



**GREEN THUMB INDUSTRIES INC. (formerly  
Bayswater Uranium Corporation)**

**MANAGEMENT'S DISCUSSION & ANALYSIS**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

*(Expressed in United States Dollars)*

## **MD&A of Green Thumb Industries Inc.**

This management discussion and analysis (“**MD&A**”) of the financial condition and results of operations of Green Thumb Industries Inc. (the “**Company**” or “**GTI**”) is for the three and six months ended June 30, 2019 and 2018. It is supplemental to, and should be read in conjunction with, the Company’s consolidated financial statements and the accompanying notes for the three and six months ended June 30, 2019. The Company’s financial statements are prepared in accordance with International Financial Reporting Standards (“**IFRS**”). Financial information presented in this MD&A is presented in United States dollars (“**\$**” or “**US\$**”), unless otherwise indicated.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators.

This MD&A contains certain “forward-looking statements” and certain “forward-looking information” as defined under applicable United States securities laws and Canadian securities laws. Please refer to the discussion of forward-looking statements and information set out under the heading “Cautionary Note Regarding Forward-Looking Information”, identified in the “Risks and Uncertainties” section of this MD&A. As a result of many factors, the Company’s actual results may differ materially from those anticipated in these forward-looking statements and information.

All references to “**\$**” are to United States dollars unless otherwise specified.

### **OVERVIEW OF THE COMPANY**

GTI is empowering the right to wellness by progressing responsible adult use of cannabis through branded consumer packaged goods and people-first retail experiences, while being committed to community and sustainable profitable growth.

GTI owns, manufactures, and distributes a portfolio of cannabis brands including Rythm, Dogwalkers, The Feel Collection, incredibles, Dr. Solomon’s, and Beboe, among others, primarily to third-party retail stores across the United States as well as to GTI-owned retail stores. The Company also owns and operates a rapidly growing national chain of retail cannabis stores called Rise™.

Headquartered in Chicago, Illinois, GTI owns or has executed definitive acquisition agreements for 13 manufacturing facilities, licenses for 95 retail locations and operations across 12 U.S. markets. Established in 2014, GTI employs over 1,200 people and serves thousands of patients and customers each year.

### **Revenue Streams**

The Company has consolidated financial statements across its operating businesses with revenue from the manufacture, sale and distribution of branded cannabis products to third-party retail customers as well as the sale of finished products to consumers in its retail stores.

As of the six months ended June 30, 2019, GTI has operating revenue in ten of its twelve markets: Nevada, Illinois, Pennsylvania, Massachusetts, Maryland, Florida, Connecticut, California, Ohio, and Colorado and ramp up expenses related to the build out of new markets: New York and New Jersey in preparation for revenue generation over the next three to six months.

## SELECTED FINANCIAL INFORMATION

The following is selected financial data derived from the consolidated financial statements of the Company for the three and six months June 30, 2019 and 2018.

The selected consolidated financial information set out below may not be indicative of the Company's future performance:

	As of and for the			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Total Revenues, net of discounts	\$ 44,726,777	\$ 13,624,658	\$ 72,639,940	\$ 24,550,556
Cost of Goods Sold (excluding biological assets)	\$ 21,488,647	\$ 7,337,040	\$ 36,300,136	\$ 13,550,003
Gross Profit	\$ 23,238,130	\$ 6,287,618	\$ 36,339,804	\$ 11,000,553
Total Expenses	\$ 32,469,737	\$ 12,128,241	\$ 59,025,280	\$ 18,383,879
Other (Expense) Income	\$ (12,287,706)	\$ 34,523,608	\$ (7,618,101)	\$ 34,985,847
(Loss) Income Before Provision for Income Taxes and Non-Controlling Interest	\$ (22,203,398)	\$ 29,267,749	\$ (30,729,184)	\$ 27,602,521
Total Assets	\$ 1,070,333,050	\$ 230,140,256	\$ 1,070,333,050	\$ 230,140,256
Long-Term Liabilities	\$ 153,394,519	\$ 10,449,556	\$ 153,394,519	\$ 10,449,556

### *Three Months Ended June 30, 2019*

#### *Revenue*

Revenue for the three months ended June 30, 2019 was \$44,726,777, up 228% from \$13,624,658 for the three months ended June 30, 2018 driven by contribution from both Consumer Packaged Goods and Retail sales across Illinois, Nevada, Maryland, Pennsylvania, Massachusetts and Connecticut. Key performance drivers are: distribution expansion of GTI's branded product portfolio to third-party retailers in Illinois, Maryland, Pennsylvania, Massachusetts, Connecticut and the addition of Integral in Nevada; and increased store traffic to GTI's 25 open and operating brick and mortar retail stores, particularly in Illinois, Nevada, Pennsylvania, and Florida.

