reflects the continuity of special warrants and underwriter special warrants for the year ended December 31, 2018:

	Reserve for special warrants and underwriter special warrants
Balance, January 1, 2018	**—**
Issuance of special warrants - $25 million	**25,024**
Conversion of special warrants	**(25,024)**
Issuance of underwriter special warrants	**610**
Balance at December 31, 2018	**610**

[c] Escrowed share units

In conjunction with the HemPoland acquisition, the Company issued 1,968,323 share units in escrow with a value of $7,972. (See note 4)

13. INCOME TAXES

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

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

	For the year ended	
	December 31, 2018	**December 31, 2017**
Expected tax rate	**26.50%**	26.50%
	$	$
Expected tax benefit resulting from loss	**(12,071)**	(3,979)
Permanent difference	**3,971**	1,436
Change in unrecognized tax losses and other tax assets	**7,929**	973
Non-taxable foreign exchange	**(8)**	—
Impact of changes in tax rates	**140**	—
Other	**(310)**	14
Income tax recovery	**(349)**	(1,556)

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 following income tax recovery has been recognized for accounting purposes:

	December 31, 2018	**December 31, 2017**
	$	$
Current income tax expenses	**65**	1,477
Deferred income tax recovery	**(414)**	1,477
Income tax recovery	**(349)**	—

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 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 Tangible	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, 2018	**December 31, 2017**
	$	$
Non-capital losses	**33,669**	2,216
Financing costs	**1,975**	3,923
Property, plant and equipment	**1,410**	1,727

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

The non-capital losses of $33,735 are expected to expire starting 2032.

14. SUPPLEMENTARY CASH FLOW INFORMATION

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

	For the year ended December 31, 2018	December 31, 2017
Prepaid expenses	$ **(3,238)**	$ (217)
Harmonized sales tax receivable	**(12,304)**	(525)
Accounts receivable	**(779)**	—
Note receivable	**—**	(267)
Capitalized cost of biological assets	**(265)**	(153)
Inventory	**(1,151)**	—
Other current assets	**(2,687)**	(184)
Other assets	**(13,697)**	(165)
Accounts payable and accrued liabilities	**23,064**	3,544
Total	$ **(11,057)**	$ 2,033

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. Pursuant to some of these agreements, the Company has issued letters of credit in the amount of $5,003 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 $5,000 of GICs as collateral, which has been recorded in other assets, due to the long-term nature of the related project. As at December 31, 2018, there have been no breaches and no amounts have been drawn on the letters of credit. As at December 31, 2018, the Company has outstanding deposits on construction related activities of $9,431 (December 31, 2017 – $915) included in other assets. The Company has also entered into an escrow agreement with its construction partner in Québec whereby $50,000 has been allocated to the Québec project and these funds are included in restricted cash.

[b] Lease commitments

The Company has entered into lease commitments at multiple locations. The total future minimum annual lease payments are as follows:

	$
Within one year	582
After one year but not more than five years	994
More than five years	566
Total	2,142

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, 2018, there have been no breaches and no amounts have been drawn upon this letter of credit.

[c] Revolver facilities

On September 1, 2017, the Company executed a revolving credit agreement with a Canadian credit union entitling the Company to borrow to a maximum limit of $5,000, subject to certain reporting requirements. The credit facility is secured by a GIC and bears a conventional rate of interest. As at December 31, 2018, the Company has not drawn under the revolver loan and is in compliance with the reporting requirements.

[d] 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 various employment related claims by former employees for which provisions have been recognized to the extent that they are likely to result in future economic outflows. Other than the claims previously described, the Company is not aware of any other material or significant claims against the Company.

[e] Short-term loans

On October 1, 2018, as part of the HemPoland transaction, the Company acquired HemPoland's operating line of credit of which $146 (400,000 PLN) was drawn upon and remained outstanding until December 31, 2018. Also, as part of the HemPoland transaction, the Company acquired HemPoland's short-term loan payable on certain premises in Poland, of which $542 remained outstanding until December 31, 2018.

