The Green Organic Dutchman Holdings Ltd.

Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2022 and June 30, 2021

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

	Notes		As at June 30, 2022		As at December 31, 2021*
ASSETS					
Current assets					
Cash and cash equivalents		$	**3,202**	$	4,089
Restricted cash	17		**1,472**		219
Trade receivables	17		**9,037**		8,833
Biological assets	8		**5,726**		3,149
Inventories	9		**25,889**		20,942
Prepaid expenses and deposits			**2,576**		1,502
Other current assets	10		**1,584**		1,841
Due from related parties			**1,216**		573
Assets held for sale	4		**9,155**		13,612
		$	**59,857**	$	54,760
Non-current assets					
Property, plant and equipment	6		**104,985**		117,980
Intangible assets	7		**14,898**		15,585
Goodwill	7		**3,939**		3,939
Other assets	10, 16		**1,732**		1,735
Total assets		$	**185,411**	$	193,999
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		$	**18,376**	$	17,664
Sales taxes payable			**618**		248
Current portion of loans	5		**30,060**		2,021
Current portion of lease liabilities	12		**1,360**		1,049
Loan payable to disposal group	4		**5,639**		5,492
Liabilities held for sale	4		**2,066**		2,570
Current portion of contingent consideration	11		**2,538**		—
			60,657		29,044
Non-current liabilities					
Lease liabilities	12		**8,130**		6,517
Loans	5		**—**		18,204
Contingent consideration	11		**—**		3,423
			8,130		28,144
Total liabilities		$	**68,787**	$	57,188
Shareholders' equity					
Share capital	13		**509,303**		508,504
Contributed surplus	14		**109,026**		108,836
Deficit			**(498,984)**		(478,697)
Reserve for foreign currency translations			**(1,858)**		(969)
Total Shareholders' Equity attributed to The Green Organic Dutchman Holdings Ltd.		$	**117,487**	$	137,674
Non-controlling interests			**(863)**		(863)
Total Shareholders' Equity			**116,624**		136,811
Total Liabilities and Shareholders' Equity		$	**185,411**	$	193,999
Total number of common shares outstanding			**753,241,527**		749,660,647
Going concern	2				
Commitments and contingencies	16				
Events after the reporting period	20				

**Comparative information has been re-stated due to a discontinued operation and change in classification. See Note 4.*

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

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

	Notes	For the three months ended June 30, 2022	June 30, 2021 Restated*	For the six months ended June 30, 2022	June 30, 2021 Restated*
Continuing operations					
Revenue		$ **15,841**	$ 10,400	$ **30,194**	$ 17,068
Excise duties		**(4,214)**	(2,294)	**(7,992)**	(3,573)
Net revenue		**11,627**	8,106	**22,202**	13,495
Cost of sales		**9,134**	5,531	**16,002**	10,879
Gross profit before change in fair value of biological assets		**2,493**	2,575	**6,200**	2,616
Realized fair value adjustment on sale of inventories		**(3,845)**	(2,331)	**(6,280)**	(3,861)
Unrealized gain on changes in fair value of biological assets	8	**8,683**	2,244	**12,988**	5,565
Gross profit		$ **7,331**	$ 2,488	$ **12,908**	$ 4,320
Operating expenses					
Sales and marketing expenses		$ **1,699**	$ 933	$ **3,592**	$ 1,874
Research and development expenses		**168**	80	**301**	411
General and administrative expenses		**4,900**	5,342	**8,818**	9,274
Share based compensation	14	**270**	1,019	**837**	1,632
Depreciation and amortization	6, 7	**3,310**	3,546	**6,837**	5,049
Total operating expenses		$ **10,347**	$ 10,920	$ **20,385**	$ 18,240
Loss from operations		**(3,016)**	(8,432)	**(7,477)**	(13,920)
Foreign exchange gain/(loss)	17[c]	**(1,707)**	33	**(1,622)**	225
Finance costs		**(1,144)**	(2,433)	**(2,113)**	(4,321)
Accretion expense	5	**(479)**	(3,571)	**(802)**	(4,853)
Finance income		**3**	23	**7**	47
Revaluation gain of contingent consideration	11	**2,245**	—	**885**	39
Gain (loss) on disposal of assets		**13**	(113)	**8**	96
Reversal of impairment / (impairment) charge for non-financial assets	6	**—**	—	**(6,183)**	21,811
Loss on derecognition on investment in joint venture		**—**	—	**—**	(761)
Impairment loss on remeasurement of disposal group	4	**(2,489)**	—	**(2,489)**	—
Loss on assets held for sale		**—**	(17,688)	**—**	(17,688)
Debt modification	5	**(48)**	—	**(48)**	—
Net loss from continuing operations		$ **(6,622)**	$ (32,181)	$ **(19,834)**	$ (19,325)
Discontinued operations					
Loss from discontinued operation	4	**(159)**	(299)	**(453)**	(692)
Net loss from operations		**(6,781)**	(32,480)	**(20,287)**	(20,017)

** Comparative information has been re-stated due to a discontinued operation and change in classification. See Note 4.*

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

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

	For the three months ended June 30, 2022	For the three months ended June 30, 2021 Restated*	For the six months ended June 30, 2022	For the six months ended June 30, 2021 Restated*
Other comprehensive loss				
Foreign currency translation loss	**380**	45	**889**	1,349
Comprehensive loss	**$ (7,161)**	$ (32,525)	**$ (21,176)**	$ (21,366)
Net loss attributable to:				
The Green Organic Dutchman Holdings Ltd.	**(6,781)**	(32,460)	**(20,287)**	(19,942)
Non-controlling interests	**—**	(20)	**—**	(75)
Comprehensive loss attributable to:				
The Green Organic Dutchman Holdings Ltd.	**(7,161)**	(32,505)	**(21,176)**	(21,291)
Non-controlling interests	**—**	(20)	**—**	(75)
Basic and diluted loss per share	**$ (0.01)**	$ (0.06)	**$ (0.03)**	$ (0.04)
Basic and diluted loss per share - Continuing operations	**$ (0.01)**	$ (0.06)	**$ (0.03)**	$ (0.04)
Weighted average number of outstanding common shares	**752,912,362**	527,986,031	**751,698,911**	508,747,227

