The Green Organic Dutchman Holdings Limited

Unaudited Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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 September 30, 2019	As at January 1, 2019	As at December 31, 2018
ASSETS			(see note 3)	
Current assets				
Cash and cash equivalents		**$ 22,935**	$ 213,549	$ 213,549
Restricted cash	15[a]	**40,173**	50,000	50,000
Refundable sales taxes receivable		**11,035**	13,332	13,332
Trade receivables	16	**3,021**	1,199	1,199
Biological assets	4	**724**	395	395
Inventories	5	**5,811**	3,925	3,925
Prepaid expenses and deposits		**6,937**	3,521	3,521
Due from related parties		**729**	800	800
Other current assets		**1,029**	864	864
		$ 92,394	$ 287,585	$ 287,585
Non-current assets				
Property, plant and equipment	3[a], 6	**317,118**	108,808	107,529
Intangible assets	7	**14,543**	13,535	13,535
Goodwill	7	**10,031**	10,702	10,702
Investments in associates	8	**9,355**	10,944	10,944
Loans receivable	9	**2,452**	1,001	1,001
Other assets	9, 15[a]	**10,201**	14,661	14,661
Total assets		**$ 456,094**	$ 447,236	$ 445,957
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		**$ 66,617**	$ 28,258	$ 28,258
Income tax payable		**828**	781	781
Short-term loans	15[d]	**501**	688	688
Current portion of lease liabilities	11	**362**	263	151
		68,308	29,990	29,878
Non-current liabilities				
Lease liabilities	11	**2,354**	1,468	261
Contingent consideration	10	**646**	688	688
Deferred tax liability	13	**1,065**	1,435	1,435
		4,065	3,591	2,384
Total liabilities		**$ 72,373**	$ 33,581	$ 32,262
Shareholders' equity				
Share capital		**406,986**	392,068	392,068
Contributed surplus	12	**89,029**	79,937	79,937
Deficit		**(109,441)**	(58,863)	(58,823)
Reserve for foreign translations		**(2,474)**	513	513
Total Shareholders' Equity attributed to The Green Organic Dutchman Holdings Ltd.		**$ 384,100**	$ 413,655	$ 413,695
Non-controlling interests		**(379)**	—	—
Total Shareholders' Equity		**383,721**	413,655	413,695
Total Liabilities and Shareholders' Equity		**$ 456,094**	$ 447,236	$ 445,957
Total number of common shares outstanding		**275,877,244**	269,976,624	269,976,624
Going Concern	2			
Business combination	10			
Commitments and contingencies	15			
Events after the reporting period	19			

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

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

	Notes	For the three months ended September 30, 2019	For the three months ended September 30, 2018	For the nine months ended September 30, 2019	For the nine months ended September 30, 2018
Revenue		**$ 2,612**	$ —	**$ 7,913**	$ —
Excise duties		**(87)**		**(87)**	—
Net revenue		**2,525**	**—**	**7,826**	**—**
Cost of sales related to inventory production		**945**	—	**2,872**	—
Cost of sales related to business combination fair value adjustments to inventories		**—**	—	**270**	—
Gross profit before change in fair value of biological assets		**1,580**	**—**	**4,684**	**—**
Realized fair value adjustment on sale of inventory		**(212)**		**(217)**	
Unrealized gain on changes in fair value of biological assets	4	**327**	305	**552**	305
Gross profit		**$ 1,695**	$ 305	**$ 5,019**	$ 305
Operating expenses					
Sales and marketing expenses		**$ 3,342**	$ 1,417	**$ 10,268**	$ 2,907
Research and development expenses		**541**	461	**1,563**	2,037
General and administrative expenses		**13,337**	5,684	**30,703**	14,486
Share based compensation	12	**3,513**	2,315	**11,365**	6,239
Depreciation and amortization	6, 7	**772**	231	**2,071**	551
Total operating expenses		**$ 21,505**	$ 10,108	**$ 55,970**	$ 26,220
Loss from operations		**(19,810)**	(9,803)	**(50,951)**	(25,915)
Strategic business initiatives		**(215)**	(791)	**(821)**	(791)
Share of loss on investments in associates	8	**(475)**	(350)	**(927)**	(350)
Revaluation of contingent consideration	10	**(158)**	—	**42**	—
Foreign exchange loss		**(208)**	(1,339)	**(683)**	(1,759)
Finance income		**478**	1,133	**2,533**	1,900
Finance costs		**91**	(119)	**(141)**	(167)
Loss before income taxes		**(20,297)**	(11,269)	**(50,948)**	(27,082)
Current income tax expense		**(69)**	—	**(283)**	—
Deferred income tax recovery	13	**63**	—	**234**	—
Net loss		**$ (20,303)**	$ (11,269)	**$ (50,997)**	$ (27,082)
Other comprehensive loss					
Foreign currency translation loss		**867**	—	**2,325**	—
Foreign currency translation loss on equity method investment	8	**67**	—	**662**	—
Comprehensive loss		**$ (21,237)**	$ (11,269)	**$ (53,984)**	$ (27,082)
Net loss attributable to:					
The Green Organic Dutchman Holdings Ltd.		**(20,131)**	(11,269)	**(50,578)**	(27,082)
Non-controlling interests		**(172)**	—	**(419)**	—
Comprehensive loss attributable to:					
The Green Organic Dutchman Holdings Ltd.		**(21,065)**	(11,269)	**(53,565)**	(27,082)
Non-controlling interests		**(172)**	—	**(419)**	—
Basic and diluted net loss per share		**$ (0.07)**	$ (0.04)	**$ (0.19)**	$ (0.13)
Weighted average number of outstanding common shares		**275,678,712**	250,587,837	**274,058,305**	204,108,510

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

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

	Number of shares	Share capital	Contributed surplus	Reserve for foreign translations	Accumulated deficit	Non-Controlling Interests	Total
	#	$	$	$	$	$	$
Balance at December 31, 2018	**269,976,624**	**392,068**	**79,937**	**513**	**(58,823)**	**—**	**413,695**
Effect of adoption of IFRS 16	**—**	**—**	**—**	**—**	**(40)**	**—**	**(40)**
Balance at January 1, 2019	**269,976,624**	**392,068**	**79,937**	**513**	**(58,863)**	**—**	**413,655**
Share based compensation	**—**	**38**	**3,381**	**—**	**—**	**—**	**3,419**
Exercise of stock options	**134,800**	**176**	**(73)**	**—**	**—**	**—**	**103**
Exercise of warrants	**4,264,354**	**10,937**	**(1,749)**	**—**	**—**	**—**	**9,188**
Cancellation of shares	**(5,880)**	**—**	**—**	**—**	**—**	**—**	**—**
Contribution from non-controlling interest	**—**	**—**	**—**	**—**	**—**	**40**	**40**
Comprehensive loss for period	**—**	**—**	**—**	**(1,350)**	**(14,007)**	**(84)**	**(15,441)**
Balance at March 31, 2019	**274,369,898**	**403,219**	**81,496**	**(837)**	**(72,870)**	**(44)**	**410,964**
Share based compensation	**—**	**26**	**4,407**	**—**	**—**	**—**	**4,433**
Exercise of stock options	**235,133**	**351**	**(135)**	**—**	**—**	**—**	**216**
Exercise of warrants	**841,057**	**2,408**	**(390)**	**—**	**—**	**—**	**2,018**
Issuance of convertible units	**—**	**—**	**300**	**—**	**—**	**—**	**300**
Comprehensive loss for period	**—**	**—**	**—**	**(703)**	**(16,440)**	**(163)**	**(17,306)**
Balance at June 30, 2019	**275,446,088**	**406,004**	**85,678**	**(1,540)**	**(89,310)**	**(207)**	**400,625**
Share based compensation	**—**	**25**	**3,487**	**—**	**—**	**—**	**3,512**
Exercise of stock options	**81,000**	**110**	**(46)**	**—**	**—**	**—**	**64**
Exercise of warrants	**350,156**	**847**	**(90)**	**—**	**—**	**—**	**757**
Comprehensive loss for period	**—**	**—**	**—**	**(934)**	**(20,131)**	**(172)**	**(21,237)**
Balance at September 30, 2019	**275,877,244**	**406,986**	**89,029**	**(2,474)**	**(109,441)**	**(379)**	**383,721**