#### *Cost of Goods Sold & Biological Assets*

Cost of goods sold are derived from cost related to the internal cultivation and production of cannabis and from retail purchases made from other licensed producers operating within our state markets.

Three months ended June 30, 2019 cost of goods sold, excluding any adjustments to the fair value of biological assets, of \$21,488,647 was up \$14,151,607 or 193% compared to three months ended June 30, 2018, driven by expansion of the consumer products sales in Maryland, Pennsylvania and Massachusetts, Connecticut, the addition of Retail stores in Pennsylvania, and Florida along with the addition of Integral in Nevada.

Inventory of plants under production is considered a biological asset. Under IFRS, biological assets are to be recorded at fair value at the time of harvest, less costs to sell. The biological assets are transferred to

inventory and the transfer becomes the deemed cost on a go-forward basis. When the product is sold, the fair value is relieved from inventory and the transfer is recorded to cost of sales. In addition, the cost of sales also includes products and costs related to other products acquired from other producers and sold by the Company.

#### *Gross Profit*

Gross profit before biological asset adjustments for the three months ended June 30, 2019 was \$23,238,130, representing a gross margin on the sale of finished cannabis consumer packaged goods of 52%. This is compared to gross profit before biological asset adjustments for the three months ended June 30, 2018 of \$6,287,618 or a 46% gross margin.

Gross profit after net losses on biological asset transformation for three months ended June 30, 2019 was \$22,554,045, representing a gross margin of 50%, compared with gross profit after biological asset transformation of \$6,872,382 or 50% gross margin, for the three months ended June 30, 2018, driven by increased harvested cannabis and wholesale shipments, along with incremental contribution from increased volume from Retail sales.

#### *Total Expenses*

Total expenses for the three months ended June 30, 2019 were \$32,469,737, an increase of \$20,341,496, compared to the three months ended June 30, 2018.

Increase in total expenses was attributable to an increase in general and administrative expenses, mainly due to non-cash charges related to equity incentive compensation of \$6,339,443, an increase of \$5,332,455 compared to the three months ended June 30, 2018. Salaries and benefits also contributed to the increase as a result of new headcount from the Company's Retail and Wholesale facilities in Illinois, Nevada, Maryland, Pennsylvania Massachusetts and Florida along with corporate staff development.

Additionally, the Company had professional fees of \$4,409,922 which represented an increase of \$1,818,549 over the 2018 amount of \$2,591,373, primarily driven by acquisition related support, and other regulatory and growth-related activities.

As a result of the adoption of IFRS 16, the company recorded \$865,695 of amortization expense and \$784,240 of interest expense while removing \$1,284,350 in cash rent expense during the three months ended June 30, 2019.

#### *Total Other Income (Expense)*

Total other expense for three months ended June 30, 2019 was \$12,287,706, a increase of \$46,633,981 compared to 2018, mainly due to a favorable adjustment to the fair values of the Company's investments recorded in 2018, as further described in the Liquidity, Financing Activities During the Period, and Capital Resources section of this MD&A.

### *Provision for Income Taxes*

Income tax expense is recognized based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end. For the three months ended June 30, 2019, Federal and State income tax benefit totaled \$177,333 compared to expense of \$4,253,000 for the three months ended June 30, 2018. The net benefit of \$177,333 for the three months ended June 30, 2019 includes current tax expense of \$2,836,667 and deferred tax benefit of \$3,014,000 in the current period. The deferred tax benefit is driven by net operating losses and changes in the fair value of investments.

### *Loss From Operations*

Net operating loss before other income, provision for income taxes and non-controlling interest for three months ended June 30, 2019 was \$9,915,692, an increase of \$4,659,833 compared to the three months ended June 30, 2018.

As presented in the Non-IFRS section, after adjusting for non-cash equity incentive compensation of \$6,339,443 as described above, as well as other non-operating items, adjusted operating EBITDA was \$5,049,215 and \$655,833 for the three months ended June 30, 2019 and 2018, respectively.