** Comparative information has been re-stated due to discontinued operations. See Note 4.*

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

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

		Share Capital		Contributed Surplus								
	Notes	Common Shares	Amount	Reserve for share based payments	Reserve for warrants	Other contributed surplus	Escrowed share units	Total Contributed surplus	Reserve for foreign currency translations	Accumulated deficit	Non-Controlling Interests	Total
		#	$	$	$	$	$	$	$	$	$	$
Balance, December 31, 2021		**749,660,647**	**508,504**	**21,653**	**10,375**	**76,768**	**40**	**108,836**	**(969)**	**(478,697)**	**(863)**	**136,811**
Issuance of common shares	13[a]	**904,000**	**102**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**102**
Share based compensation	14[a,c]	**—**	**—**	**567**	**—**	**—**	**—**	**567**	**—**	**—**	**—**	**567**
Restricted share units exercised during period - escrowed	13[c]	**9,842**	**40**	**—**	**—**	**—**	**(40)**	**(40)**	**—**	**—**	**—**	**—**
Shares and warrants issued in connection with debt modification	13[b]	**500,000**	**50**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**50**
Comprehensive loss		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(509)**	**(13,506)**	**—**	**(14,015)**
Balance, March 31, 2022		**751,074,489**	**508,696**	**22,220**	**10,375**	**76,768**	**—**	**109,363**	**(1,478)**	**(492,203)**	**(863)**	**123,515**
Share based compensation	14[a,c]	**—**	**—**	**270**	**—**	**—**	**—**	**270**	**—**	**—**	**—**	**270**
Restricted share units exercised during period	13[c]	**2,167,038**	**607**	**(607)**	**—**	**—**	**—**	**(607)**	**—**	**—**	**—**	**(0)**
Comprehensive loss								**—**	**(380)**	**(6,781)**	**—**	**(7,161)**
Balance, June 30, 2022		**753,241,527**	**509,303**	**21,883**	**10,375**	**76,768**	**—**	**109,026**	**(1,858)**	**(498,984)**	**(863)**	**116,624**

	Share Capital		Contributed Surplus									
	Common Shares	Amount	Reserve for share based payments	Reserve for warrants	Other contributed surplus	Escrowed share units	Shares to be issued	Total Contributed surplus	Reserve for foreign currency translations	Accumulated deficit	Non-Controlling Interests	Total
	#	$	$	$	$	$	$	$	$	$	$	$
Balance, December 31, 2020	486,675,760	468,379	23,258	66,111	11,129	7,972	404	108,874	255	(436,559)	(1,145)	139,804
Issuance of common shares	14,341,958	7,655	—	—	—	—	—	—	—	—	—	7,655
Share based compensation	—	—	613	—	—	—	—	613	—	—	—	613
Exercise of warrants	24,198,600	8,684	—	(1,124)	—	—	—	(1,124)	—	—	—	7,560
Expiry of stock options	—	—	(4,102)	—	4,102	—	—	—	—	—	—	—
Expiry of warrants	—	—	—	(37,638)	37,638	—	—	—	—	—	—	—
Restricted share units exercised during period	390,810	175	(175)	—	—	—	—	(175)	—	—	—	—
Shares issued to settle accounts payable	1,591,535	404	—	—	—	—	(104)	(104)	—	—	—	300
Comprehensive income	—	—	—	—	—	—	—	—	(1,304)	12,518	(55)	11,159
Elimination of non-controlling interest on disposal of Denmark	—	—	—	—	—	—	—	—	5	—	441	446
Balance, March 31, 2021	527,198,663	485,297	19,594	27,349	52,869	7,972	300	108,084	(1,044)	(424,041)	(759)	167,537
Issuance of common shares	1,073,000	377	—	—	—	—	—	—	—	—	—	377
Share based compensation	—	—	1,019	—	—	—	—	1,019	—	—	—	1,019
Expiry of warrants	—	—	—	(17,243)	17,243	—	—	—	—	—	—	—
Shares issued in connection with accounts payable	872,093	300	—	—	—	—	(300)	(300)	—	—	—	—
Comprehensive income	—	—	—	—	—	—	—	—	(45)	(32,460)	(20)	(32,525)
Balance, June 30, 2021	529,143,756	485,974	20,613	10,106	70,112	7,972	-	108,803	(1,089)	(456,501)	(779)	136,408

An unlimited number of common shares are authorized for issue.

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

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

	Notes	For the three months ended June 30, 2022	For the three months ended June 30, 2021	For the six months ended June 30, 2022	For the six months ended June 30, 2021
OPERATING ACTIVITIES					
Net loss from operations		**$ (6,781)**	$ (32,480)	**$ (20,287)**	$ (20,017)
Items not affecting cash:					
(Reversal of impairment) / Impairment of property, plant and equipment	6	**—**	—	**6,183**	(17,765)
Reversal of impairment of intangible assets		**—**	—	**—**	(4,046)
Loss on assets held for sale		**—**	17,688	**—**	17,688
Impairment loss on remeasurement of disposal group	4	**2,489**	—	**2,489**	—
Share based compensation	14	**270**	1,019	**837**	1,632
Depreciation of property, plant and equipment	6	**2,966**	3,529	**6,150**	5,176
Amortization of intangible assets	7	**344**	450	**687**	790
Realized fair value adjustment on sale of inventories		**3,845**	2,331	**6,280**	3,861
Unrealized gain on change in fair value of biological assets	8	**(8,683)**	(2,244)	**(12,988)**	(5,565)
Accretion expense	5	**479**	3,571	**802**	4,853
Revaluation gain of contingent consideration	11	**(2,245)**	—	**(885)**	(39)
Loss (gain) on disposal of assets	6	**(30)**	100	**(25)**	(110)
Loss on derecognition on investment in joint venture		**—**	—	**—**	761
Deferred financing costs expensed		**—**	227	**—**	452
Deferred income tax recovery		**—**	(164)	**—**	(143)
Debt modification	5	**48**	—	**48**	—
Changes in non-cash operating working capital items	15	**2,553**	174	**2,237**	1,136
Net cash used in operating activities		**$ (4,745)**	$ (5,799)	**$ (8,472)**	$ (11,336)
INVESTING ACTIVITIES					
Additions to property, plant and equipment		**(413)**	(1,810)	**(696)**	(6,018)
Net proceeds from the disposition of the Valleyfield Assets		**—**	25,512	**—**	25,512
Net cash inflow on deposits		**—**	5,761	**—**	5,761
Proceeds on disposal of assets	6	**1,896**	427	**1,970**	1,089
Transfer to restricted cash	17[c]	**(67)**	(458)	**(1,253)**	(95)
Net cash inflow on sale of investment		**—**	—	**—**	1,242
Additions to intangible assets	7	**—**	(6)	**—**	(6)
Net cash provided from investing activities		**$ 1,416**	$ 29,426	**$ 21**	$ 27,485
FINANCING ACTIVITIES					
Proceeds from issuance of shares and warrants, net of share issue costs	13	**—**	377	**102**	8,032
Proceeds from borrowings, net of costs	5	**3,920**	—	**3,920**	—
Proceeds from the exercise of stock options and warrants		**—**	—	**—**	7,560
Interest received		**3**	21	**7**	40
Interest paid on lease liabilities	12	**(285)**	(115)	**(514)**	(254)
Interest paid on debt		**(853)**	(1,790)	**(1,621)**	(3,329)
Principal payments of lease liabilities	12	**(255)**	(135)	**(399)**	(298)
Principal payments of debt	5	**—**	(31,513)	**—**	(32,200)
Net proceeds of borrowings and repayments under the Revolver Loan	5	**2,162**	1,401	**6,015**	2,346
Net cash provided/(used) by financing activities		**$ 4,692**	$ (31,754)	**$ 7,510**	$ (18,103)
Net cash inflow (outflow)		**$ 1,363**	$ (8,127)	**$ (941)**	$ (1,954)
Net effects of foreign exchange		**(368)**	(117)	**(612)**	(983)
Cash, beginning of period		**2,382**	16,519	**4,930**	11,212
Cash related to assets held for sale	4	**(175)**	—	**(175)**	—
Cash and cash equivalents, end of period		**$ 3,202**	$ 8,275	**$ 3,202**	$ 8,275