	Number of shares	Share capital	Contributed surplus	Accumulated deficit	Total
	#	$	$	$	$
Balance as at January 1, 2018	142,594,801	72,572	18,296	(13,620)	77,248
Private placement of units	14,134,566	18,247	4,359	—	22,606
Finders' compensation - Units	692,290	935	208	—	1,143
Share based compensation	1,662,000	2,302	(1,272)	—	1,030
Exercise of stock options	18,000	16	(7)	—	9
Share issue costs	—	(760)	—	—	(760)
Comprehensive loss for period	—	—	—	(7,266)	(7,266)
Balance at March 31, 2018	159,101,657	93,312	21,584	(20,886)	94,010
Initial public offering	31,510,000	106,504	8,508	—	115,012
Initial public offering - over-allotment	4,726,500	15,975	1,277	—	17,252
Conversion of subscription agreements	33,333,334	28,227	26,773	—	55,000
Exercise of stock options	637,400	682	(291)	—	391
Exercise of warrants	4,746,677	13,810	(340)	—	13,470
Issuance of special warrants	—	—	25,024	—	25,024
Issuance of underwriter special warrants	—	—	610	—	610
Stock based compensation	—	30	1,722	—	1,752
Share issue costs	—	(6,180)	(2,995)	—	(9,175)
Cancellation of shares	(250,000)	—	—	—	-
Net loss and comprehensive loss	—	—	—	(8,548)	(8,548)
Balance at June 30, 2018	233,805,568	252,360	81,872	(29,434)	304,798
Issuance of common shares on Epican acquisition	247,353	1,521	—	—	1,521
Exercise of stock options	2,929,268	3,169	(1,368)	—	1,801
Exercise of warrants	16,445,514	52,891	(6,087)	—	46,804
Conversion of special warrants	3,910,000	20,625	(20,625)	—	-
Stock based compensation	—	149	2,166	—	2,315
Share issue costs	—	(2,075)	1,842	—	(233)
Net loss and comprehensive loss	—	—	—	(11,269)	(11,269)
Balance at September 30, 2018	257,337,703	328,640	57,800	(40,703)	345,737

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 September 30, 2019	For the three months ended September 30, 2018 (Recast - Note 3)	For the nine months ended September 30, 2019	For the nine months ended September 30, 2018 (Recast - Note 3)
OPERATING ACTIVITIES					
Net loss		**$ (20,303)**	$ (11,269)	**$ (50,997)**	$ (27,082)
Items not affecting cash:					
Share based compensation - finders' units	12	**—**	—	**—**	1,142
Share based compensation - shares and options	12	**3,484**	2,315	**11,284**	5,097
Share based compensation - restricted share units	12	**28**	—	**80**	—
Convertible share units issued	12	**—**	—	**300**	—
Depreciation of property, plant and equipment	6	**369**	149	**1,053**	316
Amortization of intangible assets	7	**403**	82	**1,018**	235
Realized fair value adjustment on sale of inventory		**217**	—	**217**	—
Unrealized gain on change in fair value of biological assets	4	**(327)**	(305)	**(552)**	(305)
Share of loss from investments in associates	8	**475**	350	**927**	350
Revaluation of contingent consideration	10	**158**	—	**(42)**	—
Loss on disposals of property, plant and equipment	6	**83**	—	**119**	—
Current income tax expense		**69**	—	**283**	—
Deferred income tax recovery	13	**(63)**	—	**(234)**	—
Income taxes paid		**(210)**	—	**(236)**	—
Changes in non-cash operating working capital items	14	**25,135**	(5,002)	**622**	(13,228)
Net cash provided by (used in) operating activities		**$ 9,518**	$ (13,680)	**$ (36,158)**	$ (33,475)
INVESTING ACTIVITIES					
Additions to property, plant and equipment	6	**(69,660)**	(33,310)	**(172,930)**	(49,835)
Net cash outflow on investment in associates	8	**—**	(8,437)	**—**	(10,608)
Transfer from restricted cash	15[a]	**13,827**	(50,000)	**9,827**	(50,000)
Net cash outflow on other investment	9	**—**	—	**(1,434)**	—
Additions to intangible assets	7	**(756)**	—	**(2,626)**	(200)
Net cash used in investing activities		**$ (56,589)**	$ (91,747)	**$ (167,163)**	$ (110,643)
FINANCING ACTIVITIES					
Proceeds from issuance of shares and warrants, net of share issue costs		**—**	(233)	**—**	225,265
Proceeds from the exercise of stock options		**64**	1,801	**383**	2,200
Proceeds from the exercise of warrants		**757**	46,804	**11,963**	60,346
Interest received		**685**	836	**3,073**	1,405
Interest paid on lease liabilities		**(25)**	—	**(86)**	—
Principal payments of lease liabilities		**(89)**	—	**(253)**	—
Loan receivable	9	**—**	—	**(1,451)**	(1,001)
Notes receivable		**—**	(968)	**—**	(968)
Repayments of short-term loans		**(31)**	—	**(187)**	—
Advances to related parties		**(67)**	(4,382)	**(468)**	(7,127)
Repayment on related party loans		**236**	6,973	**539**	7,166
Capital contributed by non-controlling interest		**—**	—	**40**	—
Net cash provided by financing activities		**$ 1,530**	$ 50,831	**$ 13,553**	$ 287,286
Net cash (outflow) inflow		**$ (45,541)**	$ (54,596)	**$ (189,768)**	$ 143,168
Net effects of foreign exchange		**(239)**	397	**(846)**	713
Cash, beginning of period		**68,715**	261,816	**213,549**	63,736
Cash and cash equivalents, end of period		**$ 22,935**	$ 207,617	**$ 22,935**	$ 207,617

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

1. DESCRIPTION OF BUSINESS

The Green Organic Dutchman Holdings Ltd. ("TGODH" or the "Company") was incorporated on November 16, 2016, under the *Canada Business Corporations Act* ("CBCA"). The Company is a reporting issuer domiciled in Canada whose shares and certain warrants are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol "TGOD" and on the OTCQX under the symbol "TGODF". The Company's registered and head office is located at 6205 Airport Road, Building A – Suite 301, Mississauga, ON, L4V 1E3. These unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2019 and 2018 ("Interim Consolidated Financial Statements") include the financial statements of The Green Organic Dutchman Holdings Ltd. and its subsidiaries from the date the Company gained control of each subsidiary.

The Green Organic Dutchman Limited ("TGOD"), a wholly-owned subsidiary of TGODH, is a licensed producer of premium organic cannabis solutions. The principal activities of TGOD include cultivating and processing cannabis as regulated by the Cannabis Act. TGOD obtained a wholesale licence from Health Canada to sell cannabis ("The Licence"). The Licence was amended on multiple occasions to include the extraction, production and sale of cannabis oil and to allow for direct sales to medical patients. The Company also formed a wholly owned subsidiary, Medican Organic Inc. ("Medican"), under the Statuts de constitution of Québec to invest in and develop a property in Valleyfield, Québec and build a facility ("The Québec Facility"). 9371-8633 Québec Inc. ("QuébecCo"), in which the Company has a 49.99% interest, was incorporated under the *Québec Business Corporations Act* ("QBCA") for the purpose of investing in the Valleyfield land for the Québec Facility and operate similarly to TGOD.

On July 5, 2018, the Company expanded its international footprint by investing in a company in Jamaica, Epican Medicinals Ltd ("Epican") which holds various licences issued by the Cannabis Licensing Authority ("CLA") of Jamaica. On January 23, 2019, the Company entered into a joint venture agreement (the "Denmark JV Agreement") with A/S Knud Jepsen ("KJ"), through its wholly owned subsidiary TGOD Europe B.V ("TGOD Europe"), to engage in the research and development of new cannabis genetics and new intellectual property, and the business of cultivating, harvesting, and producing cannabis products.

On October 1, 2018, the Company purchased all of the issued and outstanding shares of HemPoland sp. z.o.o. ("HemPoland"), a manufacturer and marketer of premium CBD oils, located in Poland. On April 18, 2019, the Company invested in and entered into a strategic partnership agreement with Califormulations LLC ("Califormulations"), a Delaware based limited liability company (see note 9). The Company, through various wholly owned subsidiaries and subsidiaries that it controls, also has an exploratory presence in Mexico, Germany, and Greece. The accounting method for these exploratory entities is full consolidation with recognition of a non-controlling interests.

2. BASIS OF PRESENTATION

Going concern

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

As of September 30, 2019, the Company had working capital of $24,086 (December 31, 2018 - $257,707) and an accumulated deficit of $109,441 (December 31, 2018 - $58,823). During the nine months ended September 30, 2019, the Company incurred a net loss of $50,997 (nine months ended September 30, 2018 - $27,082) of which $13,436 was related to non-cash stock-based compensation, depreciation and amortization expenses (nine months ended September 30, 2018 - $6,790). The Company has insufficient cash to fund its planned construction investments and operations for the next twelve months (see note 15). The Company's ability to continue as a going concern is dependent upon the ability of the Company to obtain sufficient additional funding and to generate sufficient revenues and positive cash flows from its operating activities to meet its obligations and fund its planned investments and operations.