### ***Six Months Ended June 30, 2019***

#### *Revenue*

Revenue for the six months ended June 30, 2019 was \$72,639,940, up 196% from \$24,550,556 for the six months ended June 30, 2018 driven by contribution from both Consumer Packaged Goods and Retail sales across Illinois, Nevada, Maryland, Pennsylvania, Massachusetts and Connecticut. Key performance drivers are: distribution expansion of GTI's branded product portfolio to third-party retailers in Illinois, Maryland, Pennsylvania, Massachusetts, Connecticut and the addition of Integral in Nevada; and increased store traffic to GTI's 25 open and operating brick and mortar retail stores, particularly in Illinois, Pennsylvania and Florida.

#### *Cost of Goods Sold & Biological Assets*

Cost of goods sold are derived from cost related to the internal cultivation and production of cannabis and from retail purchases made from other licensed producers operating within our state markets.

Six months ended June 30, 2019 cost of goods sold, excluding any adjustments to the fair value of biological assets, increased by \$22,750,133 or 168% compared to six months ended June 30, 2018, driven by expansion of the consumer products sales in Maryland, Pennsylvania and Massachusetts, Connecticut, the addition of Retail stores in Pennsylvania, and Florida along with the addition of Integral in Nevada.

Inventory of plants under production is considered a biological asset. Under IFRS, biological assets are to be recorded at fair value at the time of harvest, less costs to sell. The biological assets are transferred to inventory and the transfer becomes the deemed cost on a go-forward basis. When the product is sold, the fair value is relieved from inventory and the transfer is recorded to cost of sales. In addition, the cost of sales also includes products and costs related to other products acquired from other producers and sold by the Company.

### *Gross Profit*

Gross profit before biological asset adjustments for the six months ended June 30, 2019 was \$36,339,804, representing a gross margin on the sale of finished cannabis consumer packaged goods of 50%. This is compared to gross profit before biological asset adjustments for the six months ended June 30, 2018 of \$11,000,553 or a 45% gross margin.

Gross profit after net gains on biological asset transformation for the six months ended June 30, 2019 was \$35,914,197, representing a gross margin of 49%, compared with gross profit after biological asset transformation of \$11,736,362 or 48% gross margin, for the six months ended June 30, 2018, driven by increased harvested cannabis and wholesale shipments, along with incremental contribution from increased volume from Retail sales.

### *Total Expenses*

Total expenses for six months ended June 30, 2019 were \$59,025,280 an increase of \$40,641,401 or 221% compared to six months ended June 30, 2018.

Increase in total expenses was attributable to an increase in general and administrative expenses, mainly due to non-cash charges related to equity incentive compensation of \$12,812,905, an increase of \$11,805,917 compared to the six months ended June 30, 2018. Salaries and benefits also contributed to the increase as a result of new headcount from the Company's Retail and Wholesale facilities in Illinois, Nevada, Maryland, Pennsylvania Massachusetts and Florida along with corporate staff development.

Additionally, the Company had professional fees of \$7,997,480 which represented an increase of \$4,385,248 over the 2018 amount of \$3,612,232, primarily driven by acquisition related support, and other regulatory and growth-related activities.

As a result of the adoption of IFRS 16, the company recorded \$1,357,362 of amortization expense and \$1,565,017 of interest expense while removing \$1,900,380 in cash rent expense during the six months ended June 30, 2019.

### *Total Other Expense (Income)*

Total other expense for the six months ended June 30, 2019 was \$7,618,101, representing an increase of \$42,603,948 compared to 2018, mainly due to a favorable adjustment to the fair values of the Company's investments recorded in 2018, as further described in the Liquidity, Financing Activities During the Period, and Capital Resources section of this MD&A

### *Provision for Income Taxes*

Income tax expense is recognized based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end. For the six months ended June 30, 2019, Federal and State income tax expense totaled \$1,129,667 compared to \$4,288,000 for the six months ended June 30, 2018. The net expense of \$1,129,667 for the six months ended June 30, 2019 includes current tax expense of \$4,544,667 and deferred tax benefit of \$3,415,000 in the current period. The deferred tax benefit is driven by net operating losses and changes in the fair value of investments.

### *Loss From Operations*

Net operating loss before other income, provision for income taxes and non-controlling interest for six months ended June 30, 2019 was \$23,111,083, an increase of \$16,463,566 compared to the six months ended June 30, 2018.