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

1. NATURE OF ACTIVITIES

The Green Organic Dutchman Holdings Ltd. ("Company") was incorporated on November 16, 2016, under the *Canada Business Corporations Act* ("CBCA"). The Company is a reporting issuer domiciled in Canada whose common shares (the "Common Shares") are publicly traded on the Canadian Securities Exchange ("CSE") under the symbol "TGOD" and on the OTCQX under the symbol "TGODF". The Company also has four classes of warrants listed on the CSE under the symbols "TGOD.WS", "TGOD.WR", "TGOD.WA" and "TGOD.WB". The Company's registered and head office is located at 6205 Airport Road, Building A – Suite 200, Mississauga, ON, L4V 1E3. These unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2022 and June 30, 2021 ("Interim Condensed Consolidated Financial Statements") include the financial statements of The Green Organic Dutchman Holdings Ltd. and its subsidiaries from the date the Company gained control of each subsidiary.

The Company's wholly-owned Canadian subsidiaries, The Green Organic Dutchman Ltd. ("TGOD") and Galaxie Brands Corporation ("Galaxie") are licensed producers under the *Cannabis Act* (Canada) and hold licences to produce cannabis plants, cannabis plant seeds, dried cannabis, fresh cannabis, cannabis oils, cannabis topicals, cannabis extracts and edible cannabis and sell such cannabis products within Canada to provincially authorized retailers or distributors and federally licensed entities. The Company owns cannabis cultivation facilities near Hamilton, Ontario (the "**Hamilton Facility**"), Puslinch, Ontario (the "**Puslinch Facility**") and also has a presence in Québec with certain continuing operations out of its previously owned facility located in Valleyfield, Québec (the "**Quebec Facility**").

In addition to its Canadian operations, the Company, through its subsidiaries and strategic investments, is pursuing an international growth strategy, and has established strategic partnerships for the distribution of cannabis and hemp-derived medical products in Mexico, Germany, Australia, South Africa and other countries as regulations allow.

The outbreak of the novel strain of the coronavirus, SARS-COV-2 ("COVID-19"), and its eventual declaration as a pandemic by the World Health Organization ("WHO") on March 11, 2020, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruption to businesses globally resulting in an economic slowdown. The Company implemented measures to protect its global workforce from COVID-19 and endeavours to mitigate any long-term impact of the pandemic on its business which remain unknown. While it is difficult to predict the impact of COVID-19 on the Company's business, the Company continues to seek to mitigate these impacts through various means including engagement with its retailers, transition of its staff to working remotely where possible, increasing safety protocols and sanitation measures within the workplace, and monitoring developments in order to adapt and respond in order to protect the health and safety of the Company's employees and the best interests of the Company.

2. BASIS OF PRESENTATION

[i] Going concern

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

As of June 30, 2022, the Company had negative working capital of $800 (inclusive of non-cash contingent consideration of $2,538) (December 31, 2021 positive $25,716) and an accumulated deficit of $498,984 (December 31, 2021 - $478,697). During the six months ended June 30, 2022, the Company used cash in operating activities of $8,472 (six months ended June 30, 2021 - $11,336) resulting primarily from the loss from operations of $7,477 (six months ended June 30, 2021 - $13,920) offset by items not affecting cash such as changes in fair value of biological assets, depreciation, amortization and share based compensation. The Company has insufficient cash on hand to fund its planned operations. The Company's ability to continue as a going concern is dependent upon its ability to generate sufficient revenues and positive cash flows from its operating activities and/or obtain sufficient funding to meet its obligations, neither of which is guaranteed to occur. Achieving such revenues, positive cash flows from operating activities or funding may be influenced by matters that are not in the Company's control, and as such, there is no certainty that such revenues, cash flows, or funding will be realized. In addition, the Company currently does not have any commitments in place that would provide the level of revenues, cash flows, or funding required to provide sufficient funding to meet its obligations.

The Company will need to obtain further funding in the form of asset sales, debt, equity or a combination thereof to continue operations for the next twelve months. There can be no assurance that additional funding will be available to the Company, or, if available, that this funding will be on acceptable terms. If positive operating cash flows are not achieved, debt obligations are not repaid, or adequate funding is not available, the Company will be required to delay, reduce or cease the scope of any or all of its operations. In addition, the terms of the renewed secured revolving credit facility (the "Revolver

Loan") require the Company to satisfy various affirmative and negative covenants and to meet certain future financial tests. A failure to comply with these covenants, including a failure to meet the financial tests, would result in an event of default under the Revolver Loan and if not cured would allow the lender to accelerate the repayment of the debt, which could materially and adversely affect the business, results of operations and financial condition of the Company. These conditions indicate the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern.

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

[ii] Interim Financial Reporting

These Interim Condensed Consolidated Financial Statements have been prepared by management in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The same accounting policies and methods of computation were followed in the preparation of these Interim Condensed Consolidated Financial Statements as those disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2021.