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

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

On November 13, 2019 the Company signed arrangements for up to $103 million in funding (the "financing package"). The financing package consisted of three elements: a definitive agreement for a sale-leaseback of the Ancaster Energy Centre; a construction mortgage loan term sheet; and a convertible equity note term sheet (see Note 19).

Interim Financial Reporting

These Interim Consolidated Financial Statements have been prepared by management in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The same accounting policies and methods of computation were followed in the preparation of these Interim Consolidated Financial Statements as those disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2018, except for the newly issued standards and amendments, and changes to policies as discussed below.

These Interim Consolidated Financial Statements do not include all of the information required for full annual consolidated financial statements and accordingly should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2018 which are made available on SEDAR at www.sedar.com.

These Interim Consolidated Financial Statements were approved by the Board of Directors of the Company and authorized for issue by the Board of Directors of the Company on November 14, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

The preparation of these Interim Consolidated Financial Statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Interim Consolidated Financial Statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2018 with the exception of leases, as discussed below.

[a] New standards, interpretations and amendments adopted by the Company

IFRS 16 Leases ("IFRS 16")

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company's weighted average borrowing rate applied to lease liabilities at January 1, 2019 is 2.99%. The difference between operating lease commitments disclosed as at December 31, 2018 under IAS 17 and discounted using the incremental borrowing rate at the date of initial application on January 1, 2019 and the lease liabilities recognized at the date of initial application is not significant. See note 11 for accounting policies, including estimates and judgments, to be used for accounting for leases under IFRS 16.

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

[b] Comparative figures

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

	For the three months ended		
	March 31, 2019 (as previously reported)	Reclassification	March 31, 2019 (as reclassified)
Operating activities			
Changes in non-cash operating working capital items	$ 11,823	$ (22,958)	$ (11,135)
Net cash used in operating activities	451	(22,958)	(22,507)
Investing activities			
Change in non-cash working capital related to property, plant and equipment	$ (22,666)	$ 22,666	$ —
Change in non-cash working capital related to intangible assets	(292)	292	—
Net cash used in investing activities	(49,860)	22,958	(26,902)

	For the three months ended			For the six months ended		
	June 30, 2018 (as previously reported)	Reclassification	June 30, 2018 (as reclassified)	June 30, 2018 (as previously reported)	Reclassification	June 30, 2018 (as reclassified)
Operating activities						
Changes in non-cash operating working capital items	$ (581)	$ (7,997)	$ (8,578)	672	$ (8,898)	$ (8,226)
Net cash used in operating activities	(7,196)	(7,997)	(15,193)	(10,898)	(8,898)	(19,796)
Investing activities						
Additions to property, plant and equipment	(21,099)	7,997	(13,102)	(25,423)	8,898	(16,525)
Net cash used in investing activities	(21,299)	7,997	(13,302)	(27,794)	8,898	(18,896)

	For the three months ended		
	March 31, 2018 (as previously reported)	Reclassification	March 31, 2018 (as reclassified)
Operating activities			
Changes in non-cash operating working capital items	$ 1,253	$ (901)	$ 352
Net cash used in operating activities	(3,774)	(901)	(4,675)
Investing activities			
Additions to property, plant and equipment	$ (4,324)	$ 901	$ (3,423)
Net cash used in investing activities	(6,495)	901	(5,594)

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

	For the three months ended			For the nine months ended		
	September 30, 2018 (as previously reported)	Reclassification	September 30, 2018 (as reclassified)	September 30, 2018 (as previously reported)	Reclassification	September 30, 2018 (as reclassified)
Operating activities						
Changes in non-cash operating working capital items	$ (5,222)	$ 220	$ (5,002)	(4,550)	$ (8,678)	$ (13,228)
Net cash used in operating activities	(13,900)	220	(13,680)	(24,797)	(8,678)	(33,475)
Investing activities						
Change in non-cash working capital related to property, plant and equipment	$ 220	$ (220)	$ —	(8,678)	$ 8,678	$ —
Transfer to restricted cash	—	(50,000)	(50,000)	—	(50,000)	(50,000)
Net cash used in investing activities	(41,527)	(50,220)	(91,747)	(69,321)	(41,322)	(110,643)
Financing activities						
Transfer to (from) restricted cash	$ (50,000)	$ 50,000	$ —	(50,000)	$ 50,000	$ —
Net cash provided by (used in) financing activities	831	50,000	50,831	237,286	50,000	287,286

	For the year ended		
	December 31, 2018 (as previously reported)	Reclassification	December 31, 2018 (as reclassified)
Operating activities			
Changes in non-cash operating working capital items	$ (11,057)	$ (17,302)	$ (28,359)
Net cash used in operating activities	(44,965)	(17,302)	(62,267)
Investing activities			
Change in non-cash working capital related to property, plant and equipment	$ (17,302)	$ 17,302	$ —
Transfer to restricted cash	—	(50,000)	(50,000)
Net cash used in investing activities	(118,178)	(32,698)	(150,876)
Financing activities			
Transfer to (from) restricted cash	$ (34,000)	$ 50,000	$ 16,000
Net cash provided in financing activities	313,514	50,000	363,514

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

[c] Change in functional currency of HemPoland

For the three and nine months ended September 30, 2019, the functional currency of the Company's wholly owned subsidiary, HemPoland, was determined to be the European Euro, where it was previously the Polish Zloty. The Company determined there were no material impacts to the current period or prior periods' financial statements as a result of this change.

[d] New standards, interpretations and amendments not yet adopted by the Company.

The Company has not identified any relevant material new standards, interpretations and amendments to be adopted by the Company in future periods.

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

4. BIOLOGICAL ASSETS

As at September 30, 2019, the Company's biological assets consisted of cannabis seeds and cannabis plants. The continuity of biological assets is as follows:

	Capitalized cost	Biological asset fair value adjustment	Amount
Balance, January 1, 2018	—	—	—
Purchase of seeds	44	—	44
Unrealized gain on changes in fair value of biological assets	—	304	304
Production costs capitalized	441	—	441
Transfer to inventory upon harvest	(220)	(174)	(394)
Balance, December 31, 2018	$ 265	$ 130	$ 395
Purchase of seeds	**12**	**—**	**12**
Unrealized gain on changes in fair value of biological assets	**—**	**215**	**215**
Production costs capitalized	**229**	**—**	**229**
Transfer to inventory upon harvest	**(268)**	**(222)**	**(490)**
Balance, March 31, 2019	**$ 238**	**$ 123**	**$ 361**
Unrealized gain on changes in fair value of biological assets	**—**	**10**	**10**
Production costs capitalized	**292**	**—**	**292**
Transfer to inventory upon harvest	**(285)**	**(66)**	**(351)**
Balance, June 30, 2019	**$ 245**	**$ 67**	**$ 312**
Unrealized gain on changes in fair value of biological assets	**—**	**327**	**327**
Production costs capitalized	**1,272**	**—**	**1,272**
Writedown of capitalized costs	**(266)**	**—**	**(266)**
Transfer to inventory upon harvest	**(527)**	**(394)**	**(921)**
Balance, September 30, 2019	**$ 724**	**$ —**	**$ 724**

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 and also for any additional costs to be incurred, such as post-harvest costs.

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

- Estimated selling price per gram – calculated as the expected approximate future per gram selling prices of the Company's cannabis products. With no extensive history of sales, the Company evaluated industry data which is expected to closely approximate the Company's expected selling prices.
- Stage of growth – represents the weighted average number of weeks out of the 17 to 21 estimated week growing cycle that biological assets have reached as of the measurement date based on historical experience. The Company accretes fair value on a straight-line basis according to the stage of growth and estimated costs to complete cultivation.
- Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant based on historical experience.

The inter-relationship between these aforementioned unobservable inputs and the fair-value of the biological assets is such that the carrying value of the biological assets as at September 30, 2019 and December 31, 2018 would increase (decrease) if any of these inputs were to be higher (lower).

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

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

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

	As at September 30, 2019	As at December 31, 2018	Impact of 10% change as at September 30, 2019	Impact of 10% change as at December 31, 2018
Estimated selling price per gram (1)	\$2.00 to \$7.14	\$3.00 to \$10.75	\$ 165	\$ 54
Estimated stage of growth	5 to 6 weeks	16.68 weeks	\$ 350	\$ 47
Estimated yield of agricultural produce by plant (2)	70 to 75 grams	52 to 80 grams	\$ 120	\$ 54

(1) The estimated selling prices per gram include an estimate for the selling price of trim collected as part of the harvesting process which may have value in the oil production process in addition to the estimated selling price direct to medical patients and wholesale pricing.

(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.