As presented in the Non-IFRS section, after adjusting for non-cash equity incentive compensation of \$12,812,905 as described above, as well as other non-operating items, adjusted operating EBITDA was \$4,650,664 and \$(391,520) for the six months ended June 30, 2019 and 2018, respectively.

### **Drivers of Results of Operations**

#### *Revenue*

The Company derives its revenue from two revenue streams: a Consumer Packaged Good business in which it manufactures, sells and distributes its portfolio of finished consumer packaged goods including brands Rythm, Dogwalkers, The Feel Collection, incredibles, Dr. Solomon's, and Beboe, among others, and a Retail business in which it sells finished goods direct to the end consumer in its brick and mortar retail stores, as well as direct-to-consumer delivery where applicable by state law.

For the six months ended June 30, 2019, revenue was contributed from both Consumer Packaged Goods and Retail business in Illinois, Maryland, Pennsylvania, Massachusetts, Connecticut and the addition of Integral in Nevada.

#### *Gross Profit*

Gross profit is revenue less cost of goods sold. Cost of goods sold includes the costs directly attributable to product sales and includes amounts paid for finished goods, such as flower, edibles, and concentrates, as well as packaging and other supplies, fees for services and processing, and allocated overhead which includes allocations of rent, utilities, and related costs. Cannabis costs are affected by various state regulations that limit the sourcing and procurement of cannabis product, which may create fluctuations in gross profit over comparative periods as the regulatory environment changes. Gross margin measures our gross profit as a percentage of revenue.

Over the six months ended June 30, 2019, the Company continued to be focused on executing sustainable profitable growth of the Company's base business while pursuing national expansion. GTI expects to continue its growth strategy for the foreseeable future as the Company expands its consumer products and retail footprint within its current markets with acquisitions and partnerships, and scales resources into new markets.

#### *Total Expenses*

Total expenses other than the cost of goods sold consist of selling costs to support customer relationships and marketing and branding activities. It also includes a significant investment in the corporate infrastructure required to support ongoing business.

Selling costs generally correlate to revenue. As a percentage of sales, the Company expects selling costs to remain relatively flat in the more established operational markets (Illinois, Nevada, Maryland, Pennsylvania, Massachusetts and Connecticut) and increase in the up and coming markets as business continues to grow (Florida, Ohio, New Jersey, and New York). The increase is expected to be driven

primarily by the growth of our Consumer Products and Retail channels and the ramp up from pre-revenue to sustainable market share.

General and administrative expenses also include costs incurred at the corporate offices, primarily related to personnel costs, including salaries, incentive compensation, benefits, share-based compensation and other professional service costs. The Company expects to continue to invest considerably in this area to support aggressive expansion plans and to support the business by attracting and retaining top-tier talent. Furthermore, the Company expects to continue to incur acquisition and transaction costs related to these expansion plans and anticipates an increase in stock compensation expenses related to recruiting and hiring talent, along with legal and professional fees associated with being a publicly traded company.

#### *Provision for Income Taxes*

The Company is subject to income taxes in the jurisdictions in which it operates and, consequently, income tax expense is a function of the allocation of taxable income by jurisdiction and the various activities that impact the timing of taxable events. As the Company operates in the legal cannabis industry, it is subject to the limitations of IRC Section 280E under which taxpayers are only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E and a higher effective tax rate than most industries. Therefore, the effective tax rate can be highly variable and may not necessarily correlate to pre-tax income or loss.

#### **Non-IFRS Measures**

EBITDA, Adjusted Operating EBITDA, and Adjusted EBITDA are non-IFRS measures and do not have standardized definitions under IFRS. The following information provides reconciliations of the supplemental non-IFRS financial measures, presented herein to the most directly comparable financial measures calculated and presented in accordance with IFRS. The Company has provided the non-IFRS financial measures, which are not calculated or presented in accordance with IFRS, as supplemental information and in addition to the financial measures that are calculated and presented in accordance with IFRS. These supplemental non-IFRS financial measures are presented because management has evaluated the financial results both including and excluding the adjusted items and believe that the supplemental non-IFRS financial measures presented provide additional perspective and insights when analyzing the core operating performance of the business. These supplemental non-IFRS financial measures should not be considered superior to, as a substitute for or as an alternative to, and should be considered in conjunction with, the IFRS financial measures presented.