These Interim Condensed Consolidated Financial Statements do not include all of the information required for full annual consolidated financial statements and accordingly should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2021 which are made available on SEDAR at www.sedar.com.

These Interim Condensed Consolidated Financial Statements were approved by the Board of Directors of the Company and authorized for issue by the Board of Directors of the Company on August 29, 2022.

[iii] Reclassification

Certain comparative figures have been reclassified to conform to the current period presentation as a result of a disposal group being classified as held for sale.

3. SIGNIFICANT ACCOUNTING POLICIES

The preparation of these Interim Condensed Consolidated Financial Statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Interim Condensed Consolidated Financial Statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2021.

4. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATION

As at June 30, 2022, management was committed to a plan to sell the Company's wholly owned hemp cultivation and extraction business based in Poland. Accordingly, the Company has presented HemPoland S.p.a. Z.o.o. ("HemPoland") as a disposal group held for sale ("Disposal Group"). Efforts to sell the Disposal Group have started and a sale is expected within the next twelve months.

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

Results of discontinued operation

	For the three months ended		For the six months ended	
	June 30, 2022	**June 30, 2021**	**June 30, 2022**	**June 30, 2021**
Revenue	$ 747	$ 1,416	$ 1,621	$ 3,730
Gross profit	$ 97	$ 691	$ 324	$ 1,989
Expenses	$ 323	$ 1,153	$ 948	$ 2,824
Loss from discontinued operations	$ (226)	$ (462)	$ (624)	$ (835)
Deferred tax recovery	$ 67	$ 164	$ 171	$ 143
Loss from discontinued operations, net of tax	$ (159)	$ (299)	$ (453)	$ (692)
Basic and diluted loss per share	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)

Cash flows from (used in) discontinued operation

	For the three months ended		For the six months ended	
	June 30, 2022	**June 30, 2021**	**June 30, 2022**	**June 30, 2021**
Net cash provided by (used in) operating activities	$ 26	$ 122	$ (266)	$ 650
Net cash used in investing activities	(16)	(184)	(48)	(296)
Net cash used in financing activities	(241)	(132)	(351)	(292)
Net cash (outflows) inflows for the year	**$** (231)	**$** (194)	**$** (665)	**$** 62

Fair Value related to the disposal group

The fair value of the Disposal Group's net assets was estimated to be $7,289 (before estimated costs to sell of $200) using a market approach (level 2 on the fair value hierarchy), from an offer received subsequent to quarter end, which provided reliable information to determine the fair value of the Disposal Group. The fair value is based on the expected cash proceeds of $1,650 plus the loan payable to the disposal group of $5,639 which will be forgiven by the purchaser. The offer included a non-refundable deposit of $150 (see note 20a).

Impairment losses related to the disposal group

Impairment losses of $2,489 for write-downs of the disposal group to the lower of its carrying amount and its fair value less costs to sell have been recognized for the three and six months ended June 30, 2022 (three and six months ended June 30, 2021, $Nil). The impairment losses have been applied to reduce the carrying amount of property, plant and equipment, intangible assets and inventory.

Assets and liabilities of disposal group held for sale

As at June 30, 2022, the Disposal Group was stated at fair value less costs to sell and comprised of the following assets and liabilities.

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

		Disposal Group
Cash and cash equivalents	$	175
Refundable sales taxes receivable		51
Trade receivables		198
Prepaid expenses and deposits		118
Inventories		2,578
Property, plant and equipment		169
Intangible assets		227
Loan receivable from the Company		5,639
Assets held for sale	**$**	**9,155**
Accounts payable and accrued liabilities	$	674
Lease liabilities		965
Loans		427
Liabilities held for sale	**$**	**2,066**

5. LOANS

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

		For the six months ended June 30, 2022		For the year ended December 31, 2021
Opening Balance	$	**20,225**	$	40,755
Additions		**4,000**		7,000
Addition through business combination		**—**		1,152
Deferred financing fee		**(130)**		(1,000)
Accretion		**802**		5,445
Debt modification		**48**		(1,187)
Principal payments		**(900)**		(32,200)
Effects of movements in foreign exchange		**—**		(33)
Reclassification to liabilities held for sale		**—**		(473)
Net proceeds related to the borrowing from and repayments to the Revolver Loan		**6,015**		766
Ending Balance	**$**	**30,060**	**$**	20,225

		June 30, 2022		December 31, 2021
Loans	$	**30,060**	$	20,225
Current portion		**(30,060)**		(2,021)
Long term portion	$	**—**	$	18,204
Revolver Loan	$	**29,643**	$	19,045
Promissory notes to related parties		**417**		1,180
	$	**30,060**	$	20,225

Revolver Loan

The Company entered into the Revolver Loan on April 22, 2020, which was amended and restated on September 29, 2021, and further amended on November 29, 2021 (the "Amended and Restated Agreement"). The Revolver Loan had a credit limit of $25,000, bears interest of 12%, with a due date of June 30, 2023. The Company must comply with certain financial covenants as set out in the Amended and Restated Agreement relating to the achievement of positive EBITDA (as defined in the Amended and Restated Agreement).

On March 10, 2022, the Company entered into a second amendment to the Amended and Restated Agreement (the "Second Amendment") whereby the Revolver Loan was amended to increase the overall Revolver Loan limit from $25,000 to $30,000, allow certain eligible inventory to be included as collateral to the Revolver Loan, and relax certain covenants set forth in the Amended and Restated Agreement relating to the Revolver Loan. As consideration for the Second Amendment, the Company issued 500,000 Common Shares worth $50 to the lender.

On April 29, 2022, the Company entered into a third amendment to the Amended and Restated Agreement (the "Third

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

Amendment"), whereby the Revolver Loan was amended to increase the overall Revolver Loan limit from $30,000 to $34,000, increase the term portion of the Revolver Loan from $20,000 to $24,000, amend the EBITDA financial covenant to take effect June 30, 2022, remove the covenant requiring a $6,000 prepayment through funds raised by public issuance of equity securities in the Company, remove the covenant requiring a $4,000 prepayment through funds raised by the sale of HemPoland, and introduce certain prepayment fees in the combined amount of 2% of any prepayments, subject to the satisfaction of the various conditions set out therein.

The Revolver Loan is secured by a first lien over the Hamilton Facility and assets of the Company, including a lien over substantially all of the cannabis and cannabis derived inventories and Canadian trade receivables. As the accounts receivable balance eligible for collateral increases, additional credit is available to the Company.