5. INVENTORY

The Company's inventory assets include the following as of September 30, 2019 and December 31, 2018:

	Dried Cannabis	Hemp and Hemp Derived Products	As at September 30, 2019
Raw Materials	\$ **—**	\$ **1,307**	\$ **1,307**
Work-in-progress	**1,734**	**1,555**	**3,289**
Finished Goods	**156**	**273**	**429**
Packaging and Supplies	**694**	**92**	**786**
Total Inventory	\$ **2,584**	\$ **3,227**	\$ **5,811**

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

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

6. PROPERTY, PLANT AND EQUIPMENT

Cost:	**Land**	**Buildings**	**Furniture and fixtures**	**Growing equipment**	**Building improvements**	**Computer equipment**	**Automobiles**	**Construction in progress**	**Right-of-use assets**	**Total**
Balance, December 31, 2018	$ 2,683	$ 2,711	$ 196	$ 1,823	$ 699	$ 503	$ 697	$ 99,010	$ —	$ 108,322
Impact of IFRS 16 transition	—	—	—	—	—	—	—	—	1,279	1,279
Transfers	—	—	—	(146)	—	—	(258)	—	404	—
Additions	—	—	—	618	87	92	14	47,851	93	48,755
Disposals	—	—	(7)	—	—	—	—	—	—	(7)
Effects of movements in foreign exchange	—	(53)	—	(51)	—	—	(22)	(10)	—	(136)
Balance, March 31, 2019	$ 2,683	$ 2,658	$ 189	$ 2,244	$ 786	$ 595	$ 431	$ 146,851	$ 1,776	$ 158,213
Transfers	—	—	—	289	—	—	(163)	(625)	499	—
Additions	—	—	—	523	—	114	100	53,783	—	54,520
Disposals	—	—	—	—	—	—	(29)	—	—	(29)
Effects of movements in foreign exchange	—	9	—	(11)	1	—	2	—	—	1
Balance, June 30, 2019	$ 2,683	$ 2,667	$ 189	$ 3,045	$ 787	$ 709	$ 341	$ 200,009	$ 2,275	$ 212,705
Transfers	—	12,649	4	2,930	(77)	(16)	144	(15,857)	223	—
Additions	—	—	7	941	—	48	72	104,699	819	106,586
Disposals	—	—	—	(32)	—	—	(51)	—	—	(83)
Effects of movements in foreign exchange	—	(63)	(1)	(82)	(1)	—	(34)	(34)	(65)	(280)
Balance, September 30, 2019	$ 2,683	$ 15,253	$ 199	$ 6,802	$ 709	$ 741	$ 472	$ 288,817	$ 3,252	$ 318,928
Accumulated depreciation:										
Balance, December 31, 2018	$ —	$ 96	$ 32	$ 238	$ 231	$ 122	$ 74	$ —	$ —	$ 793
Transfers	—	—	—	(96)	—	—	(53)	—	149	—
Depreciation	—	22	8	84	20	33	8	—	87	262
Effects of movements in foreign exchange	—	—	(1)	(14)	—	(14)	—	—	—	(29)
Balance, March 31, 2019	$ —	$ 118	$ 39	$ 212	$ 251	$ 141	$ 29	$ —	$ 236	$ 1,026
Depreciation	—	38	8	77	21	41	32	—	205	422
Effects of movements in foreign exchange	—	—	—	10	—	13	(6)	—	—	17
Balance, June 30, 2019	$ —	$ 156	$ 47	$ 299	$ 272	$ 195	$ 55	$ —	$ 441	$ 1,465
Depreciation	—	45	14	111	19	86	18	—	116	409
Disposals	—	—	—	(7)	—	(14)	(19)	—	—	(40)
Effects of movements in foreign exchange	—	(1)	—	—	—	(2)	3	—	(24)	(24)
Balance, September 30, 2019	$ —	$ 200	$ 61	$ 403	$ 291	$ 265	$ 57	$ —	$ 533	$ 1,810
Net book value, September 30, 2019	$ 2,683	$ 15,053	$ 138	$ 6,399	$ 418	$ 476	$ 415	$ 288,817	$ 2,719	$ 317,118

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

Cost:	**Land**	**Buildings**	**Furniture and fixtures**	**Growing equipment**	**Building improvements**	**Computer equipment**	**Automobiles**	**Construction in progress**	**Total**
Balance, December 31, 2017	$ 2,621	$ 620	$ 6	$ 363	$ 471	$ 108	$ 66	$ 2,960	$ 7,215
Additions	62	—	154	280	40	100	35	3,653	4,324
Balance, March 31, 2018	2,683	620	160	643	511	208	101	6,613	11,539
Additions	—	—	—	96	—	105	164	20,734	21,099
Transfers	—	971	—	—	—	—	—	(971)	—
Balance, June 30, 2018	2,683	1,591	160	739	511	313	265	26,376	32,638
Additions	—	—	—	57	21	93	—	32,919	33,090
Balance, September 30, 2018	2,683	1,591	160	796	532	406	265	59,295	65,728
Additions from a business combination	—	1,062	1	641	11	—	378	23	2,116
Additions	—	—	35	346	156	97	101	39,685	40,420
Impairment of fixed assets	—	—	—	(14)	—	—	(70)	—	(84)
Effects of movements in foreign exchange	—	58	—	54	—	—	23	7	142
Balance, December 31, 2018	$ 2,683	$ 2,711	$ 196	$ 1,823	$ 699	$ 503	$ 697	$ 99,010	$ 108,322
Accumulated depreciation:									
Balance, December 31, 2017	$ —	$ 23	$ 2	$ 52	$ 145	$ 16	$ 12	$ —	$ 250
Depreciation	—	5	1	22	20	12	5	—	65
Balance, March 31, 2018	—	28	3	74	165	28	17	—	315
Depreciation	—	9	8	35	21	21	8	—	102
Balance, June 30, 2018	—	37	11	109	186	49	25	—	417
Depreciation	—	36	8	36	22	29	18	—	149
Balance, September 30, 2018	—	73	19	145	208	78	43	—	566
Depreciation	—	23	13	79	23	43	30	—	211
Effects of movements in foreign exchange	—	—	—	14	—	1	1	—	16
Balance, December 31, 2018	$ —	$ 96	$ 32	$ 238	$ 231	$ 122	$ 74	$ —	$ 793
Net book value, December 31, 2018	$ 2,683	$ 2,615	$ 164	$ 1,585	$ 468	$ 381	$ 623	$ 99,010	$ 107,529

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

7. INTANGIBLE ASSETS AND GOODWILL

A continuity of the intangible assets is as follows:

	Health Canada Licence	Technology Licences	Website	Distribution Channels	Brands	Other acquired rights	Goodwill	Total
Cost:								
Balance, January 1, 2019	$ 5,870	$ 200	$ —	$ 5,904	$ 1,054	$ 1,344	$ 10,702	$ 25,074
Additions	—	1,205	—	—	—	—	—	1,205
Effect of movements in foreign exchange	—	—	—	(249)	(44)	(56)	(368)	(717)
Balance, March 31, 2019	$ 5,870	$ 1,405	$ —	$ 5,655	$ 1,010	$ 1,288	$ 10,334	$ 25,562
Additions	—	397	400	—	—	—	—	797
Effect of movements in foreign exchange	—	—	—	(34)	(6)	(7)	(47)	(94)
Balance, June 30, 2019	$ 5,870	$ 1,802	$ 400	$ 5,621	$ 1,004	$ 1,281	$ 10,287	$ 26,265
Additions	—	624	—	—	—	—	—	624
Effect of movements in foreign exchange	—	—	—	(172)	(31)	(39)	(256)	(498)
Balance, September 30, 2019	$ 5,870	$ 2,426	$ 400	$ 5,449	$ 973	$ 1,242	$ 10,031	$ 26,391
Accumulated amortization:								
Balance, January 1, 2019	$ 590	$ 22	$ —	$ 105	$ 19	$ 101	$ —	$ 837
Amortization for the period	74	8	—	101	18	98	—	299
Effect of movements in foreign exchange	—	—	—	(3)	(1)	(3)	—	(7)
Balance, March 31, 2019	$ 664	$ 30	$ —	$ 203	$ 36	$ 196	$ —	$ 1,129
Amortization for the period	74	9	—	101	18	114	—	316
Effect of movements in foreign exchange	—	—	—	(3)	—	(4)	—	(7)
Balance, June 30, 2019	$ 738	$ 39	$ —	$ 301	$ 54	$ 306	$ —	$ 1,438
Amortization for the period	73	100	17	99	18	96	—	403
Effect of movements in foreign exchange	—	—	—	(11)	(3)	(10)	—	(24)
Balance, September 30, 2019	$ 811	$ 139	$ 17	$ 389	$ 69	$ 392	$ -	$ 1,817
Net book value, September 30, 2019	$ 5,059	$ 2,287	$ 383	$ 5,060	$ 904	$ 850	$ 10,031	$ 24,574