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

[a] Fair values

Set out below is a comparison by type of the carrying amounts and fair values of the Company's recognized financial instruments that are recorded in the consolidated statements of financial position:

The fair values of the financial assets and financial liabilities are shown 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. The fair value of the loan receivable recorded at fair value through profit and loss is Level 3 and is based on the established underlying fair values of the assets during the recent transaction involving the investment in QuébecCo, whereby it was reasonably concluded to continue to approximate the same fair value as at December 31, 2018 as compared to the initial recognition date.

[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, 2018, there were no transfers of amounts between levels.

[c] Management of risks arising from financial instruments

[i] Market risk

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, 2018, the Company had no financial assets and liabilities for which cash flows were denominated in foreign currencies other than cash, trade receivables, trade payables, note receivable and advances to related parties. The Company does have some suppliers that prefer to contract in foreign currencies. The Company holds cash in U.S. dollars ("US$"), Euros ("EUR"), and Polish zloty ("PLN"). As at December 31, 2018, the Company had $14,304 (US$ 10,489,000) of cash (December 31, 2017 - $361) and $9 (US$ 7,000) in amounts due from related parties (December 31, 2017 - $589) denominated in U.S. dollars. As at December 31, 2018, the Company also had $338 (PLN 927,346) of cash denominated in Polish Zloty and $450 (EUR 287,739) of cash denominated in Euros ("EUR"). The Company has not used foreign exchange contracts to hedge its exposure to foreign currency cash flows for year ended December 31, 2018.

Interest rate risk

The Company's exposure to interest rate risk only relates to any investments of surplus cash. 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, 2018, the Company had term deposits of $25,000, $5,148, $5,000, $5,000 and $150 bearing interest at 1.50%, 1.95%, 2.00%, 2.00% and 1.50%, respectively. The Company also has $50,000 in restricted cash held in trust and earning a blended interest rate of 1.76% related to the Valleyfield construction project.

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

[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, other assets and loan receivable represents the maximum exposure to credit risk as at December 31, 2018. Since the inception of the Company, no losses have been suffered in relation to any of the above-mentioned assets.

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 only 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, 2018, the Company has not made any provisions (2017 – $Nil) in respect of accounts which it believes may not be collectible. As at December 31, 2018, the Company's trade receivables are 100% concentrated in Europe. The Company had two customers that accounted for 54% and 14% of total trade receivables, respectively as at December 31, 2018.

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, 2018	**December 31, 2017**
	$	$
Total trade receivables	**1,199**	—
Less allowance for expected credit losses	**—**	—
Total trade receivables, net	**1,199**	—
Of which		
Current	**1,123**	—
31-90 days	**59**	—
Over 90 days	**17**	—
Less allowance for expected credit losses	**—**	—
Total trade receivables, net	**1,199**	—

[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's contractual maturities due to be paid within one year are represented by its accounts payable and accrued liabilities balances, its short-term loans, and its current portion of finance lease obligations as at December 31, 2018. The Company also has finance lease obligations due beyond one year from the reporting date. The Company has sufficient cash and cash equivalents to meet these obligations.

17. SEGMENTED INFORMATION

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

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

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

The Company's revenues were derived entirely from the entity's operations in Europe from the Company's wholly owned subsidiary, HemPoland. The Company had one customer that accounted for 33% of total revenue earned during the year ended December 31, 2018.

	For the year ended			
	December 31, 2018			December 31, 2017
	Europe	Canada	Total	Total
Revenue	$ **1,879**	$ **—**	$ **1,879**	$ —
Cost of sales related to inventory production costs	**(594)**	**(92)**	**(686)**	—
Cost of sales related to business combination fair value adjustments to inventories	**(1,285)**	**—**	**(1,285)**	(153)
Gross loss before change in fair value of biological assets	**—**	**(92)**	**(92)**	(153)
Unrealized gain on changes in fair value of biological assets	**—**	**304**	**304**	300
Gross profit	$ **—**	$ **212**	$ **212**	$ 147

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

	December 31, 2018	December 31, 2017
Canada	$ **104,997**	$ 6,965
Europe	**2,532**	—
	$ **107,529**	$ 6,965

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

	December 31, 2018	December 31, 2017
Canada	$ **7,287**	$ 5,575
Europe	**16,772**	—
Outside Canada and Europe	**178**	—
	$ **24,237**	$ 5,575

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. Management defines capital as the Company's shareholders' equity. The Board of Directors 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 December 31, 2018, total managed capital was comprised of share capital of $392,068 (December 31, 2017 - $72,572), contributed surplus of $79,937 (December 31, 2017 - $18,296), and accumulated other comprehensive income of $513 (December 31, 2017 - $Nil). There were no changes in the Company's approach to capital management during the year ended December 31, 2018.