As at June 30, 2022, the total principal balance outstanding related to the Revolver Loan was $31,235. The Revolver Loan has financial and other non-financial covenants which the Company met as at June 30, 2022.

Promissory notes to related parties

In connection with the acquisition of all of the issued and outstanding shares of Galaxie on November 17, 2021 (the "Galaxie Acquisition"), the Company assumed shareholder loans with principal note balances totaling $1,300 (the "Promissory Notes"). The fair value of the shareholder loans at acquisition date was determined to be $1,152, based on the time to maturity. The Promissory Notes are subordinate to the Revolver Loan. On May 17, 2022, Promissory Note #1 and Promissory Note #3 with a principal note balance of $900, were repaid in full from the consideration for the Puslinch Facility building improvements sale and leaseback (note 6). Promissory Note #2 remains outstanding as shown below.

	Principal note balance	Amortized Cost	Agreement Date	Maturity Date	Terms
Promissory Note #2	$ 400	417	2021-10-28	2022-01-31	No interest to maturity, 10% interest compounded monthly if note not repaid in full at maturity
Total Promissory Notes to related parties	**$ 400**	**417**			

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

6. PROPERTY, PLANT AND EQUIPMENT

Cost:	**Land**	**Buildings**	**Furniture and fixtures**	**Production equipment**	**Building improvements**	**Computer equipment**	**Automobiles**	**Right-of-use assets**	**Total**
Balance, December 31, 2021	$ 2,775	$ 63,086	$ 420	$ 65,734	$ 9,920	$ 1,374	$ 294	$ 7,134	$ 150,737
Additions	—	—	1	18	—	—	—	—	19
Disposals	—	—	—	(159)	—	—	—	—	(159)
Balance, March 31, 2022	$ 2,775	$ 63,086	$ 421	$ 65,593	$ 9,920	$ 1,374	$ 294	$ 7,134	$ 150,597
Additions	—	—	—	305	—	—	—	1,994	2,299
Disposals	—	—	—	—	(8,901)	—	(35)	—	(8,936)
Balance, June 30, 2022	$ 2,775	$ 63,086	$ 421	$ 65,898	$ 1,019	$ 1,374	$ 259	$ 9,128	$ 143,960
Accumulated depreciation and impairment:									
Balance, December 31, 2021	$ —	$ 8,417	$ 143	$ 22,124	$ 452	$ 845	$ 227	$ 549	$ 32,757
Depreciation	—	683	14	2,202	123	44	5	113	3,184
Disposals	—	—	—	(80)	—	—	—	—	(80)
Impairment	—	—	—	—	6,183	—	—	—	6,183
Balance, March 31, 2022	$ —	$ 9,100	$ 157	$ 24,246	$ 6,758	$ 889	$ 232	$ 662	$ 42,044
Depreciation	—	675	13	2,096	7	40	4	131	2,966
Disposals	—	—	—	—	(6,006)	—	(29)	—	(6,035)
Balance, June 30, 2022	$ —	$ 9,775	$ 170	$ 26,342	$ 759	$ 929	$ 207	$ 793	$ 38,975
Net book value, June 30, 2022	$ 2,775	$ 53,311	$ 251	$ 39,556	$ 260	$ 445	$ 52	$ 8,335	$ 104,985

On May 17, 2022, the Company sold its leasehold improvements acquired through the Galaxie Acquisition at the Puslinch Facility for gross proceeds of $3,000 (net proceeds $2,900). The net proceeds were paid $1,940 in cash, $900 repayment of promissory notes owed and $60 set-off for other amounts owing to the purchaser. During the six months ended June 30, 2022, the Company tested the leasehold improvements for impairment and recognized an impairment loss of $6,183.

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

7. INTANGIBLE ASSETS AND GOODWILL

A continuity of the intangible assets is as follows:

	Health Canada Licences	Technology Licences	Website	Brands	Other acquired rights	Goodwill	Total
Cost:							
Balance, December 31, 2021	$ 10,302	$ 2,613	$ 400	$ 2,783	$ 2,667	$ 3,939	$ 22,704
Additions	—	—	—	—	—	—	—
Balance, March 31, 2022	**$ 10,302**	**$ 2,613**	**$ 400**	**$ 2,783**	**$ 2,667**	**$ 3,939**	**$ 22,704**
Additions	—	—	—	—	—	—	—
Balance, June 30, 2022	**$ 10,302**	**$ 2,613**	**$ 400**	**$ 2,783**	**$ 2,667**	**$ 3,939**	**$ 22,704**
Accumulated amortization and impairment:							
Balance, December 31, 2021	$ 1,752	$ 1,186	$ 179	$ 15	$ 48	$ —	$ 3,180
Amortization for the period	123	103	16	35	66	—	343
Balance, March 31, 2022	**$ 1,875**	**$ 1,289**	**$ 195**	**$ 50**	**$ 114**	**$ —**	**$ 3,523**
Amortization for the period	123	103	16	36	66	—	344
Balance, June 30, 2022	**$ 1,998**	**$ 1,392**	**$ 211**	**$ 86**	**$ 180**	**$ —**	**$ 3,867**
Net book value, June 30, 2022	**$ 8,304**	**$ 1,221**	**$ 189**	**$ 2,697**	**$ 2,487**	**$ 3,939**	**$ 18,837**

8. BIOLOGICAL ASSETS

As at June 30, 2022, the Company's biological assets consisted of cannabis seeds and cannabis plants. The continuity of the Company's biological assets is as follows:

	Capitalized cost	Biological asset fair value adjustment	Amount
Balance, December 31, 2021	$ 1,482	$ 1,667	$ 3,149
Unrealized gain on changes in fair value of biological assets	—	12,988	12,988
Production costs capitalized	4,528	—	4,528
Transfer to inventories upon harvest	(3,724)	(11,215)	(14,939)
Balance, June 30, 2022	**$ 2,286**	**$ 3,440**	**$ 5,726**

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

The following significant unobservable inputs, all of which are classified as level 3 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.
- Stage of growth – represents the weighted average number of weeks out of the estimated week growing cycle that biological assets have reached as of the measurement date based on historical experience. The Company accretes fair value on a straight-line basis according to the stage of growth and estimated costs to complete cultivation.
- Yield by plant – represents the expected number of grams of finished cannabis inventories 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 June 30, 2022 and December 31, 2021 would increase (decrease) if any of these inputs were to be higher (lower).