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

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

8. INVESTMENTS IN ASSOCIATES

The carrying value of investments in associates consist of:

	Note	% ownership	Balance, December 31, 2018	Share of net income (loss)	OCI foreign exchange loss	Balance, September 30, 2019
QuebecCo	8 [a]	49.99%	2,171	18	—	**2,189**
Epican	8 [b]	49.18%	8,773	(945)	(662)	**7,166**
			10,944	**(927)**	**(662)**	**9,355**

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

The following is a summary of financial information for the Company's associates at September 30, 2019 and for the nine months then ended (at 100%):

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

	QuébecCo		Epican	
	As at September 30, 2019	As at January 1, 2019	As at September 30, 2019	As at January 1, 2019
Assets				
Current assets	**43**	—	**3,262**	5,364
Non-current assets	**4,002**	4,002	**17,240**	19,071
Total assets	**4,045**	4,002	**20,502**	24,435
Liabilities				
Current liabilities	**98**	90	**450**	631
Non-current liabilities	**—**	—	**4,294**	4,774
Total liabilities	**98**	90	**4,744**	5,405

	For the three months ended September 30, 2019	For the nine months ended September 30, 2019	For the three months ended September 30, 2019	For the nine months ended September 30, 2019
Revenue	**6**	**43**	**668**	**1,709**
Expenses	**—**	**—**	**1,639**	**3,630**
Net profit (loss) from operations before taxes	**6**	**43**	**(971)**	**(1,921)**
Effect of foreign currency translation	**—**	**—**	**(143)**	**(1,350)**
Comprehensive income (loss)	**5**	**35**	**(1,114)**	**(3,271)**

No profit and loss activity was recorded for the three and nine months ended September 30, 2018 for QuébecCo. With respect to Epican, for the period from the date of investment, July 5, 2018 until September 30, 2018, Epican earned approximately $270 in revenues, incurred $981 in expenses and ended with approximately $711 in comprehensive loss. The Company's share of the comprehensive loss was $350 for the same period.

[a] Investment in QuébecCo

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

[b] Investment in Epican

On July 5, 2018, the Company purchased 5,759,788 shares of Epican in exchange for total cash consideration of $8,348 and 247,353 shares of the Company, the fair value of which was determined to be approximately $1,521.

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

9. OTHER ASSETS

A summary of other assets is presented as follows:

	Additional Reference	As at September 30, 2019	As at December 31, 2018
Deposits related to facility construction and operational readiness	15[a]	**3,366**	9,431
Deposit per Hydro-Quebec contribution agreement	9[a]	**5,681**	4,060
Investment in Califormulations	9[b]	**1,434**	—
Term deposits held as collateral	15[a][b]	**307**	800
Term deposits not held as collateral		**150**	150
Accrued interest receivable		**121**	689
Deposits related to office rentals		**29**	28
Other		**142**	367
		11,230	15,525
Less: Current portion		**(1,029)**	(864)
		10,201	14,661

[a] Power supply agreement

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

[b] Investment in Califormulations

On April 18, 2019, the Company purchased 580,714 Class A units of Califormulations LLC ("Califormulations"), a US based beverage company, representing a 15% ownership in Califormulations, for total cash consideration of $1,434. In accordance with the Company's accounting policies with respect to IFRS 9 Financial Instruments disclosed in the audited Consolidated Financial Statements, the investment met the criteria for initial recognition at fair value and subsequent recognition through fair value through profit and loss. The Company's investment in Califormulations is recorded in other assets. In conjunction with the purchase, the Company issued a promissory note to Califormulations in the amount of $1,451 to be used for working capital purposes and included in loans receivable.

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

10. BUSINESS COMBINATION

Acquisition of HemPoland

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

The table below summarizes the fair values of the assets acquired and the liabilities assumed at the acquisition date:

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

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

(ii) Subject to revaluation at each period end. As at September 30, 2019, the contingent consideration was revalued to $646, resulting in a loss on revaluation of $158 and gain on revaluation $42 for the three and nine months ended September 30, 2019, respectively. These represent level three fair valuations.

The Company recognized $852 in transaction costs in the strategic business initiatives line item in the consolidated statement of loss and other comprehensive loss in connection with the business combination for the year-ended December 31, 2018. The net loss for the period from October 1, 2018 to December 31, 2018 for HemPoland was $1,590. Proforma results of operations of HemPoland for the year-ended ended December 31, 2018 have not been presented as it would be impracticable to do so given changes to some of HemPoland's operations.

11. LEASES

Accounting policy

At inception of a contract, the Company assesses whether that contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset;
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use; and
- the Company has the right to direct the use of the asset.

Lessee accounting

The Company records a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, consisting of:

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

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

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

If the Company expects to obtain ownership of the leased asset at the end of the lease, the Company depreciates the right-of-use asset over the underlying asset's estimated useful life. In addition, right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liabilities.

Lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses the relevant incremental borrowing rate as the interest rate implicit in the leases cannot be readily determined. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method.

Lease payments included in the measurement of lease liabilities:

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

Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether or not it will exercise a purchase, extension, or termination option. When lease liabilities are remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets.

Lease liabilities are also remeasured when the underlying lease contract is amended. When there is a decrease in contract scope, the lease liability and right-of-use asset will decrease relative to this change with the difference recorded in net income prior to the remeasurement of the lease liability.

Certain leases require the Company to make payments that relate to property taxes, insurance, and other non-rental cost. These non-rental costs are typically variable and are not included in the calculation of the right-of-use asset or lease liability.

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

Use of estimates and judgments

Estimates

The Company estimates the lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option. The Company makes certain qualitative and quantitative assumptions when deriving the value of the economic incentive.

Judgments

The Company makes judgments in determining whether a contract contains an identified asset. The identified asset should be physically distinct or represent substantially all of the capacity of the asset and should provide the Company with the right to substantially all of the economic benefits from the use of the asset.

The Company also makes judgments in determining whether or not it has the right to control the use of the identified asset. The Company has that right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decisions about how and for what purpose the asset is used are predetermined, the Company has the right to direct the use of the asset if it has the right to operate the asset or if it designed the asset in a way that predetermines how and for what purpose the asset will be used.

The Company makes judgments in determining the incremental borrowing rate used to measure its lease liability for each lease contract, including an estimate of the asset-specific security impact. The incremental borrowing rate should reflect the interest that the Company would have to pay to borrow at a similar term and with a similar security.

Certain of the Company's leases contain extension or renewal options that are exercisable only by the Company and not by the lessor. At lease commencement, the Company assesses whether it is reasonably certain to exercise any of the extension options based on the expected economic return from the lease. The Company periodically reassesses whether it is reasonably certain to exercise the options and account for any changes at the date of the reassessment.

Explanatory information

Lease liabilities

Below is a summary of the activity related to the Company's lease liabilities for the nine months ended September 30, 2019:

		As at September 30, 2019
Lease liabilities, December 31, 2018	$	**412**
Effect of adoption of IFRS 16, January 1, 2019		**1,319**
Net additions		**1,273**
Interest on lease liabilities		**86**
Interest payments on lease liabilities		**(86)**
Principal payments on lease liabilities		**(253)**
Foreign exchange differences		**(35)**
Lease liabilities, September 30, 2019	$	**2,716**
Current portion lease liabilities, September 30, 2019		**362**
Long-term portion lease liabilities, September 30, 2019		**2,354**

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

12. CONTRIBUTED SURPLUS

The Company's contributed surplus balances include the following:

	Notes	Reserve for share based payments	Reserve for warrants	Reserve for special warrants and underwriter special warrants	Contributed surplus	Escrowed share units	Total
		$	$			$	$
Balance, January 1, 2019		**8,053**	**62,801**	**610**	**501**	**7,972**	**79,937**
Stock based compensation	12[a]	3,381	—	—	—	—	3,381
Exercise of stock options	12[a]	(73)	—	—	—	—	(73)
Exercise of warrants	12[b]	—	(1,749)	—	—	—	(1,749)
Balance, March 31, 2019		**11,361**	**61,052**	**610**	**501**	**7,972**	**81,496**
Stock based compensation	12[a]	**4,407**	**—**	**—**	**—**	**—**	**4,407**
Exercise of stock options	12[a]	**(135)**	**—**	**—**	**—**	**—**	**(135)**
Exercise of warrants	12[b]	**—**	**(390)**	**—**	**—**	**—**	**(390)**
Expiry of warrants	12[b]	**—**	**(10)**	**—**	**10**	**—**	**—**
Issuance of convertible units	12[e]	**300**	**—**	**—**	**—**	**—**	**300**
Balance, June 30, 2019		**15,933**	**60,652**	**610**	**511**	**7,972**	**85,678**
Stock based compensation	12[a]	**3,487**	**—**	**—**	**—**	**—**	**3,487**
Exercise of stock options	12[a]	**(46)**	**—**	**—**	**—**	**—**	**(46)**
Exercise of warrants	12[b]	**—**	**(90)**	**—**	**—**	**—**	**(90)**
Expiry of warrants	12[b]	**—**	**(8)**	**—**	**8**	**—**	**—**
Balance, September 30, 2019		**19,374**	**60,554**	**610**	**519**	**7,972**	**89,029**