**Adjusted EBITDA**

(Amounts expressed in United States Dollars)

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Net (loss) income before noncontrolling interest (IFRS)</b>	\$ (22,026,065)	\$ 25,014,749	\$ (31,858,851)	\$ 24,050,330
Interest income	(535,894)	(378,082)	(892,724)	(978,082)
Interest expense	6,183,054	466,668	7,126,932	837,773
Income tax (benefit) expense	(177,333)	4,253,000	1,129,667	4,288,000
Depreciation and amortization	<u>7,180,909</u>	<u>639,640</u>	<u>11,096,805</u>	<u>983,945</u>
<b>(Loss) earnings before interest, taxes, depreciation and amortization (EBITDA) (non-IFRS measure)</b>	<b>\$ (9,375,329)</b>	<b>\$ 29,995,975</b>	<b>\$ (13,398,171)</b>	<b>\$ 29,181,966</b>
<b>Other expense (income)</b>	6,640,546	(34,612,194)	1,383,893	(34,845,538)
Share-based compensation, non-cash	6,339,443	1,006,988	12,812,905	1,006,988
RTO related expenses	-	4,265,064	-	4,265,064
Acquisition, transaction, and other non-operating costs	<u>1,444,555</u>	<u>-</u>	<u>3,852,037</u>	<u>-</u>
<b>Adjusted Operating EBITDA (non-IFRS measure)</b>	<b>\$ 5,049,215</b>	<b>\$ 655,833</b>	<b>\$ 4,650,664</b>	<b>\$ (391,520)</b>

**Liquidity, Financing Activities During the Period, and Capital Resources**

As of June 30, 2019, the Company had total current liabilities of \$95,565,527 (December 31, 2018 had \$47,619,512) and cash and cash equivalents of \$135,759,426 (December 31, 2018 had \$145,986,072) to meet its current obligations. As of June 30, 2019, the Company had working capital of \$93,610,653 down \$33,165,875 compared to December 31, 2018 driven primarily by liabilities arising from the completion of business acquisitions during the six months ended June 30, 2019.

The Company is an early-stage growth company. It is generating cash from sales and is deploying its capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and near term. Capital reserves are being utilized for acquisitions in the medical and adult use cannabis markets, for capital expenditures and improvements in existing facilities, product development and marketing, as well as customer, supplier and investor and industry relations.

**Cash Flows**

*Cash Used in Operating Activities*

Net cash used in operating activities was \$6,148,834 for the six months ended June 30, 2019, an increase of \$6,504,222 compared to \$12,651,167 for the six months ended June 30, 2018.

*Cash Flow from Investing Activities*

Net cash used in investing activities was \$98,671,144 for the six months ended June 30, 2019, an increase of \$82,625,468 compared to \$16,045,676 for the six months ended June 30, 2018.

*Cash Flow from Financing Activities*

Net cash provided by financing activities was \$95,591,332 for the six months ended June 30, 2019, a decrease of \$17,190,331 compared to \$111,781,663 for the six months ended June 30, 2018.

### **Off-Balance Sheet Arrangements**

As of the date of this filing, the Company does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

### **Subsequent Transactions**

On August 23, 2019, the Company closed on a transaction to acquire New York-based Fiorello Pharmaceuticals, Inc. The consideration paid includes \$46,000,000 of cash and 1,700,000 of the Company's Subordinate Voting Shares. The acquisition includes the license and assets for one cultivation, one processing, and four retail facilities in New York.

### **Upcoming Changes in Issuer's Accounting Framework**

Effective December 31, 2019, we will become a domestic issuer under the rules of the U.S. Securities and Exchange Commission, and will no longer qualify as a "foreign private issuer" under those rules, and as a result we will have to prepare our December 31, 2019 annual financial statements in accordance with US GAAP, with such change being applied retrospectively. The extent of the impact of adoption of the standard has not yet been determined. We will report our third quarter results under IFRS as issued by the International Accounting Standards Board.

### **Changes in or Adoption of Accounting Practices**

The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

#### *IFRS 16, Leases*

In January 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"), which replaced IAS 17, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard is effective for annual periods beginning on or after January 1, 2019.

The Company has applied this standard on a modified retrospective basis, where the cumulative effect of initially applying the standard is recognized as an adjustment to the opening balance of retained earnings and comparative balances are not restated.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases and apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed for whether a lease exists. The Company did not elect to recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets. The Company also did not account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

Upon adoption of IFRS 16, the Company recognized \$10,932,883 in right-of-use assets and \$11,984,980 in corresponding lease liabilities with the difference of \$1,052,097 million recorded in opening retained earnings.