Other unobservable, level 3 inputs into the biological asset model include estimated post-harvest costs, costs to complete and wastage. These additional level 3 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:

	As at June 30, 2022	As at December 31, 2021	Impact of 10% change as at June 30, 2022	Impact of 10% change as at December 31, 2021
Estimated net selling price per gram (1)	$1.90 to $4.58	$1.83 to $4.79	$ 941	$ 535
Estimated stage of growth	9 to 10 weeks	8 to 9 weeks	$ 1205	$ 824
Estimated yield of agricultural produce by plant (2)	83 to 123 grams	80 to 100 grams	$ 627	$ 357

(1) The estimated net selling price per gram is based on the negotiated distribution selling prices which exclude excise duties.

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

The Company's estimates are, by their nature, subject to change. Changes in the significant assumptions described will be reflected in future changes in the gain or loss on biological assets. There were no changes between fair value hierarchy levels during the three and six months ended June 30, 2022.

9. INVENTORIES

The Company's inventories include the following as of June 30, 2022 and December 31, 2021:

		As at June 30, 2022		As at December 31, 2021
Raw Materials and Packaging	$	**3,152**	$	2,617
Work-in-progress		**18,619**		14,946
Finished Goods		**4,118**		3,379
Total Inventories	**$**	**25,889**	**$**	**20,942**

During the three and six months ended June 30, 2022, inventories expensed directly to cost of sales were $6,294 and $10,717, respectively (three and six months ended June 30, 2021 - $3,729 and 6,900, respectively).

10. OTHER ASSETS

A summary of the Company's other assets is presented as follows:

	Notes	As at June 30, 2022	As at December 31, 2021
Term deposits held as letter of credit collateral	16,17	935	935
Term deposits not held as letter of credit collateral		100	100
Other	10[a]	2,281	2,541
		3,316	3,576
Less: Current portion		**(1,584)**	(1,841)
Non current portion		**1,732**	1,735

[a] Other

Other comprises of deposits paid for goods and services of $1,113 and other amounts receivable from various non-trade debtors $1,168.

11. CONTINGENT CONSIDERATION

As part of the purchase price paid in connection with the Galaxie Acquisition, the Company issued up to 85,714,286 Common Shares valued at the date of acquisition at $5,235 (the "Contingent Milestone Shares"). The Contingent Milestone Shares are subject to revaluation based on the modified probability assessment of asymmetric payment structures model at each period end (combination of level 1 and level 3 inputs on the fair value hierarchy). As at June 30, 2022, the contingent consideration was revalued to $2,538, resulting in a gain on revaluation of $2,245 and $885 for the three and six months ended June 30, 2022 respectively. The Contingent Milestone Shares are to be released no later than January 31, 2023, subject to the achievement of certain financial targets.

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

12. LEASES

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

		For the six months ended June 30, 2022	For the year ended December 31, 2021
Opening Balance		$ **7,566**	$ 5,570
Additions	12[a]	**1,994**	2,049
Additions from business combination		**—**	3,665
Interest on lease liabilities		**492**	535
Interest payments on lease liabilities		**(492)**	(535)
Principal payments on lease liabilities		**(70)**	(704)
Extinguishment of lease liabilities	12[b]	**—**	(1,687)
Reclassification to liabilities held for sale		**—**	(1,235)
Foreign exchange differences		**—**	(92)
Closing Balance		$ **9,490**	$ 7,566
Current portion lease liabilities		$ **1,360**	$ 1,049
Long-term portion lease liabilities		$ **8,130**	$ 6,517

[a] Puslinch Lease

In connection with the Galaxie Acquisition, the Company acquired a 20-year lease on the land on which the Puslinch Facility is located, which commenced on December 1, 2020. On May 17, 2022, the Company entered into a sale and leaseback transaction for the leasehold improvements at the Puslinch Facility (see note 6) which was added to the existing 20-year lease.

[b] Valleyfield Lease

In connection with the Quebec Disposition in Q2 2021, the Company entered into a two-year lease for 80,000 square feet, representing cultivation, processing and manufacturing spaces in the Quebec Facility. On September 24, 2021, the lease was terminated and modified to an operating agreement in conjunction with the landlord obtaining its own Health Canada licence.

13. SHARE CAPITAL

		For the six months ended June 30, 2022		For the year ended December 31, 2021	
		Number of shares	**Amount**	**Number of shares**	**Amount**
Balance - beginning of period	[i]	**749,660,647**	**$508,504**	**486,675,760**	**$468,379**
Issuance of common shares	[a]	**904,000**	**102**	**21,035,458**	**9,322**
Shares issued in connection with debt modification	[b]	**500,000**	**50**	**—**	**—**
Restricted share units exercised during period	[c]	**2,176,880**	**647**	**314,933**	**1,276**
Issuance of common shares in relation to acquisition		**—**	**—**	**122,805,153**	**19,035**
Issuance of contingent shares in relation to acquisition		**—**	**—**	**85,714,286**	**—**
Exercise of warrants		**—**	**—**	**24,198,600**	**8,684**
Shares issued to settle accounts payable		**—**	**—**	**4,241,712**	**704**
Shares issued in connection with debt modification		**—**	**—**	**2,736,842**	**520**
Restricted share units exercised during period		**—**	**—**	**1,937,903**	**584**
Balance - end of period		**753,241,527**	**$509,303**	**749,660,647**	**$508,504**

[i] Includes 85,714,286 shares that are issued contingent upon certain milestones being achieved in 2022 related to the Galaxie Acquisition (note 11).

[i] Authorized

An unlimited number of Common Shares.

[ii] Issued capital

a) During the six months ended June 30, 2022, 904,000 Common Shares were issued under the Company's at-the-market prospectus supplement dated December 2, 2020, for gross proceeds of $105 (net proceeds of $102).

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

b) During the six months ended June 30, 2022, 500,000 Common Shares were issued to the lender of the Revolver Loan worth $50 related to the modification (see note 5).

c) During the six months ended June 30, 2022, 9,842 Common Shares of the Company were issued to former shareholders of HemPoland as a result of the conversion of 9,842 escrowed restricted share units ("RSUs") issued to such former shareholders. There are no proceeds related to the conversion of such escrowed RSUs.

d) During the six months ended June 30, 2022, 2,167,038 Common Shares of the Company were also issued as employee and director compensation.

14. CONTRIBUTED SURPLUS

[a] Share based payments

For the three and six months ended June 30, 2022, the Company recorded $221 and $508, respectively in non-cash share-based compensation expense pursuant to the grant of stock options (three and six months ended June 30, 2021 - $852 and $1,396 respectively).