	Reserve for share based payments	Reserve for warrants	Reserve for special warrants and underwriter special warrants	Contributed surplus	Total
Balance, January 1, 2018	**4,413**	**13,883**	**—**	**—**	**18,296**
Private placement of units	—	4,359	—	—	4,359
Finders compensation - Units	—	208	—	—	208
Issuance of units held in trust	—	12	—	—	12
Stock based compensation	(1,284)	—	—	—	(1,284)
Exercise of stock options	(7)	—	—	—	(7)
Balance, March 31, 2018	**3,122**	**18,462**	**—**	**—**	**21,584**
Initial public offering	**—**	**8,508**	**—**	**—**	**8,508**
Initial public offering - over-allotment	**—**	**1,277**	**—**	**—**	**1,277**
Conversion of subscription receipts	**—**	**26,773**	**—**	**—**	**26,773**
Exercise of stock options	**(291)**	**—**	**—**	**—**	**(291)**
Exercise of warrants	**—**	**(1,381)**	**—**	**1,041**	**(340)**
Issuance of special warrants	**—**	**—**	**25,024**	**—**	**25,024**
Issuance of underwriter special warrants	**—**	**—**	**610**	**—**	**610**
Stock based compensation	**1,716**	**6**	**—**	**—**	**1,722**
Share issue costs	**—**	**(710)**	**(2,285)**	**—**	**(2,995)**
Balance, June 30, 2018	**4,547**	**52,935**	**23,349**	**1,041**	**81,872**
Exercise of stock options	**(1,368)**	**—**	**—**	**—**	**(1,368)**
Exercise of warrants	**—**	**(5,046)**	**—**	**(1,041)**	**(6,087)**
Expiry of warrants	**—**	**(501)**	**—**	**501**	**—**
Conversion of special warrants	**—**	**4,399**	**(25,024)**	**—**	**(20,625)**
Stock based compensation	**2,166**	**—**	**—**	**—**	**2,166**
Share issue costs	**—**	**(443)**	**2,285**	**—**	**1,842**
Balance, September 30, 2018	**5,345**	**51,344**	**610**	**501**	**57,800**

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

[a] Share based payments

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

On January 31, 2018, the Company adopted a new stock options plan which superseded the Original Plan. There were 4,611,132 options issued and outstanding pursuant to the Original Plan, which will remain exercisable until their expiry or cancellation and in accordance with their vesting schedules. Under the Company's Amended Option Plan, adopted at the Annual General and Special Meeting ("AG&SM") on December 6, 2018, options may be granted for up to 10% of the common shares outstanding at the time of the grant for a term not exceeding five years. The exercise price of the options under the Amended Option Plan is fixed by the Board of Directors of the Company at the time of the grant at the market price of the common shares, subject to all applicable regulatory requirements. As at September 30, 2019, total options outstanding were 17,817,133. For the three and nine months ended September 30, 2019, the Company recorded $3,459 and $11,195, respectively in non-cash share-based compensation expense pursuant to the grant of stock options (September 30, 2018 -$2,315 and $5,159, respectively) and $28 and $80, respectively in non-cash restricted share unit compensation (September 30, 2018 - $nil and $nil, respectively).

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

	September 30, 2019		December 31, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding - beginning of period	**12,430,732**	**2.83**	9,436,000	0.82
Granted	**6,396,000**	**4.08**	8,026,000	4.04
Exercised	**(450,933)**	**0.84**	(3,929,868)	0.62
Cancelled/Expired	**(558,666)**	**3.08**	(1,101,400)	1.78
Outstanding, end of period	**17,817,133**	**3.32**	12,430,732	2.83
Exercisable, end of period	**4,883,732**	**2.42**	1,670,532	0.82

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

Grant date	Options Outstanding #	Options Exercisable #	Exercise Price $	Weighted Average remaining contractual life of outstanding options in years	Expiry Date
February 7, 2017	1,775,732	1,197,332	0.50	0.36	February 7, 2020
June 1, 2017	831,000	408,000	1.15	0.67	June 1, 2020
October 2, 2017	1,584,000	701,600	1.15	1.01	October 2, 2020
January 8, 2018	400,000	192,000	1.65	1.28	January 8, 2021
January 12, 2018	20,400	4,800	1.65	1.29	January 12, 2021
March 28, 2018	4,466,334	1,841,667	3.65	1.49	March 28, 2021
May 28, 2018	250,000	83,333	4.12	3.66	May 28, 2023
June 25, 2018	80,000	26,667	6.91	3.74	June 25, 2023
June 26, 2018	200,000	66,667	6.83	3.74	June 26, 2023
August 2, 2018	210,000	70,000	5.50	3.84	August 2, 2023
August 13, 2018	550,000	183,333	5.25	3.87	August 13, 2023
September 7, 2018	25,000	8,333	6.20	3.94	September 7, 2023
October 1, 2018	250,000	—	6.75	3.92	September 1, 2023
October 9, 2018	160,000	—	6.37	4.03	October 9, 2023
October 22, 2018	75,000	—	4.93	4.06	October 22, 2023
October 25, 2018	450,000	—	4.53	4.07	October 25, 2023
November 9, 2018	75,000	—	3.82	4.11	November 9, 2023
December 4, 2018	25,000	—	3.22	4.18	December 4, 2023
December 14, 2018	75,000	—	3.08	4.21	December 14, 2023
January 8, 2019	600,000	—	2.67	4.28	January 8, 2024
January 14, 2019	600,000	—	2.76	4.29	January 14, 2024
January 21, 2019	75,000	—	2.99	4.31	January 21, 2024
January 28, 2019	200,000	—	3.41	4.33	January 28, 2024
February 1, 2019	75,000	—	3.77	4.34	February 1, 2024
March 4, 2019	75,000	—	4.09	4.43	March 4, 2024
March 11, 2019	210,000	—	4.30	4.45	March 11, 2024
March 12, 2019	50,000	—	4.37	4.45	March 12, 2024
March 18, 2019	50,000	—	4.42	4.47	March 18, 2024
March 19, 2019	50,000	—	4.74	4.47	March 19, 2024
March 22, 2019	2,676,667	100,000	5.13	4.48	March 22, 2024
April 8, 2019	50,000	—	4.47	4.53	April 8, 2024
April 15, 2019	50,000	—	4.24	4.55	April 15, 2024
May 13, 2019	150,000	—	4.11	4.62	May 13, 2024
May 21, 2019	50,000	—	3.86	4.64	May 21, 2024
August 16, 2019	853,000	—	3.30	4.88	August 16, 2024
August 21, 2019	500,000	—	3.10	4.90	August 21, 2024
Balance, September 30, 2019	**17,817,133**	**4,883,732**		**2.70**	

In determining the amount of share-based compensation, the Company uses the Black-Scholes option pricing model to establish the fair value as at the grant date of options granted. The following assumptions were used to measure the values of the stock options granted during the three and nine months ended September 30, 2019:

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

Grant Date	Risk-free interest rate	Expected life of options (years)	Expected annualized volatility	Expected dividend yield	Black-Scholes value of each option
January 8, 2019	1.89%	3.5	85.49%	Nil	$ 1.39
January 14, 2019	1.89%	3.5	85.40%	Nil	$ 1.85
January 21, 2019	1.95%	3.5	85.18%	Nil	$ 1.69
January 28, 2019	1.88%	3.5	85.26%	Nil	$ 2.52
February 1, 2019	1.86%	3.5	85.20%	Nil	$ 2.11
March 4, 2019	1.76%	3.5	84.42%	Nil	$ 2.44
March 11, 2019	1.64%	3.5	84.17%	Nil	$ 2.58
March 12, 2019	1.63%	3.5	84.13%	Nil	$ 2.48
March 18, 2019	1.60%	3.5	84.03%	Nil	$ 3.12
March 19, 2019	1.62%	3.5	84.01%	Nil	$ 3.34
March 22, 2019	1.48%	3.5	83.87%	Nil	$ 2.68
April 8, 2019	1.60%	3.5	83.89%	Nil	$ 2.45
April 15, 2019	1.61%	3.5	83.78%	Nil	$ 2.26
May 13, 2019	1.54%	3.5	83.11%	Nil	$ 2.16
May 21, 2019	1.65%	3.5	82.83%	Nil	$ 2.40
August 16, 2019	1.28%	3.5	80.00%	Nil	$ 1.72
August 21, 2019	1.35%	3.5	80.00%	Nil	$ 1.90

Volatility was estimated by using the historical volatility of the Company and other companies that the Company considers comparable that have trading and volatility history. The expected life of the options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the expected life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate was based upon the Canada government bonds with a remaining term equal to the expected life of the options.