19. OPERATING EXPENSES

Sales and marketing expenses included the following items:

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

	For the year ended	
	December 31, 2018	**December 31, 2017**
	$	$
Personnel costs	**859**	350
Investor relations and marketing	**4,458**	398
Travel and promotion expenses	**477**	417
Strategic partnership payments	**302**	—
Total	**6,096**	1,165

Research and development expenses included the following items:

	For the year ended	
	December 31, 2018	**December 31, 2017**
	$	$
Personnel costs	**1,239**	230
Product development	**839**	263
Travel related expenses	**261**	—
Other research and development expenses	**476**	910
Total	**2,815**	1,403

General and administrative expenses included the following items:

	For the year ended	
	December 31, 2018	**December 31, 2017**
	$	$
Personnel costs	**6,727**	2,083
Professional and legal fees	**6,108**	705
Consulting fees	**3,788**	551
Investor relations expenses	**2,366**	—
Taxes, licenses and finance expenses	**1,434**	—
Travel and promotion expenses	**1,222**	197
Computer and IT expenses	**1,168**	93
Occupancy costs	**689**	299
Insurance expense	**580**	4
Recruiting fees	**508**	95
Office and administrative expenses	**389**	47
Directors fees	**197**	—
Other administrative expenses	**435**	192
Total	**25,611**	4,266

20. SUBSEQUENT EVENTS

a) Subsequent to December 31, 2018, a total of 2,120,261 of the Company's issued and outstanding warrants were exercised at a weighted average exercise price of $2.16 per warrant, for aggregate gross proceeds of $4,571.

b) On January 25, 2019, the Company entered into a definitive agreement with Knud Jepsen to establish two joint ventures 50/50 joint arrangements; the first for the purpose of producing commercial cannabis and cannabis oils (the "Production JV") and the second for developing and patenting innovative and commercially valuable elite cannabis genetics (the "Genetics JV"). The parties intend to form both joint arrangements in Denmark with an objective to expand the Production JV into future low-cost European jurisdictions. The Definitive Agreement outlines the Company's and Knud Jepsen's launch of a premium organic European bulk cannabinoid production platform where TGODH will have the exclusive right to all cannabis-related production from the Production JV, through a guaranteed offtake agreement at a pre-determined price relative to the production cost of the Production JV. Further, the Production JV will have exclusive access to all intellectual property including elite cannabis genetics developed within the Genetics JV.

c) On January 16, 2019, the Company received the final order in respect to the spin-off transaction approved on December 6, 2018 by shareholders at the annual general meeting and special meeting whereby the Company would spinoff, by way of special dividend under a plan of arrangement (the “Arrangement”), TGOD Acquisition Corporation (“SpinCo”), a company that would focus on international acquisitions that are not core to the Company’s business. Each shareholder of the Company as of the record date of January 31, 2019 who was a non-US resident and elected to receive unit purchase warrants would receive 0.15 of one-unit purchase warrant of SpinCo. Each unit purchase warrant would entitle the holder to purchase one unit of SpinCo upon (i) the holder tendering the exercise price of $0.50 per SpinCo unit (not in thousands) to Spin Co within 30 days following the effective date of the plan of arrangement implementing the spinoff and (ii) SpinCo obtaining a receipt for a final prospectus qualifying the distribution of the SpinCo Units within 60 days of such date, failing which the exercise proceeds would be returned to exercising warrant holders. Each unit of SpinCo would consist of one SpinCo common share and one half of one SpinCo common share purchase warrant. Each SpinCo common share purchase warrant shall be exercisable to purchase a SpinCo common share for an exercise price of $1.25 (not in thousands) at any time until the date that is 24 months from the date the SpinCo common shares commence trading on a recognized securities exchange. On January 28, 2019, the Company’s wholly owned subsidiary SpinCo shares were transferred to a third-party pursuant to the terms of the Arrangement.