The following is a summary of the changes in options issued pursuant to the Company's employee stock option plan:

	For the six months ended June 30, 2022			For the year ended December 31, 2021		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Outstanding - beginning of period	**24,607,998**	**$**	**1.01**	24,339,401	$	1.74
Granted	**30,141,000**		**0.13**	10,035,000		0.26
Cancelled/Expired	**(6,348,332)**		**0.65**	(9,766,403)		2.04
Outstanding, end of period	**48,400,666**	**$**	**0.51**	24,607,998	$	1.01
Exercisable, end of period	**10,544,498**	**$**	**1.71**	7,836,325	$	2.08

Grant date	Options Outstanding #	Options Exercisable #	Exercise Price $	Weighted Average remaining contractual life of outstanding options in years
June 25, 2018 - December 14, 2018	965,000	965,000	$3.08 - $6.91	0.99-1.46
January 8, 2019 - August 21, 2019	2,738,333	2,633,339	$2.67 - $5.13	1.53-2.15
November 18, 2019	617,333	412,672	$0.83	2.39
March 13, 2020 - December 21, 2020	8,859,667	4,870,163	$0.26 - $0.51	2.7-3.48
March 12, 2021 - January 24, 2022	4,854,333	1,663,324	$0.30 - $0.36	3.7-4.12
December 2, 2021 - May 27, 2022	30,366,000	-	$0.10 - $0.14	4.43-4.91
Balance, June 30, 2022	**48,400,666**	**10,544,498**		**4.12**

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

	Averages for the six months ended June 30, 2022	Averages for the year ended December 31, 2021
Risk-free interest rate	**2.45%**	0.78%
Expected dividend yield	**Nil**	Nil
Expected annualized volatility	**116%**	85.00%
Expected life of options (years)	**3.50**	3.49
Black-Scholes value of each option	**$0.09**	$0.15

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

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

[b] Reserve for warrants

The following table reflects the continuity of warrants:

	Number of warrants	Weighted Average Exercise Price	Amount, net of warrant issue costs
	#	$	$
Balance, December 31, 2021	**160,591,440**	**0.47**	**10,375**
Balance, June 30, 2022	**160,591,440**	**0.47**	**10,375**

As at June 30, 2022, the following warrants were outstanding:

Expiry Date	Exercise Price	Number of Warrants
	$	**#**
December 19, 2022	1.00	20,607,500
April 1, 2023	0.39	3,000,000
April 13, 2023	0.39	1,500,000
April 27, 2023	0.38	10,813,052
May 27, 2024	0.50	500,000
June 12, 2024	0.50	45,712,500
October 23, 2025	0.30	24,873,354
November 2, 2025	0.30	8,500,000
December 10, 2025	0.35	42,085,034
November 29, 2026	0.14	3,000,000
		160,591,440

[c] Restricted share units

Under the Company's RSU plan (the "RSU Plan"), RSUs may be granted up to a fixed maximum of 10,000,000 Common Shares, which entitle the holder to receive one Common Share without payment of additional consideration at the end of the restricted period, as determined by the Board of Directors at the time of the grant. The RSUs vest in tranches based on certain performance conditions being met, with share-based compensation expense being recognized from grant date to the expected performance completion date.

As at June 31, 2022, 261,250 (December 31, 2021 – 4,651,040) shares of the Company were reserved for issuance under the RSU Plan. For the three and six months ended June 30, 2022, the Company recorded $49 and $329, respectively in non-cash share-based compensation related to RSU compensation (three and six months ended June 30, 2021 – $167 and $236, respectively).

	For the six months ended June 30, 2022		For the year ended December 31, 2021	
	Number of Units	Weighted Fair Value	Number of Units	Weighted Fair Value
Outstanding - beginning of period	**4,651,040**	**0.30**	1,243,845	0.33
Granted	**350,000**	**0.10**	6,170,098	0.30
Exercised	**(2,167,038)**	**0.28**	(1,937,903)	0.30
Forfeited	**(2,572,752)**	**0.30**	(825,000)	0.30
Outstanding, end of period	**261,250**	**0.23**	4,651,040	0.30

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

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

[d] Employee Stock Purchase Plan

The Company has established an employee stock purchase plan which created a reserve of 3,000,000 Common Shares that may be purchased from the market. As at June 30, 2022, no securities were purchased under this plan.

15. SUPPLEMENTARY CASH FLOW INFORMATION

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

	For the three months ended		For the six months ended	
	June 30, 2022	June 30, 2021	**June 30, 2022**	June 30, 2021
Prepaid expenses and deposits	**$ 398**	$ 97	**$ (1,025)**	$ (109)
Refundable sales taxes receivable	**19**	203	**6**	(53)
Trade receivables	**(1,249)**	(3,917)	**44**	889
Capitalized cost of biological assets	**1,266**	1,425	**2,920**	3,245
Inventories	**(1,556)**	(2,680)	**(3,279)**	(5,801)
Deferred financing costs	**—**	—	**—**	—
Deferred revenue	**—**	(150)	**—**	(150)
Due from related parties	**(252)**	—	**(643)**	—
Other current assets	**197**	(152)	**250**	(171)
Other assets	**2**	120	**3**	144
Accounts payable and accrued liabilities	**3,577**	4,934	**3,591**	2,848
Sales taxes payable	**151**	294	**370**	294
Total	**$ 2,553**	$ 174	**$ 2,237**	$ 1,136

16. COMMITMENTS AND CONTINGENCIES

The Company has the following gross contractual obligations as at June 30, 2022, which are expected to be payable in the following respective periods:

			Contractual cash flows - 12 months ending (1)(2)					
	Carrying amount	**Total**	**June 2023**	**June 2024**	**June 2025**	**June 2026**	**June 2027**	**Thereafter**
	$	**$**	$	$	$	$	$	$
Accounts payable and accrued liabilities	**18,376**	**18,376**	18,376	-	-	-	-	-
Sales taxes payable	**618**	**618**	618	-	-	-	-	-
Loan payable to disposal group	**5,639**	**5,639**	5,639	-	-	-	-	-
Loans	**30,060**	**34,764**	34,764	-	-	-	-	-
Lease liabilities	**9,490**	**22,884**	1,360	1,366	1,374	1,448	1,498	15,838
Total contractual obligations	**64,183**	**82,281**	**60,757**	**1,366**	**1,374**	**1,448**	**1,498**	**15,838**

(1) Contractual cash flows include expected interest payable until the maturity date.

(2) Contractual cash flows are exclusive of any obligations of the HemPoland operations currently held for sale which primarily are all due within one year of June 30, 2022.