[b] Reserve for warrants

The following table reflects the continuity of warrants:

	Number of warrants	Weighted Average Exercise Price	Amount, net of warrant issue costs
	#	$	$
Balance, January 1, 2019	**69,759,127**	**5.07**	**62,801**
Warrants exercised in the period	**(4,264,354)**	**2.15**	**(1,749)**
Balance, March 31, 2019	**65,494,773**	**5.26**	**61,052**
Warrants exercised in the period	**(841,057)**	**2.40**	**(390)**
Expiry of warrants in the period	**(25,119)**	**2.15**	**(10)**
Balance, June 30, 2019	**64,628,597**	**5.29**	**60,652**
Warrants exercised in the period	**(350,156)**	**2.16**	**(90)**
Expiry of warrants in the period	**(30,813)**	**2.15**	**(8)**
Balance, September 30, 2019	**64,247,628**	**5.31**	**60,554**

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

	Number of warrants	Weighted Average Exercise Price	Amount, net of warrant issue costs
	#	$	$
Balance, January 1, 2018	37,609,842	2.40	13,883
Units held in trust	133,750	3.00	72
Issuance of finders' units	692,290	3.00	208
Private placement units	6,462,763	3.00	4,359
Balance, March 31, 2018	44,898,645	2.50	18,522
Initial public offering units	18,118,250	7.00	9,075
Issuance on conversion of subscription receipts	16,666,667	3.00	26,773
Warrants exercised in the period	(4,746,677)	2.63	(1,435)
Balance, June 30, 2018	74,936,885	3.64	52,935
Issuance on conversion of special warrants	1,955,000	9.50	3,956
Warrants exercised in the period	(16,445,514)	2.91	(5,046)
Expiry of warrants in the period	(1,925,583)	2.15	(501)
Balance, September 30, 2018	58,520,788	4.16	51,344

As at September 30, 2019, the following warrants were outstanding:

Expiry Date	Exercise Price	Number of Warrants
	$	#
May 2, 2020	7.00	15,092,363
October 2, 2020	3.00	130,250
February 28, 2021	3.00	34,477,515
April 19, 2021	9.00	12,592,500
June 26, 2021	9.50	1,955,000
	$ 5.31	**64,247,628**

[c] Restricted share units

Under the Company's Restricted Share Unit Plan, adopted at the AG&SM on December 6, 2018, restricted share units may be granted up to a fixed maximum of 5,000,000 common shares, which entitle the holder to receive one common share without payment of additional consideration at the end of the restricted period, as determined by the Board of Directors of the Company at the time of the grant. For the three and nine months ended September 30, 2019, the Company recorded $28 and $80, respectively in non-cash stock-based compensation related to restricted share unit compensation (three and nine months ended September 30, 2018 - $nil and $nil, respectively).

[d] Escrowed share units

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

[e] Convertible share units

The Company issued 74,074 convertible share units with a value of $300 on May 31, 2019 upon the licence from the Danish Medicinal Authority being assigned to *TGOD Genetics A/S*, pursuant to the joint venture agreement with Knud Jepsen. The units convert to common shares over a three-year period beginning on April 19, 2020. For the nine months ended September 30, 2019, the Company recorded $300 in strategic business initiatives to convertible share unit compensation.

13. INCOME TAXES

The Company's combined statutory tax rate is 26.5% for the three and nine months ended September 30, 2019 and September 30, 2018, expected to apply for the full year, applied to the pre-tax income of a given three-month period. Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset. Certain tax effects of temporary differences and loss carry forwards that give rise to a deferred tax asset in Canada have not yet been recognized in the consolidated statement of financial position in accordance with IFRS. The changes in the net deferred tax liability are provided below:

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

	For the three months ended		For the nine months ended	
	September 30, 2019	**September 30, 2018**	**September 30, 2019**	**September 30, 2018**
	$	$	**$**	$
Balance, beginning of period	**1,209**	—	**1,435**	—
Recognized in income	**(63)**	—	**(234)**	—
Effect of foreign currency translation recognized in other comprehensive income	**(81)**	—	**(136)**	—
Balance, end of period	**1,065**	**—**	**1,065**	**—**

14. SUPPLEMENTARY CASH FLOW INFORMATION

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

	For the three months ended		For the nine months ended	
	September 30, 2019	**September 30, 2018**	**September 30, 2019**	**September 30, 2018**
Prepaid expenses	**$ (736)**	$ (1,185)	**$ (3,416)**	$ (1,881)
Harmonized sales tax receivable	**2,778**	(2,496)	**2,297**	(6,060)
Accounts receivable	**(251)**	—	**(1,822)**	—
Capitalized cost of biological assets	**(324)**	(254)	**(304)**	(281)
Inventory	**(1,567)**	—	**(1,576)**	—
Other current assets	**(1,266)**	(2,028)	**(3,238)**	(2,897)
Other assets	**26,261**	(19)	**5,894**	(4,111)
Accounts payable and accrued liabilities	**240**	980	**2,787**	2,002
Total	**$ 25,135**	$ (5,002)	**$ 622**	$ (13,228)

15. COMMITMENTS AND CONTINGENCIES

[a] Construction agreements

The Company has entered into contracts to facilitate the construction of its facilities in Hamilton, Ontario and Salaberry-de-Valleyfield, Québec with various vendors. The Company estimates that $13,366 is required to substantially complete its Hamilton facility of which $4,000 may be paid from restricted cash and that $30,450 is required to substantially complete the current phase of its Quebec Facility, of which $24,000 may be paid from restricted cash. These are all expected to be paid within twelve months. Pursuant to some of these agreements, as at September 30, 2019, the Company has one letter of credit in the amount of $942 which may be drawn upon in the event of material breaches of the respective agreements. This letter 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 a corresponding GICs as collateral, which has been recorded in other assets. As at September 30, 2019, there have been no breaches and no amounts have been drawn on the letters of credit. As at September 30, 2019, the Company has outstanding deposits on construction related activities of $3,366 (December 31, 2018 – $9,431) also included in other assets.

During the three and nine months ended September 30, 2019, the Company also entered into agreements for equipment that allowed for deferred payment terms for the remaining balance over a period of ten months totalling $15,960 (US$ 12.1 million). The equipment has been received and included in construction in progress and the amounts payable have been included in accounts payable and accrued liabilities. There is a lien on personal property associated with the equipment should there be any material breaches of the agreement. As at September 30, 2019, there have been no breaches of the agreement.

The Company has also entered into escrow agreements with its construction partners in Ontario and in Québec and deposited $54,000 which were included in restricted cash. During the three and nine months ended September 30, 2019, the Company paid $13,827 to the construction partner in Québec leaving a balance of $40,173 in restricted cash as at September 30, 2019.

[b] Other contractual commitments

The lease for the office space of the Company's headquarters required the issuance of a letter of credit in the amount $350, which may be drawn upon by the landlord in the event of a material breach of the agreement. As at September 30, 2019, 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 and the Company intends to defend itself rigorously against all legal claims. The Company is subject to certain employment related claims by former employees for which provisions have been recognized only to the extent that they are likely to result in future economic outflows. The Company has also been subject to a claim by former warrant holders for approximately $1,250 and a separate claim for a customer in Europe for approximately $2,100. No provisions have been recognized as the Company's position is that these claims are meritless, and the outcome may depend on court proceedings. Other than the claims previously described, the Company is not aware of any other material or significant claims against the Company.

[d] Short-term loans

On October 1, 2018, as part of the HemPoland transaction, the Company assumed HemPoland's operating line of credit of which the entire outstanding amount drawn upon of $146 (400 PLN [in thousands]) was repaid as at March 31, 2019 (December 31, 2018 - $146). Also, as part of the HemPoland transaction, the Company assumed HemPoland's short-term loan payable on certain premises in Poland, of which approximately $501 remained outstanding as at September 30, 2019 (December 31, 2018 - $542).

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

[a] Fair values

The Company's financial instruments were comprised of the following as at September 30, 2019: cash and cash equivalents; restricted cash; refundable sales tax receivable; trade receivables; due from related parties; loans receivable; other investments; other current assets; accounts payable and accrued liabilities; short-term loans; contingent consideration and lease liabilities.