## **CRITICAL ACCOUNTING ESTIMATES**

The Company makes judgements, estimates and assumptions about the future that affect the reported amounts of assets and liabilities, and revenues and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant judgments estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

### *Estimated Useful Lives and Depreciation of Property and Equipment*

Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. 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 and the useful lives of assets.

### *Estimated Useful Lives and Amortization of Intangible Assets*

Amortization of intangible assets is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

### *Business Combinations*

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition.

In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. Management exercises judgement in estimating the probability and timing of when earn-outs are expected to be achieved which is used as the basis for estimating fair value. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or

management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

#### *Inventories*

The net realizable value of inventories represents the estimated selling price for inventories in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale. The determination of net realizable value requires significant judgment, including consideration of factors such as shrinkage, the aging of and future demand for inventory, expected future selling price the Company expects to realize by selling the inventory, and the contractual arrangements with customers. Reserves for excess and obsolete inventory are based upon quantities on hand, projected volumes from demand forecasts and net realizable value. The estimates are judgmental in nature and are made at a point in time, using available information, expected business plans, and expected market conditions. As a result, the actual amount received on sale could differ from the estimated value of inventory. Periodic reviews are performed on the inventory balance. The impact of changes in inventory reserves is reflected in cost of goods sold.

#### *Biological Assets*

Management is required to make estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stages of growth of the cannabis, harvested costs, sales price and expected yields.

#### *Investments in Private Holdings*

Investments include private company investments which are classified as FVTPL and carried at fair value based on the value of the Company's interests in the private companies determined from financial information provided by management of the companies, which may include operating results, subsequent rounds of financing and other appropriate information. Any change in fair value is recognized on the consolidated statement of operations and comprehensive loss.

#### *Goodwill Impairment*

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

#### *Determination of Cash-Generating Units*

The Company's assets are aggregated into cash-generating units ("CGU's"). CGU's are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGU's was based on management's judgment in regard several factors such as shared infrastructure, geographical proximity, and exposure to market risk and materiality.

### *Consolidation*

Judgment is applied in assessing whether the Company exercises control and has significant influence over entities in which the Company directly or indirectly owns an interest. The Company has control when it has the power over the subsidiary, has exposure or rights to variable returns, and has the ability to use its power to affect the returns. Significant influence is defined as the power to participate in the financial and operating decisions of the subsidiaries. Where the Company is determined to have control, these entities are consolidated. Additionally, judgment is applied in determining the effective date on which control was obtained.

### *Expected Credit Loss*

Management determines the expected credit loss by evaluating individual receivable balances and considering accounts and other receivable financial condition and current economic conditions. Accounts receivable and financial assets recorded in other receivables are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as income when received. All receivables are expected to be collected within one year of the statement of financial position date.

### *Share-Based Payments*

Valuation of stock-based compensation and warrants requires management to make estimates regarding the inputs for option pricing models, such as the expected life of the option, the volatility of the Company's stock price, the vesting period of the option and the risk-free interest rate are used. Actual results could differ from those estimates. The estimates are considered for each new grant of stock options or warrants.

### *Fair Value of Financial Instruments*

The individual fair values attributed to the different components of a financing transaction, derivative financial instruments, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

## **Financial Instruments and Financial Risk Management**

The Company's financial instruments consist of cash and cash equivalents, investments, accounts payable and accrued liabilities, income tax payable, short-term notes payable and long-term debt. The carrying values of these financial instruments approximate their fair values. Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

Level 1:	Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2:	Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
Level 3:	Inputs for the asset or liability that are not based on observable market data.

## **Financial Risk Management**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The board of directors of the Company mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

### **Credit Risk**

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure is the carrying amount of cash and cash equivalents. The Company does not have significant credit risk with respect to customers. All cash and cash equivalents are placed with major U.S. financial institutions.

The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk but has limited risk as the majority of its sales are transacted with cash.

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

### **Market Risk**

#### *Currency Risk*

The operating results and financial position of the Company are reported in U.S. dollars. Some of the Company's financial transactions are denominated in currencies other than the U.S. dollar. The results of the Company's operations are subject to currency transaction risks.

The Company has no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

#### *Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company's financial debts have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

#### *Price Risk*

Price risk is the risk of variability in fair value due to movements in equity or market prices.