[a] Construction agreements

In prior years, the Company entered into contracts to facilitate the construction of the Hamilton Facility with various vendors. Pursuant to some of these agreements, as at June 30, 2022, the Company had letters of credit in the amount of $585 which may be drawn upon in the event of breaches of the respective agreements. These letters of credit bear conventional rates of interest partially offset by the interest earned on guaranteed investment certificates ("GIC") securing the letters as collateral. The Company has pledged corresponding GICs as collateral, which have been recorded in other assets. As at June 30, 2022, there have been no material breaches as defined by the agreements and no amounts have been drawn on the letters of credit.

The Company entered into escrow agreements in prior years with its construction partners and as such $219 is included in the restricted cash balance as at June 30, 2022 related to a construction partner.

[b] Other contractual commitments

The lease for the office space of the Company's headquarters required the issuance of a letter of credit in the amount $350, which may be drawn upon by the landlord in the event of a material breach of the agreement. As at June 30, 2022, there have been no breaches and no amounts have been drawn upon this letter of credit.

[c] Claims and Litigation

From time to time, the Company and/or its subsidiaries may become defendants in legal actions. The Company is subject to certain employment related claim by a former employee for which a provision in accounts payable and accrued liabilities has been recognized only to the extent that it is likely to result in future economic outflows. The Company has also been subject to a claim by former warrant holders for approximately $1,250. No provision in relation to these claims has been recognized as the Company estimates that it is more likely than not that a present obligation does not exist that will result in a payment to be made by the Company for these claims. On August 3, 2020, the Company was named as a defendant in a litigation matter commenced in the United States District Court for the Middle District of Georgia relating to a disposed of minority investment in a US based beverage incubation business, seeking, among other things, unquantified compensatory damages and injunctive relief. No provision in relation to this claim has been recognized as the Company estimates that it is more likely than not that a present obligation does not exist that will result in a payment to be made by the Company for this claim. Other than the claims previously described, the Company is not aware of any other material or significant claims against the Company.

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

[a] Fair values

The Company's financial instruments were comprised of the following as at June 30, 2022: cash and cash equivalents; restricted cash; trade receivables; due from related parties; certain other current assets; accounts payable and accrued liabilities; sales taxes payable; loans and contingent consideration.

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

[b] Fair value hierarchy

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

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

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

During the three and six months ended June 30, 2022, there were no transfers of amounts between levels (year ended December 31, 2021 – none).

[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 June 30, 2022, a portion of the Company's financial assets and liabilities were held in US dollars and European Euros which consisted of cash and cash equivalents. The Company has not used foreign exchange contracts to hedge its exposure to foreign currency cash flows for the six months ended June 30, 2022 as management has determined that this risk is not significant at this time.

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

Interest rate risk

The Company's exposure to interest rate risk relates to any investments of surplus cash as the Company's debt is fixed at a prescribed rate. The Company may invest surplus cash in highly liquid investments with short terms to maturity that would accumulate interest at prevailing rates for such investments. As at June 30, 2022, the Company had term deposits of $585 bearing interest between 0.80% and 1.00% (December 31, 2021 - $585, bearing interest between 0.80% and 1.00%). The Company also has $219 in restricted cash held in trust related to the Quebec Facility construction projects and earning a conventional rate of interest from a reputable top tier Canadian bank as well as $1,253 of restricted cash in a separate account related to the Revolver Loan with $67 having been added in the three months ended June 30, 2022. The restricted cash with regards to the Revolver Loan was added in the current year as part of the conditions for the amended Revolver Loan agreements.

[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 receivables, prepaid expenses and deposits, and other assets represents the maximum exposure to credit risk as at June 30, 2022. The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counterparties, taking into account their financial position, past experience and other factors. Credit risk is mitigated by entering into sales contracts with stable, creditworthy parties and through frequent reviews of exposures to individual entities.

The Company assesses the credit risk of trade receivables by evaluating the aging of trade receivables based on the invoice date and credit worthiness. 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. The Company had two customers whose balances individually were greater than 10% of total trade receivables as at June 30, 2022 (December 31, 2021 – two customers). Customer A accounted for 63% and Customer B accounted for 17% of trade receivables as at June 30, 2022 (December 31, 2021 – Customer A accounted for 48% and Customer B accounted for 24%).

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:

	June 30, 2022	December 31, 2021
	$	$
Total trade receivables	**9,037**	8,833
Less allowance for expected credit losses	**—**	—
Total trade receivables, net	**9,037**	8,833
Of which		
Current	**6,670**	6,447
31-90 days	**2,080**	2,256
Over 90 days	**287**	130
Total trade receivables, net	**9,037**	8,833

[iii] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements in relation to its current cash balances, maturity schedules and internal budgets. Refer to Note 16 – Commitments and Contingencies.

18. CAPITAL MANAGEMENT

The Company's objective is to maintain sufficient capital base to maintain investor, creditor and supplier confidence and to sustain future development of the business and provide the ability to continue as a going concern (See Note 2[i] – Going

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

Concern). Management defines capital as the Company's shareholders' equity (excluding deficit) and loans (excluding loan from disposal group). The Company's 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 June 30, 2022, total managed capital was comprised of share capital and loans of $539,363 (December 31, 2021 - $528,729), contributed surplus of $109,026 (December 31, 2021 - $108,836), and reserve for foreign currency translations of $1,858 (December 31, 2021 – $969). There were no changes in the Company's approach to capital management during the six months ended June 30, 2022 (year ended December 31, 2021 – no changes).

19. OPERATING EXPENSES

The following table presents share-based compensation, depreciation, and amortization by nature:

	For the three months ended		For the six months ended	
	June 30, 2022	**June 30, 2021**	**June 30, 2022**	**June 30, 2021**
Cost of sales related to inventory production	$ **2,345**	$ 2,629	**4,888**	$ 3,772
Sales and marketing expenses	**231**	302	**498**	444
Research and development expenses	**90**	138	**202**	207
General and administrative expenses	**914**	1,496	**2,086**	2,258

20. EVENTS AFTER THE REPORTING PERIOD

a) On July 28, 2022, the Company received an offer for the purchase of the HemPoland business. The terms of the offer included a non-refundable deposit of $150 which was paid by the purchaser. A further $1,500 is payable in cash on closing by the purchaser to acquire 100% of HemPoland. A loan payable to HemPoland by the Company, of $5,639, would also be forgiven upon closing. The sale is expected to be concluded by the end of September 2022.