The fair values of the financial assets and financial liabilities are determined at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The assumption for the instruments recorded at amortized costs that the instruments fair values approximate their carrying amounts is largely due to the short-term maturities of these instruments. The fair value of the loan receivable related to QuébecCo recorded at fair value through profit and loss is Level 3 and is based on the established underlying fair values of the assets during the recent transaction involving the investment in QuébecCo, whereby it was reasonably concluded to continue to approximate the same fair value as at September 30, 2019 as compared to the initial recognition date. The fair value of the loan receivable related to Californulations recorded at fair value through profit and loss was also determined to be Level 3 and given the proximity to its initial recognition is still considered to approximate its fair value.

[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 nine months ended September 30, 2019, there were no transfers of amounts between levels (three and nine months ended September 30, 2018 – none).

[c] Management of risks arising from financial instruments

[i] Market risk

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

Foreign currency risk

Foreign currency risk arises due to fluctuations in the fair value or cash flows of financial instruments due to changes in foreign exchange rates. As at December 31, 2018, the Company had no financial assets and liabilities for which cash flows were denominated in foreign currencies other than cash, trade receivables, accounts payable and accrued liabilities, lease liabilities, short-term loans, and due from related parties. The Company does have some suppliers that prefer to contract in foreign currencies. The Company holds cash in U.S. dollars ("US$"), Euros ("EUR"), and Polish zloty ("PLN"). As at September 30, 2019, the Company had $7,087 (US$5,352) of cash (December 31, 2018 - $14,304) and no amounts due from related parties (December 31, 2018 - $9) denominated in U.S. dollars. As at September 30, 2019, the Company also had $455 (PLN 1,358) of cash (December 31, 2018 - $338) denominated in Polish Zloty and $1,170 (EUR 802) of cash (December 31, 2018 - $450) denominated in Euros ("EUR"). The Company has not used foreign exchange contracts to hedge its exposure to foreign currency cash flows for the three and nine months ended September 30, 2019.

Interest rate risk

The Company's exposure to interest rate risk only relates to any investments of surplus cash. The Company may invest surplus cash in highly liquid investments with short terms to maturity that would accumulate interest at prevailing rates for such investments. As at September 30, 2019, the Company had five term deposits of $942, $350, $300, $150 and $92 bearing interest at 2.00%, 2.00%, 2.10%, 1.00%, and 3.05% respectively (December 31, 2018 - $25,000, $5,148, $5,000, $5,000 and $150 bearing interest at 1.50%, 1.95%, 2.00%, 2.00% and 1.50%, respectively). The Company also has $40,173 in restricted cash held in trust related to the Valleyfield and Hamilton construction projects and earning a conventional rate of interest from a reputable top tier Canadian bank.

[ii] Credit risk

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

The carrying amount of cash and cash equivalents, trade receivable, refundable sales tax receivable, due from related parties, prepaids and deposits, other assets and loan receivable represents the maximum exposure to credit risk as at September 30, 2019. Since the inception of the Company, no losses have been suffered in relation to any of the above-mentioned assets.

The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counterparties, taking into account their financial position, past experience and other factors. Credit risk is mitigated by entering into sales contracts with only stable, creditworthy parties and through frequent reviews of exposures to individual entities.

The Company assesses the credit risk of trade receivables by evaluating the aging of trade receivables based on the invoice date. The carrying amount of trade receivables is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of loss and comprehensive loss. When a trade receivable balance is considered uncollectible, it is written off against the allowance for expected credit losses. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of loss and comprehensive loss. As at September 30, 2019, the Company's trade receivables are primarily concentrated in Europe with the exception of $604 in Canada. The Company had two customers whose balances comprised of 16% and 16% of total trade receivables as at September 30, 2019, respectively (December 31, 2018 – two customers at 54% and 14%, respectively).

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:

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

	September 30, 2019	December 31, 2018
	$	$
Total trade receivables	**3,759**	1,199
Less allowance for expected credit losses	**(738)**	—
Total trade receivables, net	**3,021**	1,199
Of which		
Current	**1,889**	1,123
31-90 days	**1,266**	59
Over 90 days	**604**	17
Less allowance for expected credit losses	**(738)**	—
Total trade receivables, net	**3,021**	1,199

[iii] Liquidity risk

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

The Company's contractual maturities due to be paid within one year are represented by its accounts payable and accrued liabilities balances, its short-term loans, and its current portion of finance lease obligations as at September 30, 2019. The Company also has finance lease obligations due beyond one year from the reporting date.

17. SEGMENTED INFORMATION

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

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

For the three months ended September 30, 2019, the Company had two customers that accounted for 20% and 11%, respectively, of total revenue (three months ended September 30, 2018 – none). For the nine months ended September 30, 2019, the Company had no customers that accounted for greater than 10% total revenue (nine months ended September 30, 2018 – none).

	For the three months ended September 30, 2019			For the nine months ended September 30, 2019		
	Europe	**North America**	**Total**	**Europe**	**North America**	**Total**
Revenue	$ **2,041**	$ **571**	$ **2,612**	$ **7,322**	$ **591**	$ **7,913**
Gross profit	$ **1,627**	$ **68**	$ **1,695**	$ **4,753**	$ **266**	$ **5,019**
Operating expenses, excluding stock based compensation, depreciation and amortization	$ **1,841**	$ **15,379**	$ **17,220**	$ **4,913**	$ **37,621**	$ **42,534**
Share based compensation	$ **—**	$ **3,513**	$ **3,513**	$ **—**	$ **11,365**	$ **11,365**
Depreciation and amortization	$ **341**	$ **431**	$ **772**	$ **1,056**	$ **1,015**	$ **2,071**
Non-operating income	$ **75**	$ **(562)**	$ **(487)**	$ **(487)**	$ **490**	$ **3**
Net loss	$ **(487)**	$ **(19,816)**	$ **(20,303)**	$ **(1,753)**	$ **(49,244)**	$ **(50,997)**

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

	For the three months ended (North America) September 30, 2018	For the nine months ended (North America) September 30, 2018
Revenue	$ —	$ —
Gross profit	$ 305	$ 305
Operating expenses, excluding stock based compensation, depreciation and amortization	$ 7,562	$ 19,430
Share based compensation	$ 2,315	$ 6,239
Depreciation and amortization	$ 231	$ 551
Non-operating income	$ (1,466)	$ (1,167)
Net loss	$ (11,269)	$ (27,082)

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

	September 30, 2019	January 1, 2019	December 31, 2018
North America	$ **313,058**	$ 106,276	$ 104,997
Europe	**4,060**	2,532	2,532
	$ **317,118**	$ 108,808	$ 107,529

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

	September 30, 2019	December 31, 2018
North America	$ **9,738**	$ 7,465
Europe	**14,836**	16,772
	$ **24,574**	$ 24,237

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 – Basis of Presentation). Management defines capital as the Company's shareholders' equity. The Board of Directors of the Company does not establish quantitative return on capital criteria for management but rather promotes year over year sustainable profitable growth. The Company currently has not paid any dividends to its shareholders. As at September 30, 2019, total managed capital was comprised of share capital of $406,986 (December 31, 2018 - $392,068), contributed surplus of $89,029 (December 31, 2018 - $79,937), and accumulated other comprehensive loss of $2,474 (December 31, 2018 – income of $513). There were no changes in the Company's approach to capital management during the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018 – no changes).

19. EVENTS AFTER THE REPORTING PERIOD

a) On November 1, 2019, the Company entered into two additional letters of credit arrangements for a total of $490 as part of the completion of construction and transition to operations at the Hamilton Facility. The letters of credit were collateralized with GIC's earning a conventional rate of interest.

b) On October 18, 2019, the Company announced a revised strategic, construction and operating plan and included the need for additional financing to realize these plans. On November 13, 2019, the Company signed the following agreements:

(i) a definitive agreement for a sale-leaseback of the Company's energy centre in Hamilton, Ontario, for gross proceeds of $23,000 subject to the purchaser's final due diligence and other customary closing conditions. The lease term is for ten years and allow the Company to repurchase the associated assets for $1 at the end of the lease.

(ii) A non-binding term sheet for a construction mortgage loan for gross proceeds of up to $40,000, secured on both the Hamilton and Quebec facilities. The terms include $15,000 payable on closing with an additional $25,000 available upon the Company meeting certain operational milestones. The loan carries an initial term of two years that may be extended for one additional year. The term sheet is subject to various conditions, including entering into legally binding documentation and satisfactory final due diligence.

(iii) a non-binding term sheet for a note with an investment fund for approximately gross proceeds of $40,000 (US$30 million) which includes a 5% coupon, convertible into common shares of the Company. Under the terms of the arrangement, the Company would receive approximately gross proceeds of $13,333 (US$10 million) upon closing and the remaining funds to be placed into escrow and to be released as the note is converted into common shares. The term sheet is subject to various conditions, including entering into legally binding documentation, satisfactory final due diligence and receipt of regulatory approvals.